

Can Internal Controls Prevent Fraud? Evidence From Czech Entities

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Abstract

The primary objective of this research was to examine the impact of internal control implementation on fraudulent practices within business entities, based on the experiences of accountants in the Czech Republic. The findings aim to reveal accountants' perceptions regarding the effectiveness of internal control environments and to identify key factors influencing their potential involvement in fraudulent activities. The mere occurrence of such behavior underscores the importance of applying methods to detect fraudulent tendencies at an early stage, before they result in significant harm to a company or its stakeholders. To conduct this investigation, a comprehensive survey was administered, focusing on potentially fraudulent activities occurring with or without the presence of internal control mechanisms. Out of 35 questions analyzed in depth, particular attention was given to those examining the influence of (non-)applied internal control tools. Targeting professional accountants, the study achieved a response rate of 39.3%, with 267 fully completed questionnaires. Our findings suggest that although environmental pressure remains the predominant external driver across organizational sizes, internal motivations related to financial reporting strategies may differ slightly depending on the scale of the company. From the results obtained, we conclude that it is no coincidence to claim that internal controls in the way of own department or the way of usage of outside source (auditor or tax advisor) are very important to be implemented with believed positive results on data manipulation and accounting creativity.

Keywords: fraud commitment, fraudulent practices, internal control, audit, creative accounting