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## The Impact of Internal Audits on Corporate Fraud Detection and Mitigation

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### Abstract

Fraud poses a significant challenge globally, often leading to substantial financial losses. Despite its severe implications, the risk of fraud within organizations is frequently underestimated, resulting in a lack of preventive measures aimed at reducing its occurrence. Additionally, many companies lack the necessary tools for the prompt detection of fraudulent activities and identification of the responsible individuals. However, recent years have witnessed an increasing awareness among business leaders about the importance of establishing an independent and objective internal audit system, which is foundational to effective management practices. This article aims to explore the role and significance of internal audits in uncovering various forms of fraud within enterprises. It also emphasizes the growing importance of internal audits in the broader context of risk management. By delving into the fundamental issues surrounding corporate fraud, the article highlights how internal audits can serve as a crucial mechanism for detecting and addressing fraudulent activities. Particular emphasis is placed on the integration of internal audits within the risk management framework, underscoring their value in safeguarding organizational assets and ensuring transparency. As businesses continue to evolve in complexity, the internal audit function is increasingly recognized as an essential component of risk management, contributing to the detection, prevention, and mitigation of fraud. This shift reflects a broader trend toward proactive risk management strategies that prioritize the early identification of potential threats, thereby enhancing overall organizational resilience.

**Keywords:** Internal Audit, Fraud Detection, Risk Management, Corporate Governance, Fraud Prevention

**JEL Codes:** M42, G32, K42

### 1. INTRODUCTION

Fraud is a widespread issue that impacts nearly all economic entities, yet it is often underestimated or overlooked. It poses a significant problem on a global scale, as fraudulent activities frequently result in substantial financial losses, which can severely affect the stability and growth of businesses and economies. Despite the attention fraud has received from researchers and analysts over the years, accurately quantifying the full extent of losses caused by fraud remains a major challenge. One of the primary reasons for this difficulty is the fact that a significant amount of fraudulent activity goes undetected, leaving organizations unaware of the true scope of the problem. This hidden element of fraud complicates efforts to measure its financial impact, making it impossible to determine the exact scale of the losses. However, despite these challenges, conducting research on fraud remains a critical endeavor. Understanding even an approximate size of the issue can play a vital role in making organizations aware of the potential financial damage they might be facing. When management teams are informed about the likely magnitude of losses caused by fraudulent activities, they are more inclined to take proactive steps to address the issue. This awareness can prompt them to implement stronger measures aimed at detecting and preventing fraud. These measures may include investing in advanced fraud detection technologies, strengthening internal controls, enhancing employee training on fraud awareness, and improving reporting mechanisms.

Furthermore, addressing fraud is not just about mitigating financial losses; it also protects the organization's reputation, maintains stakeholder trust, and ensures compliance with legal and regulatory standards. By committing to the detection and prevention of fraud, organizations can minimize risks, safeguard their assets, and foster a culture of transparency and accountability. While the challenge of completely eradicating fraud may remain, consistent and proactive efforts can significantly reduce its occurrence and limit the damage it can cause. In this way, even though the full extent of fraud may never be entirely known, its impact can be effectively managed and minimized through informed, strategic action. In a study conducted by the ACFE<sup>1</sup> in the period from January 2015 to October 2016, the total losses caused by the 2410 investigated cases of fraud were estimated to exceed \$6.3 billion.<sup>2</sup> This is a huge sum, especially given that these cases represent only a small percentage of the thousands or even millions of frauds which probably took place in the world during the period under consideration. It should also be emphasized that the \$6.3 billion figure reflects only the direct losses incurred by organizations, and does not include indirect costs, such as damage to reputation or loss of customers, and therefore the total losses are significantly higher. The purpose of this paper is to explore the nature and significance of internal audit in identifying various forms of fraud within organizations, as well as to emphasize its increasingly important role in the broader risk management

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process. This exploration will be facilitated through an analysis of key reports such as the Association of Certified Fraud Examiners (ACFE) "Report to the Nations on Occupational Fraud and Abuse" and survey findings from two prominent consulting firms: Ernst & Young's (EY) report titled "The Problem of Fraud and Corruption in Companies" and PwC's "Economic Crime Survey in Norway 2016." The article delves into fundamental topics concerning fraud in business environments, with a particular focus on the critical role that internal audits play in enhancing the effectiveness of risk management practices. Corruption is a pervasive issue that affects countries worldwide, with its detrimental effects clearly visible across various sectors. It undermines market fairness, weakens competition, and fosters widespread mistrust among the general public. Moreover, corruption erodes the rule of law, compromises governmental legitimacy, and jeopardizes the integrity of small and medium-sized enterprises (SMEs) (Burger & Holland, 2006). Fraud, a closely related concept, can be broadly defined as the inappropriate or unethical handling or misuse of resources. While the term is used in various contexts, its primary application is in the realms of economics and management (Jasiński, 2013).

In both academic literature and business practice, fraud is often associated with terms such as "embezzlement" or "crime," which are frequently used interchangeably in English-language discourse. Fraud is viewed as synonymous with deception, dishonesty, or criminal activity (Kutera, 2016). Understanding these definitions and their nuances is essential in grasping the scope of fraudulent practices and the critical need for robust internal auditing and risk management processes to combat them effectively. As businesses face increasing threats from both internal and external fraudulent activities, the role of internal audit in detecting and preventing these issues has become indispensable. Through stronger oversight and integrated risk management strategies, enterprises can not only protect their financial resources but also maintain a higher level of organizational integrity and public trust. The primary and most frequently cited reason for committing fraud within an organization is the misappropriation of financial assets. This typically stems from the perpetrator's financial difficulties, which may arise from poor personal financial management (e.g., living beyond one's means or recklessly providing loan guarantees) or from broader market fluctuations and economic cycles (Jasiński, 2013). Emotional motives also play a significant role, often linked to personal struggles such as addictions or destructive habits—alcoholism, drug dependency, or gambling—that individuals are unable to control. These issues not only place strain on the personal finances of those involved but also negatively impact their work performance, further increasing the likelihood of fraudulent behavior.

In addition to addictions, emotional drivers can include the "keeping up with the Joneses" syndrome, where an employee feels compelled to commit fraud to maintain a lifestyle that matches or exceeds that of their peers. This financial shortfall may push them to engage in unethical behavior to fit into certain social groups. Some psychological conditions, such as the desire to witness the consequences of one's actions, also fall under emotional motives. For instance, the "firefighter hero syndrome" occurs when individuals cause harm (such as setting fires) to then play a role in resolving the situation, seeking recognition for their actions (Jasiński, 2013). Fraud can also be motivated by the relationship between the employee and the employer. A frequent cause is dissatisfaction with compensation, a sense of economic unfairness, overwork, or a perceived lack of recognition for one's efforts (Cressey, 1972). These feelings of injustice can lead employees to justify fraudulent behavior as a way to balance perceived inequities. Another significant category of motives comes from external pressures. These may involve individuals outside the company exerting influence on employees, leading them to commit fraud. This external pressure can manifest in the form of bribes from external suppliers, who may offer incentives to employees in exchange for specific transactions. More concerning are the actions of organized criminal groups, which use tactics such as blackmail, intimidation, or bribery to recruit employees to their cause. Once involved, employees are often unable to break free from these dealings, further entrenching them in fraudulent activities (Jasiński, 2013). Personal motivations are, without a doubt, the most significant driving force behind fraudulent behavior. E. Kreditversicherung (2008) identifies several key factors, including the desire to continually improve one's standard of living, living beyond one's financial means, and accumulating debt as a result. Additionally, a desire for material wealth, uncertainty about the future, and growing fears of job loss contribute to a heightened risk of fraud. As these fears and financial pressures intensify, so does the likelihood of engaging in criminal activities to alleviate personal stress or achieve financial stability. Ultimately, these personal, emotional, and external factors combine to create a complex web of motives behind fraudulent actions within the workplace. It is generally impossible to establish an exhaustive list of motives for committing fraud, as these can vary greatly depending on individual circumstances. However, from the perspective of an organization seeking to minimize potential losses, it is crucial to develop a checklist of potential fraud risks. This checklist should be designed to help identify and assess areas where the organization is most vulnerable to fraudulent activities. Particular emphasis should be placed on recognizing early warning signs or behaviors displayed by individuals who may be inclined to commit fraud, enabling organizations to detect and address these issues before they escalate (Krawczyk & Skoczylas-Tworek, 2003). By focusing on these risk factors, companies can proactively implement strategies to mitigate fraud and safeguard their financial and operational integrity.

## 2. INTERNAL AUDIT IN DETECTING FRAUD

Managing fraud risk within an organization is often more complex and challenging than managing other types of risks (Bishop & Hydoski, 2009). This complexity arises from the necessity to engage a large number of employees and organizational units. A key component of any fraud risk management strategy involves clearly defining the responsibilities of various units, including internal audit, company management, the supervisory board, and the company's security service. Today, internal

audit is viewed as a crucial element in assessing the enterprise's overall risk management framework (Winiarska, 2005). Its core function is to assist management in making informed decisions by providing detailed and objective insights into the effectiveness of processes under review. Both internal and external audit operations are governed by legal frameworks and auditing standards, which are often specific to a country but may also have international applications (Mikołajczyk & Krawczyk, 2010). Internal audit is a process that involves regular and systematic evaluations of risk management systems, control processes, and organizational governance to enhance their performance and effectiveness. It serves a dual purpose by offering assurance on the efficiency of these processes and by providing advisory support to management. Key attributes of internal audit include independence, objectivity, verification activities, advisory roles, and preventive measures. These characteristics enable internal audit to function as an alternative communication channel, independent from the formal fraud risk management oversight structures (Iyer, 2006). In organizations where a fraud detection team exists, internal audit can operate independently from the influence of the supervisory or management boards. The auditors' direct access to the management board allows for timely and transparent communication, which helps minimize instances of negligence or improper implementation of fraud risk management strategies across organizational units (Jasiński, 2013).

The detection of fraud is a complex task that requires expertise in legal matters, finance, accounting, and analytical thinking. It involves the ability to connect various facts, recognize patterns, and identify relationships that may indicate fraudulent activities. This process must be carried out with extreme diligence and confidentiality. In recent years, the role of internal audit in detecting and preventing fraud has grown significantly (Emerling, 2017). Internal audit procedures are particularly focused on assessing the risk of fraud committed by senior management. Auditors concentrate their efforts on verifying the integrity and efficiency of business processes and the effectiveness of control mechanisms. They employ a range of techniques to detect fraud, including passive methods, such as gathering information on suspicious transactions, and active approaches, such as leveraging modern technology to uncover irregularities. Audits aimed at identifying issues within business processes are instrumental in the early detection and prevention of fraud (Jasiński, 2013). It is important to note that the primary purpose of traditional internal audit is not the detection of fraud. Instead, the scope of internal auditing is broader and includes verifying the organization's overall activities, such as assessing the functioning of system processes, evaluating the performance of organizational units, ensuring compliance with laws, and, most importantly, reviewing the effectiveness of risk management, internal controls, and corporate governance (Szczepankiewicz & Dudek, 2009). However, the International Standards for the Professional Practice of Internal Auditing (IIA standards) state that internal auditors should possess the necessary knowledge and competencies to assess fraud risks and manage such risks within the organization (Standard 1210.A2). Auditors are also expected to demonstrate proficiency and apply due professional care when performing their duties (Standard 1200). Moreover, internal auditors must consider the likelihood of fraud, significant errors, and irregularities during their evaluations (Standard 1220.A1).

The IIA standards continuously emphasize the importance of evaluating and communicating fraud risks within the internal audit process. Given that internal auditors are responsible for assessing the effectiveness of risk management processes and recommending improvements, they are also required to evaluate the potential for fraud and how such risks are being managed. Once an audit is complete, internal auditors submit a report to the management team, detailing their findings, which include any issues related to fraud risk. However, it is important to clarify that internal auditors are not expected to possess the specialized skills of professionals who are dedicated solely to fraud detection and investigation (Szczepankiewicz & Dudek, 2009).

### **3. THE PLACE AND ROLE OF THE INTERNAL AUDIT IN DETECTING FRAUD**

Individuals who commit fraud are acutely aware of the risks they are taking, especially in terms of damaging their career, reputation, and personal integrity. Despite this awareness, they often make the decision to engage in fraudulent activities, driven by the belief that they can avoid detection. This false sense of security emboldens them to take significant risks, believing they can manipulate or conceal their actions effectively enough to avoid scrutiny. The critical insight here is that the most powerful deterrent to fraudulent behavior is the belief in a high likelihood of detection. If potential fraudsters perceive that their actions will be swiftly uncovered, they are far less likely to engage in fraud (Report to the Nations on Occupational Fraud and Abuse, 2016). Therefore, enhancing detection mechanisms should be a priority for any organization aiming to mitigate fraud risk. Over the years, reports have consistently shown that tips, often originating from whistleblowers within or outside the organization, have been the most effective method for fraud detection. However, recent data suggests a slight decline in the reliance on tips as the primary detection method. For example, in 2012, a substantial 43.4% of fraud cases were uncovered through tips. By 2016, the percentage had declined by a few points, indicating that while tips remain a crucial source of fraud detection, their dominance has slightly lessened over time. This decline may reflect increased awareness of other detection methods or improved internal controls within organizations. Despite this, the role of internal audits and management reviews has remained consistently significant in detecting fraud across various periods. Internal audits, in particular, have shown a notable increase in their contribution to uncovering fraudulent activities. In 2012, internal audits were responsible for identifying 14.4% of all fraud cases. By 2016, this figure had grown to 16.5%, highlighting the increasing importance of robust internal audit mechanisms. This growth underscores the expanding role that internal audits play in not only detecting fraud but also in establishing stronger preventive measures through regular reviews of financial and operational

processes.

The rising importance of internal audit is indicative of the evolving landscape of fraud detection. Organizations have come to recognize the value of internal auditors not just as compliance officers but as integral parts of the risk management and fraud prevention strategy. Internal auditors are increasingly tasked with reviewing business processes, assessing internal controls, and identifying any irregularities that could indicate fraudulent behavior. Their proximity to the day-to-day operations of the organization allows them to take a proactive approach to fraud detection, making them more effective at identifying potential risks before they escalate. Other methods of fraud detection, such as confessions, IT controls, surveillance and monitoring, notifications from law enforcement agencies, and external audits, have played a relatively minor role in identifying fraud cases. In the years under consideration, these methods accounted for less than 5% of fraud cases. This highlights that while these mechanisms are useful in certain contexts, they are not as widely utilized or as effective as internal audits or tips in uncovering fraudulent activities. Confessions, though rare, sometimes occur when individuals decide to come forward and admit to their wrongdoing, either due to guilt or fear of eventual exposure. IT controls and surveillance can be effective in specific instances, particularly in detecting digital or cyber-related fraud, but they tend to focus on transactional anomalies rather than broader fraud schemes. Law enforcement notifications often occur after external parties, such as customers or suppliers, bring attention to suspicious activity, but by that point, the fraud may have already caused significant damage. External audits, while important for regulatory compliance, generally occur less frequently and may miss ongoing fraudulent activities unless they are specifically designed to detect fraud.

The data also underscores the evolving role of technology in fraud detection. Although traditional methods such as internal audits and tips continue to play a dominant role, the increasing use of advanced IT systems and data analytics is slowly gaining traction. These technological tools offer organizations the ability to continuously monitor transactions and flag suspicious activities in real time. As fraud becomes more sophisticated, especially in the digital age, organizations are likely to place greater emphasis on integrating technology-driven solutions with traditional detection methods. Ultimately, the goal of any fraud detection system should not only be to uncover fraud after it occurs but also to establish a robust environment that prevents fraudulent activities from happening in the first place. This involves creating a culture of transparency and accountability within the organization, fostering open communication channels for reporting suspicious activities, and regularly evaluating internal controls to ensure they are both effective and adaptive to emerging risks. By doing so, organizations can reduce the likelihood of fraud occurring while also increasing the chances of early detection if it does. The data reflects that when organizations invest in strong internal audit processes and foster a culture that encourages whistleblowing, they are better positioned to detect and prevent fraud, protecting both their financial assets and their reputation in the long run.

The effectiveness of internal audits as a method for detecting fraud increased significantly, rising by 18 percentage points compared to 2014. During that year, internal audits and accidental discoveries were considered the most effective methods for uncovering fraudulent activities. These findings suggest a shift in Norway from relying on routine procedures to employing more structured tools, such as data analysis and comprehensive fraud risk management systems. This shift indicates a growing emphasis on proactive approaches to fraud detection rather than relying solely on chance or routine checks. What is particularly noteworthy is the contrast between the Norwegian and Polish contexts. While tips and hotlines have played a critical role in fraud detection globally, in Polish companies, these mechanisms were of little significance during 2012 and 2014. This divergence might stem from various organizational and cultural factors. For example, according to Ernst & Young's 2015 survey *Fraud and Corruption: The Easy Option for Growth?*, only 11% of Norwegian companies had established anonymous channels for reporting fraud by 2016. This relatively low adoption of anonymous reporting systems may have limited the use of hotlines and tips as effective fraud detection tools in Norway.

Moreover, the same survey revealed concerning gaps in awareness and fear among employees. As many as 25% of employees did not know how to act when confronted with fraud, while up to one-third expressed concerns that reporting fraudulent activities could lead to job loss or strained relationships with colleagues. This fear of retaliation or damaging workplace relationships may contribute to the underutilization of tips and hotlines as detection methods, especially in environments where organizational cultures are less supportive of whistleblowing or lack clear reporting mechanisms. These findings underscore the importance of creating a supportive organizational environment that encourages the use of anonymous reporting tools like hotlines. Implementing structured fraud risk management systems and fostering a culture of transparency can help reduce employee fears and increase the likelihood of fraud being reported. It also highlights the need for companies to invest in educating employees about proper procedures for reporting suspicious activities and assuring them of protection against retaliation. Without such measures, even effective tools like hotlines may not reach their full potential in detecting fraud.

The study highlights that the methods used to detect fraud differ substantially based on the size of the enterprise (Report to the Nations on Occupational Fraud and Abuse, 2016). In the comparative analysis, businesses were categorized into two groups: small enterprises, defined as those with fewer than 100 employees, and large enterprises, those with more than 100 employees. In small enterprises, limited resources and often less formalized structures may lead to a greater reliance on informal detection methods, such as accidental discoveries or tips from employees. These companies may lack dedicated internal audit departments or sophisticated fraud detection systems, making them more vulnerable to fraud going unnoticed for longer periods. In contrast, larger enterprises typically have more structured fraud detection systems in place, including internal audit

functions, data analysis tools, and comprehensive risk management strategies. These enterprises are more likely to invest in technologies and processes designed to proactively monitor and detect fraudulent activities.

Additionally, the availability of human resources in larger enterprises enables the use of more formalized methods like internal audits and whistleblowing hotlines. Larger companies often encourage employees to report suspicious behavior through established channels, ensuring a higher level of fraud detection and prevention. Small enterprises, however, may not always have the same infrastructure or awareness, which can lead to less frequent use of these formal mechanisms. This variation underscores the importance of tailoring fraud detection strategies to fit the size and resources of the organization. While larger enterprises benefit from more advanced systems, small enterprises must focus on building awareness, fostering a culture of transparency, and implementing basic but effective fraud detection measures to mitigate their vulnerabilities. The data reveal that tips are a significantly more effective source of information for detecting fraud in larger enterprises, those with over 100 employees, where 43.5% of fraud cases were uncovered through this method. In comparison, only 29.6% of fraud cases were detected through tips in smaller enterprises, those with fewer than 100 employees. Despite this difference, tips remain the most common method of detecting fraud in both small and large enterprises. This discrepancy may reflect the fact that larger organizations typically have more robust mechanisms for reporting suspicious activities, such as anonymous hotlines, which are more actively utilized in bigger companies due to their size and formal structures.

A notable gap is also evident in the effectiveness of internal audits. In larger enterprises, 18.6% of fraud cases were detected through internal audits, while in smaller enterprises, this figure was lower by 6.6 percentage points. This may be attributed to the fact that larger organizations are more likely to have dedicated internal audit departments and more comprehensive fraud detection systems, which allow for regular reviews and the identification of irregularities. Smaller enterprises, by contrast, often lack the resources or formalized internal controls necessary for internal audits to play as significant a role in detecting fraud. In smaller enterprises, other methods such as external audits (6.4%), management reviews (14.5%), and accidental discovery (7.3%) proved more effective in detecting fraud. This indicates that in environments with fewer employees, external audits and managerial oversight are relied upon more heavily to identify fraudulent activities. Accidental discoveries are also more prominent in small enterprises, possibly due to the closer working relationships among employees and less formalized processes, which may lead to unintentional detections of fraud. Conversely, in larger enterprises, confession played the least important role in fraud detection, while in smaller enterprises, controls were the least effective method. These differences highlight the varying dynamics in fraud detection methods between small and large enterprises. The effectiveness of fraud detection in any organization is influenced by several factors, including the strength and implementation of internal controls, the quality of the procedures in place, and the overall organizational culture surrounding fraud prevention and transparency. Larger enterprises tend to benefit from more structured and systematic approaches, while smaller enterprises may rely more on external reviews and informal mechanisms to uncover fraudulent activities.

Smaller enterprises tend to have far fewer anti-fraud procedures in place, primarily because they often lack the financial resources to implement comprehensive fraud prevention strategies. As a result, they are more vulnerable to experiencing fraudulent behavior. However, it is important to recognize that certain practices, such as employee training or establishing a code of conduct, can be implemented with minimal capital investment. These measures can be highly effective in fostering an ethical workplace culture and reducing the risk of fraud, even in smaller organizations.

In enterprises with fewer than 100 employees, the most commonly used methods for preventing fraud are external audits (56.2%), codes of conduct (53.8%), and management reviews (40.4%). These approaches, while valuable, reflect the limitations smaller companies face in adopting more diverse or sophisticated fraud prevention measures. Typically, smaller businesses rely heavily on trust among employees rather than on formal procedures or controls. While this reliance on trust may create a close-knit working environment, it unfortunately also opens the door to potential fraud, as it allows employees more freedom to exploit the absence of robust oversight. This approach, while understandable given the constraints of small businesses, should be criticized, as it ultimately leaves the enterprise more exposed to fraudulent activities. In contrast, larger enterprises—those with more than 100 employees—tend to implement a wider range of anti-fraud procedures, often with much greater effectiveness. In these organizations, external audits (94.2%), codes of conduct (91.3%), and the presence of an internal audit department (88.3%) are the most effective tools for fraud prevention. Larger companies generally have more resources to invest in structured controls and specialized departments, such as internal audit, which allows them to detect and prevent fraud more systematically and efficiently. Their ability to implement a combination of external audits, internal checks, and well-communicated ethical guidelines greatly enhances their capacity to mitigate fraudulent behavior.

Interestingly, one method that remains underutilized in both small and large enterprises is the use of rewards for whistleblowers. Only 7.2% of small enterprises and 13.5% of large enterprises offer rewards to employees who report fraud. This low adoption rate is notable, as incentivizing whistleblowing could serve as a powerful tool in encouraging employees to come forward with information about potential misconduct. By offering rewards or other forms of protection, companies could potentially increase the reporting of fraud, thus enhancing their overall detection and prevention efforts. Both small and large enterprises could benefit from further exploring and promoting whistleblowing mechanisms as part of their anti-fraud strategy.

#### **4. CONCLUSIONS**

Fraud can have a wide range of negative impacts on the operation of enterprises. It leads to significant financial losses, damages

the organization's reputation, and diminishes employee morale. These consequences can be particularly severe, as fraud affects not only a company's immediate financial stability but also its long-term success and relationships with stakeholders. What makes fraud especially challenging is that it can be perpetrated by anyone within the organization, regardless of their position or level of seniority, as well as by individuals outside the company, such as vendors or customers. Given the pervasive nature of fraud, it is crucial for organizations to establish comprehensive anti-fraud programs. Such programs should focus on raising awareness among employees and management about the risks and signs of fraud, implementing strong prevention measures, and creating effective detection systems.

Awareness campaigns ensure that employees at all levels understand the importance of ethical behavior and the consequences of fraudulent activities. Preventive measures, such as internal controls, regular audits, and clearly communicated codes of conduct, can significantly reduce the opportunities for fraud to occur. Detection mechanisms, such as whistleblower hotlines, internal audits, and fraud monitoring technologies, help organizations identify fraudulent activities early before they escalate. Additionally, an essential part of any anti-fraud program is conducting regular fraud risk assessments. These assessments allow organizations to evaluate the specific vulnerabilities within their operations and design targeted strategies to mitigate those risks. By proactively identifying areas where fraud is most likely to occur, companies can implement tailored measures to protect themselves from potential threats. In sum, an effective anti-fraud program integrates awareness, prevention, and detection efforts, while also continuously assessing and addressing fraud risks, ensuring that the organization remains resilient against fraud-related challenges. Internal audit plays a crucial role in detecting and preventing fraud within an organization. It should be formally defined in both the internal audit charter and the organization's fraud policies and procedures. By clearly outlining the scope and responsibilities of internal audit, enterprises ensure that the audit function is properly integrated into their broader fraud risk management strategies. The position of the internal audit department within the organizational structure allows it to operate with objectivity and independence, covering a broad temporal and spatial scope within the company's operations. This objectivity is essential for ensuring that internal audit activities are unbiased and effective in identifying potential risks.

An effective internal audit department can be instrumental in not only detecting fraud but also preventing it. Internal auditors employ a range of techniques and methods to review business processes, assess control systems, and uncover irregularities that could indicate fraudulent activities. Their work is proactive and often involves close collaboration with other departments, ensuring that controls are not only in place but also functioning as intended. To maximize their effectiveness in this area, internal auditors must continually expand their expertise. This includes acquiring specialized knowledge related to fraud detection, investigative techniques, and a thorough understanding of relevant legal frameworks. In addition to their technical expertise, internal auditors must stay up-to-date with the latest fraud trends and schemes, as the methods of committing fraud evolve over time. This ongoing education enables them to recognize the warning signs of fraud early and act accordingly. By doing so, internal audit becomes a key component of the organization's defense against fraud, contributing significantly to its risk management and helping to protect the organization from financial losses and reputational damage. There are numerous national and international programs that offer training and certification to specialists in fraud detection. These programs aim to equip professionals with the necessary skills to effectively identify and investigate fraudulent activities within organizations. When it comes to internal audit departments tasked with fraud detection, they have several options for executing their responsibilities. They can rely solely on internal personnel, outsource certain tasks to external experts, or use a combination of both approaches. Each option offers unique advantages, depending on the complexity of the fraud risk and the resources available to the organization.

A key benefit that management gains from the internal audit function is the provision of an independent and objective assessment of its operations. Internal auditors achieve this by analyzing the various processes that occur within every department of the company. This thorough analysis ensures that all areas of the organization are scrutinized for potential vulnerabilities to fraud. Importantly, the auditors' assessments must remain unbiased and free from influence by individuals responsible for implementing the processes being reviewed. This independence is critical to the integrity of the audit, as it ensures that any issues or risks identified are reported accurately and transparently, without interference or pressure from management. By maintaining this level of independence, internal auditors provide management with a clear and honest view of the effectiveness of their controls and processes. This objective evaluation is essential not only for detecting fraud but also for improving the overall governance and risk management practices within the organization. Internal auditors' ability to offer an impartial review, whether through internal staff or external consultants, strengthens the organization's ability to identify weaknesses and take proactive measures to mitigate the risk of fraud.

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