

THE ROLE OF THE INTERNAL AUDIT FUNCTION IN DETECTING AND PREVENTING FRAUD AT A SOUTH AFRICAN MUNICIPALITY

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Abstract

This study explores the role of the Internal Audit Function (IAF) in detecting and preventing fraud at a Gauteng municipality using a qualitative single case study approach. Participants were selected through purposive sampling, and the data were analysed using inductive analysis. The study found nine roles required by the municipality of their IAF for fraud detection and prevention. Seven of these roles align with the requirements of the standards, which means there is no expectation gap between the needs of the municipality and the standards. These roles are: 1) identification of fraud risks, 2) providing recommendations to management, 3) conducting fraud awareness sessions, 4) reporting to the audit committee, 5) evaluating internal controls, 6) exercising due professional care, and 7) planning for annual audits. In addition, two roles required by the municipality were found to contravene the requirements of the standards, namely 1) designing fraud detection and prevention controls and 2) conducting fraud investigations. These two roles indicate that there is an expectation gap. This study provided several recommendations to management and the municipality's accounting officer to reduce the expectation gap.

Keywords: Internal Audit Function; Internal Auditor; Fraud Detection; Fraud Prevention; Municipality.

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In a recent report on the Municipal Finance Management Act (MFMA), the South African Auditor General noted significant deficiencies in local government regarding accountability, institutional capacity, and governance (AGSA, 2022). In South Africa, numerous newspaper articles, annual reports, court cases, and commissions of inquiry provide clear evidence of widespread fraud in both the private and public sectors (Business Insider SA, 2020; Ramabulana & Moosa, 2022, Theletsane, 2013). This persistent issue of fraud at the local government level has detrimental effects on service provision and the efficient use of resources (Kamaliah et al. 2018; Lekubu, 2013; Matlala & Dintwe, 2013; Theletsane, 2013).

Corruption and unethical practices related to service delivery are expected in municipalities (Bogopa, 2013; Kamaliah et al. 2018; Lekubu, 2013). Municipalities have consistently shown a lack of initiative in addressing fraud and corruption since the inception of the local government system (Mbandlwa et al. 2020). The Auditor-General of South Africa (AGSA) has repeatedly highlighted tender fraud that continues to impact municipalities severely (AGSA, 2020). Corruption Watch (2021) indicates that the most common types of fraud in Municipalities include bribery (28%), irregularities in procurement (24%), employment irregularities (11%), abuse of power (9%), and embezzlement of funds (8%). Consequently, South Africa has suffered significant financial losses because of fraudulent procurement practices, and residents have regularly protested for better service delivery over the years (Bogopa, 2013; Kamaliah et al. 2018; Lekubu, 2013).

Employing an Internal Audit Function (IAF) is considered a best practice for organizations and governments worldwide, as it helps prevent and detect fraud (Ar'Reza et al. 2020). A study by Coram et al. (2006) found that organizations with an IAF are more likely to detect fraud than those without one, as internal auditors possess a deeper understanding of the organization and its internal control systems. Given the high incidence of fraud in South African municipalities, it is imperative to understand the effectiveness of IAFs in this context.

Internal auditors are expected to perform their audit duties per the guidance of the International Standards for the Professional Practice of Internal Auditing (ISPPA standards) (Munteanu et al. 2017). Standard 1210 - Proficiency- covers fraud because it requires internal auditors to have adequate knowledge to assess potential risks of fraudulent activity (IIA, 2009). The standard does not expect internal auditors to have the same level of expertise as a fraud examiner; nevertheless, it requires internal auditors to have broad knowledge of fraud to assess fraud risks. Despite this, organizations often rely heavily on their IAF to uncover any fraudulent activity within the organization, creating a conflict between the standard's requirements and the managers' expectations. This difference in expectations is referred to as an "audit expectation gap," which occurs when there is a discrepancy between the public's beliefs, including organizations, and the responsibilities and duties assumed by auditors (Van Wyk, 2013). An exploratory study conducted in Barbados on auditors' responsibility for fraud indicates that internal auditors believe that fraud detection is the responsibility of management, contrary to what management believes (Alleyne & Howard, 2005). The study then concluded that there is a wide expectation gap between internal auditors and management. Similarly, the study by Massicame et al. (2023) report statistically significant differences in expectations related to the conduct of external audits. This 'expectation gap' has led to several debates about IAF's role in fraud detection and prevention within organizations, including local government.

The preceding paragraphs have demonstrated that the expectations of management from the IAF are different from what the internal auditors themselves assume to be their responsibility, particularly with fraud detection and prevention, which makes it necessary for the role of the IAF to be clarified in this regard. In addition, research conducted in South Africa provides evidence that studies have not focused much on the role of the IAF in fraud detection and prevention within municipalities. Instead, the focus has been on provincial and national government (Barac et al. 2009; Mamaile, 2020). There is a small body of literature concerned with the role of the IAF in fraud detection and prevention in South African municipalities. Motubase (2014) points out that more research on the role of the IAF regarding fraud prevention and detection is needed. Based on this need for research in this area, this study aimed to understand the role of the IAF in detecting and preventing fraud in a municipality in South Africa. In doing so, the following research objective guided the study: to understand the role of the IAF in preventing and detecting fraud as required by the municipality. The remainder of the article includes a review of the related literature, the methodology followed to address the research objectives, and a discussion of the findings and related recommendations, after which the study concludes

LITERATURE STUDY

Role of the IAF in Fraud Detection and Prevention

Internal auditing is vital in the current business world and continues to gain recognition in new governance frameworks (Ar'Reza et al. 2020; Olayinka et al. 2021). The Institute of Internal Auditors defines internal auditing as: "An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA, 2009:4)..

The above definition suggests that the IAF is vital in preventing and uncovering fraud by ensuring good governance, effective risk management, and robust controls. Concerning fraud, internal auditors can help organizations prevent and detect fraud by identifying potential risks to the organization's assets, educating management on internal control systems, and advising on ways to prevent and detect fraud. It is important to note that even when the IAF is employed as a managerial support tool, the primary responsibility for overseeing enterprise risk remains with the management, as mandated by legislation and IIA standards.

It is common practice for organizations to employ internal audit services to detect and prevent fraud within the organization (Ar'Reza et al. 2020). However, there has been a debate about the internal audit's role in detecting, preventing, and reporting fraud (Van Wyk, 2013). According to Alleyne and Howard (2005), this debate is caused by the fact that an internal auditor's role needs to be better defined from inception. For example, the professional bodies establishing standards for the profession, the auditors themselves, and the organizations employing them only partially agree on the role of auditors (Alleyne & Howard, 2005). Petrascu & Tieanu (2014) state that organizations expect internal auditors to detect, prevent, and report fraud activities to senior management, but scholars contend that expecting internal auditors to uncover all instances of fraud within a company is unreasonable because the IIA standards mandate that internal auditors conduct audits with reasonable skill and care given the circumstances (Petrascu & Tieanu, 2014). There are varying opinions and expectations on the role of internal auditors concerning fraud detection and prevention.

Often, executives and boards of directors of organizations are taken aback when fraud is revealed, and they may be even more shocked to learn that the internal auditors did not uncover the fraud sooner or later (Alleyne & Howard, 2005). First, management must recognize there is no clear guidance to guide the internal auditor on steps to take when suspicious of fraud within an organization (Petrascu & Tieanu, 2014). Instead, internal auditors are advised to use their professional judgment to determine when further data review is necessary. It is important to note that internal auditors have distinct responsibilities and training that differ from those of fraud investigation specialists (Olayinka et al. 2021). Furthermore, internal auditors are not the adversaries of an entity; rather, their function is to support the management in managing their operations more effectively. The IAF expresses judgments on all decisions taken by management to ensure that the entity operates efficiently and achieves its objectives (Ar'Reza et al. 2020). It is impossible for an internal audit to prevent fraud, but it can modify its working techniques and processes to enhance its ability to detect and adequately interpret indicators of fraud (Ar'Reza et al. 2020; Olayinka et al. 2021). The discussion above indicates an audit expectation gap: the difference in management's beliefs and expectations about the auditor's duties and what audit involves (Devi & Devi, 2014).

To satisfy their responsibilities, internal auditors must perform their duties per the code of ethics and the ISPPA (standards) (Munteanu et al. 2017). The International Professional Practices Framework (IPPF) from the Institute of Internal Auditors (IIA) provides obligatory guidance for internal auditors. Numerous standards within it outline the internal auditor's responsibilities in detecting, preventing, reporting, and monitoring fraud risks and addressing them in audits and investigations (IIA, 2009).

An example of these standards is Standard 1200- Proficiency and Due Professional Care, which requires that internal auditors have reasonably adequate information to assess fraud risks within their organizations, without being expected to be experts in fraud detection and investigation (IIA 2009). Van Wyk (2013) asserts that internal auditors must have basic theoretical knowledge and experience to perform their duties effectively. Standard 1220- Due Professional Care, requires that internal auditors exercise professional care and skill by considering the audit scope to fulfill the objectives of the audit engagement, which means the internal auditor must determine that he/she is competent and in the best position to undertake the investigation or task (IIA, 2009; Petrascu & Tieanu, 2014). Standard 2120- Risk Management, requires that internal auditors evaluate the sufficiency and efficiency of controls through a risk-based internal audit approach to address risks in the organization's governance, processes, and information systems (IIA, 2009; Olayinka et al. 2021). Furthermore, internal auditors are required to enhance the trustworthiness and authenticity of the financial and operational information given, safeguard assets, and adhere to laws, regulations, and contracts (Olayinka et al. 2021).

The above review and discussion of the IIA standards do not absolve the IAF from preventing and detecting fraud. However, the standards emphasize that the IAF, like any other employee of an organization, is responsible for fraud detection and prevention. The IAF will play a role in detecting and preventing fraud while it evaluates and enhances the efficiency of governance, risk management, and control procedures. From the existing literature, what is clear is that the IAF supports management in ensuring that the internal controls for detecting and preventing fraud are adequate and functioning correctly. Suppose the internal controls are not functioning as intended. In that case, the IAF should advise management on enhancing or employing internal controls based on the fraud risks to safeguard the organization's assets. While most researchers agree that the IAF is an excellent tool for mitigating fraud, it is not the primary responsibility of the IAF, as that responsibility lies with management

The government of South Africa is divided into three spheres, namely National, Provincial, and Municipal (Local), which are interdependent (Mashamaite, 2013). The municipal sphere was explicitly established to govern, stimulate social and economic development, and bring service delivery to the local community (Mashamaite, 2013). Section 152 of the Constitution of the Republic of South Africa, 1996, states that the objectives of municipalities are:

- (a) to deliver a government that is both democratic and responsible to local communities;
- (b) to provide sustainable delivery of services to communities;
- (c) To ensure social and economic progress;
- (d) To advocate for an environment that is secure and conducive to good health and
- (e) to foster community and participation of community organizations in municipal affairs.

These objectives require the municipality to create policies and by-laws that ensure that the residents receive the best services (Constitution of the Republic of South Africa, 1996). Unfortunately, after South Africa gained democracy and employed and implemented corporate governance strategies, various kinds of fraud, especially procurement fraud, persisted and continued to diminish the South African economy (Matlala & Dintwe, 2013). This behavior immensely weakened service delivery by hindering the capacity of South African municipalities to uphold and employ the service delivery principles of accountability, transparency, and good governance (Matlala & Dintwe, 2013). The African Peer Review Mechanism (APRM) names poor service delivery as one part that South Africa's municipalities need to address, as it could negatively affect the quality of governance (Matlala & Dintwe, 2013). The concealed nature of fraud causes fraud to be discovered after losses have been suffered. This is made worse by the fact that fraud usually starts small, with insignificant occurrences, and grows when it is not quickly detected (Matlala & Dintwe, 2013).

The Public Finance Management Act (Act 1 of 1999) and the Municipality Finance Management Act (Act 56 of 2003) are some of the legislations, consistent with the Constitution of the Republic of South Africa, 1996, that were implemented to ensure effective management and mitigation of fraudulent activities within municipalities in South Africa (Matlala & Dintwe, 2013). The establishment of an IAF is required in terms of Section 38 of the Public Finance Management Act (Act 1 of 1999) and Sections 62 and 165 of the Municipal Finance Management Act (Act 56 of 2003) and is a recommended best practice in the King IV Report on Corporate Governance aimed at, among other functions, to address the issue of fraud (Mamaile, 2020).

Organizations in the public and private sectors in South Africa with an IAF should adopt the IIA standards in their legislation, regulations, and audit charter (Motubatse, 2014). In the public sector, the responsibilities and scope of the IAF should be clearly outlined in the audit charter as contained in the IIA's standards (IIA, 2019; Mamaile, 2020; Motubatse, 2014). Motubatse (2014) states that the IAF in a municipality must assist the accounting officer (AO) in ensuring that internal controls are practical and efficient by evaluating those controls for adequacy and effectiveness and making recommendations for enhancement where necessary. The IAF must also assist the municipality with managing the expenditure system and ensuring that fruitless, wasteful, irregular, and unauthorised expenditures are avoided and reported where discovered (Motubatse, 2014). Furthermore, the IAF must ensure that payments align with specified processes. The IAF monitors the effective management and accountability of physical and financial assets (Mamaile, 2020). According to Motubatse (2014) and Mamaile (2020), an effective IAF will alert the AO of any wasteful and fruitless, irregular, and unauthorised expenditure and any other deficiencies discovered during the financial year to allow for the remedial of those deficiencies where possible, before the Auditor-General reports adverse audit findings in the annual audit report (Mamaile, 2020). Internal audit enhances municipalities' transparency and public accountability, mitigates corruption and fraud, and adds value to public procurement (Mamaile, 2020). Thus, the IAF is pivotal in ensuring municipalities achieve their mandate (Mamaile, 2020).

According to the Municipality Finance Management Act and IIA standards, the AO bears the responsibility of managing business risk, even where the IAF is employed (Motubatse, 2014). The AO is required to ensure that risk assessment is regularly performed to discover new risks in the municipality (Motubatse, 2014). A risk management plan, which includes the fraud prevention strategy, must be developed to give direction to the IAF efforts on what is management's risk priority, as well as identify the skills needed by managers and other personnel to implement and enhance internal controls in place to mitigate risks (Maimane, 2020). The risk management plan should be shared with all officials to set the tone for risk management and build the organizational culture of the municipality (Mamaile, 2020).

The above discussion makes it clear that the role of the IAF remains the same whether it is established in the private or public sector. Although the public sector is heavily regulated, the regulations guiding the IAF's responsibilities must align with established IIA standards. Although the AO bears the ultimate responsibility for overseeing fraud management, additional assurance providers can support the AO and help alleviate the burden of fraud. The IAF can play a significant role in contributing to this area by adopting proactive strategies, such as assessing internal control for fraud risks, identifying red flags, and remaining vigilant to potential fraud opportunities.

Empirical Studies of the Role of the IAF

Role of the IAF in fraud detection and prevention

Research has been conducted in many countries and from different perspectives regarding the role of the IAF in mitigating fraud. Internationally, one study focused on the role of internal audit in fraud detection and prevention in Nigeria (Olayinka et al. 2021). Their study aimed to investigate, using surveys, the role of internal audit on fraud detection and prevention in the public and private sectors. Similarly, Petrascu & Tleanu (2014) describe the role of internal audit in the detection of possible fraud by analysing IIA standards. The two mentioned studies conclude that the IAF plays a vital role in fraud detection and prevention and that all organizations should establish an IAF. These findings are also supported by Coram et al. (2006), who assert that organizations with IAFs are more likely to detect fraud.

Organizational culture and fraud prevention

Furthermore, a study by Olayinka et al. (2021) indicates that organizational culture plays a vital role in fraud detection and prevention. The study argues that a strong ethical culture, where honesty and integrity are prioritized, can create an environment where employees are more likely to report suspicious behavior or fraudulent activities and foster a proactive approach to fraud detection and prevention.

Internal auditors perceived responsibility for fraud detection

Other studies attempted to evaluate the internal auditors' perceived responsibility for fraud detection using surveys analysed by sentiment analysis and chi-square analysis. These studies (Alleyne & Howard, 2005; De Zoort & Harrison, 2008; Mary et al. 2012) reported that internal auditors assume moderate responsibility for fraud detection and that a wide expectation gap concerning the responsibility for fraud detection exists among internal auditors and management.

IAFs in different organizational contexts in South Africa

South African studies include the perceived role of internal auditing in fraud detection in public and national departments (Motubase, 2014). This study investigated whether the IAF has a role in detecting and preventing fraud in South African national government departments. The findings indicate that the IAF has a role in detecting material fraud in national government departments. The findings by Motubase (2014) are also supported by Barac et al. (2009), in addition to Mamaile (2020), who discovered through secondary data that the IAF plays an essential role in state-owned entities and adds value to the organization, even though the IAF often has no power to enforce audit findings owing to ineffective oversight structures. Ackermann (2015) investigated the functioning of internal audits in category A municipalities in South Africa and discovered that the IAF are crucial informants of audit committees. However, the overall competency of the IAF was found to be problematic by audit committee members. To sum up, the studies presented thus far provide evidence that much of the current literature from a South African perspective pays attention to the value added by the IAF in municipalities and the role of the IAF in preventing fraud at national government or state-owned entities. There is, however, a relatively small body of literature concerned with the role of the IAF in detecting and preventing fraud in a municipality.

Research gaps

The preceding sections have discussed international and South African research concerning the role of the IAF in detecting and preventing fraud in different contexts. According to the studies referenced earlier, IAFs have a crucial role in detecting and preventing fraud worldwide, and having an IAF is recommended as best business practice. Literature has shown that the IAF can play a vital role in detecting and preventing fraud, though management still bears the primary responsibility for overall enterprise risk management (Coram et al. 2006). Therefore, the IAF should be viewed as a tool that management can utilize to help mitigate risks within the business, including fraud risks.

The discussion also highlighted that existing studies did not directly focus on the role of the IAF, particularly in fraud detection and prevention in South African municipalities, and that is where the current research specifically focused, thus adding to the limited literature available in this area. In addition, this study answers the call by Motubase (2014) for more research on the role of the IAF regarding fraud prevention and detection in the South African context. This study will assist in clarifying the scope of the IAF's duty in fraud detection and prevention, particularly in the context of municipalities in South Africa. In addition, this study will aid the AOs in local government in understanding the role and activities of the IAF relating to fraud detection and prevention, thus contributing to the minimisation of the expectation gap

This study uses an interpretivism paradigm and follows a qualitative approach, focusing on a single case study. Interpretivism, as a paradigm, operates under the assumption that reality is subjective and can vary depending on the individual's perspective (Alharahsheh & Pius, 2020; Pham, 2018). Qualitative research seeks to offer a profound comprehension of a particular case by focusing on the subjective experiences of individuals who are directly involved in the setting where the research events occur, rather than relying heavily on broad generalisations (Alharahsheh & Pius, 2020). Therefore, researchers using the interpretivism paradigm and complementary qualitative methods aim to understand individuals' experiences, perspectives, and perceptions to uncover reality rather than rely on numerical statistics (Thanh & Thanh, 2015). This study sought to understand the perceptions of the individual internal auditors on their role in detecting and preventing fraud within a municipality. A qualitative approach was chosen to gain in-depth insights into the nuanced roles of the IAF in a specific municipal context, which quantitative methods might not capture. Accordingly, using an interpretive paradigm and a qualitative approach was appropriate and suitable for this study to maximise the accuracy of the research findings.

A case study is a focused investigation of an individual case or multiple cases, undertaken with the aim of gaining insights about the topic being researched in the setting where the phenomena occur (Gerring, 2004; Heale & Twycross, 2018; Nielsen, 2016). Using a case study approach enables a researcher to simplify and refine a complicated and broad subject or phenomenon, transforming it into a research project that is manageable and focused (Heale & Twycross, 2018). Case selection involves choosing specific and worthy cases to gain insights into the studied topic, thus allowing for assessing the research objectives in real-life situations (Heale & Twycross, 2018; Nielsen, 2016; Tayob, 2022). In this study, Municipality X, a municipality in Gauteng Province, South Africa, was used as a site to conduct this study. Municipality X has an IAF, which provides assurance services for the entire municipality. The IAF has been in existence since the municipality was established in 1999. Thus, Municipality X represents a case that is worthy of study as the municipality offers an environment to explore the IAF's role in detecting and preventing fraud, thus allowing for the generation of knowledge and insights pertaining to a specific context.

For this study, the target population included all internal auditors employed within the IAF at Municipality X. The reason for limiting the target population to internal auditors is their experience and expertise in considering fraud-related matters, as well as their responsibility to comply with internal audit standards. Thus, limiting the target population to these participants increased the possibility of yielding data that is most relevant in shedding light on and addressing the purpose of this study. For this study, the target population comprised five internal auditors employed at Municipality X. This study followed a non-probability sampling approach, particularly purposive sampling. According to Acharya et al. (2013), non-probability samples are chosen at the researcher's discretion to fulfill specific research goals. Moreover, purposive sampling is employed when researchers aim to select individuals with characteristics of interest for the study (Acharya et al. 2013). This study aimed to understand the role of the IAF in fraud detection and prevention in the municipality. Therefore, owing to the small target population for this study, all five internal auditors within Municipality X were selected as part of the sample. All participants completed the questionnaire, thus producing a 100 percent response rate.

A questionnaire comprising solely of open-ended questions was used to collect data for this study. Open-ended questionnaires allow the researcher to ask complex questions while allowing participants to answer from their perspectives, thus providing data showing participants' experiences and perceptions (McGuirk & O'Neill, 2016). For this reason, the researchers chose to use a questionnaire with open-ended questions to acquire an in-depth understanding of the role of the IAF in detecting and preventing fraud in a municipality. The questionnaire included the following question: "What do you understand to be your role in detecting and preventing fraud as required by the municipality?"

This study used inductive analysis, an "approach that primarily uses detailed readings of raw data to derive concepts or themes" (Thomas, 2006, p. 238). The primary purpose of inductive approaches is to enhance comprehension of meaning in complex textual data by creating summary themes or categories derived directly from the raw data (Thomas, 2006). Thomas (2006) states that while findings are based on research questions or objectives formulated by the researcher, the findings result directly from the analysis of unprocessed data and are not predetermined by the researcher's prior expectations. Therefore, creating themes from raw data prevents the potential for the researcher to manipulate the findings to a predetermined outcome (Thomas, 2006; Azungah, 2018). As a result of the preceding discussion, the researcher chose inductive analysis because it aligns with the objectives of this study, and it allows for "meaning" to be inferred from participants' qualitative responses regarding the role of internal auditors pertaining to fraud detection and prevention in a municipality.

RESULT AND DISCUSSION

This study aimed to understand the role of the IAF in detecting and preventing fraud in a South African municipality. The study found nine roles required of the IAF concerning detecting and preventing fraud in the municipality.

Identification of Fraud Risks

This role relates to the requirement that the IAF must identify areas or controls within the organization at risk of fraud. All five participants noted this role as required by the municipality. For instance, participant 1 indicated that: "Auditors are required to have sufficient knowledge of fraud in order to ensure that their approved procedures are well designed to adequately and effectively identify fraud red flags which might indicate the possibility of fraud in the municipality."

Similarly, participant 4 concurs that "we evaluate the potential for the occurrence of fraud." Furthermore, participant 3 elaborated that the IAF must "expose gaps and weakness with these controls that may lead to potential fraud."

The analysis of responses revealed that the participants share similar sentiments with this particular role as required by the municipality. Therefore, the researcher grouped these similar sentiments under one theme called identification of fraud risks.

Providing Recommendations to Management

This role relates to the expectation of the municipality that the IAF must give recommendations to management about any fraud risks identified and weaknesses in internal controls that could lead to fraud, as noted by Participants 1,2,3, and 5). For example, participant 2 pointed out that the IAF is expected to "evaluate the indicators of fraud and decide whether any investigation should be recommended."

Where the IAF has identified weaknesses in internal controls, it is expected that the IAF will give recommendations to management to improve internal controls, as noted by Participant 3. The participants' similar responses relating to this requirement by the municipality were grouped under one role called providing recommendations to management.

Conducting Fraud Awareness Sessions

The municipality requires that the IAF promotes governance and enhances ethics. There are various ways in which the IAF can be proactive in promoting governance and ethics within the municipality. For instance, participant 1 noted that the IAF promotes governance and ethics within the municipality by "conducting fraud awareness sessions." As indicated by Participant 1, this role is categorized into a thematic role: conducting fraud awareness sessions.

Reporting to the Audit Committee

The municipality requires that the IAF report the results of the audit engagement within the municipality to the audit committee (Participants 1, 2, 4, and 5). For instance, participant 2 states that the IAF must "report to the audit committee on matters relating to internal controls, risks, and risk management". The participants' similar responses about reporting to the audit committee were grouped under one role called reporting to the audit committee.

Evaluating Internal Controls

This requirement by the municipality relates to the expectation that the IAF must evaluate the internal controls in place and advise on their adequacy and efficiency (Participants 2, 3, 4, and 5). For example, participant 4 indicated that "our role as internal auditors is to assist management with the evaluation of internal controls used to detect or prevent fraud." Therefore, the participants' similar responses about this role were grouped under one function called evaluating internal controls.

Exercising Due Professional Care

This role relates to the requirements by the standards that the IAF is expected to exercise due professional care by ensuring they are competent to perform a task (participant 2 & 4). For example, participant 2 noted that Standard 1220.A1 - Due Professional Care - states that "internal auditors must exercise due professional care by considering the probability of significant errors, fraud, and non-compliance." The participant's responses concerning this role were grouped into one part called exercising due professional care.

Planning For the Annual Audit

This role relates to the municipality's expectation that the IAF should plan for an annual audit within the municipality. Participant 4 indicated that one of IAF's roles in the municipality is "planning for the annual audit." As noted by Participant 4, this role is classified into a thematic role called planning for the annual audit.

Designing Fraud Detection and Prevention Controls

The role relates to the expectation by the municipality that the IAF assist management in designing or establishing internal controls to detect or prevent fraud (Participants 1,4 and 5). For instance, participant 2 noted that the municipality requires the IAF "to assist management in designing appropriate controls that would minimise the effects of the risk." The participants' responses relating to this role were categorized as one role called designing fraud detection and prevention controls.

Conducting Fraud Investigations

This role relates to the municipality's expectation that the IAF must conduct or assist in fraud investigations within the municipality (Participants 2, 4, and 5). For instance, participant 4 stated, "Internal auditors also participate in fraud investigations in the municipality". Therefore, the participants' responses about this role were grouped into one part called conducting fraud investigations.

Discussion

The study found nine roles expected from the IAF concerning detecting and preventing fraud within the municipality, seven of which indicate no expectation gap, and two roles suggest an expectation gap regarding the requirements of the ISPPA standards and existing literature. The expectation gap, related to designing fraud detection and prevention controls and conducting fraud investigations, highlights a potential misalignment between practical needs and professional standards, suggesting a need for revisiting these standards and the application thereof in the municipal context.

Roles Indicating No Expectation Gap*Identification of fraud risks*

This role relates to the IAF having adequate knowledge to identify fraud red flags, as noted by all five participants. This requirement aligns with Standard 1210.A2 - Proficiency – Internal auditors need to possess enough knowledge to assess the risk of fraud and how the organization manages it. However, they are not expected to have the expertise of someone whose primary responsibility is detecting and investigating fraud.

Providing recommendations to management

Participants 1, 2, 3, and 5 noted that the IAF is required by the standards to make recommendations for fraud investigations where fraud risks have been identified and to improve internal controls to minimise fraud risks. This requirement is similar to the provisions of Standards 2410.A1 - Criteria for Communicating - which requires the ultimate communication of engagement outcomes to encompass relevant conclusions, pertinent recommendations, and action plans.

Conducting fraud awareness sessions

This role complements the requirements of Standard 2110.A1 - Governance - in that the IAF must assess the organization's ethics-related goals, programs, and activities regarding their design, implementation, and effectiveness, as noted by Participant 1. Conducting fraud awareness sessions within the municipality can be seen as a proactive way in which the IAF promotes governance and enhances ethics within the municipality.

Reporting to the Audit Committee

Participants 1, 2, 4, and 5 noted that the standards require the IAF to report to the audit committee and board. This requirement is similar to the provision found in Standard 2060 - Reporting to Senior Management and the Board - in that the Chief Audit Executive must regularly report to senior management and the board regarding the internal audit function's mission, authority, responsibilities, and performance about its plan, as well as its adherence to the Code of Ethics and the Standards. The reporting should encompass noteworthy risk and control issues, such as fraud risks, governance concerns, and other matters requiring the attention of senior management and the board, as identified by the IAF.

Evaluating Internal Controls

Participants 2,3,4, and 5 noted that the IAF is required to evaluate the adequacy and effectiveness of internal controls. This requirement aligns with standard 2130.A1 - Control - in that the internal audit activity must assess the sufficiency and efficacy of controls in addressing risks within the organization's governance, operations, and information systems.

Similarly, researchers indicate that internal audit needs to have knowledge and comprehension of details and ways by which fraud occurs and that the controls in place are enough and performed at the right intensity to prevent and detect fraud (Munteanu et al. 2017; Omoteso & Obalala, 2014). Furthermore, Motubase (2014) states that the IAF of a municipality must assist the AO in ensuring that internal controls are effective and efficient by evaluating those controls for adequacy and effectiveness and making recommendations for enhancement where necessary.

Exercising due professional care

Participants 2 and 4 noted that the Standards required that internal auditors exercise due professional care, which means that the internal auditor must determine that they are competent and in the best position to undertake the task (IIA, 2009; Petrascu & Tieanu, 2014). This requirement also aligns with Standard 1220 - Due Professional Care – as internal auditors should employ the diligence and skills that would be anticipated from a reasonably cautious and proficient internal auditor.

Planning for the annual audit

As noted by Participant 4, this requirement relates to and is in line with the provision of Standard 2010.A1 - Planning - which states that the internal audit function's plan of engagement should derive from a documented risk assessment conducted at least once a year. In this process, the input of senior management and the board must be considered.

Roles Indicating an Expectation Gap

Designing fraud detection and prevention controls

This role relates to designing the internal control system to prevent and detect fraud. This requirement needs to align with the needs of the Standards. The IAF is required by Standards 2120 – Control - and 2130 - Risk Management - to assist management by evaluating the efficiency and effectiveness of existing internal controls and offering suggestions for improvement that will enhance risk management processes. The duty of developing and sustaining an efficient control system and overseeing overall risk management rests with management (Devi & Devi, 2014; Munteanu et al. 2017).

This misalignment to the requirements of the ISPPA standards, as provided by participants 1, 4, and 5, confirms claims by O'Reilly-Allen & Zikmund (2009) that there is still ambiguity about the role of management, the internal auditor, and fraud investigators in detecting and preventing fraud. To minimise expectation gaps, management and the IAF need to clearly outline their responsibilities to avoid interference in activities and to maintain the independence of the IAF as required by Standard 2120.C3 - Risk Management - that when the IAF aids management in creating or enhancing risk management procedures, internal auditors should avoid taking on any managerial duties related to actively managing risks. The results reported by Afzal (2023), further emphasizes that having adequate competence and objectivity are important factors in improving the overall quality if the IAF.

Conducting fraud investigations

Participants 2, 4, and 5 indicated that Municipality X requires the IAF to conduct or assist in fraud investigations. This requirement by Municipality X does not align with the requirements of Standard 1210.A2 - Proficiency - Internal auditors need to possess enough knowledge to assess the risk of fraud and how the organization manages it. However, they are not expected to have the expertise of someone whose primary responsibility is to detect and investigate fraud.

There is a difference in the role of internal auditors and fraud investigation specialists (IIA, 2019; Petrascu & Tieanu, 2014). Various studies report that fraud investigations are not the task of an internal audit because internal auditors have distinct responsibilities and training that differ from those of fraud investigation specialists (Mary et al. 2012; Olayinka et al. 2021; Omoteso & Obalala, 2014). Therefore, it is best practice for the IAF to recommend using fraud investigators where fraud risks have been identified (Petrascu & Tieanu, 2014).

Based on the two roles discussed above that do not align with the requirements of the standards as required by Municipality X, the findings of this study offer the following recommendations to reduce the expectation gap for both these roles. First, it is recommended that the council of the municipality adopts and conforms to the Standards so that they are binding to the municipality. It is also recommended that the council review policies to align with the Standards. As such, this study recommends full adoption of the Standards in the municipality to ensure conformance and for the municipality to receive value and quality from the activities of the IAF.

We also recommend that the Chief Audit Executive educates management on the role of the IAF. Being educated and aware of the role of the IAF and its activities will ensure alignment between the requirements of the Standards and the requirements of the municipality, thus reducing the expectation gap. The literature further recommends the use of fraud investigators for fraud investigation where the IAF has identified fraud risks. Similarly, this study recommends the utilization of fraud investigators where necessary. Finally, this study recommends that management duties and scope be clearly outlined, and the IAF should maintain independence to enhance conformance to the requirements of the Standards.

CONCLUSION

This study answers a call for research by Motubase (2014), who states that more research should be conducted on the role of the IAF in fraud detection in a South African context. Therefore, this study focused on the role of IAF in detecting and preventing fraud in a South African municipality. This study identified seven roles of the IAF (see Section 5.1 above) that align with the requirements of the ISPPA Standards. This means there is no expectation gap about these roles. Further, two roles expected of the IAF by Municipality X were identified as needing to align with the requirements of the ISPPA Standards (see Section 5.2 above), indicating an expectation gap. The findings emerging from this study shed light on the role of the IAF regarding fraud prevention and detection from a South African perspective, especially as it relates to internal auditors carrying out their duties at a municipality. Furthermore, the findings of this study support and strengthen the extant literature on the requirements expected of internal auditors in their role in fraud prevention and detection.

This research was limited to one municipality in Gauteng; therefore, the findings cannot be generalized to other municipalities within Gauteng or other provinces within South Africa. Therefore, studies should be extended to more cases with similar profiles in other municipalities in Gauteng or other provinces in South Africa. In addition, future research could explore the application of these findings across various municipalities and assess the long-term impacts of implementing the recommended changes. This study also limited data collection to the internal auditors employed within the IAF of Municipality X; thus, it was not extended to other stakeholders, such as the management and the AO at Municipality X. As such, a similar study can be conducted focusing on the role of the IAF in fraud detection and prevention, incorporating the participation and responses from other stakeholders such as management and accounting officers.

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