

Internal Audit and Fraud Management in the Financial Services Sector Based on Sri Lanka

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Abstract

"This can't happen here," - a reality? Fraud can happen anywhere. In the modern era, organizations are more concerned about internal audits as well as external audits because to minimize financial abuse. Internal auditing is a core function in detecting and preventing fraudulent activities.

This study aims to study the relationship between internal audits and fraud management. Accordingly, this study, examines the internal audit organizational status, internal audit capabilities, and the contribution of internal audit activities to the fraud management of financial services companies in the Sri Lankan context. The target population for this study was defined as the 80 currently traded financial service sectors firms in Sri Lanka and data collected from systemically important banks namely, Bank of Ceylon, Commercial Bank of Ceylon, Hatton National Bank, People's Bank, Sampath Bank, Seylan Bank and they hold 78 percent of the banking assets and get total of 210 responses were collected from a questionnaire survey.

In terms of findings, the results show that internal audit organization status, internal audit capabilities, and internal audit activities are important predictors of fraud management. Also highlighted is that each financial service sector's concern about internal audit and forensic accounting is a value-added function of an organization and gives more attention to that area in the modern era.

The findings is expected to contribute to the existing literature and fill the gap in relation to developing countries. The results are important for internal audit managers, internal audit policymakers to empower internal audit function in their organization. As far as authors are aware, no research has hitherto been undertaken that investigates the individual contribution of internal audit organization status, competence, and its activities as internal audit constructs on fraud management in the Sri Lankan context. In future, more research is needed to further understand the contribution of the internal audit structure to fraud management in other sectors such as the public sector and also other industries.

Key words: *Financial Service, Internal Audit, Fraud Management, Organizational Status, Internal Audit Competence*