

CONTRIBUTION OF INTERNAL AUDIT IN THE FIGHT AGAINST FRAUD

UDC 343.53:657.6

Milica Đorđević, Tadija Đukić

Faculty of Economics, University of Niš, Serbia

Abstract. *The constant increase in the volume of fraud, which leaves devastating effects on business performance, causes a significant preoccupation of enterprises with this problem. Being aware of the fact that the establishment of an adequate fraud risk management process is necessity, enterprises are increasingly basing the effectiveness of the mentioned process on the potentials of internal audit. Bearing in mind that internal audit does not have the primary responsibility to prevent and detect fraud, its integration in fraud risk management process represents a new challenge for this function. In the paper, authors initially point out the factors that determine the ability of the internal audit to fight against fraud, then the contribution that this function can provide in its prevention, detection and investigation.*

Key words: *Internal audit, fraud risk management, fraud prevention, fraud detection, fraud investigation.*

INTRODUCTION

Frauds stand for the risk that no company can fully eliminate. Aware of this, companies are making significant efforts to establish an effective fraud risk management process, in order to minimize and mitigate its multiple negative consequences. In addition to defining the roles and responsibilities of the audit board, management, and committee, as primarily responsible participants in this process, companies increasingly rely on the strength of internal audit.

Increased expectations from internal audit in the fight against fraud arise from the fact that it is a function which, focused on creating added value for the company, knows all its processes and activities. Indeed, through the proper implementation of its tasks and activities, internal audit can actually greatly contribute to the prevention and detection of fraud. However, it often happens that internal audit is given the responsibilities which it does not have and cannot have. In addition, professional regulations covering internal

Received October 20, 2015 / Accepted December 29, 2015

Corresponding author: Milica Đorđević

Faculty of Economics, University of Niš, Serbia

E-mail: milica.djordjevic@eknfak.ni.ac.rs

audit provide for the liability of internal auditors to detect the risk of fraud which the company is exposed to, as well as the way in which the company manages these risks, but do not specify the tasks of internal audit in this process.

Possibilities and expectations from internal audit as regards effective defence of the company against fraud, on the one hand, and insufficiently precise regulation of its responsibilities in this part, on the other hand, are the reason for reviewing the scope of internal audit in this area. What are the conditions under which the internal audit provides support and security to the board of directors and management that the likelihood of fraud is minimized and is internal audit up to this challenge are the questions whose answers affect the further development of this profession in the field of fraud risk management.

1. RISKS OF FRAUD IN COMPANIES' OPERATIONS

Fraud is not a recent phenomenon. Even the earliest human history recorded cases of using tricks, various forms of manipulation, and deception, in order to acquire some benefit: land, goods, money, some form of profit, or even someone's trust [23, 490]. Thus, with the advent of organized performance of economic activity, fraud has become a serious threat, to which the business of each company is exposed. This includes a wide range of irregular and illegal activities: deception, bribery, intentional concealment of events or information, forgery, giving false information, concealment of material facts, theft, misuse of funds or other resources, and the like. The Association of Certified Fraud Examiners (ACFE) classifies all these forms of fraud into three broad groups: (1) manipulation in the financial reporting, (2) misuse of tangible and intangible assets of the company, and (3) corruption. The variety of forms of fraud is one of the reasons why there is no single definition of this category today. Thus, the Institute of Internal Auditors (IIA) defines fraud as "any illegal act characterized by deceit, concealment, or violation of trust. These actions are not dependent upon the threat of violence or physical force. Fraud is perpetrated by persons and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage" [27]. "Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain" [25, 5]. ACFE sees fraud as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets" [2, 6]. "In a more complex definition, fraud can be accomplished by any person that aims to obtain a certain gain or cause a certain loss, or even to expose others to risk in a dishonest manner" [16].

Approaches to determine fraud are different. However, each of these definitions suggests that fraud can be committed by all employees in the company, regardless of their hierarchical level, as well as persons outside the company. In this regard, studies have shown that the three key factors, or conditions, determine the probability that fraud will be made, which is known as the Triangle of Fraud:

- The existence of pressure, i.e. stimulus – financial benefit, i.e. money is the most frequent motive for committing fraud. However, fraud is often committed to preserve the workplace, achieve a prestigious position, and advance in career. Company managers are often willing to commit fraud, in order to preserve profitability and positive trends, in line with the expectations of investment analysts, investors, significant creditors, or other persons, and in order to secure new sources of funding.

- The existence of opportunities, i.e. circumstances, which allow the perpetrator to find a way to commit fraud. These opportunities are determined by the position of the individual, the position of some close influential people in the company, inadequate division of tasks, the lack or weakness of existing controls, the lack of well-defined punitive measures, etc., and
- The possibility of rationalization, i.e. providing justification for the committed actions. Specifically, individuals will not commit fraud if it cannot be justified as the process consistent with their ethical behaviour [13, 354]. This particularly refers to: interest of the management to preserve or increase the stock price or earnings trend, the achievement of financial targets of the company, etc.

Regardless of the different definitions aimed at clear determination of fraud, and despite the different motives, opportunities, and possibilities of justification of fraudulent behaviour, consequences which fraud brings about are the same – the loss of value for stakeholders of the company. Apart from the financial losses, which are very important, fraud inflicts much greater damage by distorting labour productivity in the company, compromising its reputation, social responsibility, the negative impact on the image, the destruction of investor confidence, lowering the credit rating, etc. Looking beyond, fraud adversely affects the economy of a country as a whole, causing major financial losses, weakening the social stability, endangering the democratic structures, reducing confidence in the economic system, and compromising economic and social institutions.

Study of the problems of fraud, in terms of timely recognition and perception, consideration of possible consequences, and the establishment of mechanisms to prevent them, is a very complex task. In addition to the precise determination of fraud, in terms of establishment of the criteria for the recognition of its origin, it is necessary to adequately recognize the aspects of the risk of fraud: the position of the manager, the complicity between employees, inadequate division of tasks, unauthorized handling of company resources, conflict of interest, inappropriate storage of documents, and the like [23, 492]. It is also necessary to take into account the overall economic, legal, criminological, psychological, and sociological aspects and relations [14, 326]. The gravity of this problem has particularly come to the fore with the growing complexity of business methods, the characteristics of the modern business environment, and the development and implementation of methods of committing fraud under the influence of the information technology progress. This is confirmed by large, well-known financial scandals of the late 20th and early 21st century, linked to the companies Enron, Waste Management, World Com, and others. The consequences of these cases of fraud were fatal: the collapse of companies, large investment losses, significant litigation costs, erosion of confidence in the capital market, and others.

These events have certainly raised awareness of the importance of strengthening the mechanisms for combating fraud. However, unfortunately, the fact is that, today, fraud is one of the most important business risks which the companies are exposed to. This is supported by the continuous annual surveys by ACFE, which monitors the effect of fraud on the world economy. The latest report [2], published in 2014, which included 1,483 cases of fraud in commercial companies, financial institutions, government institutions and agencies, non-profit organizations, etc. in more than hundred countries of the world, contains alarming data. Specifically, the results indicate that the typical company loses on average 5% of its total revenue due to fraud committed by employees, which, compared to the gross world product, is as much as 3.7 trillion US dollars. The largest number of acts of

fraud related to the misuse of funds, in 85% of cases, while corruption was observed in 37% of cases, and 9% related to the manipulation of the financial statements. However, despite the presented relative amounts, in absolute values, loss due to misuse of funds amounted to 130,000 US dollars, corruption to 200,000, while manipulations of the financial statements made a loss of as much as 1,000,000 US dollars. These results immediately suggest that, in many cases, there are more categories of fraud. On average, 30% of the schemes involve two or more forms of fraud. The interesting part of this study concerns the relation between the hierarchical position of the perpetrator and a number of committed acts of fraud. The obtained results show that, out of the total number of acts of fraud, 19% were committed by senior managers and owners, 36% by mid-level managers, and 42% by employees. However, although the number of acts of fraud committed by employees is far greater than the number of cases of fraud committed by mid-level managers, the damage caused in this way is two times less than the damage committed by mid-level managers, which is, in turn, three times less than the damage made by senior managers and business owners. This confirms the fact that the possibility of committing fraud and the seriousness of its consequences are, in fact, determined by the availability of resources to perpetrators [13, 354].

Recognizing this situation, which has been present for years, company investors, the public, and other stakeholders significantly lose confidence in the management of the company and the way they manage, and become more sensitive to the problems that occur as a result of fraud. In response to this, they expect the company to take a position of “zero tolerance to fraud” [25, 5], and to establish mechanisms aimed at preventing and detecting fraud, i.e. fraud risk management. In this regard, companies need to establish an adequate framework, i.e. fraud risk management program, which involves proper definition of policies that include expectations of the board of directors and management in relation to risk management. Providing such a program involves clear setting and understanding of the roles and responsibilities of all persons in the company, at all hierarchical levels, to be achieved by establishing policies, job descriptions, rules of work, delegation of authority, etc.

Adequately established fraud risk management process involves, first, periodic *assessment of fraud risk exposure*, in order to identify potential events whose occurrence the company should prevent. In this regard, IIA suggests that the company should: identify relevant fraud risk factors, potential fraud schemes and rank them based on the probability of their occurrence, map existing controls and identify the existence of gaps, test the effectiveness of controls aimed at preventing and detecting fraud, and document and report on the completed risk assessment. On this basis, it is necessary to *establish preventive mechanisms*, in order to avoid potential risk events and mitigate possible negative consequences for the company. Although the company can never minimize the risk of fraud to zero, the establishment of mechanisms and activities, aimed at preventing fraud and reducing the negative consequences, is of great importance. The basis of good prevention of fraud, above all, lies in raising the awareness of all employees on the established fraud risk management process, communication of efforts aimed at preventing the occurrence of fraud, and the possibility of starting potential disciplinary and criminal proceedings against the perpetrators. *Establishment of fraud detection techniques* is done in cases when preventive measures have not yielded a result, i.e. when the fraud occurred. In this respect, companies rely on techniques aimed at recognizing the signs of occurrence of fraud, and they, as such, must be flexible and adaptable to variable risk environment. Finally, *establishment of a coordinated process of investigating fraud* is aimed at revealing the nature and extent of fraudulent activity, and involves performing

procedures to obtain information and specific details that would indicate whether the fraud occurred, the loss which the company is exposed to due to fraud, persons involved in the fraud, and the way in which the fraud occurred.

The fact is that some cases of fraud are difficult to prevent, because they are carried out in collusion, with careful removal of evidence. However, well-designed and consistently applied procedures of fraud risk management may in a number of cases deter people who have the ability to commit fraud [29, 12].

2. EFFECTIVENESS OF INTERNAL AUDIT IN FRAUD RISK MANAGEMENT

At today's level of development, internal audit is a key participant in the system of corporate governance. By introducing a systematic and disciplined approach, internal audit is aimed at supporting and strengthening the mechanisms of company management, as well as assessing and improving the effectiveness of risk management and control processes [28]. More specifically, internal audit is expected to be focused on assessing the risks that could adversely affect the organization, as well as on the establishment of a mechanism that will monitor and control that risk, with a view to its elimination, or, at least, reduction [9, 354]. This role of internal audit means that it is a function that knows all the processes in the company, the risks to which the company is exposed, and internal control and the persons who carry out this control, which is why its potential and ability to achieve high effectiveness in preventing and detecting fraud is recognized. In this respect, the IIA Standards oblige internal audit to, "in determining the objectives of its engagement, assess and take into account the potential possibility of fraud" (ISPPIA 2210.A2) and "...assess the way in which the company manages the risk of fraud" (ISPPIA 2120.A1). For these reasons, today, the companies increasingly focus their programs, aimed at reducing fraud, on internal audit, which is seen as the first line of defence, i.e. significant management tool that ensures the protection of the company from internal criminal behaviour [22]. The expectations that are put before internal audit are related to the investigation of [10, 276]:

1. Attitude of the highest level company management towards risk,
2. Risk management strategy – how risks are treated in different areas of the company, whether the risks are embedded in the company, ignored, accepted, minimized, or eliminated,
3. The general attitude on risk management – whether risks are embedded within the entire business process of the company or built into a business process of certain areas,
4. The attitude of the environment towards risk and control,
5. Whether there are written policies and measures that prohibit the violation of company goals in the fight against fraud,
6. Whether specific procedures of authorization for certain transactions are established and respected,
7. Whether the mechanisms for monitoring the activities and safeguarding the property are established, particularly in high-risk areas,
8. Whether the information system works in such a way that it provides the management with credible and reliable information, and
9. Whether the recommendations of the internal audit, with regard to establishing a control system in the fight against fraud, are respected.

Internal auditors can realize the thus defined expectations, according to the Recommendation 1210A2-1, by considering the elements of the COSO framework: control environment, risk assessment, control activities, information, and communication and monitoring. Example of good practice of the use of COSO components is the program framework aimed at preventing fraud, developed in the company Hewlett-Packard (Figure 1).

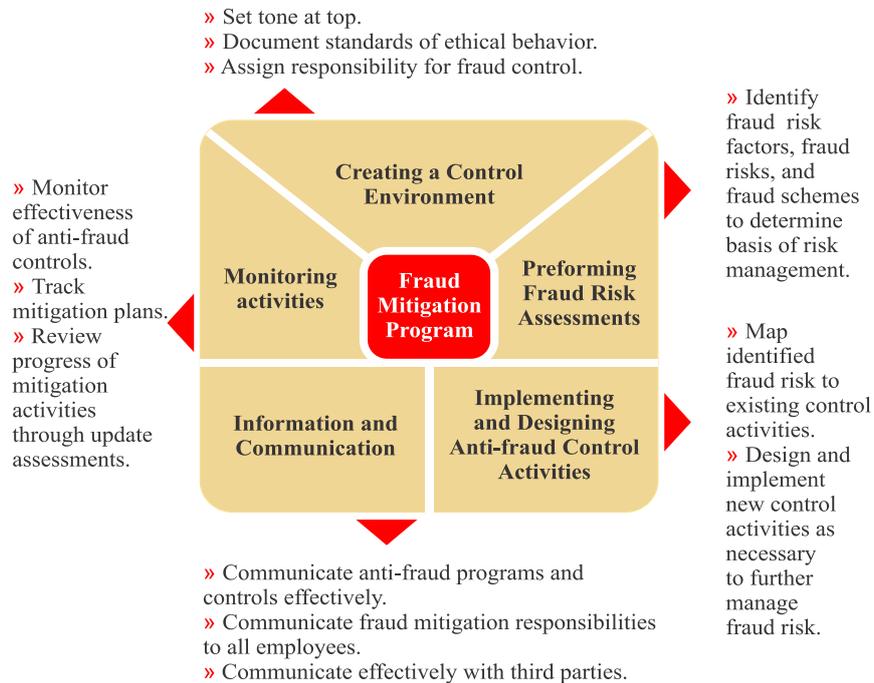


Fig. 1 The Fraud Mitigation Program Framework
 [17, 49]

However, despite the obvious great potential of the internal audit to prevent and detect fraud, and, in that regard, the expectations that have been placed before it, the question arises as to how much internal auditors are actually really up to the challenge in practice. The question arises because the Standard 1210.A2 itself stipulates that “internal auditors must have sufficient knowledge to assess the risk of fraud and the way in which the company manages that risk, *but they are not expected to have a level of expertise as the person whose primary responsibility is detecting and investigating fraud*”. So, with twelve years of experience in this profession, Hodge [12] recognizes that, in some cases, internal auditors have not adequately responded to this task. In her view, the problem resides in the fact that internal auditors do not really understand what it means to incorporate the understanding of the risk of fraud into their work, not in the fact that they are incompetent, negligent, or that there is some other reason why they are not able to contribute to the prevention and detection of fraud. Some auditors interpret the Standard

requirements in the sense that they do not have too much responsibility to prevent and detect fraud – they are not required to be fraud investigators, while others are convinced that they possess the required knowledge, while reality is actually the opposite. Based on her own experience, Hodge further states that the understanding of the fraud risks is the individual responsibility of each auditor, which is why they should constantly bear in mind their role in managing the risk of fraud, and continually increase their knowledge about ways of preventing and detecting fraud.

A similar attitude was taken by DeZoort [8] indicating that the level of responsibilities of internal auditors in preventing and detecting fraud is, in fact, determined by their perception of the responsibility they should have. Starting from the model of the triangle, first applied by Schlenker et al. (1994), DeZoort investigated the effect of different types of fraud (manipulation in financial statements, misuse of funds, and corruption) and the professional obligation of application of standards on the internal auditor's responsibility to prevent and detect fraud. According to the triangle model, personal responsibility of internal auditors is conditioned by the extent to which an individual: (1) has a clear, well-defined set of regulations (standards, rules, policies...), (2) feels a professional obligation, and (3) feels the connection with the event by controlling it (there is an intention and possibility to establish and apply specific measures as regards perpetrators). Starting from this model, results obtained by DeZoort indicate that internal auditors show a higher degree of responsibility for the prevention and detection of fraud relating to the misuse of funds in relation to fraud related to the financial reporting process and corruption. So, although the Standards of internal audit do not distinguish between types of fraud that internal auditors should pay attention to, their perception of possibility to control misuse of funds is perhaps the most pronounced. In addition, the study results point to the position of internal auditors, based on which the highest degree of responsibility for detecting fraud should be in the hands of the company bodies, rather than the bodies outside of it (for example, external audit). However, at the same time, internal auditors hold the position that the highest professional responsibility belongs to the company management, accountants, and then the internal auditors.

Bearing in mind that the effectiveness of internal audit is largely determined by the auditor's personal attitude, knowledge, skills, etc., there are a number of seminars, workshops, and conferences nowadays, which emphasize the need for improvement of internal auditors in this area. More specifically, the internal auditors are expected to: (1) become familiar with the work of the specific part or process that is audited, in connection with possible acts of fraud, characteristic of the subject of audit; (2) in work always apply professional scepticism, i.e. deeper examination and critical evaluation of the findings, starting from the assumption that managers or employees are neither honest nor dishonest. This is a priority because the inadequate observance of the principle of professional skepticism is cited as the most common cause of failing to detect fraud [26, 14]; (3) understand fraud and the risk of irregularities in the work, i.e. know the fraud schemes and techniques that are used, as this allows them to promptly detect red flags (indicators) that the fraud was committed or may be committed; (4) be able to adequately assess the likelihood of fraud risk, i.e. its identification and ranking, based on the impact on the achievement of company goals; (5) apply the brainstorming, which, without increasing costs due to the interaction between the auditors in a group, can maximize the generation of ideas on fraud, which inevitably contributes to improving the effectiveness and efficiency of internal audit [7]. Although the idea of brainstorming application in internal audit has not gained momentum until the early

2000s, it is believed that, today, “this procedure should be an integral part of a proactive approach of internal auditing in detecting fraud” [18, 67].

Despite the efforts that the internal auditors need to make, for the purpose of improving their effectiveness in fighting fraud, great support must be provided by the companies in which they operate, in a way to enable them to [11, 69-70]:

- Align their actions with the priorities and goals of the company, both in the long and in the short term. Internal auditors will achieve this by becoming familiar with: the way in which management undertakes to respect ethics and incorporate mechanisms of compliance with regulations in the objectives, strategies, decision-making, and daily operations of the company; the methods used by management to promote and improve the integrity and ethics, and compliance with the core values of the company; the specific policies, programs, and control of compliance; possible responses to the challenges of implementing ethics and compliance activities, etc.
- Gain support from the board of directors and senior management in terms of establishing clear objectives, clear reporting lines and line of responsibility, allocating the necessary resources (human and material), obtaining input in planning, establishing processes for monitoring the success of implemented activities, and the like.
- Design an adequate process of reporting on the results of the work, which will ensure effective and efficient communication with relevant stakeholders, and specify structure of the report, which is essential for proper interpretation of the findings.

Although the issue of effectiveness of internal audit in fraud risk management is fully justified, many studies show that the internal audit is up to this challenge. This is confirmed by the results of research conducted by Monisola et al. [19] and Coram et al. [6], indicating that, in the companies with the established internal audit function, much more acts of fraud are detected, in relation to the companies in which internal audit is not functioning. Furthermore, research carried out by ACFE in 2014 indicates that about 14.1% acts of fraud were initially detected by internal audit, which is more in relation to accounting (6.6%), examination of documents (4.2%), external auditing (3%), monitoring activities (2.6%), IT control (1.1%), and others. Internal audit is actually seen as a proactive mechanism that is able to quickly “catch” fraud and greatly minimize its negative consequences.

3. POWERS AND RESPONSIBILITIES OF INTERNAL AUDIT IN THE FIGHT AGAINST FRAUD

Comprehensive knowledge and understanding of the risks of fraud allow internal audit to adequately specify its tasks, objectives, and activities, focused on fraud risk assessment, prevention and detection of fraud, and, ultimately, investigation of fraud. In this way, internal audit significantly improves the process of fraud risk management, and its unique position enables it to support other stakeholders in this process – the board of directors, audit committee, management, and employees, by [3]:

- Providing assurance about the effectiveness of fraud risk management and internal control processes,
- Providing advice in defining fraud risk management strategy,
- Providing advice on the possibilities of improving fraud risk management and internal control processes in the company.

As regards the power of internal auditing in the fight against fraud, it in the first place refers to its activities within the framework of a *fraud risk assessment* process, which involves identification of where, how, and who can commit fraud in the company. Internal audit activities in this process are aimed at:

- *Identification of relevant risk factors*, where the internal audit collects information about the activities and processes of the company, in order to be able to identify areas of potential fraud. The techniques used in this process include: oral interviews with management and employees, questionnaires, and, most often, the use of the already mentioned, “fraud triangle” technique [21, 16-17]. In this way, the auditors identify areas where there are possibilities of occurrence of fraud, i.e. persons who have the motive, the opportunity, and the possibility of rationalizing the possibly committed fraud. In cases of identifying the presence of some of the factors, internal audit examines what could be the subject of fraud, and how fraud could be done, i.e. identifies possible fraud schemes.
- *Ranking the fraud risk* in relation to the estimated amount of loss and the likelihood of fraud. Loss, i.e. damage, which may occur in the form of cash loss, decline in reputation, decreased productivity, loss of resources, reduction in liquidity of assets, etc., is difficult to assess. For these reasons, internal auditors largely rely on their experience, and rank loss in respect of a given period of time, expressed in cash units, for certain intervals of likelihood of occurrence. On the other hand, the likelihood of occurrence is mainly based on fraud triangle: where all the factors are present (motive, opportunity, and rationalization), the likelihood of fraud is higher, and vice versa.
- *Mapping and testing of existing internal control mechanisms* – internal auditors first identify the control mechanisms established by the company, directed towards the prevention and detection of fraud in the company. In this regard, they compare them with potential fraud schemes, all in order to identify the existence of a possible gap. In addition, internal audit carries out in particular the evaluation of effectiveness, because the existence of internal control does not mean at the same time certain protection from fraud occurrence, which subsequently affects the likelihood of risk which internal audit will assess, and
- *Documenting and reporting on the assessed risk*, which internal auditors are obliged to do, based on ISPPIA 2060. Key elements of the report, of benefit to the company management, include [26, 18]: types of fraud that have a chance to appear, the inherent risk of fraud, the adequacy of the established anti-fraud and internal control programs, the potential gap between the established control mechanisms, the likelihood of significant fraud, the possible impact of fraud on the company’s operations.

After risk assessment, internal audit directs its activities to the **prevention of fraud occurrence**, and limiting the negative impact of fraud that occurred. These activities are largely focused on providing assistance to the company management, which is primarily responsible for the establishment of mechanisms to defend the company against fraud. In fulfilling this responsibility, internal audit determines:

- Whether the company has created an atmosphere that raises awareness about the existence and importance of control mechanisms,
- The existence of a written policy (for example, a code of ethics), which describes the prohibited activities and measures to be taken if the violation is discovered,

- The adequacy of established policies relating to the transaction authorization,
- The existence of policies, procedures, practices, and other mechanisms for the monitoring of activities and the protection of resources, particularly in high-risk areas,
- The effectiveness of communication channels, in terms of providing adequate and reliable information to the management, and
- The need to provide recommendations for the establishment and improvement of control mechanisms, to prevent fraud in the company [20, 581].

In addition to providing support, internal audit can conduct activities that are directly aimed at preventing fraud. Some of them are: constant analytical reviews, review of contracts in the company, creation of power rotation programs in the company, assessment of the electronic data protection system, conducting surprise audits, monitoring of failed attempts to access the computer, and others [1].

The fact is that even the best mechanisms established to combat fraud do not guarantee that fraud will not occur, which is why the internal audit specifies its tasks and activities in **detecting fraud**. The degree of success of recognizing fraud red flags (indicators) is determined by the good knowledge of the fraud schemes, and, according to Joan [15, 27], in particular, by the ability of internal auditors to think as perpetrators of fraud. In detecting fraud, internal auditors use different methods: statistical, mathematical, interviews, etc., all of which need to be flexible and adaptable to risk areas [26, 21]. Table 1 presents the most commonly used methods of internal audit, depending on the type of fraud.

Table 1 The most commonly used methods of internal audit in detecting fraud

Type of fraud	Procedures of internal audit
Manipulation in the financial reporting	inventory observation, cut-off tests, tracing to supporting documents and reconciliations internal control reviews review of separation of duties, control monitoring, reviews of employees that had access to various accounts analytical review for period to period revenues and costs, changes between accounts and reasonableness of estimates
Misuse of assets of the company	cut-off testing, reconciliations, scan accounts for unusual items, review of wire transfers, physical inventories review of controls such as tip hotlines, segregation of duties, treasury transactions, approvals of accounts payable, and management review of work of lower level people.
Corruption	review of internal controls around the segregation of duties, auditing employees' expense reports, reviewing company policies and following up filed complaints, analytical procedures and risk assessment techniques, look for weaknesses in internal controls, performed audit tests and in-depth audits. review the whistleblower policy and tips submitted to a hotline

Source: adapted from [4]

After detection, fraud needs to be explored further – by collecting data through observation, interviews, or written statements, with the aim of determining the nature of fraud, i.e. determining areas of fraud and techniques used, estimating the causes of fraud, identifying perpetrators, and assessing the consequences. The role of internal audit in this process may be different [26, 23]:

- To have the primary responsibility in investigating fraud,
- To serve as a significant source of information, and
- To have no role in this process.

Which one of these roles internal audit will have depends on many factors. Specifically, even though the traditional internal audit activities are not directed to investigating fraud, internal auditors are increasingly expected to meet and adopt **techniques and methods of forensic investigators**. Greater involvement of internal audit in detecting fraud includes [24, 47-48] that this function has a high degree of **independence** – actual and factual, in order to freely investigate fraud. Next, **knowledge of different types of fraud and associated schemes** is needed. Bearing in mind that most of the identified schemes are linked to the misuse in the process of financial reporting, internal auditors are specifically required to possess the **knowledge of accounting**. Possession of **interviewing skills** stands out in particular, because knowing which question to ask, and, more importantly, in which way, is determined by the importance of the information they want to collect [15, 30]. **Knowledge of IT technology and the skills of collecting and analysing electronic information** (e-mail, files, etc.) are now the key requirements, considering that lack of knowledge or poor handling of electronic data can cause their irrevocable destruction. Finally, entrusting the role of fraud investigator to internal audit involves the possibility that the work will be examined by the regulatory bodies. Therefore, notes, working papers, work schedules, and other documents that reflect the internal audit activities must be **consistent with regulatory requirements**.

A well-established team of internal auditors, who meet the above-mentioned conditions, largely ensures success in fraud investigation. In addition, companies realize significant cost savings by avoiding hiring forensic investigators, specialized law firms, or other bodies that provide professional services of this type. However, adequate assessment of the audit team with respect to the possession of skills, resources, and other issues, is very important, because the costs of poor investigation can several times exceed the costs of hiring well-qualified external investigators.

CONCLUSION

With a devastating effect on the profitability, productivity, social responsibility, and reputation of the company, fraud is one of the most significant risks that companies face. Although it is clear that even the best established programs and mechanisms cannot provide a guarantee that fraud will not occur, the internal audit is the function from which much is expected in this regard. It is completely logical, given that, by directing its activities towards providing assurance on the effectiveness of all processes in the company and their improvement, internal audit cooperates with everyone in the company, which gives it the ideal position to take a proactive approach to reducing the risk of fraudulent behaviour of employees.

IIA emphasizes the importance of internal audit in the fight against fraud, by appropriate standardization and closer determination of the role of internal audit through practical guides. However, the above-mentioned regulations do not specify the tasks and responsibilities of internal audit, which points to the conclusion that its effectiveness depends on the support it receives from the company in which it functions, and, especially, on the knowledge, skills, and personal responsibility of internal auditors. In this regard, well-organized internal audit, consisting of independent internal auditors, for whom the application of professional scepticism is an imperative, and who feel the responsibility of continuous improvement of knowledge on fraud, can significantly reduce the risk of fraud. This is achieved by providing opinions on the adequacy and effectiveness of fraud risk management strategies, fraud prevention and detection, fraud risk assessment, consideration of potential cases of fraud during each audit, identification of fraud indicators, monitoring and identification of systemic weaknesses and missing internal control mechanisms, fraud investigation according to the knowledge and expertise of the members of the team, reporting to the board and management on the activities conducted in relation to the detection and prevention of fraud, etc.

Through the adequate implementation of the above activities, internal audit is able to respond to the increased expectations of company stakeholders and justify the trust placed in it.

REFERENCES

1. Association of Certified fraud Examiners, (1995) *Fraud Examiner's Manual, 2nd Review*, Austin, Texas
2. Association of Certified fraud Examiners, (2014) *Report to the Nations on occupational fraud and abuse*
3. Bagshaw, K., *The Role of Internal Audit in Risk Management*, www. Accaglobal.com (05.10.2015.)
4. Burnaby, P., Howe, M., Muehlmann, B. (2011) *Detecting Fraud in the Organization: An Internal Auditor Perspective*, *Journal of Forensic & Investigative Accounting*, Vol.3, (1): 195-233
5. Coram, P., Ferguson, C., Moroney, R. (2006) *The Importance of Internal Audit in Fraud Detection*, available on: http://www.researchgate.net/publication/253527357_the_importance_of_internal_audit_in_fraud_detection
6. Coram, P., Ferguson, C., Moroney, R. (2008) *Internal Audit, alternative internal audit structures and the level of misappropriation of assets fraud*, *Accounting and Finance*, 48: 543-559
7. Carpenter, t., Reimers, J, Fretwell P. (2011) *Internal Auditor's Fraud Judgments: The Benefits of Brainstorming in Groups*, *Auditing: A Journal of Practice & Theory*, Vol.30, (3): 221-224
8. DeZoort, T., Harrison, P. (2008) *An Evaluation of Internal Auditor Responsibility for Fraud Detection*, *The Institute of Internal Auditors Research Foundation*
9. Đukić, T., Đorđević, M. (2014) *Needs and specifics of ensuring effective internal audit*, *Facta Universitatis, Series: Economics and Organization*, Vol.11, (4): 353-365
10. Gavrilović, M. (2013) *Interna revizija u procesu upravljanja rizicima prevare*, 17. Kongres SRRRS „Računovodstvo, revizija i poslovne finansije u uslovima odgovornijeg ponašanja učesnika na tržištu“, Banja Brućica
11. Hedley, T., Ben-Chorin, O. (2011) *Auditing and Monitoring Activities Help Uncover Fraud and Assess Control Effectiveness*, *The CPA Journal*: 68-71
12. Hodge, C. (2012) *Journey to Fraud Awareness*, *Internal Auditor*, Vol. 69 (4): 80
13. Hillson, W., Pacini, C., Sinason, D. (1999) *The internal auditor as fraud-buster*, *Managerial Auditing Journal*, Vol.14, (7): 351-362
14. Ilić, M., Saković, D. (2012) *Uloga interne revizije u upravljanju poslovnim rizikom prevare*, *Finansije br. 1-6*: 324-335
15. Joan, C. (2009) *How Internal Audit Can Be Effective in Combating Occupational Fraud*, *Internal Auditing*, Vol. 24, (3): 22-32
16. *Judicial Commission of the Parliament of the United Kingdom of Great Britain and Northern Ireland (2002), Report on Fraud*
17. Laxman, S., Randles, R., Nair, A. (2014) *The Fight against Fraud*, *Internal Auditor*, Vol.71, (1): 49-53

18. Lynch, A. (2006) Think like a Fraudster, Internal Auditor, Vol.63 (1): 66-70
19. Monisola, O. (2013) Effect of Internal Audit On Prevention of Frauds, Errors And Irregularities In Corporate Organisation, Research Journal of Finance and Accounting, Vol.4, (19): 103-108
20. Moeller, B. (2009) Brink's Modern Internal Auditing, a Common Body of Knowledge, 7th Edition, John Wiley & Sons, Inc
21. Naame, D. (2003) CIA, CISA, CFE, CGFM, All Enclosed material
22. Nestor, S. (2004) The impact of changing corporate governance norms on economic crime, Journal of Financial Crime 11 (4): 347-352
23. Petrascu, D., Tieanu, A. (2014) The Role of Internal Audit in Fraud Prevention and Detection, 21th International Economic Conference IECS 2014, Procedia Economics and Finance 16: 489-497
24. Pollock, J., Sumner, D. (2009) The New Fraud Detectives, Internal Auditor Vol. 66 (5): 44-48
25. Richards, D., Melancon, B., Ratley, J. (2009) Managing the Business Risk of Fraud: A Practical Guide, Sponsored by: The Institute of Internal Auditors (IIA), The American Institute of Certified Public Accountants (AICPA), Association of Certified Fraud Examiners (ACFE)
26. The Institute of Internal Auditors, (2009) Internal Auditing and Fraud, IPPF - Practice Guide
27. The Institute of Internal Auditors, (2011) International Professional Practices Framework
28. The Institute of Internal Auditors, www.theiia.org (10.09.2015.)
29. Wayne, A., (2010) Anti-Fraud control, What Internal Auditors Need to Know, Internal Auditing, Vol. 25, (1): 10-26.

DOPRINOS INTERNE REVIZIJE U BORBI PROTIV PREVARA

Konstatni porast obima prevara, koje ostavljaju razorne posledice na uspešnost poslovanja, uslovljava značajnu zaokupljenost preduzeća ovim problemom. Svesna činjenice da je uspostavlja adekvatnog procesa upravljanja rizikom prevare nužnost, preduzeća u sve većoj meri efektivnost pomenutog procesa baziraju na potencijalima interne revizije. Imajući u vidu da interna revizija nema primarnu odgovornost u sprečavanju i otkrivanju prevara njeno integrisanje u proces upravljanja rizikom prevara predstavlja novi izazov za ovu funkciju. U radu autori najpre ukazuju na faktore koji opredeljuju mogućnost interne revizije da se bori protiv prevara, a onda i doprinos koji ova funkcija može da pruži u njihovom sprečavanju, otkrivanju i istraživanju.

Ključne reči: *Interna revizija, upravljanje rizikom prevara, sprečavanje prevara, otkrivanje prevara, istraživanje prevara.*