

Chapter 16

External vs. Internal Auditors in Prevention and Detection of Fraud: The Perception of Portuguese Tax Auditors

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ABSTRACT

This chapter aims to analyze, from the perspective of tax inspectors, what appreciation these tax auditors have to the collaboration between external and internal auditors for the prevention and detection of fraud in organizations. The investigation, based on the opinion of 142 Portuguese tax inspectors, reveals that tax inspectors attach a greater importance to the absence of barriers of communication between external and internal auditors, to the indications of the external to the internal auditors, on situations enhancing risk, and to the fact that, in dubious situations, the internal auditors must listen the opinion of the external auditors. In turn, tax inspectors value less the consideration of the external auditors in the work developed by the internal auditors, the frequency of meetings between the external and internal auditors, and the confidence of the external auditors in the technical work quality of the internal auditors. Despite the consistency of these results, the present study has allowed us to detect some differences between the tax inspectors surveyed.

INTRODUCTION

The responsibility of the auditors directed towards the detection of fraud has been increasing, notably through the improvement of the norms. For example, the International Standard on Auditing (ISA) 240 (2009) represents a significant advance in extending the functions of the work teams in the planning and execution phase of the audit, positioning itself as a primary agent in restoring the confidence of

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investors, by increasing the quality of audits and strengthening the values of the profession, as well as in the fight against fraud. In the Portuguese context, Almeida (2017) produces evidence that the research and disclosure of fraud and illegal acts carried out by the major companies follow international trends.

However, studies have focused particularly on a type of external auditors: the typical financial auditors of audit companies. But we believe that there is also the need to meet another type of external auditors: the tax auditors. Thus, in view of the work of audit and fraud, we developed a study for analyzing the perception of tax inspectors (TIs), auditors of the Tax and Customs Authority (TCA), regarding the importance of collaboration between external and internal auditors in prevention and detection of fraud. Through a questionnaire, we asked the TIs to value a set of nine sentences related with the collaboration between external and internal auditors to find out which elements of collaboration that best contribute to the detection and prevention of fraud. This work seeks to obtain the opinion of the TIs, external auditors who often find diverse situations of fraud. Although TIs mission is focused on preventing and detecting irregularities and tax evasions, their performance resorts to detailed analysis of individuals and organizations. Given the lack of work that focuses on this type of external auditors, this study presents an innovative and, simultaneously, exploratory nature.

Due to the high importance of cooperation between the external and internal auditors the international Federation of Accountants (IFAC) has issued the International Standard on Auditing (ISA) 610 (2009), which has clarified the responsibilities of external auditors face to the work of the internal auditors. When examining the tasks and work carried out by the internal auditors, the external auditors must have enough knowledge to carry out additional audit procedures to be able to assess and minimize any risks inherent to the quality and accuracy of the work of the internal auditors.

External auditors should also assess the objectivity of the internal audit function, the technical competence of the human resources of the internal audit structure, their professional zeal, and should promote periodic meetings with the internal auditors. It should also be stressed that ISA 610 (2009) does not prevent external auditors from using the work of internal auditors. However, it prescribes that evaluations and analyses should be carried out to determine the quality of the internal audit and, consequently, of the information that it produces.

The next section meets the literature review on the several types of financial auditors, tax inspection and fraud, and the importance of collaboration between auditors in preventing and detecting fraud. In the third section, the methodology adopted in this study is presented. Subsequently, in the fourth section, the results are presented and discussed. In the fifth and closing section, the final remarks are presented, considering the limitations of the study and the suggestions for future research.

LITERATURE REVIEW

Financial Auditor vs. Tax Inspector

Talking about financial auditor implies talking about financial audit. This fundamentally focuses on the expression of an opinion on the financial statements of a given organization contributing to the increase in the credibility of financial information. A financial audit must appear to be effective and receive everyone's confidence and should be carried out by an independent auditor (Costa, 2017). The auditor is generally presented as a guarantor of the credibility of the financial information of the organizations. But to ensure this credibility, the auditor needs to take advantage of the necessary autonomy to

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