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## The Role of Internal Audit in Fraud Prevention and Detection

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### Abstract

This article aims to not just briefly describe the role of the internal audit in the detection of possible frauds, but also to highlight its importance in preventing the commission of frauds in any economic entity. Moreover, the analysis intends to especially point out the advantages that an internal audit can offer to the management of an economic entity and its partners, and to the society as a whole as well.

Starting from the premise that auditors are not the adversaries of an entity, one should remember that: the internal audit is a function of assistance offered to the leadership of that entity in order for them to better manage their activities; it expresses judgments on all decisions taken by the leadership that ensure the normal and efficient functioning of its activities; and its objective is to create added value.

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**Keywords:** internal audit, fraud, auditor.

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### Research Methodology

We have focused the research that we suggest in this paper on the analysis and systematisation of the literature written in this field, as well as on the rules governing the activities of internal audit published at the national and international level.

In order to conduct our study, we have approached different research methods in our endeavour. We have applied a qualitative analysis, and focused on the method of comparison by presenting an analogy between internal audit and fraud. Also, we have used the synthesis in what drawing conclusions and offering solutions were concerned, in order to explain and assess the situations we found, as well as the limits and the characteristic of internal audit.

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Nonetheless, we have used the method of documenting ourselves by analysing the rules regarding the internal audit that were published nationally and internationally, and then completing our study by consulting different works published by specialists in this field in our country.

## 1. Introduction

Fraud is not a recent phenomenon associated to some highly-publicised cases of financial fraud from the last two centuries. It can be found early in the history of our world as men have made use of tricks, manipulation, and deceit in order to acquire money, land, goods, or trust, with the overall objective of making profit. The creation of accounting and audit are connected in economic history with the desire, especially on the part of the state and the church, to contain and prevent stealing and misrepresentation in their finances.

Traces of the precursors of audit can be dated back to Antiquity, to ancient Babylon and Egypt, where archaeological finds have proven the existence of some justifying documents of commercial transactions that allowed for a rudimentary form of verification and accounting (Bogdan, A.M., 2005, pp. 8-9). And once the commercial trades blossomed during a period or another, the need to keep a record of transaction also emerged albeit at a primitive level. But with economic prosperity came also the temptation to deceit and manipulate others for self-profit. Control mechanisms were, therefore, developed by state institutions in order to verify and supervise the use of funds and the circuit of transactions, as was the case for example in ancient Rome, where the questors elected by the people were responsible of this role (Bogdan, A.M., 2005, p. 11).

During the Middle Ages, however, the interest to control financial documents and accounts and to verify the use or misuse of funds increased in Western Europe. The main objective was to discover those who eluded payment, appropriated funds, or misused money and property, and to defer them to justice. The three institutions that introduced as early as the 13th-14th centuries the idea of verifying accounts and hold the wrongdoers accountable were the state (represented by the reigning monarch), the Catholic Church, and the universities (especially those from Northern Italy), and employed functionaries or monks to keep the accounting of their respective structure (Le Goff, J., 1977). It is not a coincidence that the bases of accounting are found within the financial and administrative apparatus of the Catholic Church, which was extremely interested in having detailed and correct records of its accounts, responsible transactions, and detection of possible frauds. A complex hierarchy of the fiscal apparatus was, therefore, created, presided by a Minister of Finances within the Catholic Church, that included a category of specialists called 'scriptores registri' who we can deduce that were the accountants responsible with registering and examining the financial entries (Rapp, F., 1995, Part I). The founder of accounting, Luca Paciolo created in the late 15th century the double entry accounting precisely to avoid thefts and misrepresentations in financial documents, at first within the Church and then the state (Epuran M., Baba V., Imbrescu C., p. 13). Another interesting aspect in the development of accounting is that, unlike the image of merchants, traders, or usurer, the men responsible with this work were not perceived in a negative manner in society or marginalised (Le Goff, 1990, pp. 47-48), because they were associated with the good management of the state and the church, having both an economic and a judicial role (since they prevented or discovered the commission of a financial crime and therefore helped protecting state or church patrimony).

From the Modern Era on, the state was the main institution interesting in implementing and supervising the accounting system in order to prevent, detect, and punish any fraud committed, both in its structures and in the public sector. And as the economic organisations became more complex and powerful in society, they also started to employ the services of specialist functionaries or accountants with the aim of maximising their profit and avoid losses or thefts by means of distorted or erroneous financial entries. The industrial revolution brought a quick economic development, but also an increased interest in the systems of capital, investment, and control of transactions (Lesourd, J.A., Gerard, C., 1986, vol. 1). But with the economic boom grew also people's desire to make money quickly by malicious or deceitful means, and therefore the public opinion became more aware from the 18th century about the existence of financial fraud and other fraudulent schemes meant to acquire trust, property, goods, or political power (Stratmann L., 2012, pp. 7-9, and all the cases discussed by the author). The main reason many scientists give to an individual's desire to acquire financial, spiritual, or symbolic profit is related to his greed, as it gave birth to novel and creative scenarios to impress upon other people (Goldberg, M.H., 1995, p. 18). Although big scandals related to financial fraud existed in Western Europe in the late Middle Ages and early

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