



INTERNAL AUDIT EFFECTIVENESS AND CORPORATE FRAUD PREVENTION IN NIGERIA: AN EMPIRICAL ANALYSIS

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Abstract: This study investigates the effectiveness of internal audit functions in preventing corporate fraud in Nigeria, focusing on three critical dimensions: audit independence, audit competence, and audit frequency and scope. The motivation for the study stems from the persistent incidence of financial misappropriation and fraudulent practices across various sectors in Nigeria, despite the presence of internal control systems. A descriptive survey research design was adopted, and data were collected from 182 internal auditors, compliance officers, and finance professionals using structured questionnaires. The data were analyzed using descriptive statistics and multiple regression techniques. The findings reveal that all three internal audit dimensions have a significant and positive relationship with corporate fraud prevention. Audit competence emerged as the most influential factor, followed by audit independence and audit frequency/scope. The study concludes that internal audit plays a pivotal role in reducing the incidence of fraud and enhancing the effectiveness of fraud detection mechanisms within organizations. The study recommends that organizations strengthen auditor independence by aligning reporting structures to the board or audit committee, invest in the professional development of internal auditors, and ensure comprehensive and frequent audit engagements. Regulatory bodies are also urged to enforce compliance with audit standards and support ethical governance practices. This study contributes to the literature on corporate governance and offers practical insights for strengthening fraud prevention frameworks in developing economies.

Keywords: Internal Audit, Audit Independence, Audit Competence, Fraud Prevention, Corporate Governance,

Introduction

Corporate fraud has emerged as a major challenge undermining the credibility, sustainability, and profitability of organizations across the globe. In Nigeria, high-profile corporate scandals and persistent economic crimes have accentuated the urgent need for robust internal control systems capable of detecting and deterring fraudulent practices. Among such mechanisms, the internal audit function plays a pivotal role in safeguarding organizational assets, enhancing transparency, and reinforcing stakeholder confidence. As a governance tool, internal audit serves not only to ensure compliance and operational efficiency but also as a critical line of defense

in the prevention and detection of corporate fraud (Oranefo, & Egbunike, 2021).

Corporate fraud typically involves deliberate acts of deception committed by insiders or external actors for illicit financial gains, and it often manifests through financial misreporting, asset misappropriation, procurement scams, and bribery. According to the Association of Certified Fraud Examiners (ACFE, 2022), organizations worldwide lose approximately 5% of their revenues to fraud annually. The Nigerian context is even more alarming, given the prevalence of weak institutional frameworks, poor ethical culture, and limited regulatory enforcement (Ikeji et al, 2024). Consequently, the

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effectiveness of internal audit functions becomes critically relevant to the corporate sector's capacity to combat fraudulent behaviors.

This study is premised on the argument that the effectiveness of internal audit in preventing fraud is determined by key dimensions such as audit independence, audit competence, and audit frequency and scope. Audit independence refers to the internal auditor's autonomy from management influence, which is essential to maintain objectivity in reporting and fraud investigations. Without sufficient independence, internal auditors may be constrained or manipulated, thereby undermining their role as watchdogs (Paul, 2022). Audit competence, on the other hand, encompasses the knowledge, technical skills, and professional training of auditors. A well-trained and experienced internal audit team is better equipped to detect red flags and implement effective audit procedures (Nwaobia et al 2021). Lastly, audit frequency and scope refer to the regularity and breadth of audit engagements. Frequent audits that cover multiple operational areas increase the likelihood of detecting anomalies early and discouraging fraudulent acts (Obalemo, 2025).

The effectiveness of these dimensions can be measured by two key dependent variables: the incidence of fraudulent activities and the effectiveness of fraud detection and control mechanisms. A reduction in fraud incidence within an organization is often an indicator of a functional internal audit system. Moreover, the internal audit's ability to design and monitor effective fraud control systems speaks to its strategic importance in organizational risk management. Therefore, analyzing these dimensions provides a deeper understanding of how internal audit contributes to the mitigation of fraud risks in Nigerian corporate entities. Nigeria's evolving corporate governance landscape, characterized by reforms such as the Nigerian Code of Corporate Governance (NCCG, 2018), has placed increased emphasis on internal control and audit functions. These reforms aim to restore investor confidence and build sustainable institutions, particularly in sectors such as banking, oil and gas, telecommunications, and manufacturing. Nonetheless, the gap between policy and practice remains significant, necessitating empirical evaluations to determine whether

internal audit functions are truly effective in fraud prevention.

In light of these considerations, this study seeks to empirically analyze the relationship between internal audit effectiveness and corporate fraud prevention in Nigeria. By focusing on the independent dimensions of audit independence, audit competence, and audit frequency and scope, and linking them to the dependent variables incidence of fraudulent activities and the effectiveness of fraud detection mechanisms. Ultimately, the findings of this study are expected to contribute to the ongoing discourse on strengthening corporate governance and accountability in Nigeria by spotlighting the instrumental role of internal audit in fraud risk management.

Research Objectives

The main objective of this study is to examine the effectiveness of internal audit functions in preventing corporate fraud in Nigeria. The specific objectives are to:

1. Assess the influence of audit independence on the prevention of corporate fraud in Nigerian organizations.
2. Examine the impact of audit competence on the incidence of corporate fraud in Nigerian companies.
3. Determine the relationship between audit frequency and scope and the effectiveness of fraud detection and control mechanisms in Nigeria.

Research Hypotheses

The study will test the following null hypotheses:

1. H_{01} : Audit independence has no significant effect on the prevention of corporate fraud in Nigerian organizations.
2. H_{02} : Audit competence does not significantly affect the incidence of corporate fraud in Nigerian companies.
3. H_{03} : Audit frequency and scope have no significant relationship with the effectiveness of fraud detection and control mechanisms in Nigeria.

Agency Theory

Agency Theory, formulated by Jensen and Meckling (1976), describes the contractual relationship between principals (owners or shareholders) and agents (managers)



within an organization. The theory is fundamental to explaining corporate fraud, as it suggests that managers may pursue personal interests that conflict with those of shareholders, particularly when they possess superior access to information. Such information asymmetry gives rise to agency problems, which may result in fraudulent activities, asset misappropriation, or the manipulation of financial statements for self-benefit. The internal audit function operates as a key monitoring mechanism to minimize these conflicts by reducing information asymmetry between management and stakeholders. Through independent evaluation of financial records and internal control systems, internal auditors promote accountability and ensure that managerial actions align with shareholders' objectives. Consequently, audit independence, audit competence, and audit frequency significantly strengthen the capacity of internal auditors to detect and prevent fraud, thereby reducing agency risks (Adams, 1994).

Fraud Triangle Theory

This theory was advanced by Donald Cressey (1953), a criminologist whose research focused on individuals involved in embezzlement. He posited that occupational fraud arises only when three conditions coexist: pressure, opportunity, and rationalization. The Fraud Triangle provides a framework for understanding the motivations behind fraudulent behavior among employees and executives. Pressure relates to personal or financial stressors; opportunity refers to circumstances that make fraud possible, such as weak internal controls or inadequate supervision; while rationalization involves the offender's psychological justification for the fraudulent act. The internal audit function plays a vital role in minimizing the opportunity component of the fraud triangle. Audit independence promotes objective assessment of internal control systems, audit competence enhances the effective identification of control deficiencies, and audit frequency improves the timely detection of irregularities. By reinforcing internal audit mechanisms, organizations can significantly restrict opportunities for fraud, thereby weakening the fraud

triangle and reducing the likelihood of corporate fraud (Wells, 2017).

Concept of Internal Audit Function

The internal audit function (IAF) is a formal, independent, and objective assurance activity aimed at adding value and enhancing an organization's operations. It supports the achievement of organizational objectives by systematically assessing and improving the effectiveness of risk management, internal control, and governance processes (Institute of Internal Auditors). Internal audit therefore serves as a vital mechanism for the detection and prevention of fraud, particularly in organizational settings where the risk of corporate misconduct is elevated.

Concept of Audit Independence

Audit independence refers to the freedom of the internal audit unit from influence, especially from those whose activities are being examined. Independence ensures objectivity in audit procedures and reports, allowing auditors to function without interference from management or other stakeholders (Nwaobia et al, 2021). A truly independent internal auditor is more likely to report unethical practices or financial irregularities, thereby reducing the risk of fraud. Internal auditors must report directly to the board or audit committee to maintain sufficient autonomy and avoid conflicts of interest.

Concept of Audit Competence

Audit competence refers to the knowledge, qualifications, experience, and professional skills of the internal audit personnel. Competent internal auditors are more capable of identifying red flags, applying analytical procedures, and investigating suspicious transactions. Their proficiency determines the quality of audit outcomes and the likelihood of fraud detection and prevention (Ikeji, 2024). The IIA recommends that internal auditors engage in continuous professional development and maintain certification standards to perform effectively.

Concept of Audit Frequency and Scope

This refers to how regularly internal audits are conducted and the comprehensiveness of their coverage across



various departments and financial activities. Frequent audits ensure that controls are continually assessed, and fraud risks are identified in a timely manner. The scope involves the depth and breadth of audit work, including financial, operational, and compliance assessments (Paul, 2022). An extensive audit scope with consistent frequency boosts organizational vigilance, which discourages potential fraud perpetrators.

Concept of Corporate Fraud Prevention

Corporate fraud prevention refers to proactive strategies and internal control measures designed to detect, deter, and reduce the occurrence of fraudulent activities within organizations. It involves establishing ethical frameworks, monitoring systems, whistleblowing mechanisms, and audit routines that help in identifying irregularities (ACFE, 2022). Prevention is more cost-effective than detection and often signals the strength of corporate governance. This study examines corporate fraud prevention using the following dimensions:

Concept of Incidence of Fraudulent Activities

This refers to the frequency or occurrence of fraud-related events within an organization. A lower incidence typically indicates stronger internal controls and effective audit mechanisms. It includes both reported and detected fraudulent acts such as embezzlement, falsification of financial records, procurement fraud, and unauthorized transactions (Oranefo & Egbunike, 2021). This metric is often tracked through internal reports, whistleblower channels, or audit findings.

Concept of Effectiveness of Fraud Detection and Control Mechanisms

This dimension assesses how well an organization can identify, respond to, and control fraudulent attempts. Effective mechanisms include strong internal controls, prompt audit responses, forensic accounting tools, employee surveillance, and segregation of duties. An organization's ability to act swiftly upon detection enhances deterrence and reduces future risks (Obalemo, 2025). This effectiveness is also influenced by how audit

findings are implemented and how responsive management is to risk reports.

Empirical Literature Reviews

Paul (2022) investigated the role of internal audit in fraud prevention within the Nigerian banking industry, grounded in Concealment Theory. The study targeted 22 banks, with a sample drawn from the Accounts and Internal Audit departments of five banks. Data were collected via six questionnaire items based on two research questions, administered through telephone interviews and emails. Using Mean and Rank Order analysis, the study found that effective internal control systems, a supportive work environment, ethical hiring, and both routine and surprise audits are essential for fraud prevention. It recommended that the government, NDIC, and other corporate bodies not only strengthen internal audit policies but also adopt AI-based systems for fraud detection and prevention.

Oranefo and Egbunike (2021) examined the effectiveness of forensic accounting techniques (FAT) in preventing financial statement fraud and enforcing corporate policies in Nigerian organizations. Using a survey design, the study sampled 50 accounting lecturers and chartered accountants in Anambra State through non-probability sampling. Pearson correlation analysis revealed positive associations between FAT and both fraud deterrence and policy enforcement. The study was limited by its small sample size and focus on a single state, restricting generalizability. Nevertheless, it contributes to the literature by highlighting the continued relevance of forensic accounting in detecting fraud and supporting corporate governance in developing countries with weaker institutional frameworks.

Nwaobia et al. (2021) examined the role of internal audit and auditor qualities in detecting fraudulent financial reporting in Nigerian banks. Using a cross-sectional survey of 216 internal auditors from 10 banks, the study assessed auditor ICT skills, qualifications, experience, and independence. Data analysis showed that internal audit significantly enhances fraud detection with auditor qualities moderating this effect. The study concluded that robust internal audit functions and up-to-date ICT



competencies are essential for preventing and detecting fraud in Nigeria's banking sector.

Obalemo (2025) examined the role of internal audit in fraud detection and prevention at the Kogi State Board of Internal Revenue Services, Lafia, Nigeria. Using a survey design and guided by the Fraud Triangle and related theories, the study analyzed primary data from 60 questionnaires and secondary data from internal audit records. Findings revealed that internal audit significantly impacts fraud detection and prevention but often does not fully comply with procedures and regulations. The study recommended that the board ensure compliance with rules, act on audit reports, and conduct fraud risk assessments to strengthen organizational control.

Kadir and Sann (2024) investigated the impact of digitalized accounting practices on the accountability of Nigerian MDAs, examining the moderating role of institutional quality. Using a survey of 233 auditors from the Office of the Auditor-General of the Federation and analyzing data with structural equation modeling (SEM), the study found that institutional quality significantly enhances the positive effects of digital tax administration, digital treasury management, and digital financial management on accountability. The joint moderating effect was marginally significant. The study recommends that the National Assembly establish regulatory frameworks and standards to support the integration and consistent implementation of digital accounting systems in public sector agencies.

Ikeji et al. (2024) examined the influence of corporate governance on audit quality in Nigerian listed firms from 2018 to 2022. Using an ex post facto design and panel regression analysis of financial data from 31 purposively sampled firms, the study found that board diversity negatively and significantly affects audit tenure, while board size and audit committee size were mostly insignificant across audit tenure, audit fee, and audit firm size. The study recommends that Nigerian firms comply with regulations on periodic rotation of external auditors to enhance audit independence and service quality.

Methodology

This study employs a descriptive survey research design, which is appropriate for obtaining data from a representative sample in order to describe and examine the relationship between internal audit functions and corporate fraud prevention practices in Nigerian organizations. The design facilitates the assessment of the perceptions, experiences, and operational practices of internal auditors and financial control officers across selected organizations. The population of the study comprises internal auditors, finance officers, audit committee members, and compliance managers drawn from selected organizations in Nigeria. These organizations are from sectors with high susceptibility to fraud, including banking, oil and gas, manufacturing, and telecommunications. A multi-stage sampling technique was adopted. First, purposive sampling was used to select sectors with high exposure to fraud risks. Second, stratified sampling was applied to group firms according to industry classification. Finally, simple random sampling was employed to select respondents from each stratum. Primary data were collected through a structured questionnaire designed on a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). The instrument's content validity was established through expert review by academics and professionals in accounting and internal auditing. Reliability of the questionnaire was assessed using Cronbach's Alpha; all the Cronbach's Alpha values exceed the minimum threshold of 0.70, indicating that the measurement instrument is reliable and suitable for the study. Data collected were analysed using descriptive statistics, Pearson correlation analysis, and multiple regression analysis with the aid of the Statistical Package for Social Sciences (SPSS) version 25.

Model Specification

$$CFP = \beta_0 + \beta_1 AI + \beta_2 AC + \beta_3 AFS + \varepsilon$$

Where:

CFP = Corporate fraud prevention

AI = Audit independence

AC = Audit competence

AFS = Audit frequency/scope

β_0 = constant

$\beta_1 - \beta_3$ = regression coefficients

ε = error term



Data Presentation, Analysis and Discussion of Findings

This presents and analyzes the data collected from respondents regarding the effectiveness of internal audit functions in preventing corporate fraud in Nigeria. The data were gathered through structured questionnaires administered to internal auditors, compliance officers, and finance professionals across various sectors. The analysis

covers demographic information, descriptive statistics, reliability test, correlation, and regression results. It also discusses findings in line with the study’s objectives and existing literature. Out of 200 questionnaires distributed, 182 were completed and returned, representing a 91% response rate, which is considered adequate for statistical analysis.

Descriptive Statistics

Variable	N	Minimum	Maximum	Sum	Mean	Std. Deviation	Skewness	Kurtosis
Audit Independence	182	2.690	5.360	725.892	3.988	0.474	0.128	-0.025
Audit Competence	182	2.903	5.741	767.263	4.216	0.380	0.199	1.196
Audit Frequency & Scope	182	2.417	5.747	702.244	3.858	0.623	0.215	-0.321
Fraud Incidence (Reversed)	182	-0.058	4.159	382.781	2.103	0.803	-0.044	0.002
Fraud Detection Effectiveness	182	3.080	5.316	742.594	4.080	0.477	0.296	-0.325

Source: SPSS OUT PUT 2025

Audit Competence has the highest mean (4.216), indicating that respondents perceive auditors as generally competent. Audit Frequency & Scope has the widest variation (Std. Deviation = 0.623), suggesting inconsistency in how often and widely audits are conducted. Fraud Incidence shows a low mean (2.103), which is a positive indicator if this variable is reverse-

coded (i.e., lower values reflect fewer fraud cases). Skewness values are all close to zero, indicating a relatively symmetric distribution. Kurtosis values suggest that most variables have near-normal peakness, except Audit Competence (1.196), which is slightly leptokurtic (more peaked)

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate	Durbin-Watson
1	0.679	0.461	0.451	0.557	1.943

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig. (F)
Regression	35.643	3	11.881	45.723	0.000**
Residual	41.127	178	0.231		
Total	76.770	181			

Significant at p < 0.01

Source: SPSS OUT PUT 2025



The model explains 46.1% of the variance in fraud detection effectiveness. The F-statistic (45.723) and p-value (0.000) indicate the model is statistically significant. The Durbin-Watson statistic (1.943) suggests there is no autocorrelation problem.

Regression Coefficients

Model	Unstandardized Coefficients (B)	Std. Error	t-value	Sig. (p-value)
(Constant)	1.230	0.312	3.942	0.000 **
Audit Independence	0.325	0.081	4.012	0.000 **
Audit Competence	0.401	0.077	5.208	0.000 **
Audit Frequency & Scope	0.289	0.084	3.440	0.001 **

Correlation at $p < 0.01$ (significant at 1% level)

Source: SPSS OUT PUT 2025

Audit Competence has the highest positive effect on fraud detection ($B = 0.401$), followed by Audit Independence and Audit Frequency & Scope. All three predictors are statistically significant in influencing the effectiveness of corporate fraud prevention in Nigerian organizations. The positive coefficients suggest that improvements in these audit functions lead to enhanced fraud control and detection effectiveness.

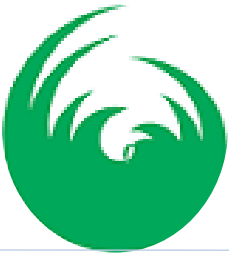
Discussion of Findings

The results demonstrate that internal audit functions particularly audit competence and independence has a strong positive impact on the prevention of corporate fraud in Nigerian organizations. Audit Independence is Consistent with Nwaobia, et al,(2021), this study found that audit autonomy significantly reduces fraud incidents. Reporting directly to the audit committee enhances objectivity. Audit Competence: This dimension had the strongest influence, aligning with Ikeji et al, (2024). Professional training and certifications enable auditors to better detect and prevent fraud. Audit Frequency and Scope: As shown by Oranefo and Egbunike,(2021), regular and comprehensive audits increase organizational vigilance and deter fraudulent activities. These findings support the Agency Theory and Fraud Triangle Theory, which suggest that appropriate monitoring (audits) reduces information asymmetry and fraud opportunity.

Conclusion and Recommendations

This study examined the effectiveness of internal audit functions in preventing corporate fraud in Nigeria, using audit independence, audit competence, and audit frequency/scope as key dimensions of internal audit. The findings reveal that all three components have a statistically significant and positive impact on corporate fraud prevention, as measured by the incidence of fraudulent activities and the effectiveness of fraud detection mechanisms. Specifically, the results indicate that audit competence has the most substantial effect on fraud prevention, highlighting the need for skilled, well-trained, and professionally certified internal auditors. Audit independence was also found to be essential, as it ensures objectivity and credibility in audit outcomes. Furthermore, frequent and wide-ranging audits contribute to better fraud detection and control by reducing the opportunity for misconduct.

These findings validate theoretical assertions from Agency Theory that strong oversight mechanisms such as internal audit reduce agency problems and the Fraud Triangle Theory, which posits that reducing opportunities (through controls like audits) can significantly deter fraud. Therefore, the internal audit function remains an indispensable component of effective corporate governance, especially in high-risk environments like Nigeria's corporate sector, where fraud is often fueled by weak institutional controls and regulatory lapses. Based on the empirical findings and conclusions of the study, the following recommendations are made:



1. Enhance Auditor Independence: Organizations should ensure that internal auditors report directly to the audit committee or board of directors, rather than to executive management. This reporting structure strengthens audit objectivity and reduces interference in audit processes.

2. Invest in Auditor Competence: Companies should prioritize recruitment of qualified internal auditors and support continuous professional development through training, certifications (CIA, CISA), and exposure to forensic auditing tools.

3. Increase Audit Frequency and Expand Scope: Internal audits should be conducted regularly and must cover both financial and non-financial aspects of operations. Surprise audits should be included to detect hidden irregularities.

4. Implement and Monitor Audit Recommendations: Management should ensure that audit findings and recommendations are followed up promptly with corrective actions. Establishing a monitoring unit for this purpose will enhance accountability.

5. Establish Strong Whistleblowing Mechanisms: Organizations should provide secure and anonymous channels for employees to report suspected fraud, backed by policies that protect whistleblowers from retaliation.

6. Strengthen Regulatory Oversight: Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Institute of Internal Auditors of Nigeria (IIAN) should enforce minimum standards for audit quality and publish audit compliance ratings for public interest entities.

7. Promote Ethical Culture: Leadership must model ethical behavior and promote a culture of integrity across the organization. Internal audit can be used as a tool to reinforce compliance with ethical standards.

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QUATIONNAIRE

SECTION A

(Please tick [✓] the appropriate option)

1. Gender: Male Female
2. Age: 18-30 31-40 41-50 51 and above
3. Educational Qualification: OND/NCE HND/B.Sc M.Sc/MBA PhD Professional (e.g., ICAN, ACCA, CIA)
4. Job Title: Internal Auditor Finance Officer Compliance Officer Audit Committee Member
 Other (please specify): _____
5. Years of Experience: Less than 5 years 5-10 years 11-15 years Above 15 years
6. Industry: Banking Oil and Gas Manufacturing Telecommunications Others (specify): _____

SECTION B:

(Please rate your agreement with the following statements using this scale)
1 = Strongly Disagree | 2 = Disagree | 3 = Neutral | 4 = Agree | 5 = Strongly Agree

Audit Independence

S/N	Statement	1	2	3	4	5
1	Internal auditors in our organization are free from management influence.					
2	The internal audit function reports directly to the audit committee.					
3	Internal auditors are allowed to conduct independent reviews.					
4	Management does not interfere with internal audit findings.					

Audit Competence

S/N	Statement	1	2	3	4	5
5	Our internal auditors are professionally qualified (e.g., CIA, CISA).					
6	Internal audit staff possess adequate training to detect fraud.					
7	Our auditors demonstrate strong analytical and investigative skills.					
8	Regular training is provided for internal auditors.					

Audit Frequency and Scope

S/N	Statement	1	2	3	4	5
9	Internal audits are conducted frequently in our organization.					
10	The internal audit covers all departments and operational areas.					
11	Audit reports are regularly submitted to the audit committee.					
12	Surprise or unannounced audits are sometimes conducted.					



Incidence of Fraudulent Activities

S/N	Statement	1	2	3	4	5
13	Fraud incidents have reduced in our organization over the last 3 years.					
14	Internal controls have helped limit opportunities for fraud.					
15	Internal audit contributes significantly to identifying fraud risks.					
16	There is a whistleblowing mechanism that supports fraud prevention.					

Effectiveness of Fraud Detection and Control Mechanisms

S/N	Statement	1	2	3	4	5
17	Internal audit has led to the discovery of fraud in the past.					
18	Fraud control mechanisms are strictly implemented.					
19	Management takes internal audit reports seriously.					
20	Internal audit reports are followed by corrective actions.					