



## The Internal Auditors on Occupational Fraud: An Integrative Literature Review

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### ABSTRACT

*This paper focused on giving qualitative overview of the purposively selected published literature and studies concerning internal auditors and occupational fraud. The researcher followed the integrative literature review approach and utilized online platforms. The researcher retrieved and purposively selected 67 literature and studies which were deemed relevant to the topic on hand and will greatly support the foundation and discussion to conceptualize and elaborate further studies on internal auditors and occupational fraud. Gathered literature and studies were carefully reviewed, analyzed, organized thematically, and synthesized. Results were clustered into four themes: (1) The Internal Audit Profession; (2) The Internal Audit Environment; (3) The Internal Auditor, Audit Competencies, and Audit Activities, and; (4) Occupational Fraud. With the increasing number of occupational fraud cases involving huge amount of losses to every business enterprise suggest internal auditors to adopt and implement innovative professional services involving fraud prevention, detection, and mitigation. Through proper training, experience, and constructive involvement of internal auditors on fraud investigation and assessment, as well collaborative support from top management, legal officers, and other fraud experts, internal auditors can effectively perform their audit functions relative to occupational fraud schemes.*

**Keywords** – integrative, internal auditors, literature review, fraud, occupational fraud

### Introduction

Internal auditing is one of the most important structure in any organization. Manned by a common or diverse pool of specialized and professional individuals or group of individuals, it assesses internal control operations, risk management, and corporate governance as well as assisting the management in achieving its goals and objectives in a form of advisory, consultancy, and training. Throughout the years, internal auditing continuously evolves to help and support the management in evaluating and addressing the changing needs, challenges, and complexities of the business enterprises [1].

Internal auditing also includes assessing how the organization manages fraud risks and providing assistance to the management in evaluating the effectiveness of internal control to prevent, detect or mitigate fraud. Often been asked or consulted on any

alleged or actual incidence of fraud [2], internal auditors are encouraged to have sufficient knowledge and abilities in assessing and evaluating potential indicators of fraud, understand their characteristics, evaluate the techniques used, and recommend any further needs for fraud investigation [3].

Among the multiple types of fraud which the business organizations might be encountered with, occupational fraud is most likely the largest and predominant threat. Unfavorable to business management and economic organizational affairs, it is an intentional action in relation to their function or profession. Known as a white collar crime and punishable by law, occupational fraud constitutes a willful attack against the organization in the practice of work or occupation characterized by intentional deceit or concealment to obtain money, property or services for personal gain or advantage. Comprising corruption scheme, asset misappropriation scheme,

and financial statement fraud scheme, it poses a tremendous menace that most of the organization may or may not be capable to protect themselves [4].

The 2020 Report to the Nation on Occupational Fraud and Abuse of the Association of Certified Fraud Examiners (ACFE) disclosed occupational fraud of approximately \$3.6 billion reported total losses, with a median loss of \$125,000 per case and more than \$1.5M average loss per case on 2,504 reported real cases from 125 countries worldwide [5]. In Asia-Pacific region, 198 fraud cases were reported with a median loss of \$195,000 per case and more than \$1.9M average loss per case [6]. Most reported case at 86% is asset misappropriation, large median loss of \$954,000 is the financial statement fraud, and the most common the global perspective is corruption. Industry with the most number of reported fraud cases is in the banking and financial services and reported departments with high percentage and amount of median losses of fraud cases are those in the executive/upper management, sales, operations, and accounting [5].

Similar to 2018 ACFE Report to the Nation on Occupational Fraud and Abuse, living beyond means and financial difficulties are still the two topmost highest indicators of fraud. The most numbered fraud cases reported at 41 percent were committed by the rank and file employees while cases with huge median losses of \$600,000 are those committed by owner/business executives. Fraud cases with highest median loss of \$350,000 were committed by the collusion of three or more individuals. The most commonly means of disguise used by the perpetrators are through modification and/or construction of fraudulent physical or electronic documents. Fraudsters commonly colluded with one or more perpetrators and concealed their crimes through creation, alteration or destruction of physical or electronic documents. Among the other organizational detection mechanisms reported in the biennial studies of the Association of Certified Fraud Examiners from 2008 to 2020, above cited fraudulent occupational undertakings were mostly uncovered by tips or whistleblowing followed by the conduct of internal audit activities [5].

Thus, this study had focused on published literatures and studies on internal auditors and occupational fraud to provide knowledge and pieces of information beneficial to business organizations, internal auditors, researchers, students, and other

interested users regarding internal auditors and their relative functions on occupational fraud.

## **Methods**

The researcher applied integrative review of literature following the guidelines of Torraco [7]. As cited by other researchers [8,9,10] integrative literature review approach is a distinctive non-experimental research design that objectively analyze, summarize, and make conclusions on purposively selected representative literatures to provide greater knowledge, insights, and critical reflection of the subject matter. With the advent of technology, the researcher utilized the online platforms of Google, Google Scholar, Research Gate, and Educational Resources Information System (ERIC) and browsed electronic journals, repositories and databases using keywords “internal audit”, “internal auditor”, “fraud”, and “occupational fraud”. Related articles and studies were also sourced from the websites of The Institute of Internal Auditors, a renowned organization for internal auditing and as well as from the Association of Certified Fraud Examiners, an international organization focusing on fraud. Purposively selected relevant literature and studies were carefully reviewed, analyzed, organized thematically, and synthesized [7,11,12].

## **Results**

A total of sixty-seven (67) literature and studies were purposively selected by the researcher which were deemed relevant to support the topic on hand. More than 29% were retrieved literatures from Google, 25% from Google Scholar, 15% from Research Gate, 6% from Educational Resources Information System (ERIC), 16% from The Institute of Internal Auditors, and 7% from the Association of Certified Fraud Examiners. Literatures were carefully reviewed and analyzed. Related and significant statements were cautiously gathered and clustered into four (4) themes: (1) The Internal Audit Profession; (2) The Internal Audit Environment; (3) The Internal Auditor, Audit Competencies, and Audit Activities, and; (4) Occupational Fraud. Synthesis of the gathered literatures was also presented to provide significant and value-added knowledge and information on internal auditors and the relativeness of their functions on occupational fraud.

### *Theme 1: The Internal Audit Profession*

Internal auditing is an objective process of gathering and evaluating evidence regarding assertions in an organization's economic events and actions. It is a service activity commonly vested on internal auditors, a professional individual or group of individuals with similar or diverse specialization or discipline who are entrusted by the governing body or top management to look for sufficient evidence in assessing internal control, risk management, and governance; evaluating economic and operational activities; determining the reliability of financial reports, and; compliance to certain laws, policies, and specific regulatory requirements.

Auditing has also been valued and demanded in the marketplace long before the advance in civilization brought about by the necessity of checking the essentiality of trust and fidelity. Its objective assessment and examination substantiate the trust of the employer to the employee as well as the principal to the agent in providing reasonable assurance that the employee or the agent has not and did not take adverse actions against the employer or the principal. The very essential nature of internal audit activities minimizes or eliminates the extent of erroneous information and bias misstatements [13].

The concept of auditing has also been a practice since the ancient Romans, Greeks, and Egypt. Such activity was already conducted during those days by clerks who were appointed to check the public accounts. The auditor's role came into limelight during the period of large scale production, improved facilities in communication and joint stock form of capitalization in an organization in the 18<sup>th</sup> century to independently check accounts and ensure the safety of shareholders' investment [13].

The establishment of The Institute of Internal Auditors in 1941 brought the rise of internal auditing as a profession. Headquartered in Altamonte Springs, Florida, USA, The Institute of Internal Auditors has been acknowledged and recognized as the leader in standards, certification, and research to provide professional guidance for internal auditors and internal audit activities worldwide [1].

Considered as one of the significant components of the organizational structure, internal audit profession serves as the key element of every business organization. In 1950, internal auditors were tasked to check the correctness of accounting records and their performances are being measured by the number of identified incorrect accounting records. In

1960, internal auditors used to assess compliance with financial procedures through the utilization of a checklist and their performance is measured based on the number of identified non-compliances. In 1970 to 1990, internal audit activities involve examination of procedures, evaluation of internal controls, and reporting on the functionality of internal control systems. In 2000 to 2001, audit activities involve evaluation of risk management system resulted from the emergences of issues and concerns regarding risk identification, assessment, and implementation of internal control measures. In 2002, the result of the internal audit work has appeared a necessity to be reported to the highest level of organizational management. And in 2003 onwards, The Institute of Internal Auditors defined the term "to add value" as the auditor's role in bringing extra value or create advantages to the organizational stakeholders. Since then, internal auditing has been accepted and recognized as an essential tool for the improvement of both private and public organization's performance and carried out in evaluating internal control systems and risk analysis associated with audit activities for the achievement of organizational objectives [14,15].

In the Philippines, organizations of various industries have commonly accepted and continuously adopted standards and issuances of The Institute of Internal Auditors in handling internal audit activities. As such, the Commission on Higher Education had also issued CHED Memorandum Order No. 29, series of 2017 to provide guidance on higher educational institutions offering internal auditing programs in equipping students with sufficient knowledge, skills, and competencies required and demanded by the different organizations and industries [16].

Government legislation and executive issuances have also been made and issued to mainstream internal audit activities in public entities. It includes among others, Republic Act 3456 or Internal Auditing Act of 1962 as amended by Republic Act 4177 which provides for the creation, organization, and operation of internal audit services in all departments, bureaus, and offices of the national government as well as in local government unit and government-owned and controlled corporations [17].

The Department of Budget and Management has also issued Circular Letter 2011-5 dated May 19, 2011 regarding Philippine Government Internal Audit Manual (PGIAM) and Local Budget Circular No. 110 dated June 10, 2016, regarding Internal Audit Manual for Local Government Units to strengthen the internal

control systems of government offices, agencies, government-owned and controlled entities including government financial institutions, local government units, and state universities and colleges, and; to provide guidance in establishing internal audit services unit, to plan and execute internal audit activities, to report and follow-up internal audit findings and recommendations, and to evaluate the performances of internal audit services unit [18].

Moreover, Commission on Audit also issued Circular 2018-003 applicable to all agencies of the government that prescribed the use of Internal Auditing Standards for the Philippine Public Sector (IASPPS) to provide essential guidance for the professional practice of internal auditing as well as the use of Internal Control Standards for Philippine Public Sector (ICSPPS) to provide guidelines on the basic and integrated framework on internal control [19]. On the other hand, Securities and Exchange Commission released Memorandum Circular No. 19, series of 2016 to promote the development of a strong culture and keep abreast with the developments in the governance of publicly-listed organization. It also specified recommendation to the organization to have adequate and effective internal control system and enterprise risk management in the conduct of business and separate internal audit activities that essentially monitor and guide the implementation of company policies towards the accomplishment of organizational objectives [20].

#### *Theme 2: The Internal Audit Environment*

Environment of internal auditing greatly contributes to the fulfillment of internal audit activities. It significantly influences the achievements of the internal audit goals and objectives which includes among others, internal control, enterprise risk management, internal audit charter, audit committee, top management, external auditors, and government regulatory agencies.

Committee on Sponsoring Organization (COSO) of the Treadway Commission (COSO) defines internal control as the business process within the organization that are being designed, developed, and implemented to ensure achievements of their objectives [21]. The International Good Practice Guidance of the International Federation of Accountants (IFAC) also described the internal control as a guide and mechanism for every organization to prevent or mitigate business failures [22]. The adequate and effective internal control system helps the organizations in achieving their objectives,

including profitability and sustainability of the business as well as minimizing corporate losses [23,24].

The integrated framework of internal control was issued in 1992 and revised in 2013 by the Committee on Sponsoring Organizations of the Treadway Commission (COSO) composed of the Institute of Management Accountant (IMA), The Institute of Internal Auditors (The IIA), American Institute of Certified Public Accountant (AICPA), the American Accounting Association (AAA), and the Financial Executives International (FEI). Interrelated components of integrated internal control consists of: (1) control environment, which refers to the culture or tone set within the organization and provides foundation for all other control components; (2) the risk assessment, which refers to the organizational tools in identifying and assessing risks relevant to the attainment of control objectives; (3) the control activities, which refer to the control policies and procedures of the organization; (4) information and communication, which refers to the exchange of information in carrying out employees' responsibilities, and; (5) monitoring, which refers to the manner of evaluating the control environment [18,25].

The internal control-integrated framework is also complemented by the enterprise risk management-integrated framework and provides guidance to auditors and business enterprises in developing and applying enterprise risk management within the organization through event identification, risk assessment, and risk response [26]. A study explained that effective risk management must be structured, systematic, timely, dynamic, and tailored to organizational needs and facilitates continuous improvement [27]. Other studies further explained that the choice of risk management and internal control processes depends on the legal form, type of industry, culture, and complexities of organizational structure [28,29].

Internal audit charter is a formal document that specifically defines the purpose, authority, scope, and responsibility of the internal auditors and as suggested, must be duly permitted by the board. It describes the nature of audit activities on how the internal auditing will provide assistance toward the achievement of the organization's objectives. It also includes among others, the functional reporting relationship of the internal audit with the board, independent position of the internal audit within the

organization, and; the access to organizational resources relevant to the independent and objective execution of audit engagements [30]. The written charter is also the document suggested by the National Commission on Fraudulent Financial Reporting, the Treadway Commission of the United States formed in 1985, to set forth the duties and responsibilities of the audit committee and periodically reviewed, modified, and approved by the board of directors.

An audit committee is the central body of the organization for audit functions. Regarded as the subunit of the board of directors or trustees created for such purpose, it consists of duly elected members of the board that allows internal audit activities fulfill its responsibilities and with sufficient authority to provide audit oversight functions within the organization and assesses elements of the internal audit activities such as independence, objectivity, compliance audit methodology, quality of findings, and implementation of recommendations. They also assess required audit resources as well as competencies of both internal and external auditors and their professional relationship with the organization [31].

The audit committee is also a key governance structure that should fully understand their oversight responsibilities with specific emphasis on their independence, experience, and knowledge. As part of the corporate governance, audit committees are required to be accountable for auditing and reporting processes to ensure the reliability, integrity, and transparent communications of the organization's pertinent information to the intended users including the external auditors and regulatory oversight bodies [32].

Characteristics of audit committee whom internal audit is functionally directed have a significant relationship on the effectiveness of organizational transparency. A study examined the influence of characteristics of audit committee on voluntary ethical disclosures of top companies in Malaysia and showed that tenure and multiple directorships are associated with voluntary ethics disclosures while independence, expertise, frequency of meetings and its sizes are apparently inconsistent [33]. However, another study on the role of the audit committee in enhancing corporate voluntary disclosures of Malaysian listed firms showed that the effectiveness of audit committee on voluntary corporate disclosure is contingent on their independence, size, and multiple directorships [34].

The top management or company executive are vested with the highest function in the organizational structure to manage and monitor the routinely activities of the organization. They are being informed and professionally coordinated with the necessary and relevant data gathered in the performance of internal audit activities for any appropriate notations and actions. Study showed that support of top management increases the level of confidence of internal auditors to carry out their duties towards the effectiveness of their audit work. Such support includes concurrence of top management on sufficient budget allocation for audit activities, freedom from any interference in internal audit scope, and encourages compliance of audit recommendations among departments of the organization [35].

External auditors are independent external parties who oversee compliance of the organization with publicly acceptable accounting standards and other rules and regulations. They commonly performed objective examination of the fair presentation of the organizational financial information in conformity with the applicable and acceptable accounting standards. They also consider reliance on the work of internal auditors to address relevant issues on the limitation of audit hours, human resource, geographical location, and cost of audit engagement as well as to minimize duplication of audit work. However, external auditor's decision on the extent of reliance depends on the assessment of internal audit activities, the efficiencies and effectiveness of internal auditor's work, and the improve coordination and communication channels with the internal auditor [36,37].

Regulatory agencies are governmental bodies created by legislation to administer the execution of specific laws. They are external parties that basically oversee compliance of the organization with mandated government regulatory rules and policies on respective areas of concern which includes among others, taxation, business permits, creation and operation of business organization, financial regulations, human resource, public safety, and environmental laws.

### *Theme 3: The Internal Auditor, Audit Competencies, and Audit Activities*

Compared to other individuals or group of individuals performing assurance and consultancy services, internal auditors are those employees working internally within the organization to provide audit services. They adhere to the same administrative rules and policies of the company being mandated to



all other employees and in the same manner; they are also liable to any administrative sanctions in case of any violations. However, internal auditors are uniquely positioned in the organization in such a way that they could report their specific functions as well as the results thereof directly to the board through the audit committee and not necessarily to course through the top management [38].

In the practice of internal auditing, auditors are expected and demanded to uphold ethical standards such as integrity- which refers to the performance of professional services with honesty, diligence, responsibility, and in accordance with relevant laws and not being compromised for personal gain; confidentiality- which refers to the non-disclosure of pertinent organizational information for any reasons unless there are legal or professional obligations to do so from appropriate authority, and; competency- which refers to the appropriate or sufficient level of knowledge and skills, including intrapersonal and interpersonal capabilities, necessary to perform audit activities [39]. Internal auditors are also expected to uphold attribute standards of The Institute of Internal Auditors in relation to their audit independence, audit objectivity, proficiency, and professional care.

Gleim emphasized independence and objectivity as the freedom from any interference and conflict of interest that may threaten and compromise the ability of internal auditors. It can also be facilitated by the purposeful reporting of the internal auditors to the audit committee and administrative reporting to the chief executive officer or top management [1]. International Professional Practices Framework of The Institute of Internal Auditors specified proficiency as standards in auditing that require internal auditors to have sufficient knowledge, technical and ethical skills and other abilities to carry out their professional responsibilities [40]. Due professional care must also be reasonably observed by the internal auditors in the conduct of auditing and exercise alertness to any possibilities of fraud and other irregularities. Internal auditors should also have an attitude of professional skepticism with a reasonable questioning mind in evaluating audit evidence and not be satisfied that such is less persuasive because of the auditor's belief in the honesty of the management [41].

A study regarding internal audit practices in Philippine government agencies showed that compliance on the attribute standards is essential on the role of internal auditors [42]. The understanding

of the internal auditors on the business operations and administration taken as a whole was professed to be a contributory factor to the effectiveness of internal auditors [43]. Government internal auditors are also mandated to maintain technical, ethical, and professional integrity and competency and continuously develop the knowledge and skills needed in enhancing the quality of audit commensurate to their functions and responsibilities [43].

The Institute of Internal Auditors also issued the concept of competencies of internal auditor in the practice of their profession [44]. As cited in another study, the global internal audit competency framework is used in assessing competencies of the internal auditors and recommended in every internal audit department the development of competency plan; proper mentoring of individual auditors, and; appropriate technical trainings and internal audit experience for in-depth understanding of internal auditing [45].

Global study of the Institute of Internal Auditors Research Foundation also revealed the rising demands of competencies on entry and postgraduate qualifications, certifications, and professional development of internal auditors; the adoption of policies and guidelines on corporate governance; the multiple means of appointing chief audit executives; the common evaluation of internal audit functions based on completion of audit plan; the increasing involvement of internal audit function with audit committees; the prevalent advantage of co-sourcing and outsourcing of internal audit activities for betterment of audit services; the increasing awareness on the positive impact of conformance with the International Standard for the Professional Practice in Internal Auditing [46]. The increasing level of competencies of internal auditors are being manifested by growing great curiosity, broad-minded, ability to handle uncertainty, and adaptability to work in teams; accountability as manifested by vigorous effort and careful examination of related transactions and documents, proper supervision, and timeliness in the completion of audit engagements, and; objectivity as manifested by the auditor's attitude of impartiality, trustworthy and reliability [47].

Result of a study showed that ethics, experience, and competency affect the quality of the internal auditing [48]. In Thailand, another study also showed that interpersonal communication skills as part of the competencies of the internal auditor are significant to the effectiveness of internal audit output

[49,50]. Other study also found out that technical awareness, abilities, and adeptness are also indispensable to internal auditing. Though the result of the study regarding the organization's enterprise resource planning system did not significantly affect the skills of the internal auditors, they are still encouraged to become flexible and skillful in accepting and using some of the software in extracting auditable data for them to become updated with the audit tools in information technology [51].

The Institute of Internal Auditors cited value-adding assurance and consultancy services as the professional activities of internal auditors. Assurance activity provided by the internal auditor is an independent and objective examination or verification of economic transactions and events to provide a reasonable assessment of organizational governance, risk management, and control processes. It may include financial statement audit, operational audit, compliance audit, and risk assessment audit. On the other hand, consultancy activity is a service activity provided by internal auditor in assisting the management in improving organizational governance, risk management, and control processes. It includes advisory, agreed-upon audit engagements, and related activities such as counseling, advising, facilitation, and training [1].

Studies presented the role of the internal auditor in the contemporary life of the organization. It includes continuous interference and evaluation of internal control in order to address threats that could affect the attainment of the company's objectives. The existence of roles of internal auditors in the organization increases the distinguished importance of the company in carrying out control in the financial field, safeguarding of assets, and ensuring the security of accurate records [52]. To support the continuous demand and challenges on internal audit activities particularly the advances in information technology, another study considered moving forward for expansion of automated internal audit programs and process. Both manual and automated audit procedures may still be beneficial to the future of internal auditing. A gradual and careful advancement with strategically formulated and implemented plan to include issues on human resistance, cost and benefit tradeoffs, project scope, and adequate training may result to a more favorable outcome in venturing arena of audit automation [53]. Further, another study also disclosed the growing participation of internal auditors in deliberate planning and training of audit personnel,

and; the need to address the leadership and behavioral competencies of internal auditors [54].

Effectiveness of internal auditor's performances can be influenced by different issues and perspectives. Using descriptive analysis, correlational analysis, and multiple regressions, study showed that there is a substantial relationship between internal auditor's effectiveness, audit scope and auditor's experiences contrary to the relationship between internal auditor's effectiveness and senior management's responses. Awareness of managers and employees on the functions of the internal auditors are encouraged to improve the application of audit engagements [55]. Another study also disclosed the strongest relationship of well-configured internal audit activities with key organizational controls, risk management processes, and improvement of governance practices among local government units [56]. Likewise, another study disclosed essential challenges on the effectiveness of internal audit activities in the public sector and it includes the organizational independence; a formal mandate through an audit charter; unrestricted access to manpower, records, and resources; sufficient funding; competent leadership; objective and competent internal audit staff; support from the stakeholders, and; proper guidance from the professional auditing standards [57].

In the Asia and the Pacific region, a study highlighted issues on internal audit activities. Majority of the chief audit executives reports to the chief executive officer or board of directors rather than the audit committee; many auditors are still focused mostly on financial and regulatory compliance and least on the needs of the stakeholders; the need for risk assessment on strategic and organizational levels; a wide gap of internal audit activity related to information technology, and; the need to attract and retain audit manpower with diverse skills to succeed growing complexities [58]. In Malaysia, another study also showed that internal auditors were often needed to support the management in refining control schemes in identified areas. They also have been appreciated as business partners, a facilitator for transformation, and possible source of future business executives [59].

#### *Theme 4: Occupational Fraud*

Fraud, in general, poses risks to any organizations. A million-dollar unlawful business activities most companies may or may not be capable to protect themselves. Fraud is an illegal act characterized by purposeful dishonesty, disguise, or

desecration of confidence perpetrated by individuals, parties or organizations to obtain personal gain or unjust business advantage and does not necessarily dependent upon the threat of violence or physical force.

According to Wolfe and Hermanson, fraud is most likely to transpire when someone has provocation to execute the deceitful act; chances to commit fraud; the person has an assertiveness to justify the fraudulent behavior, and; the individual's capacity to take advantage of any circumstances for fraud. Termed as fraud diamond theory, this is viewed as the expanded version of Donald Cressey's (1953) fraud triangle theory [60,61].

Detrimental to organizations and punishable by law, occupational fraud is largely the outcome of the intentional actions of individuals or group of individuals in connection with their functions. Known as a white-collar crime, occupational fraud constitutes a willful attack against the organization committed by white collar persons in occupational roles [4]. Further, Edelhertz and Overcast redefined white-collar crime as an economic crime classified as an occupational crime, which refers to a fraudulent act committed against a company in the course of one's occupation or profession, and organizational crime, which refers to unlawful acts that an organization committed against the general public and consumers [62].

The Association of Certified Fraud Examiners further classified occupational fraud or crime into three primary categories: (1) corruption scheme; (2) asset misappropriation scheme, and; (3) financial statement fraud scheme [4]. In their recent biennial global study on occupational fraud and abuse conducted from July to October 2019 and participated by 51,608 individuals who have encountered and investigated 2,504 real cases from 125 countries worldwide, of whom are 10,837 internal auditors, results highlighted and disclosed: more than \$3.6 billion total losses; \$125,000 median loss per case, and; \$1,509,000 average loss per case. Of the total reported losses, 54% is still unrecovered. Among the most prevalent detection method, occupational fraud was detected by internal audit activities (15%), secondary to the tips (43%) provided mostly by the employees of victim organizations. Most numbered reported occupational cases involve rank and file employees; huge median losses are either those committed by the business owners/executives and by collusion of the group of individuals, and; topmost

reasons of committing the fraud are financial difficulties and living beyond means [5].

In an increasingly multifaceted world, shifting inequalities, developing trickeries, and various ambiguous settings of occupational fraud, perpetrators of any generation label are able to continuously developing new scheme that will constantly demand and challenge the essentialities and competencies of internal audit activities [63]. Fraudsters will never falter to abuse any ambiguities in any institutions for personal advantage [64]. As such, a study considered fraud as demand for assurance opportunities for both internal and external auditors. They will be needed by the institutions in providing services for anti-fraud training and education, assistance in creating fraud prevention programs or helping the organization in actual detection of fraud [65].

Although the management is principally in authority for the uncovering of fraud, internal auditors are still stimulated to have appropriate understanding to identify and recognize potential indicators of fraud, evaluate the risk involved, and assess any circumstances that may lead to occurrences of any illegal actions [66,67]. Indicators of fraud are the warning signals intended to raise awareness on the possibility of fraud [66]. Because of the nearness of internal auditors to actual operations of the organization taken as a whole, they are advantageously positioned and exposed to the process, the systems, the people and culture, the incentive programs, and the opportunities to help organizations on occupational fraud [68]. Internal auditors are also in the best situation to determine the trustworthiness, authenticity, and truthfulness of operational and financial information of different units in the organization [69]. They are not expected to have expertise on fraud however, they may use their audit expertise to identify trends and patterns that might suggest possibilities of fraud. Appropriate investigation activities are best carried out by those who are experienced to such undertakings [70].

Studies explored the role of the internal control framework and corporate culture in managing occupational fraud and other researchers had cited that internal auditors are continuously tasked to assess the control environment, risk assessment, control activities, information and communication, and monitoring to provide reasonable assurance on the achievements of organizational objectives [71]. Others have also cited that having an environment of



highly sound ethical culture and values that uphold integrity and credibility among employees particularly those in top management can go a long way to prevent, detect, and respond to minimize fraud. They further disclosed the growing participation of accounting and internal audit profession in governance processes, compliance, impartial preparation and presentation of financial statements, and widen dispositions of assurance engagements [72,73].

Result of the study on the importance of perceived management support or tone from the top and its effect on organizational culture disclosed that employees are indeed aware of corporate ethical standards however; they hesitate to engage or involve themselves due to lack of commitments of the overall organizations in upholding these standards. Internal auditors may continually assess the ethical standards of the organization but having a clear internal policy and credible attitude of top executives with access to governing bodies can help improve the overall perception and morale of employees on prevention of fraud [74]. Similarly, qualitative study on determinants of auditor's ability or expertise in fraud detection participated by those individuals who have worked in multinational accounting firms in various countries in Asia-Pacific, North America, and Europe also disclosed that internal auditors should have sufficient knowledge and need not be a forensic specialist to detect fraud. Further, this study showed that proper mentoring of internal auditors, interpersonal ability to work within the audit team, and good communication skills as additional determinants to fraud related audit task will greatly contribute to the competencies of auditors on detection of fraud [40].

On the other hand, a study reflected methodical and scientific accounting skills as one of the proficiencies of internal auditors in preventing and detecting financial fraud. It is a discipline that combines knowledge and skills on auditing, accounting, investigation, and preparing documents for possible legal action and its demanded investigative services will continue to grow in the foreseeable future [75]. Other researchers also regarded forensic accounting and auditing as one of the growing expertise demanded to transcend all the critical problems in the organization. Aside from analytical skills, they should also possess thorough knowledge in various laws and legal processes, sufficient expertise in tracking and analyzing digitalized financial information to uncover any fraudulent transactions, and reasonable communication skills to convey complex financial

information for better understanding of fraud issues [76]. Further, other study identified technology and technology loops as an exploitable area of a savvy fraudster to commit fraud. As such, they recognized the need for training and development of technical skills of forensic auditors on latest and available audit software to better detect and combat fraud [77]. Lack of appropriate training and skills may result in an apparent failure of internal auditors to effectively practice their profession [78,79].

#### *Synthesis of the Reviewed Literature*

The literature and studies of Vaiphei, 2018 [13], Gleim, 2018 [1], and Pickett, 2004 [14] in Munteanu and Zaharia, 2014 [15] focused on the birth and evolution of internal audit profession resulted from concept of trust and fidelity and progressed through years to address the increasing demand and complexities of business processes while literature and government policies from Commission on Higher Education, 2017 [16]; Carlos, Sarmiento, and Dela Merced-Litonjua, 2018 [17]; Echavez et al., 2016 [18]; Aguinaldo, Fabia, and Pondoc, 2018 [19], and; Herbosa, 2016 [20] focused on the government legislations in the Philippines to provide essential guidelines on the inclusion and adoption of internal audit activities and processes in academic programs, private organizations, and all government agencies.

Moreover, literature and studies of Iwejor, 2017 [21]; Law, 2014 [22]; Bogani, 2013 [23] in Abdulkadir, 2014 [24]; Landsittel et al., 2013 [25] as cited by Echaves et al., 2016 [18]; Sobel et al., 2018 [26]; McNally, 2015 [27]; Verovska, 2014 [28] in Lachney, 2018 [29]; Chartered Institute of Internal Auditors, 2018 [30]; Vasile and Croitoru, 2015 [31]; Rahim, Johari, and Takril, 2015 [32]; Othman et al., 2014 [33]; Madi, Ishak, and Manaf, 2014 [34]; Endaya and Hanefah, 2016 [35], and; Pilcher et al., 2013 [36] in Hakansson and Johansson, 2014 [37] focused on the environmental factors that significantly influences the achievements of internal audit goals and objectives such as internal control, risk management, internal audit charter, audit committee, top management, external auditors and government regulatory agencies.

Further, literature and studies of The Institute of Internal Auditors, 2016 [38]; The Institute of Internal Auditors, 2017 [39]; Gleim, 2018 [1]; Mui, 2018 [40]; Suryandari and Yuesti, 2017 [41]; Junio-Sabio, 2013 [42] as cited by Sondh, 2017 [43]; Sobel et al., 2013 [44] as cited by Rose, 2015 [45]; Institute of Internal Auditors Research Foundation, 2015 [46];

Furiady and Kurnia, 2015 [47]; Andreas and Zarefar, 2016 [48]; Sarens, Decaux, and Lenz, 2012 [50] in Narkchai and Fadzil, 2017 [49], and; Elbardan, Ali, and Ghoneim, 2016 [51] discussed the internal auditors and their characteristics and abilities, including knowledge, technical skills, personal skills, and other competencies, in the preparation, execution, and wrapping up internal audit activities. Literature and studies of The Institute of Internal Auditors in Gleim, 2018 [1]; Caratas and Spataru, 2014 [52]; Byrnes et al., 2015 [53]; Selim et al., 2014 [54]; Shamki and Alhajri, 2017 [55]; Sabado et al., 2016 [56]; MacRae and van Gils, 2014 [57]; Piper, 2015 [58], and; Shahimi, Mahzan, and Zulkifli, 2016 [59] discussed the internal audit activities and its corresponding issues, demands, and challenges towards the effective achievement of the audit goals and objectives.

Lastly, Wolfe and Hermanson in Shelton, 2014 [60] and Abdullahi and Manson, 2015 [61]; Edelhertz and Overcast in Soley, 2017 [62]; Association of Certified Fraud Examiners, 2019 [4]; Association of Certified Fraud Examiners, 2020a [5]; Association of Certified Fraud Examiners, 2020b [6]; Mack, 2016 [62]; Western Kentucky University Internal Auditor, 2018 [64]; Carroll, 2015 [65]; Elsayed, 2017 [66]; Breslin, 2017 [68]; Al-Matari, Al-Swidi, and Fadzil, 2014 [69]; The Institute of Internal Auditors, 2019 [70]; Ocansey and Ganu, 2017 [71]; Sabau, Sendroiu, and Sgardea, 2013 [72] as cited by Schillermann, 2018 [73]; Rubasundram, 2015 [74]; Mui, 2018 [40]; Matson, 2016 [75]; Lakshmi and Menon, 2016 [76]; Simha and Satyanarayan, 2016 [77], and; Chui and Pike, 2013 [78] in Awolowo, 2016 [79] focused on the nature, concept, category, indicators, and the increasing number of occupational fraud cases that challenges the organization and internal audit activities. They also discussed the importance of internal control, business integrity and culture of the top management and the organization as a whole, and the sufficient knowledge, technological skills, forensic skills, and proper training of the internal auditors to assess, evaluate, and address potential indicators and occurrences of occupational fraud.

On the overall, the reviewed literature on internal audit profession; internal audit environment; internal auditors, audit competencies and audit activities, and; the internal auditors on occupational fraud will greatly support the foundation and discussions to conceptualize and elaborate further studies on internal auditors and occupational fraud. As

a matter of fact, some of these literatures have already been utilized and reinforced the published studies of the researcher [2,80,81].

## **Conclusion**

With the increasing number of occupational fraud cases involving huge amount of losses to every business enterprise, the top management have been continuously challenged by the changing complexities of fraud schemes and applied strategies of fraudsters. While it has also been globally recognized and accepted that they are primarily responsible for the assessment of risk and implementation of necessary control measures to prevent, detect, and mitigate possible and actual occurrences of fraud, they still need the assistance and respective support of internal auditors, legal officers, and other fraud experts. However, among these organizational supports, internal auditors are the individuals who are most commonly vested with professional functions to assist the management in assessing internal control operations, risk management, and corporate governance and have been given with the functional authority, best position, and opportunity to know every details of business transactions and operations to assess records, compliance and evaluation of internal controls in which fraudulent actions may occur. They may not really be fraud experts who are experienced to assess and investigate possibilities or actual occurrences of fraud; however, increase in occupational fraud cases suggest internal auditors to adopt and implement innovative professional services involving fraud prevention, detection, and mitigation. Through proper training, experience, and constructive involvement of internal auditors on fraud investigation and assessment, as well as collaborative support from top management, legal officers, and other fraud experts, internal auditors can effectively perform their audit functions relative to occupational fraud schemes.

## **Ethical Considerations**

The researcher cautiously gathered literature and utilized the online platforms with objectivity and professionalism. Relevant and significant information were presented in an unbiased manner and all references were properly cited in this paper.

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