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The Importance of Good Corporate Governance Practices and Internal Audit in the Prevention of Fraud: The Case of Moroccan Public enterprise

Mehdi Gharrafi¹, Nacer Mahouat², Kaoukabi Mohammed³, Hajar Kobi⁴, Benlakouiri Abderrahim⁵, & Habbani Souad⁶

Abstract

The context of this research is that there are still many cases of fraud that occur in companies, central government, local authorities or public institutions. The purpose of this study is to determine whether and to what extent internal audit and good governance play a role in preventing fraud in Moroccan public enterprise. The independent variable is "internal audit" and "good governance," while the dependent variable is "fraud prevention." We adopted a post-positivist posture, a hypothetico-deductive logic and a quantitative approach. The research population is made up of internal auditors, a total of 35 people in Moroccan public enterprise. We used a non-probability sampling technique, more precisely, the saturated sample technique, and then multiple regression to model fraud prevention and its determinants. The results of the study show that internal audit and good governance have a positive and significant role in fraud prevention. In addition, internal audit and good governance contribute 49.2% in the prevention of fraud.

Keywords: Internal audit, good corporate governance, fraud prevention, Moroccan public enterprise

Introduction

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Fraud one of the problems that often arise in every organization insofar as it presents a potential risk of fraud. It can be perpetrated by individuals or groups in all job functions and organizational divisions. It is an important factor that needs to be addressed by every organization by increasing awareness and vigilance in relation to the possibility of fraud (Wahyuni et al. 2021).

Internal auditing is an important function required in every organization, due to the fact that internal auditing is an evaluative activity carried out without any vested or uninfluenceable interests and objectively aimed at providing added value and increasing the effectiveness and efficiency of operational activities. Evaluation activities are conducted in a systematic and disciplined manner to assess risk management, internal control and governance processes to help organizations achieve their objectives (Cortesi et al. 2019). In addition to internal audit, the implementation of good governance is also an important factor in every organization that can improve asset management to prevent fraud. Implementing good governance practices can work well with the commitment of all parties, government and community. Good governance can work with good coordination and integrity, professionalism, work ethics with a culture of accountability (Abd Aziz et al. 2015).

Internationally, OECD recommendations encourage the integration of integrity and ethical values into the internal control system, and this can be done in conjunction with the development of a code of conduct for public officials and civil servants (OECD, 2018). To strengthen public trust and transparency, it is necessary to maintain ethical standards within the organisation through the establishment of an integrity system and oversight mechanisms to ensure that processes are undertaken ethically (OECD, 2018).

In the Moroccan context, several necessary steps have been taken, to improve the technical capacity of companies' internal auditors to conduct internal audits, through the efforts of The Institute of Internal Auditors-Morocco "IIA-MAROC" (AMACI), it is a non-profit association, This association promotes and defends the profession of Internal Audit in Morocco and contributes to the improvement of the control environment within public and private companies and works towards the professionalisation of Internal Auditors and those involved in Governance, Risk Management and Control in Morocco. In addition, since the last constitutional reform in 2011, Morocco has launched a series of structural reforms aimed at restructuring and improving the public enterprise sector, particularly in terms of organisation, management, digital technology and ethics. These reforms include framework law 50-21 on the reform of public enterprises, and law 82-20 on the creation of the National Agency for the Strategic Management of State Holdings and the Monitoring of the Performance of Public Enterprises (ANGSPE), published

on 26 July 2021. These reforms are helping to focus corporate governance bodies on the negative effects of fraudulent acts on the long-term survival of companies and the importance of the internal audit function in preventing fraud and making a significant contribution to minimizing it and detecting it more quickly. Indeed, internal audit plays an essential preventive and curative role in reducing fraud in the public sector in Morocco by identifying problems, proposing solutions and reinforcing transparency and accountability in the management of public funds.

This study seeks to investigate the following problematic: To what extent do internal audit and good governance practices contribute to fraud prevention in Moroccan public enterprise engaged in commercial activities?

In order to answer this central question of our study, we will first review the main concepts and studies that have been used.

Research Objectives

The research objectives highlight the following tasks:

- Clarify the major role of internal audit and governance practices in fraud prevention in the public enterprise sector.
- To contribute to the enrichment of quantitative empirical work on the importance of governance practices and internal audit for fraud prevention, especially in the Moroccan public enterprise sector.
- To respond to the need for empirical research in the Moroccan context to explain the impact of internal audit and governance practices in fraud prevention.
- Propose an adequate conceptual model to study the interconnections between internal audit and governance practices for fraud prevention.

1.Literature review

1.1. Internal audit

In 2017, the IIA adopted a more general definition that takes up the main features and characteristics of the function:

"Internal auditing is an independent and objective activity which provides an organization with assurance on the degree of control over its operations, advises on how to improve them, and helps to create added value. It helps the organization achieve its objectives by systematically and methodically evaluating its risk management, control and corporate governance processes, and by making proposals to enhance their effectiveness".

According to (Handoyo et al. 2021), the Institute of Internal Auditor (IIA) states that internal auditing is an evaluation activity conducted in a systematic, uninfluenced and

objective manner, designed to add value and increase the effectiveness and efficiency of operational activities. Assessment activities are carried out in a systematic and disciplined way to evaluate risk management, internal control and governance processes in order to help organizations achieve their objectives. According to (Smetanko 2014; Garcia-Hernandez et al. 2021), internal audit indicators are as follows:

1. Independence
2. Professional aptitude
 - a) Knowledge and skills
 - b) Supervision
 - c) Professional precision.
3. Scope of work
 - a) Reliability of information
 - b) Compliance with policies, plans, procedures and legal provisions
 - c) Asset protection
 - d) Use of resources
 - e) Achieving objectives
4. Implementation of inspection activities
 - a) Planning inspection activities
 - b) Test and evaluation
 - c) Inspection results report
 - d) Follow-up examination

1.2. Good governance

It is clear that a country's development depends on improving its institutions of public governance and ensuring that these interrelated institutions function in a similar way (Charreaux 2004). Some authors refer to this as the "culture of governance" (Meisel 2004). Thus, the relationship between institutions in the political sphere and those in the economic sphere is far more complex than the simple link between institutions of public governance and institutions of corporate governance. The promotion of the governance of public organizations represents the pioneering work of the State through organizations and entities that may be autonomous or directly attached to the government or parliament, and which develop the underlying foundations. The organization of these institutions should enable Morocco to promote accountability and probity (Ezziadi & Gharrafi 2019).

The Prime Minister⁷ invites the members of the government to ensure that the content of the code of good governance practices for public companies and

⁷ Appointed Head of Government under the new 2011 constitution

establishments launched by circular on March 19, 2012, is generalized and implemented with the institutionalization of the governance bodies of EEPs, as well as the introduction of plans to improve their governance system and monitor the degree of implementation.

Morocco represents one of two countries in North Africa and the Middle East (MENA), alongside Egypt, to have introduced a code of good governance practice specific to public institutions and companies (Gharrafi & Kerfali 2019). It is the latest component of the Moroccan code of best practice in corporate governance, launched on March 17, 2008, by the National Commission on Corporate Governance (CNGE), and promotes and reinforces the values and principles enshrined in the previous codes drawn up by the Commission (Gharrafi 2022). As such, it is a reference that can be perfected and developed according to the variety of needs and day-to-day practice, as well as the lessons learned during the implementation phase.

This code, based on international best practices and designed by public and private sector practitioners, aims to establish best practices in PE governance, promote the values and practices of transparency and ethics, probity and communication, and establish a culture of accountability. It contains recommendations, rules and practices aimed in particular at:

- Clarify the State's roles by establishing a clear distinction between its different missions as strategist, controller and shareholder;
- The effective strengthening of the role and responsibilities of the governance body, with a focus on strategic steering, performance monitoring and management follow-up, while improving the professionalization of directors and the periodic assessment of their work.
- Reinforcing ethics and transparency through the regular dissemination of significant financial and non-financial information on PEs, the dematerialization of procedures and their posting for quality service, the strict application of procurement principles, and the development and dissemination of ethical charters for governance bodies.
- Fair treatment of partners and economic operators.

In the same perspective, according to Worokinasih et al. (2020) and Gee et al. (2021), the indicators of good governance of an organization, whatever its type, are based on the following principles:

1. Equity
2. Transparency
3. Liability

4. Independence

1.3. Fraud prevention

Fraud prevention is an activity carried out by an organization to prevent or minimize the risk of fraud effectively and at low cost (Adams et al. 2006). According to Bayuandika and Mappanyukki (2021) and Heras and Fernández (2021), fraud prevention indicators are as follows:

1. A culture of honesty and high ethical standards
 - a. Setting the tone at the summit
 - b. Creating a positive work environment
 - c. Hiring and promoting the right employees
 - d. Training
 - e. Confirmation
2. Management's responsibility to evaluate fraud prevention
3. Oversight by the Audit Committee

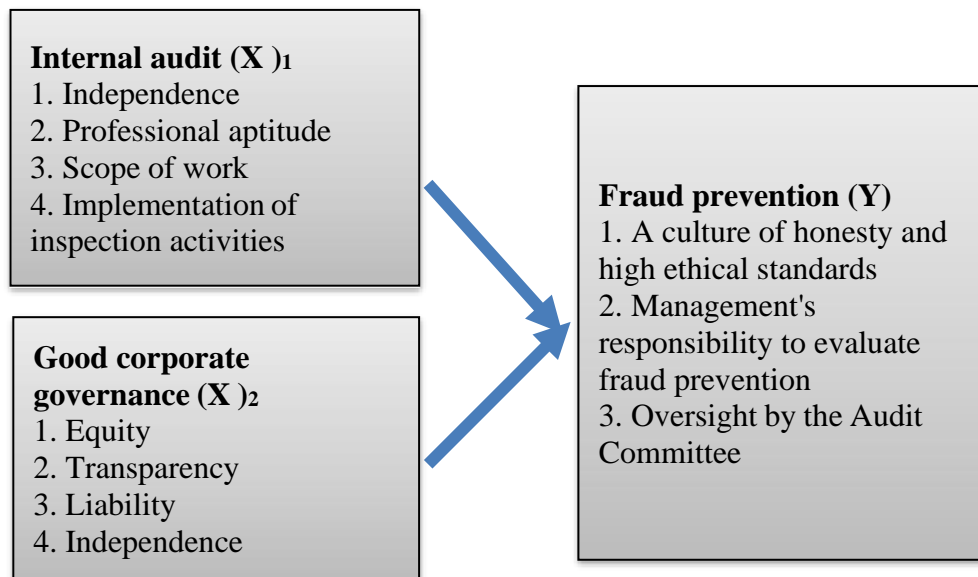
Fraud is one of the risks faced by any organization. It can be combated by implementing preventive programs such as internal controls, which can prevent or reduce the risk of fraud. In this case, management is responsible for implementing internal controls. Whereas the internal auditor is responsible for preventing fraud by evaluating and verifying the adequacy of the effectiveness of the internal control system, more specifically by assessing the extent to which potential risks have been identified (Petraşcu and Tieanu 2014). The existence of these risks requires internal auditors to develop preventive measures to prevent fraud (James 2003). One way to increase the effectiveness of fraud prevention is to increase the implementation of internal audit functions.

Internal auditing is an evaluation activity carried out systematically, without any element of interest or influence, and with objectives aimed at adding value and increasing the effectiveness and efficiency of operational activities by evaluating risk management, internal control and governance processes (Coram et al. 2006). Internal auditing is one of the main evaluators of an organization's activities. It has a significant effect on fraud prevention, where better internal auditing will increase fraud prevention (Bame-Aldred et al. 2013).

Good corporate governance is implemented to prevent fraud in every organization. Indeed, corporate governance is a form of regulation that is applied to prevent illegal acts within organizations. It can be achieved by eliminating the factors that favor the emergence of fraud by applying the principles of corporate governance, namely transparency, accountability, fairness, integrity and participation. Good governance has a positive effect on fraud prevention (Astuti et al. 2019). The structure of good governance recognizes two governance mechanisms, namely internal governance and external governance. Each of these

internal and external governance mechanisms can function properly to prevent/reduce fraud (Davidson et al. 2005). Preventive actions taken by organizations through the implementation of good governance practices can minimize the risk of fraud by making efforts to detect it early and well by the organization. The following paragraphs describe our theoretical research model:

Figure 1: Theoretical model



Source: personal elaboration

Research hypothesis:

H₁: Internal audit plays a positive role in fraud prevention.

H₂: Good governance plays a positive role in fraud prevention.

H₃: Internal audit and good governance play a positive role in fraud prevention

1.4 Internal audit and fraud prevention in the context of agency theory:

Agency theory considers internal audit as one of the main mechanisms for managing conflicts and reducing agency costs, and as a means of limiting accounting manipulations by managers and an effective means of fraud prevention. Indeed, several studies thus propose the presence of a qualified auditor who can reduce the problems of information asymmetry between company managers and shareholders (Almutairi, et al., 2009), (DeBoskey & Jiang, 2012), (Yaghoob, et al.,

2014). In addition, the internal audit function is a crucial activity, it acts fairly on behalf of the company in order to contribute to the communication of quality accounting and financial information and the reduction of agency costs and conflicts of interest between all actors of the company, allowing the safeguarding of the interests of all stakeholders of the company and largely reduce fraudulent acts that can negatively impact the survival of the company.

2. Research Methodology

The study population consisted of internal auditors working in Moroccan public enterprise engaged in commercial activities. Specifically, the sample included 35 internal auditors, representing the entire target group. Given the relatively small size of this population, a non-probability sampling technique was employed, specifically a saturated sampling method. This approach was chosen because the entire population of internal auditors within the specified criteria was included, ensuring that all possible participants were considered.

2.1 Population size and sampling technique:

The sample size of 35 auditors reflects the total number of internal auditors available for study within the scope of the research. The saturated sampling method is particularly useful when the population size is small and manageable, allowing for the inclusion of every individual within the defined parameters. This ensures that the data collected is comprehensive and reflective of the entire population under study.

2.2 Data collection:

The primary data sources were directly gathered from the internal auditors through the use of a structured questionnaire. This instrument was designed to assess the auditors' perspectives on internal audit practices, good governance, and fraud prevention measures. By using a questionnaire, the study was able to capture both quantitative and qualitative responses relevant to the research questions.

2.3 Variables:

The study focused on two key independent variables: internal audit and good governance. These factors were analyzed to understand their influence on organizational practices and their role in preventing unethical behaviors.

The dependent variable was fraud prevention, which the research sought to measure in relation to the strength of internal audit and governance frameworks within the organizations.

2.4 Analytical approach:

To examine the relationships between the independent and dependent variables, the study applied a multiple regression analysis technique. This method allowed for the evaluation of how internal auditing and good governance practices collectively and individually impacted fraud prevention efforts.

2.5 Limitations encountered:

The limited sample size of 35 internal auditors may restrict the generalizability of the findings to larger populations or other sectors, as the relatively small group may not fully represent broader trends. Additionally, the use of a non-probability, saturated sampling method could introduce biases since the sample is not randomized, making the results more reflective of the specific characteristics of this group rather than applicable to a wider population. Furthermore, relying solely on questionnaires for data collection may limit the depth of insights, as this method confines responses to the predefined questions and may not fully capture the complexity of the auditors' experiences or perspectives. Moreover, since the data was self-reported, there is a risk of response bias, where participants might provide socially desirable answers rather than entirely accurate reflections of their practices or beliefs, potentially skewing the results.

3. Results and Discussion

3.1 Results

Table 1: Multiple linear regression model

Model	Coefficient
Constant	56.061
Internal Audit	0.233
Good governance	0.433
$Y=56.061+0.233X_1 +0.433X_2+ \epsilon$	

Source: personal elaboration (2022)

Table 1 above, taken from the regression equation, shows that internal audit and good governance have a positive influence on fraud prevention. This means that the higher the level of internal audit and good governance, the higher the level of fraud prevention, and vice versa.

Table 2: Partial hypothesis test

Model	T value	P-Value	Results
Internal Audit	4.215>1.694	0.000<0.005	H ₁ Accepted
Good governance	5.788>1.694	0.000<0.005	H ₂ Accepted

Source: personal elaboration (2022)

The source in Table 2 above, based on the results of the partial hypothesis test, shows that internal audit and good governance play a significant role in fraud prevention.

Table 3: Simultaneous hypothesis test

Model	T value	P-Value	Results
Internal audit and good governance	4.312>1.694	0.000<0.005	H ₃ Accepted

Source: personal elaboration (2022)

The source in Table 3 above, based on the results of the simultaneous hypothesis test, shows that internal audit and good governance play a significant role in fraud prevention.

Table 4: Simultaneous coefficient of determination test

Information	Value	Percentage
R-square	0.492	49.2%

Source: personal elaboration (2022)

The source of table 4 above shows that the extent of the role of internal audit and good governance in fraud prevention is 49.2%.

3.2 Discussion

3.2.1 The role of internal audit in fraud prevention

The results show that internal auditing has a positive and significant role to play in fraud prevention. Fraud is one of the risks faced by every organization. Fraud can be reduced by implementing preventive programs such as internal controls, which can prevent or reduce the risk of fraud. In this case, management is responsible for establishing and implementing internal controls. Whereas the internal auditor is responsible for fraud prevention by evaluating and verifying the adequacy of the effectiveness of the internal control system, also assessing the extent to which potential risks have been identified (Petraşcu and Tieanu 2014). The existence of these risks forces internal auditors to develop preventive measures to avoid fraud (Murdock 2008).

One way to increase the effectiveness of fraud prevention is to increase the use of internal audits. Internal auditing is an assessment activity carried out systematically, without any element of interest or influence, and with objectives aimed at adding value and increasing the effectiveness and efficiency of operational activities by assessing risk management, internal control and governance processes. Internal auditing is one of the main evaluators of the organization's activities. It has a significant effect on fraud prevention, insofar as better internal auditing will increase fraud prevention (Petraşcu and Tieanu 2014).

3.2.2 The role of good corporate governance in fraud prevention

The results show that the application of good governance has a positive and significant role in fraud prevention. The results of this study are supported by the theoretical basis of the previous explanation, which interprets that good governance is applied to prevent fraud in every organization. This is because organizational governance is a form of regulation that applies to the prevention of an illegal act within the organization. Good corporate governance can be achieved by eliminating the factors that favor the emergence of fraud by applying the principles of corporate governance, namely transparency, accountability, fairness, integrity and participation.

Thus, good corporate governance has a positive effect on fraud prevention (Astuti et al. 2019). The GOOD GOVERNANCE structure recognizes two governance mechanisms, namely internal governance and external governance. Each of these internal and external governance mechanisms can function properly to prevent/reduce fraud (Anugerah 2014). Preventive actions taken by organizations through good governance that can minimize the risk of fraud by making efforts to detect it early and well by organizations. Good organizational governance has a significant effect on fraud prevention (Rasyid, 2020).

4. Conclusions and Outlook

4.1 Conclusions

Internal audit plays a positive and significant role in the prevention of fraud within Moroccan public enterprise. Good governance plays a positive and significant role in the prevention of fraud within Moroccan public enterprise.

Internal audit and good governance play an important role in fraud prevention in Moroccan public enterprise. The extent of the role of internal audit and good governance in fraud prevention is 49.2%.

4.2 Outlook

Moroccan public decision-makers must be in a position to maintain or improve the internal audit that has been implemented by Moroccan public enterprise with market activities in fraud prevention, always giving priority to independence, professional capacity, and optimal or maximum implementation of review activities.

Moroccan public enterprise with a commercial activity must be able to maintain or improve the implementation of good governance, to prevent fraud, through a high level of transparency, giving priority to independence and to the constitutional principle of correlation between the exercise of functions and accountability.

Future research can make use of other factors that can enhance fraud prevention within an organization, such as internal control, risk management, etc.

Recommendations

To further strengthen fraud prevention efforts in Moroccan public enterprise, it is critical for public decision-makers to focus on maintaining and continuously improving the internal audit frameworks already in place. A key priority should be ensuring the independence of internal auditors, which is vital for maintaining objectivity and minimizing external pressures that could compromise the audit process. Independence allows auditors to thoroughly investigate and report any irregularities without fear of retaliation or undue influence. Additionally, there is a need to enhance the professional capacity of internal auditors through ongoing education, training, and certification. By developing their skills and knowledge, auditors will be better equipped to recognize emerging fraud risks, adapt to changing regulatory environments, and implement more sophisticated audit procedures.

To maximize the effectiveness of internal audits, it is important that Moroccan public enterprise optimize the implementation of audit review activities. This includes conducting audits more frequently and ensuring that the reviews are comprehensive and cover all aspects of financial and operational processes. Regular audits help identify fraud risks early, allowing organizations to take corrective actions promptly.

Similarly, good governance practices play a crucial role in fraud prevention. Moroccan public enterprise must strengthen governance frameworks by promoting a high level of transparency in decision-making and reporting processes. Transparency ensures that all relevant stakeholders—such as regulators, employees, and the public—can access accurate and timely information about the organization's activities, reducing opportunities for fraudulent actions to go unnoticed. Furthermore, promoting independence in governance structures—particularly in the boards of directors and other key decision-making bodies—will help prevent conflicts of interest and ensure that ethical standards are upheld across the organization.

Another important recommendation is for Moroccan public enterprise to adhere to the constitutional principle of correlation between the exercise of functions and accountability. This principle mandates that individuals in positions of authority are held accountable for their actions. Ensuring a strong culture of accountability across all levels of the organization will act as a deterrent to fraudulent behavior, as individuals are aware that they will face consequences for misconduct.

Suggestions for Future Research

While the current research focuses on the relationship between internal audit, good governance, and fraud prevention, future studies could expand the scope to explore other factors that contribute to fraud mitigation within organizations. For instance, investigating the role of internal control systems could provide valuable insights into how these frameworks help monitor and regulate operational processes, thereby preventing fraud before it occurs. Risk management is another critical area that warrants further exploration. A robust risk management system enables organizations to identify and assess potential risks early, including those related to fraud, and implement preventive measures to mitigate those risks.

Moreover, future research could delve into organizational culture and its influence on fraud prevention. A strong ethical culture, where employees are encouraged to report suspicious activities and feel supported in maintaining ethical standards, can significantly reduce the likelihood of fraud. Technological advancements, such as the use of artificial intelligence (AI) and data analytics in fraud detection, could also be a key area of future investigation. As organizations increasingly adopt digital tools, understanding how technology can be leveraged to enhance audit effectiveness and detect fraud in real-time is critical for staying ahead of sophisticated fraud schemes.

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