

## CHALLENGES OF AUDITORS AND AUDIT

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### Abstract

*An internal audit is an independent appraisal of a certain activity or department within an organization. The internal audit function maintains its independence within the organization by reporting to the audit committee of the board of directors. The principles that internal auditors are expected to apply and uphold are fundamental to the profession and practice of internal auditing. Standards outlining the expected behavior of internal auditors are essential for both the auditors themselves and the entities that provide internal audit services. Their overarching purpose is to foster an ethical culture within the global internal auditing profession. Auditors must be vigilant regarding fraud that may affect the audited financial statements. Fraud primarily occurs in two forms: misrepresentation in financial statements and the misuse of organizational resources. From the perspective of financial reporting, misstatements may arise from either error or fraud, with the distinction between the two depending on the intent of the individual whose actions caused the misrepresentation. As a legal concept, financial fraud represents a particular form of corruption, the elements of which are widely recognized internationally. Corruption, by contrast, encompasses a broader range of behaviors that manifest in various ways and are shaped by the cultural and ethical norms of each society. Despite these differences, there exist several common strategies for combating both financial fraud and corruption.*

**Keywords:** audit, auditor, role, fraud, prevention

**JEL:** H83, M42

### Introduction

Auditors should develop an audit program based on risk assessment to audit the procedures by which they will achieve reasonable assurance that all relevant irregularities have been identified during the auditing procedure (Messier, 2003; Asare et al., 2008). Internal audits seek to continuously improve the organization's operations and mitigate risk (Albrecht et al., 1984; Institute of Internal Auditors [IIA], n.d.). Fraud and corruption are great and widespread phenomena nowadays, which cause great consequences related to financial losses, loss of life, or even other serious wounds for human society (Halbouni, 2015). These large-scale phenomena can bring economic, political, and social instability to any country (INTOSAI, n.d.; The Role of Auditing in Public Sector Governance, 2012).

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### **Explanation of the methodology**

This study adopts an analytical approach to examine the role of internal auditing in preventing and detecting financial fraud (Halbouni, 2015; Asare et al., 2008). The analysis is based on a systematic review of relevant literature, including scholarly articles, institutional reports, and publications from reliable authors and organizations (INTOSAI, n.d.; IIA, n.d.). The literature was selected based on its relevance to the topic, the reliability of the sources, and their timeliness, ensuring that the study accurately reflects contemporary practices and developments in the field of auditing (Abrahams & Phesa, 2025; Mdhului et al., 2023). The collected materials were categorized according to key themes, such as auditing mechanisms, measures to prevent fraud, and best practices in financial management (Albrecht et al., 1984; Halbouni, 2015). Each source was critically analyzed to identify strengths, weaknesses, and areas that require improvement.

The main challenges identified include weaknesses in internal control systems, maintaining auditor independence, and the lack of specialized training for auditors (Abrahams & Phesa, 2025; Ahn et al., 2024). Nevertheless, institutional developments, increasing professional capacity, and the gradual adoption of modern analytical tools provide opportunities to enhance auditing effectiveness (Abramova et al., 2025). This study aims to offer a clear understanding of the challenges and opportunities facing auditing while highlighting pathways for its further development.

### **Discussion of the relevant literature**

The purpose of selecting the literature was to define the field of study, generate research questions, and identify what has been achieved and what remains to be achieved through deepening knowledge. Surveying the scientific research aims to highlight the impact that fraud and corruption have on public sector entities. The paper is based on domestic and foreign literature as well as various published articles on fraud, internal corruption, and how internal audit affects their reduction. The selection of scientific studies is spread over a considerable number of different authors. To better understand how fraud and corruption affect entities and how these two phenomena can be reduced, attention was paid to the literature based on professional forums such as the Institute of Internal Audit, the Internal Audit Manual, and various reports related to fraud and corruption. On the other hand, an important summary of the study is provided from scientific materials and research assistance recently available on the Internet related to fraud and corruption in the public sector (Abrahams & Phesa, 2025; Sithole et al., 2024).

## **Main Challenges of Auditing**

Auditing constitutes a critical mechanism for enhancing the credibility of financial reporting and for safeguarding the interests of stakeholders (Messier, 2003; INTOSAI, n.d.). Despite continuous advancements in regulatory frameworks and professional standards, the auditing profession continues to face a range of challenges that influence audit quality and the effectiveness of audit engagements (Abrahams & Phesa, 2025).

One of the most persistent challenges in auditing relates to the identification and assessment of fraud risk (Halbouni, 2015; Asare et al., 2008). The evolving nature of business models, coupled with increasingly complex financial transactions, has expanded the opportunities for financial manipulation. Auditors are required to exercise heightened professional skepticism when evaluating management representations and internal control environments. However, limitations inherent in audit procedures, such as sampling and reliance on judgment, constrain the ability to provide absolute assurance regarding the absence of fraud.

The effectiveness of internal control systems represents another critical challenge (Albrecht et al., 1984; Korje, 2016). In many organizations, internal controls are not sufficiently integrated into daily operational processes or are inadequately monitored. Deficiencies in control design or implementation increase the likelihood of material misstatements and place additional demands on auditors to extend substantive testing. As a result, the quality of the audit becomes closely dependent on the robustness of the internal control framework.

Auditor independence and objectivity remain fundamental principles underpinning the credibility of the audit opinion (Messier, 2003; Mattar et al., 2024). Economic pressures, long-term audit engagements, and close interactions with management may create threats to independence, both in substance and in appearance (Abramova et al., 2025). While ethical standards and regulatory safeguards aim to mitigate these risks, ensuring consistent adherence in practice continues to pose a challenge, particularly in competitive audit markets.

Another significant challenge concerns the increasing reliance on professional judgment in areas involving estimates and assumptions (Messier, 2003; Asare et al., 2008). The growing use of fair value accounting and forward-looking financial information requires auditors to assess highly subjective inputs. Differences in experience, expertise, and risk tolerance may lead to variability in audit judgments, potentially affecting the consistency and reliability of audit outcomes.

Resource constraints, including time pressure and budget limitations, further complicate the audit process (Ahn et al., 2024; Yiu & Zhong, 2023). Compressed reporting timelines may restrict the scope of audit procedures and reduce opportunities for thorough review and supervision. Such constraints can undermine the depth of audit work and increase the risk of undetected material misstatements.

The implementation of international auditing standards also presents ongoing challenges (INTOSAI, n.d.; *The Role of Auditing in Public Sector Governance*, 2012). Although these standards provide a common framework for audit practice, their application requires adaptation to diverse legal, economic, and institutional contexts. Inconsistent interpretation or incomplete implementation may weaken the intended effectiveness of the standards and affect comparability across jurisdictions.

Finally, the rapid development of technology introduces both challenges and opportunities for auditing (Abrahams & Phesa, 2025). The increasing volume of digital data and the use of automated systems demand new technical skills and analytical approaches. While advanced data analytics can enhance fraud detection and risk assessment, the effective integration of such tools requires substantial investment in training and infrastructure.

In conclusion, auditing faces a complex set of challenges arising from regulatory, organizational, and technological factors. Addressing these challenges requires continuous professional development, strong ethical frameworks, and effective institutional support. By adapting to these evolving conditions, the auditing profession can strengthen its role in promoting transparency, accountability, and trust in financial reporting.

### **Description of the results from the study.**

Auditors have an important role to play in detecting fraud, which in itself is a side of the corruption effect. The auditor should be able to identify, investigate, and report such activities by being trained to have the appropriate knowledge to assess the risk of fraud.

Fraud is often a means to achieve corruption or even various elements of corruption, such as bribery, and the cause of the realization of fraud by distorting decisions in the interest of various entities. Corruption is a very complex issue, and its origins are related to different social, cultural histories, political, economic development, and administrative traditions of a country. This illegal activity tends to flourish when institutions are weak and economic policies distort a country's market rather than strengthen it. Some of the most common forms of corruption are asset misuse, influence trafficking, bribery, etc.

According to International Accounting Standard (ISA) 240, on which ISSAI 1240<sup>2</sup> is built, "The auditor's responsibilities regarding the fraud of an Audit of Financial Statements determine that:

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<sup>2</sup> The international Standards of Supreme Audit Institutions, ISSAs, are issued by the International Organization of Supreme Audit Institutions, INTOSAI.

*“Financial fraud in accounting involves acts (committed by employees, managers, those in charge of governance, third parties), which distort events in the financial statements to obtain an unlawful advantage”.* (INTOSAI, n.d.).

Financial fraud is the set of actions taken knowingly and intentionally to defraud. Financial fraud is also defined as a fraud intentionally practiced to secure an unfair or illegal profit. It is a deliberate concealment, omission, or distortion of the truth, for him:

- (1) Gained an illegal or unfair advantage,
- (2) Bring another person to participate with valuable assets or submit a legal right.
- (3) Causing injury or damage in any way.

Fraud is a real and costly problem that causes not only loss of money but also loss of life and serious injury to people.

The concept of internal audit fraud is considered all those serious actions performed by individuals inside or outside the organization that oppose and endanger its values and objectives. According to the Institute of Internal Auditors (IIA) “Fraud involves a series of irregularities and illegal acts characterized by intentional acts that may have been committed to the benefit of third parties and to the detriment of the entity, by entities outside or within the organization, mainly in categories such as ‘misappropriation of property, fraudulent financial statements and corruption’ (IIA, n.d.). The term “fraud” refers to an intentional act by one or more individuals who are in charge of government, employment, or third parties, who use fraud to secure an unfair or unlawful advantage to their advantage.

An audit is not a conclusion in itself but a necessary part of a regulatory system, and the main purpose is to detect deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness, and economy of financial management. It takes specific corrective action and forces the accountant to accept responsibility and take steps to prevent – or at least complicate – the occurrence of such violations. In this case, public sector auditors need to be vigilant in detecting abuse. Taking into consideration that such a process is a complex fight against fraud and cannot be afforded by a single action matter how perfect it may be.

According to the Internal Audit Standards and Professional Practice Framework approved by the Institute of Internal Auditors, “Internal audit must have sufficient knowledge to identify indicators of fraud. According to these standards”, Internal audit is an independent activity and objective that provides security and advice to the organization, designed to add value and improve the operations of the organization (Abadi, 2005; Institute of Internal Auditors [IIA], n.d.).

It helps the organization meet its objectives according to a systematic and disciplined method to evaluate and improve the effectiveness of risk management,

control, and governance. Referring to this institute and the above definition, the mission of internal audit is: “Increasing and protecting the values of the organization by providing objective assurance and advice, through risk-based reviews.” (Institute of Internal Auditors [IIA], n.d.).

There are some ethical-professional requirements, such as “due diligence” and “professional skepticism”, which require auditors to be careful in assessing the accuracy and reliability of the transactions review. When an internal auditor suspects that fraud has been committed, they should inform the appropriate authorities within the organization. After detecting the informal action, the authorities within the organization decide to fill the necessary capacities for the investigation of fraud, which, according to the documents cited above consists “in carrying out extended procedures to determine whether the fraud occurred at the level and possible extent of participation of fraud, as well as to identify violators, techniques used and causes of fraud” (Institute of Internal Auditors [IIA], n.d.). As can be noticed, the responsibilities of internal audit when involved in a fraud investigation process are complex and include the identification, in-depth investigation of fraud and perpetrators, as well as the causes of how fraud occurred, including adequate reporting.

The Professional Practices Framework for Internal Audit has defined that “The essential mechanism to prevent fraud is internal control and the primary responsibility for maintaining and stabilizing control remains with management” (INTOSAI, n.d.). All international audit organizations do not exclude the audit from their responsibilities for investigating fraud; instead, they have defined methods and techniques to investigate it, in an audit process. The publication of the IIA in collaboration with American Institute of Certified Public Accountants (AICPA) and Association of Certified Fraud Examiners (ACFE), entitled “Managing the Business Risk of Fraud: A Practical Guide”, defines the roles and responsibilities of the board of directors, management executives, and internal auditors at all stages of fraud prevention and investigation (IIA, AICPA & ACFE). Financial inspection is another instrument that investigates fraud, but unlike internal audit is set in action through information received from outside rather than in-depth reviews and examinations. The cooperation of the financial inspection with the internal audit in the process of fraud investigation is also necessary due to the lack of capacities that the financial inspection currently has.

### **Practical Illustrations and Conceptual Framework of Auditing Challenges**

Although the challenges faced by auditors have been extensively examined in prior literature, their relevance becomes more apparent when these challenges are considered within practical auditing contexts. In professional practice, auditors

frequently operate under significant time and cost constraints imposed by regulatory deadlines and competitive market pressures. These constraints may limit the scope of audit procedures and increase dependence on professional judgment, thereby elevating the risk of undetected material misstatements.

Furthermore, the increasing complexity of financial reporting standards and business transactions represents a major challenge for auditors. Areas such as fair value measurement, asset impairment, and revenue recognition require a high degree of estimation and subjective judgment. In practice, auditors may encounter difficulties in obtaining sufficient and appropriate audit evidence in these areas, particularly when management estimates are supported by complex models or assumptions. This complexity can reduce the effectiveness of audit procedures if auditors lack adequate expertise or industry-specific knowledge.

Practical experience and documented audit failures also suggest that threats to auditor independence and insufficient professional skepticism remain critical concerns. In long-term audit engagements, close relationships between auditors and clients may create familiarity threats, potentially compromising objectivity. Several corporate scandals have demonstrated that excessive reliance on management representations, combined with weak challenge of aggressive accounting practices, can significantly undermine audit quality.

To enhance the applicability of this study, a conceptual framework is proposed that integrates the key determinants of auditing challenges and their consequences. The framework posits that external factors, including regulatory requirements, technological developments, and market competition, interact with auditor-related factors such as time pressure, independence risks, and judgment complexity. These interactions influence the level of audit quality, which ultimately affects the credibility of financial statements and stakeholders' confidence in financial reporting. The framework further suggests that continuous professional development, effective audit planning, and the use of advanced audit technologies can mitigate these challenges and contribute to improved audit outcomes.

By incorporating practical illustrations and a conceptual framework, this study advances existing research by offering a more applied and integrative perspective on the challenges of auditing and their implications for audit quality.

**Table 1:** Major Auditing Challenges and Their Implications for Audit Quality

<b>Category of Factors</b>	<b>Auditing Challenge</b>	<b>Description</b>	<b>Implications for Audit Quality</b>
<b>External factors</b>	Regulatory pressure	Stringent reporting deadlines and increasingly complex regulatory requirements	Potential limitation of audit scope and depth of audit procedures
<b>External factors</b>	Technological advancements	Sophisticated information systems and highly complex transactions	Increased difficulty in obtaining sufficient and appropriate audit evidence
<b>Auditor-related factors</b>	Time and budget constraints	Restricted audit resources and compressed engagement timelines	Higher risk of undetected material misstatements
<b>Auditor-related factors</b>	Auditor independence	Prolonged auditor–client relationships	Potential impairment of professional skepticism and objectivity
<b>Auditor-related factors</b>	Complexity of professional judgment	High reliance on subjective estimates and management assumptions	Diminished quality of professional judgment and audit evidence
<b>Mitigating factors</b>	Training and technology	Continuous professional development and adoption of advanced analytical tools	Enhancement of overall audit quality

*Source:* Author

## **Conclusions and Recommendations**

Auditing effectiveness can be enhanced through closer collaboration between auditors and law enforcement agencies. A coordinated and proactive approach, supported by lawmakers' willingness to strengthen inter-institutional links, can significantly improve organizations' capacity to address fraud and other forms of mismanagement. This approach is particularly valuable in contexts where institutional frameworks require reinforcement and greater expertise.

Regardless of the type of audit, principles of professional skepticism and evidence-based judgment remain fundamental for auditors when evaluating activities and forming audit opinions. It is essential to develop and standardize methodologies for identifying, preventing, detecting, and investigating fraud, clearly defining the roles and responsibilities of all structures involved in the process.

The state plays a key role in ensuring transparency and supervising financial services across both public and private sectors. Coordinated and sustainable measures, combined with the implementation of audit recommendations, can strengthen managerial accountability and enhance financial management efficiency. Through professionalism, collaboration, and systematic improvements, a more transparent, sustainable, and trustworthy financial environment can be established for citizens.

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