



## Internal Audit in the function of preventing corruptive activities in the public sector of the Federation of Bosnia and Herzegovina

**Lejla Demirović**

*University Sarajevo, School of Economics and Business*

[lejla.demirovic@efsa.unsa.ba](mailto:lejla.demirovic@efsa.unsa.ba)

**Ševala Isaković-Kaplan**

*University Sarajevo, School of Economics and Business*

[sevala.isakovic-kaplan@efsa.unsa.ba](mailto:sevala.isakovic-kaplan@efsa.unsa.ba)

**Džana Krivić**

*MA candidate in Forensic Accounting, University of Sarajevo, School of Economics and Business*

[dzana.nera@gmail.com](mailto:dzana.nera@gmail.com)

### Abstract

*The public sector of the Federation of Bosnia and Herzegovina (FBiH) from the aspect of complexity and comprehensiveness, includes all levels of government established within the state government, public companies, and the insurance system including: pension, health and social. The importance of performing duties and obligations in a transparent manner, and the possibility of detecting warning factors for corrupt activity are especially important in the public sector.*

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*Corrupt activities at all levels of the state structure of Bosnia and Herzegovina (BiH), as well as fraudulent behaviour and abuses within it, are precisely the consequences of the complexity of the state system, and the impossibility of efficient and rational use of public funds. Adequately organized, in accordance with the law, and accepted as such by employees within a certain public sector organization, internal auditing contributes to more efficient operations and prevention of corrupt practices. The aim of the subject research is to look at the process of functioning of the internal audit in the public sector of F BiH in the field of prevention of corrupt activities. The results of the research indicate the non-functioning and non-establishment of the internal audit in the manner specified by law, as well as the inadequate implementation of its recommendations, degrading and derogating its role, importance and contribution in the prevention of corrupt activities in the public sector of F BiH.*

**Keywords:** *internal control, internal audit, prevention, corrupt activity, public sector*

## **1. Introduction**

Observing the public sector of F BiH from the aspect of complexity and comprehensiveness, it can be noticed that it includes: all levels of government established within the state government, public companies, and the insurance system that includes pension, health, and social. Considering the mentioned complexity, the internal supervision itself should include internal control, internal audit, and controlling. Internal control implies procedures and activities aimed at the protection of own resources, and accurate and reliable financial reporting, all while respecting and applying rules and legal provisions in its operation. Internal audit represents undertaking activities in the direction of providing objective assurance and advisory activities with the final aim of improving the organization's operations, and therefore its value. The purpose of an internal audit is to effectively help the organization achieve its intentions and activities by enabling and improving operations through adequate risk management and control procedures. Controlling helps the organization when defining the goals it wants to achieve, and contributes to the development of adequate plans for achieving them. The function of

controlling is to provide the necessary data and information necessary for making appropriate decisions and provide ways to overcome possible deviations.

Ultimately, the primary objective of internal control is to obtain reasonable assurance, with preventive action in the function of preventing corrupt and fraudulent activities at all levels in a certain organization. Corrupt activity at all levels of the state structure of BiH and fraudulent behavior and abuse within the same are the consequences of the complexity of the state system and the impossibility of efficient and rational use of public funds. The subject research aims to point out the importance of internal audit in the public sector through the proposal of recommendations that need to be implemented to prevent corrupt practices. To implement the recommendations of the internal audit, to prevent corrupt activities, it is necessary to raise awareness about corruption and other illegal actions, improve methods in the fight against corrupt practices, ensure adequate ways to report cases of irregularities in business as well as systematic cooperation with other institutions in the fight against corrupt activities.

## **2. Literature review**

Internal audit is an independent and objective activity of providing professional opinion and advice to add value and improve the organization's operations (Kurtanović et al., 2015). The purpose of introducing an internal audit is to ensure the efficiency and effectiveness of operations and alignment with strategic goals, laws, and regulations and as support for business decision-making (Drašček, 2024).

There is no single definition of the public sector, in the broadest sense the public sector includes legislative institutions, executive and judicial authorities, public administration, and all activities in which authorities from state to municipal have jurisdiction based on legal and property rights, such as education, health, pension-disability and social protection, and public enterprises. There is no doubt that the public sector in all countries plays a key role in providing public goods and equal rights for all citizens. Financing of public sector activities is done mainly from the public revenues of the country and to ensure the efficient use of common social resources, subjects of public interest are obliged to establish and ensure the functioning of the internal audit department, and to employ at least one authorized internal auditor with a valid license. Internal auditors are obliged to comply with legal regulations in their work, rules of the profession, and the code of ethics of internal auditors, and check with internal supervision whether business transactions are carried out by legal regulations, whether there is adequate accounting documentation and whether the financial reports provide complete, reliable and

credible information on the results of financial operations and financial positions (Law on Accounting and Auditing of FBiH, 2021).

Fraud and fraudulent behavior in societies, including in the public sector, manifests itself in different ways. Consequently, numerous fraud classifications can be found in the literature. The most common among them is the division of frauds according to the method of execution, which groups all frauds into three groups: asset misappropriation, corruption, and fraudulent financial statements (Isaković-Kaplan, 2016). Corruption can be defined as a fraudulent activity in which employees abuse their assigned position/role/function in an entity to fulfill their interests /achieve benefits for themselves or related persons. The forms of corruption sometimes include interest exchange processes, such as nepotism, nonfeasance, and disposal of public resources. (Liu, 2016).

International Standard on Auditing (ISA) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements defines the concept of fraud and the auditor's responsibility about fraud in financial statements. Fraud is defined as an intentional act of obtaining an unfair or illegal advantage, by cheating, carried out by one or more persons from a group of employees, management, the supervisory board, or a third party. According to ISA 240, corruption was excluded from the definition of fraud and instead classified as non-compliance with laws and regulations which is an insufficient understanding of corruption and fraud in general. The empirical studies refute this with the suggestion that the auditing profession needs to use techniques to detect corruption and embrace effective preventive measures such as anti-corruption certifications. (Jeppesen, 2019)

The scope of work of internal audit is to "minimize the risk of fraud, revealing weaknesses in operations and controls that can prevent fraud" (Sprenić, 1996). Additionally, International Standards on the Professional Practice of Internal Auditing 1210 – Expertise, through section 1210. A2 prescribes the obligation that the internal auditor must have sufficient knowledge to assess the risk of fraud and the way the company manages that risk.

### **3. Internal audit functions in preventing corrupt practices**

The primary goal of the internal audit of the public sector is to timely detect non-compliance with the adopted business standards and with legal provisions, and future activities put in the direction of taking corrective measures, and the persons with assumed authority such as those responsible for certain business segments, to call for responsible action in the direction of preventing corrupt behavior. The above indicates that internal audit can play a significant role

in preventing corruption. (Wang et al., 2021) In addition, the study's empirical results show that corruption hinders the economic growth of countries. (Spyromitros and Panagiotidis, (2022). The problem of the presence of corruption and illegal activity within the public sector is observed through the implementation of audit procedures to prevent them, strengthening awareness of the presence of illegal procedures at work, improvements in terms of the use of methods and tools in the fight against corruption and the creation of ways to eventually be able to report.

The area of activity of the internal audit should be the determination and definition of the causes of corrupt practices, then an analysis of the areas in which the same are manifested with the implementation of transparency in business. Ultimately, the internal audit should apply mechanisms for making certain recommendations in the form of corrective measures, based on previously established irregularities. Corrupt actions in the public sector of FBiH are present in all segments of the hierarchical structure, starting from management positions within a certain organization, all the way down to employees at lower levels and the job executors themselves. It is not uncommon to neglect and avoid the system of internal controls in business, authorized and responsible persons very often do not have the necessary qualifications and expertise in their business, they do not apply adequate business risk management skills, they very rarely use internal control as an effective measure of supervision as well as a measure of preventive action, and in the end, they do not accept and do not respect the recommendations that would significantly help in preventing corrupt actions and procedures in the subject's business. On the other hand, with adequate functioning and application of internal controls in the public sector, numerous disadvantages such as the absence of detailed descriptions of tasks and responsibilities of employees, inadequate risk assessment and reporting, incorrect direction of distribution and spending of public funds, should avoid or try to significantly reduce potential consequences via the acting of preventive procedures.

The research of the subject paper starts from the assumption of the presence of corrupt practices in the public sector of FBiH and the belief that the basic motives of the organization and the operation of the internal audit should be aimed at preventing them. Audit of the public sector contributes to the creation of greater responsibility of the public administration, and the creation of greater transparency in work is a testimony to this.

Corruption is a phenomenon that often occurs in different forms, starting from the payment of compensation to persons in managerial positions, up to payments to various domestic and foreign government representatives, as well as to their family members and other persons. One of the most important duties and tasks of an internal auditor is the detection of fraud, and thus

prevention of corrupt activities in a certain organization. The field of internal audit in the fight against corruption depends on the size of the observed legal entity, its structural arrangement, complexity, and the demands and expectations of its management.

#### **4. Research Methodology**

To investigate the presence and role of internal audit in preventing and fighting against corrupt activities in the public sector of FBiH, the functioning of the financial management and control system, respect for transparency in work, action against abuse and fraud by responsible and authorized persons, and acquiring illegal property benefits, a survey of respondents employed in the public sector of FBiH was conducted. The survey questionnaire used for data collection is divided into three parts:

- Part I – general questions, which were related to gender, age, work experience, professional education and organization;
- Part II – basic questions to test the set hypotheses, in which the respondents were required to answer the set questions by choosing one of the offered answers: - no; - no, but activities are being undertaken in that direction; - yes, in certain business segments, - yes, in most businesses and - yes;
- Part III – additional questions related to the hypotheses formulated by using a Likert scale, where the respondents were asked to express the degree of agreement or disagreement with the stated statements, on a scale of five points, which have the following meaning: 1 – I absolutely do not agree; 2 - I do not agree, 3 - neutral attitude, 4 - I agree and 5 - I absolutely agree.

The research hypotheses are:

- *H1: The organization of internal audit in the function of preventing corrupt activities in the public sector of FBiH is not satisfactory.*
- *H2: The functioning of the internal audit in the public sector of FBiH does not prevent corrupt activities.*
- *H3: Despite the presence of warning factors of corrupt activity in the public sector and the recommendations of the internal audit, in the public sector of FBiH, there is a lack of timely activities to prevent corruption.*
- *H4: Inadequate implementation of internal audit in the public sector of FBiH results in non-transparency in work and failure to prevent corrupt activities.*

The survey was anonymous and was conducted online via Google Forms, and it was sent to more than 100 addresses. 62 respondents answered the questionnaire. The competence of the respondents of the survey questionnaire to prove the set hypotheses is confirmed based on professional qualification, age group, necessary work experience, and skills of the respondents. Out of a total of 62 respondents, 22 (35.48%) belong to the age group between 41-50 years, while 11 (17.74%) respondents belong to the age group over 50, which confirms that over 50% of respondents have more than 20 years of work experience. According to the level of education, 46 (67.74%) respondents have a bachelor's degree and a master's degree. In addition, the competence of the examinee is confirmed by the possession of appropriate qualifications, skills, and related knowledge to which the subject research refers. The data were collected in the period August - November 2023. The collected data were processed using analytical procedures and descriptive statistics, and the results of the conducted research were presented in tables.

## **5. Research results**

The target group of respondents were employees in internal audit, accounting, and financial services in the public sector of FBiH, that are familiar with the tasks and purpose of internal audit in the fight against corruption. The first part of the questionnaire referred to the analysis of general data: age, education, and organization in which they are employed. In the survey, the respondents from the age group 41-50 years had the highest percentage of participation, and with the assumption that age is associated with certain work experience, the competence of the respondents was rated as satisfactory. Additionally, 65% of respondents have a university degree. Primary respondents come from companies with over 100 employees and it is important for this research, because according to the Law on Public Enterprises of FBiH (Article 27) the internal audit department is formed in public companies with more than 100 employees, while in companies with less than 100 employees, an audit committee is formed and an independent auditor is hired for financial audit.

The competence of the respondents is also confirmed by the answers to the question that people with appropriate qualifications, skills, and abilities are employed within the organizations. This is supported by 90% of respondents' responses, which confirm the presence of adequate qualifications in certain areas of the organization, as in most of its business segments. To the question about the application of adopted policies and standards during the execution of audit tasks, the answers of the respondents are distributed in the same percentage

to all the offered answers: policies and standards are not adopted / adoption activities are being prepared / in certain segments adopted / majority adopted/ adopted. The last question from the general part of the survey questionnaire referred to how internal audit is organized within a certain organization, and the answers of the respondents led to the conclusion that the most represented answer in percentage terms is that the internal audit service has not been established at all. It testifies about inadequate implementation and functioning of internal audit in the public sector, which will be the subject of the analysis of this paper through additional questions. The results of the conducted research to examine the awareness of the importance of the internal audit function in preventing corrupt activities in the public sector of FBiH will be presented in the following paragraphs. To test hypothesis H1, three questions were asked in the questionnaire, and the responses of the respondents on them are shown in Table 1.

**Table 1. The organization of internal audit in the public sector**

| No. | Question   | No | No, but activities are<br>being undertaken in that<br>direction | Yes, in certain business<br>segments | Yes in most jobs | Yes | Mode | $\Sigma$ |
|-----|--|----|---|--------------------------------------|------------------|-----|------|----------|
| 1.  | Do you consider that by Article 86 of the Law on Accounting and Auditing of FBiH, internal auditors comply with legal regulations, rules of the profession, and the code of ethics of internal auditors in their work? | 2  | 5   | 17                                   | 18               | 20  | Yes  | 62       |
| 2.  | Are you satisfied with the implementation of the internal audit in the function of preventing corrupt activities in the public sector of FBiH?   | 29 | 12  | 13                                   | 8                | 0   | No   | 62       |



|    |   |   |   |    |    |    |     |    |
|----|---|---|---|----|----|----|-----|----|
| 3. | Do you think that improvements are needed in the implementation of internal audit to prevent corrupt activities in the public sector of FBiH? | 0 | 2 | 11 | 14 | 35 | Yes | 62 |
|----|---|---|---|----|----|----|-----|----|

*Source: Author's research*

The analysis of respondents' answers to the questions that serve to test hypothesis H1 points to the conclusion that 89% of respondents (55 of 62) believe that internal auditors comply with legal regulations in their work, the rules of the profession, and the code of internal auditors, which points to the conclusion that the respondents are aware of the importance of the establishment of the internal audit function. Furthermore, 47% of respondents answered that they were not satisfied with the degree of implementation of internal audit in the function of preventing corrupt activities, and 97% of respondents believe that improvements are needed in the implementation of internal audit to prevent corrupt activities in the public sector of FBiH. The respondents' answers confirm hypothesis H1 that the internal audit in the function of preventing corrupt activities in the public sector of FBiH is not organized in a satisfactory manner. Three questions were used to test the hypothesis H2, and the respondents' answers on them are shown in Table 2.

**Table 2. The implementation of internal audit in the public sector**

| No. | Question  | No | No, but activities are being undertaken in that direction | Yes, in certain business segments | Yes in most jobs | Yes | Mode | $\Sigma$ |
|-----|---|----|---|-----------------------------------|------------------|-----|------|----------|
| 1.  | Do you think that most public institutions/companies have adopted the "Integrity Plan" act? | 28 | 16  | 10                                | 3                | 5   | No   | 62       |

|    |   |    |    |   |    |   |    |    |
|----|---|----|----|---|----|---|----|----|
| 2. | Is there a practice of regular reporting on the implementation of measures and internal controls in the function of preventing corrupt activities in your organization? | 29 | 10 | 7 | 10 | 6 | No | 62 |
| 3. | Does the internal audit in your organization contribute to the process of suppressing abuse of authority by responsible and authorized persons?                         | 31 | 11 | 5 | 9  | 6 | No | 62 |

*Source: Author's research*

Respondents' answers to questions related to hypothesis H2 indicate the perception of non-adoption of the act "Integrity Plan" in the majority of public institutions/companies (71%), lack of practice of regular reporting on the implementation of measures and internal controls in the function of preventing corrupt activities (63%), and that the internal audit in the organization does not contribute or certain activities are only being undertaken in the process of suppressing abuse of authority by responsible and authorized persons (68%). Respondents' answers were grouped around the answer "no" to all three listed questions (Mode), confirming hypothesis H2 that the internal audit in the FBiH public sector does not function in a way that prevents corrupt activities. The questions for testing hypothesis H3 with respondents' answers are shown in Table 3.

**Table 3. The internal audit recommendations**

| No. | Question | No | No, but activities are being undertaken in that direction | Yes, in certain business segments | Yes in most jobs | Yes | Mode | Σ |
|-----|----------|----|---|-----------------------------------|------------------|-----|------|---|
|-----|----------|----|---|-----------------------------------|------------------|-----|------|---|

|    |  |    |    |    |    |    |                  |    |
|----|--|----|----|----|----|----|------------------|----|
| 1. | Does the internal audit function in FBiH public sector, after the observed warning factors for corrupt activity, immediately result in giving recommendations to the management to prevent it? | 2  | 15 | 14 | 16 | 15 | Yes in most jobs | 62 |
| 2. | Do you think that the recommendations given by the internal auditors are respected in the public institutions of FBiH?   | 29 | 11 | 17 | 3  | 2  | No               | 62 |
| 3. | Do you think that the reason for the failure to adopt recommendations by internal auditors in the public sector of FBiH is in most cases the responsible person in management position?        | 3  | 0  | 13 | 16 | 30 | Yes              | 62 |

*Source: Author's research*

Analysis of respondents' answers to questions related to H3, indicates that respondents' responses regarding the provision of internal audit recommendations to management for the prevention of corrupt activities are grouped around the response "in most cases" (Mode). In more detail, respondents' answers to the same question show evident problems in the functioning of internal audit, considering that 27% of the respondents answered that the internal audit, after observing the warning factors for corrupt activity, does not immediately give recommendations to the management to prevent it, in contrast to 24% of respondents who emphasize the timely highlighting of recommendations for observed indicators of corrupt behavior. In addition, the responses of the respondents show non-compliance with the recommendations of internal auditors - even 65% of respondents (40 of 62) believe that the recommendations given by the internal auditors are not respected in the public institutions of FBiH or that certain activities are undertaken in that direction, while 17 respondents think that the aforementioned applies only in certain business segments. Furthermore, 95% of the

respondents believe that the reason for the non-implementation of recommendations by internal auditors in the FBiH public sector is in most cases responsible persons in management positions. Respondents' answers confirm hypothesis H3, that despite the presence of warning signs of corrupt activities and the recommendations given by the internal audit, there are no timely and adequate activities to prevent corrupt activities in the public sector of FBiH. The relevant questions for testing hypothesis H4 with respondents' answers are shown in Table 4.

**Table 4. The non-transparency and corrupt activities**

| No. | Question  | No | No, but activities are being undertaken in that direction | Yes, in certain business segments | Yes in most jobs | Yes | Mode                | $\Sigma$ |
|-----|---|----|---|-----------------------------------|------------------|-----|---------------------|----------|
| 1.  | Is internal audit in the public sector of FBiH regulated by legal provisions and audit standards?   | 8  | 14  | 15                                | 13               | 12  | In certain segments | 62       |
| 2.  | Is the internal audit in the public sector of FBiH implemented in a way that provides an adequate picture of the transparency of their work?  | 24 | 18  | 11                                | 7                | 2   | No                  | 62       |
| 3.  | Do you think that the failure to establish the position of internal auditors in most public companies represents an opportunity to increase the corrupt activities of responsible and authorized persons? | 5  | 1   | 12                                | 12               | 32  | Yes                 | 62       |

*Source: Author's research*

The analysis of respondents' answers to questions related to H4 indicates that according to the answers of 67% of respondents, internal audit in the public sector of FBiH was not implemented in a way that provides an adequate picture of the transparency of their work. Additionally, 90% of respondents (56 of 62) believe that the failure to establish the position of internal auditors in the majority of public companies in FBiH is an opportunity to increase the corrupt activities of responsible and authorized persons. Respondent's answers to the general question of whether internal audit in FBiH public sector is regulated by legal provisions and audit standards are grouped around the answer "in certain business segments" with a significant share of respondents' negative answers (35%). Respondents' answers to previously elaborated questions confirm hypothesis H4, that inadequate implementation of internal audit in FBiH public sector results in lack of transparency in work and failure to prevent corrupt activities.

The survey questionnaire contained an additional four questions with answers formulated based on a Likert scale to consider the opinions of respondents regarding the existing as well as the possible contribution of internal audit in the field of prevention of corrupt activities in the public sector of FBiH. Respondents' answers to the questions are presented in the following table.

**Table 5: Respondents' answers regarding the contribution of internal audit to the prevention of corrupt activities**

| Gradation of answers according to a scale of 1-5:<br>1 – Strongly disagree; 2 - Disagree;<br>3 - neutral attitude; 4 - Agree; 5 - Strongly agree.                                  |    |    |    |    |    | N  | Mean | Mode |
|--|----|----|----|----|----|----|------|------|
|  | 1  | 2  | 3  | 4  | 5  |    |      |      |
| Internal audit in the function of preventing corrupt activities in the public sector of FBiH is at a satisfactory level.   |    |    |    |    |    |    |      |      |
|  | 19 | 26 | 15 | 2  | 0  | 62 | 2    | 2    |
| The preventive function of internal audit helps to suppress corrupt activities and abuse of authority by responsible persons within the organization in the public sector of FBiH. |    |    |    |    |    |    |      |      |
|  | 0  | 4  | 15 | 28 | 16 | 62 | 3,87 | 4    |
| The warning signs of corrupt activities in the public sector have the effect that the audit procedures of the internal audit are immediately aimed at preventing them.             |    |    |    |    |    |    |      |      |
|  | 4  | 16 | 21 | 16 | 5  | 62 | 3,04 | 3    |

|  |   |   |   |    |    |    |      |   |
|--|---|---|---|----|----|----|------|---|
| Adequate transparency in the work of public sector of F BiH would help prevent corrupt activities within them. |   |   |   |    |    |    |      |   |
|  | 0 | 1 | 9 | 30 | 22 | 62 | 4,18 | 4 |

*Source: Author's research*

Based on the presented answers to the final questions to prove hypothesis H1, we can see that the highest ratio of respondents' answers is related to grade 2 (Mode 2), and after summing it with 19 responses related to grade 1, attitude of respondents is clear - 73% of respondents consider that the organization of internal audit in the function of preventing corrupt activities in the public sector of F BiH is not at a satisfactory level, which confirms hypothesis H1, again. Respondents' answers regarding the contribution of internal audit to the suppression of corrupt practices result in an average grade of 3.87, with the most common answer being a grade of 4. This means that 71% of respondents believe that the preventive function of internal audit helps to suppress corrupt practices, but there are still a lot of areas for improvement of internal audit activities to achieve a greater and better effect on the prevention of corrupt activities. For testing hypothesis H3, the number of respondents with a neutral attitude is the most represented. Such results can be connected with insufficient representation of internal audit in the public sector of F BiH, as well as insufficient knowledge of employees in internal audit procedures in the function of preventing corrupt practices, after the observed warning signs, and earlier (through the previous questions) the highlighted problem of non-implementation of internal audit recommendations. The number of respondents who evaluated this statement with grades 4 and 5 is 21, and the number of employees who expressed disagreement with this statement is 20 (grades 1 and 2), which additionally testifies the polarization of respondents' answers and a neutral attitude towards it. According to answers to the previously elaborated three questions related to H3, which confirm the related hypothesis, now according to statistical measures hypothesis H3 was confirmed, too. The statement related to hypothesis H4 was rated with an average grade of 4.18, which shows that 84% of respondents have the opinion that transparency helps prevent corrupt practices, and it is the message that F BiH public sector should make significant efforts to adequately implement the function of internal audit as a prerequisite for transparency in work and prevention of corruption.

The results of the research point to the conclusion that the public is generally aware of the role of internal audit in the public sector of F BiH, and the consequence of inadequate implementation in the direction of preventing any type of corrupt activity. Given that the target group for the analysis was respondents who should apply internal audit at a daily level as a

preventive measure or guideline in their business, it can be concluded that the respondents' answers are relevant and that the conclusions are a representation of the real situation in this field of activity. It is necessary to know that there are considerable limitations to the performance of the work of internal auditors, and they manifest themselves from the very failure to establish a department for internal audit or the limitation of the individual activities of internal auditors, to the impossibility of implementation, failure to adopt recommendations, and non-use of the same as a means to prevent any type of fraudulent and illegal activity. The target group of respondents is familiar with the importance of becoming controls in business, and the application of transparency in work, which can certainly significantly reduce or reduce the risks of a certain corrupt event to a low level, but also with the insufficient interest of the authorities to implement all of the above in the right way, aligning it with business needs and legal provisions. Encouraging facts are the agreement of the majority of respondents with the positive correlation between the internal audit function and the prevention of corrupt activities, and because of that a hope that the importance of all of the above will have a greater impact and reach a greater level of positive action of FBiH public sector institutions on the general well-being of society in the future.

## **6. Conclusion**

In addition to statements about the existence of legal norms and rules, as well as prescribed procedures and restrictions in the application of certain acts in the public sector of FBiH, they are not applied adequately and legally. The reasons are mainly inadequate sanctions for the aforementioned, and the creation of opportunities for arbitrariness in the business of responsible and authorized persons, as well as the presence of corrupt activities in all segments of the business of public institutions. Analyzing the role of internal audit in the function of preventing corrupt activities in the public sector of FBiH, with this research, it can be concluded that it is necessary to improve the work of the internal audit function, to strengthen capacities and increase the performance in action, and ultimately to improve the quality in the implementation itself. The research confirmed that internal audit is carried out and that it has been established in a certain number of public sectors but despite the legal provisions and norms entities that are legally obliged to have at least one internal auditor did not create the conditions for it. Internal audit capacities in public institutions of FBiH need to be established by the Law on Internal Audit of BiH Institutions and Rulebook on criteria for establishing internal audit units in the public sector of FBiH.

The empirical part of the research leads to undesired results and conclusions, first of all, the non-functioning of the internal audit in the manner specified by law, failure to establish it, inadequate implementation of recommendations, and generally its insufficient role, character, and contribution to the work of the public sector itself. Areas, where the purpose of its existence would certainly be justified, are the prevention of unjustified spending of budget funds, exercising arbitrariness in the decision-making and operations of responsible and authorized persons in public enterprises, creating greater transparency in work, preventing fraudulent behavior, abuse of position, and other. The reason for the inadequate implementation of the above can be, first of all, insufficient interest of the executive power of BiH in the implementation of certain activities in the direction of preventing corrupt activities in the public sector of FBiH. BiH should follow the example of the developed countries of the world, and accordingly act in the direction of sanctioning any irresponsible behaviour, observed omissions, and non-compliance with legal provisions by calling for public, political, disciplinary, and moral responsibility. It is located in the red zone according to the presentation of results on the presence of corruption by Transparency International BiH. Bosnia and Herzegovina represent a suitable ground for corrupt activities and fraudulent behavior in public institutions and companies, and the consequences are very significant and unfavorable for the entire economy, given that the task of detecting fraud is primarily on supervisory bodies and external auditors, and the world practice has shown that this is not sufficient prevention. Activities in the public sector that are not by legal regulations and that are based on corrupt activities should certainly be a guideline for the activities of auditing institutions in the direction of preventing them.

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## **Sažetak**

*Javni sektor Federacije Bosne i Hercegovine (FBiH) sa aspekta kompleksnosti i obuhvatnosti, obuhvata sve nivoe vlasti uspostavljene unutar državne vlasti, javna preduzeća, te sistem osiguranja uključujući: penzijsko, zdravstveno i socijalno. Važnost obavljanja dužnosti i obaveza na transparentan način, te mogućnosti otkrivanja faktora upozorenja za koruptivno djelovanje posebno su važni u javnom sektoru. Koruptivno djelovanje na svim nivoima državne strukture Bosne i Hercegovine (BiH), te prevarno ponašanje i zloupotrebe unutar iste, posljedice su upravo složenosti državnog sistema, te nemogućnosti efikasne i racionalne upotrebe javnih sredstava. Adekvatno organizovanja, u skladu sa zakonom, te kao takva prihvaćena od strane zaposlenika unutar određene organizacije javnog sektora, interna revizija doprinosi efikasnijem poslovanju i sprečavanju koruptivnog djelovanja. Cilj predmetnog istraživanja je sagledati proces funkcionisanja interne revizije u javnom sektoru FBiH na polju prevencije koruptivnog djelovanja. Rezultati istraživanja ukazuju na nefunkcionisanje i neuspostavljanje interne revizije na zakonom određen način, kao i neadekvatnu implementaciju njenih preporuka, degradirajući i derogirajući njenu ulogu, značaj i doprinos u prevenciji koruptivnog djelovanja u javnom sektoru FBiH.*

**Ključne riječi:** interna kontrola, interna revizija, sprečavanje, koruptivno djelovanje, javni sektor