THE ROLE OF EXTERNAL AUDITORS IN ASSESSING THE RISK OF CORRUPTION

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ABSTRACT

The reason for the current review is to inspect the obligation of external auditors comparable to corporate corruption and to feature the ramifications of this for external audit regulators. The current review based on a critical survey of earlier academic literature just as an intensive assessment of both the International and American Auditing Standards identifying with fraud and illegal acts. External auditors have an obligation regarding assessing corruption risks yet their job was not unmistakably characterized by external audit regulators. The current review was first to explain the obligation of external auditors regarding corporate corruption and to reveal insight into current limits in the audit standards identified with this area. The ebb and flow concentrate additionally presents proposals to audit regulators, external auditors, audit firms, and analysts on such controversial area.

Keywords: Corruption, External Auditors, Fraud Risks, International Audit Standards, American Audit Standards

INTRODUCTION

In the period of worldwide economic development, dynamic socio-economic, technological, and IT changes the public sector stays a vital economic element, particularly in a popularity-based framework that offers the residents a chance to communicate their inclinations regarding merchandise to be given by the association. Critical economic development drivers incorporate the effectiveness of the devices utilized out in the public finance management and the nature of public goods and services advertised. Effective and productive fruition of public service tasks is one of the essential targets the two residents and economic elements anticipate that the government should achieve. These issues are critical when public authorities balance the social and economic results of Coronavirus. While reserving enormous public assets for that reason, associations should likewise make sure to execute the best arrangements.

To build the proficiency and viability of public finance management in the OECD countries, the governing body acquainted the obligation with guarantee a compelling and effective administration control at public substances, one that is similar with the risk implied in their tasks. External audit is an instrument for estimating the proficient and successful working of the board control, offering support to entities’ management in smoothing out the control systems that assist with accomplishing significant objectives and errands.

In this unique circumstance, questions emerge with respect to the job of the external audit in increasing the value of public associations and as to measurements that could gauge its adequacy and productivity through the perspective of the improvement in the association's activities accomplished because of the support gave to the management in executing its targets and working on the effectiveness of the finance management. A few endeavors have been made around the world to quantify the productive working of the external audit in the public sector, utilizing different models, yet the vast majority of those examinations reduced to estimating audit proficiency measurements in the private area. Questions regarding how to play out the estimation, and how to assess and further develop external auditors' work center around the need to distinguish external audit proficiency drivers and on the endeavors to discover determinants of audit productivity, yet they don't identify with the public area alone.

Corruption is a significant danger confronting companies and nations from one side of the planet to the other. Corruption annihilates lives, and communities as well as sabotages nations and foundations (Transparency International, 2012). Battling corruption requires the endeavors and joint effort of regulatory authorities, external auditors, investigators, and the governing board (Institute of Internal Auditors [IIA], 2014). Be that as it may, this paper centers just around the job of external auditors and the endeavors of audit regulators in fighting corruption. A careful assessment and review of audit standards, just as earlier literature, has uncovered that the job of external auditors regarding corporate corruption was neither given sufficient consideration in the literature nor obviously characterized in the audit standards.

The main objectives of this paper are twofold. To begin with, it intends to explain the job of external auditors regarding corporate corruption. Second, it plans to show the effect of corruption on financial statements and in this manner the audit calling by giving proof from real corruption cases and earlier literature. This paper additionally proposes suggestions to external auditors, audit regulators, and specialists on the most proficient method to battle corruption.

The remainder of the paper is coordinated as follows: the following segment talks about the obligations of external auditors according to corporate corruption and recognizes gaps in audit standards identified with this area. This segment additionally inspects the effect of corruption on financial statements by giving proof from earlier literature. The third area clarifies the effect that corporate corruption may have on the audit calling by giving proof from real corruption cases. The fourth segment fundamentally reviews earlier literature into corruption and the job of external auditors. It likewise distinguishes gaps in earlier literature identified with this area. The fifth segment gives the end just as proposals to audit regulators, external auditors, and specialists on the most proficient method to battle corruption. The last segment proposes thoughts for future examinations that may help in fighting corporate corruption.

LITERATURE REVIEW

Checking on earlier literature shows a surge of examination into the effect of corruption on the economy and the connections among corruption and culture. For example, Khan & Andreoni (2018) found that corruption is probably going to diminish investments that will likewise achieve a lower Gross Domestic Product (GDP). Khlif & Amara (2019) found that tax compliance internationally is emphatically identified with the fruitful control of corruption. Nguyen (2020) tracked down that in addition to the fact that corruption undermines firm development it decreases the penchant to export. Nguedie (2018) tracked down that in the instances of developing economies, lower levels of corruption improve the effect that Foreign Direct Investment (FDI) has on financial development. Song, Chang & Gong (2021) found that corruption adversely affects financial development. Lewellyn (2017) investigated the connection among culture and corruption and the discoveries uncovered that singular collective practices empower corruption, and uncertainty evasion expands levels of corruption. The creators characterized uncertainty avoidance as the degree to which the society depends on standards and strategies to cover occasions and circumstances in their day-to-day routines (Lewellyn, 2017). Characteristics of a society with high uncertainty avoidance include the utilization of convention for interfacing with others, depending on formalized policies and strategies, going ahead with moderate and painstakingly calculated risks, and showing solid resistance from change (Orcos & Palomas, 2019).

Our study has likewise shown that a couple of studies have analyzed the job of external auditors or potentially the audit calling in battling corruption. To be sure, no review seen by the creators has really analyzed the obligations of the external auditors according to corruption. For example, Ferreira (2018) explored whether managers' perceptions of external auditors to fill in as an obstacle to corporate irregularities. Nonetheless, their outcomes didn't uphold this assumption. The creators proposed that external auditors are relied upon to put forth extra attempts to distinguish irregularities to change the executives' perception. A portion of the couple of applicable examinations found were Mazzi, Slack & Tsalavoutas (2018) examination of whether the presence of an expert oversight body and specific instruction guidelines were related with a nation's perceived degree of corruption. Their discoveries uncovered that nations that have set up an audit profession oversight body are seen to be less corrupt. They additionally found that nations requiring pragmatic experience, academic review, and a permitting assessment to practice auditing are seen to be less corrupt. Horvat, Mayrleitner, Vide & Bobek (2021) contended that the likelihood of distinguishing corruption could increment by expanding responsibility, transparency, autonomous oversight, audits, and data access. Huang & Yuan (2021) examined the connection between political corruption and firm value. Their discoveries uncovered that solid audit surveillance can alleviate the negative firm value impacts of political corruption inside the nations. Assad & Alshurideh (2020) researched the job of accounting and audit quality in the distribution of international advancement aid loans given by the World Bank. Their discoveries demonstrate that the measure of aid loaned by the World Bank to a nation is higher for nations with more grounded accounting and audit quality. They additionally tracked down that the accounting and audit quality are related with World Bank loaning just in nations with relatively significant degrees of corruption.

In spite of the fact that proof from earlier literature showed that sound external audits could help in fighting corruption, there is as yet a tremendous gap of knowledge in this area particularly when it comes to the obligation of external auditors regarding corporate corruption and how external auditors could really assess and react to corruption risks.

External Auditors' Accountabilities among Corporates Corruption

An examination of the audit standards revealed that although the endeavors of audit regulators in combating fraud cannot be denied, little attention has been given to external auditors' responsibilities regarding corporate corruption. For instance, in relation to fraud, the International Auditing and Assurance Standards Board (IAASB) issued the International Standard on Auditing (ISA) 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (IAASB, 2007), and ISA 240, The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements (IAASB, 2009a). The Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) issued the Statement on Auditing Standard (SAS) 99 Consideration of Fraud in a Financial Statement Audit in 2002 (ASB, 2002). The Public Company Accounting Oversight Board (PCAOB) also issued AU Section 316 Consideration of Fraud in a Financial Statement Audit (PCAOB, 2002). Notwithstanding, none of these audit standards make a direct reference to external auditors' responsibilities regarding corporate corruption that was only verifiably implied and in certain instances seemingly overlooked, assuming that corruption has no effect on the financial statements.

For instance, ISA 200 stated that external auditors are responsible for detecting material misstatements whether because of errors or fraud (IAASB, 2007). Considering that corruption is a kind of internal fraud (Kranacher & Riley, 2019), external auditors are likely accountable for detecting material misstatements arising from it. Notwithstanding, this was again disregarded by ISA 240 (IAASB, 2009a), and SAS 99 that require external auditors to assess and respond to fraud risks arising from only two kinds of internal fraud, asset embezzlement, and financial reporting fraud (ASB, 2002). ISA 240 defended this by stating that asset embezzlement and financial reporting fraud are bound to have an effect on the financial statements (IAASB, 2009a). SAS 99 didn't clarify its rationale.

This indicates that the two standards assume that corruption doesn't have an effect on the financial statements although proof from earlier literature appears to show otherwise. For instance, Blundell-Wignall & Roulet (2017) stated that transparency in financial reporting is impaired by bribery activities. Corrupt representatives can cause businesses to overpay for goods and services bought by a company wherein the workers have a secret interest. This type of corruption is called "conflict of interest." These conflicts of interest can also lead to writing off sales using discounts or allowances. Inadequate detection of conflicts of interest and related parties' transactions could also have an effect on the financial statements and may misguide shareholders. Corrupt payments could be made by normal business checks. Camouflaged payments on the payer's accounting records may appear as a type of legitimate business cost like consulting charges. Loans and credit card costs could also be utilized as a type of bribe (ACFE, 2012). Corruption could have an effect on the financial statements because of the acquisition of high-value goods and services. Additionally, most bribery involves the expenditure of cash and the recording of that expenditure in the financial records (IIA, 2014; Comer, 2017). Other accounts that could be influenced by corruption include petty cash, presents, repayments, accounts receivable, travel and entertainment, donations, payments, and sales contracts (IIA, 2014). Payments of bribes recorded in the accounting records are bound to be in the type of fictional payables, fabricated purchases, phantom workers, without interest loans, imaginary bids, or overbilling (Fortvingler & Szívós, 2016; Comer, 2017). Trautman & Kimbell (2018) considered that the whitewash of bribes can take place through charging the company for administrations that were not obtained, invoicing the company at a distended rate, or in the type of loans, accounts receivable, or allowance payments to corporate officers. This outcomes in a falsification of costs and assets in the financial statements that could also be material. In FASB Statement 2, materiality was defined as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement" (FASB, 1980). As corruption is an illegal act, its dissimulation would be because the information on it would influence "the judgment of a reasonable person." The information on a corrupt act is probably more fundamental than the absolute size of the encroachment. Therefore, even a relatively small misstatement in the financial statements in request to conceal a corrupt act may be considered to be material because it might be taken as an indication of the fragility of management's probity.

Corruption is likewise an illicit act that is disallowed by laws and regulations in countries all throughout the planet. For instance, the Bribery Act (Changwony & Paterson, 2019) was introduced to refresh and enhance U.K. law. The U.S. Foreign Corrupt Practices Act (FCPA) precludes U.S. people and businesses from making installments to foreign government officials or politicians to influence business dealings (IIA, 2014). The Organization for Economic Co-operation and Development (OECD) has assumed a fundamental part through the development and reception of the 1997 convention in addressing worldwide concerns regarding bribery around the world (Blundell-Wignall & Roulet, 2017). Audit standards likewise explained the obligation of external auditors regarding illicit acts. For instance, ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements (IAASB, 2009b), and SAS 54, Illegal Acts by Clients (ASB, 1989), required external auditors to think about the appropriate legal and regulatory system in conducting the audit of financial statements. ISA 250 expressed, the auditor will obtain adequate, appropriate audit proof regarding compliance with the arrangements of those laws and regulations for the most part recognized to directly affect the determination of material sums and exposures in the financial statements (IAASB, 2009b). SAS 54 expressed, the auditor's obligation to recognize and report misstatements resulting from illegal acts having an immediate and material impact on the determination of financial statement amounts is equivalent to that for misstatements caused about by error or fraud. The auditor considers laws and regulations that are for the most part recognized by auditors to have an immediate and material impact on the determination of financial statement amounts (ASB 1989, AU §317.05).

Notwithstanding, the two norms didn't straightforwardly allude to corruption or the obligations of the external auditors regarding to corruption. Likewise, SAS 54 didn't specify whether corruption risks could by implication affect the financial statements (ASB, 1989). It was not likewise clear how external auditors could settle on whether an illicit act in a roundabout way affects the financial statements. ISA 250 gave a few instances of pointers to resistance with laws and guidelines that external auditors need to consider (IAASB, 2009b) that were like instances of warnings of bribery referred to by (Kranacher & Riley, 2019) that situations when low-bid grants are often trailed by changed requests or adjustments that essentially increment installments to the merchant, strange or unexplained vacillation in payables, costs, or disbursements, bizarrely exorbitant cost contracts for goods and services bought by the organization, and inappropriate or unauthorized installment for goods and services. This demonstrates that the standard certainly required external auditors to evaluate and react to bribery and corruption risks as long as it tangibly affects the budget reports; nonetheless, this was not straightforwardly referenced in the audit norms.

This absence of clearness about the obligations of external auditors concerning corporate corruption could make external auditors ignore their obligation regarding identifying material corruption that could affect the financial statements since this was not unequivocally needed by audit principles. This may build auditors' risk and case costs. It may likewise bring about irregularity in consenting to the necessities of the audit norms for illegal acts. The outcomes of this could be serious not just as far as losing shareholders' trust in the audit calling yet in addition in the capacity of audit firms to get by in the market because of harmed notoriety. The following segment shows the effect of corruption on the audit calling by giving proof from genuine corruption cases and earlier Literature.

Corruption Effectiveness on the Audit Process

The effect of corruption on reputational risk might be extreme in any event, when the financial effect is negligible (IIA, 2014). At the point when enterprises unexpectedly come up short or then again in case it is uncovered that administration or key employees are associated with fraudulent exercises, the legitimacy of the financial statements of these companies is frequently raised doubt about. When financial control is uncovered, the external auditor likewise goes under examination (Trautman & Kimbell, 2018). For example, the new examinations at FIFA have brought corruption and specifically bribery into the public spotlight.

The FIFA corruption outrage doesn't just include charges that essentially $150 million in corrupt installments were made to FIFA authorities but on the other hand is focused on a game that is trailed by multiple billion fans all throughout the planet. Arrangement and facilitating of FIFA world cup competitions lead to billions of dollars of framework uses and can significantly affect neighborhood economies. The FIFA outrage raises a specific issue for auditors. The way that FIFA's external auditor, KPMG, gave a perfect assessment on the association's financial statements keeps on bringing up issues about the worth of the Audit administration. (Esposito, 2016) Mandel (2016) claimed that regardless of longstanding doubt of corruption, world soccer's administering body has gotten a perfect bill of financial wellbeing for 16 successive years from KPMG. It is real to bring up issues about the adequacy of the audits, considering that the risks were at that point broadly supposed and the auditor gave a spotless report this load of years.

In Brazil's Petrobras corruption scandal in 2015, in which 27 individuals were accused of corruption and money laundering, the organization discounted $2 billion for bribery-related expenses. The organization's obligation rose from $25 billion to $170 billion out of 2014. The Petrobras CEO and five senior executives resigned after the corruption scandal. Auditors were employed as subcontractors to offer types of assistance to Petrobras with the expense of the work being swelled to shroud the illegal installments made. Petrobras additionally faces a legal claim from shareholders who guarantee the organization delivered false statements and deluded investors about its resources. The organization needed to defer the release of audited financial statements as a result of uncertainty about the amount of write-offs for political corruption-related expenses. Petrobras' auditing firm, PricewaterhouseCoopers (PwC), would not close down the accounts because of the corruption scandal and the absence of lucidity on the accounts (Abdul-Baki, Uthman & Kasum, 2019). Be that as it may, PwC was scrutinized for not inspecting the obtainment processes cautiously as a component of the audit (Agerberg, 2019).

In 2008, the Securities and Exchange Commission (SEC) accused Siemens of infringement of the anti-bribery, books and records, and interior controls arrangements of the Foreign Corrupt Practices Act (FCPA) (SEC 2008). Siemens has consented to pay a $450 million criminal fine to the U.S. Branch of Justice and a fine of €395 million to the Office of the Prosecutor General in Munich, Germany. In the fall of 2003, Siemens' external auditor, KPMG, distinguished €4.12 million in cash that was taken to Nigeria by Communications Company (COM) workers and hailed the installments for review. Notwithstanding, no moves were made by either the governing body or the audit committee of Siemens. KPMG have likewise reported somewhere around 250 dubious payments made through Intercom to organizations in unfamiliar jurisdictions for the benefit of COM and Siemens' Italian subsidiary. The audit report was given to the directorate of Intercom, just as to specific individuals from Siemens' Corporate Compliance Office; nonetheless, they made no endeavor to research these facts or investigate whether they were identified with other comparable occurrences of wrong behavior (SEC, 2008). In any case, there was no proof with regards to how KPMG responded to this that shows that external auditors actually need direction on the most proficient method to react to uplifted corruption risks, particularly when restorative moves are not made by top management and auditor's remarks are disregarded.

In the Wal-Mart corruption case, a shareholder group said the organization's long-lasting auditor, Ernst and Young, thought about conceivable bribery in Mexico some time before the organization unveiled it to U.S. specialists. CtW Investment Group, which works with association benefits subsidizes that hold about 0.15 percent of Wal-Mart Stores Inc. stock, likewise said that Ernst and Young ought to have revealed the speculated bribery to the SEC and ought to be explored by the accounting oversight board, on the grounds that the acts being scrutinized and what the examination was taken care of might have meant for the retailer's financial statements (Newcomer, 2017).

The public assumptions for the external auditors with regarding to recognizing corruption or if nothing else having the ability to distinguish corruption risks, show that external auditors and audit regulators should concentrate on corruption. This thus requires audit regulators to clarify the job of external auditors concerning corporate corruption and give them direction on the most proficient method to evaluate and react to corruption risks. Ionescu (2017) expressed that the public assumptions are that the auditors should assume a successful part in lessening, if not eliminating, corruption, and if external auditors can't assume a part in recognizing corruption, they could essentially distinguish areas where chances for corruption exist. Blundell-Wignall & Roulet (2017) contended that auditors should fulfill growing expectations, not just in the more regular areas in financial statements yet in addition comparable to the presence of fraud and consistence with legal obligations. Auditors presently face expanded strain to plan and play out an audit to get sensible confirmation that material misstatements emerging from fraudulent acts, for example, bribery are distinguished and revealed. Norman, Tobedza & Swami (2015) referenced that if external auditors are not qualified, particularly in acquiring their abilities to bear a corrupt environment, then, at that point, the entire audit cycle is of no worth. Ferreira (2018) inferred that the auditors are as yet holding to the guideline, which perspectives audit as guard dog not hunting dogs, and not expected to distinguish fraud. Lamentably, circumstances are different and public assumption for the job of the auditors has similarly changed. Akther & Xu (2020) contended that except if the auditor's job adjusts to public assumption, the audit calling may risk social activity of authorization or punishment for nonconformity.

Future Examinations

Future examinations ought to investigate audit strategies that may assist external auditors with evaluating and react to corruption risks. One helpful region may be the utilization of red flags in evaluating chances for corruption. Earlier literature investigated the adequacy of red flags in evaluating risks emerging from resource misappropriation and financial reporting fraud however no concentrate really analyzed the viability of red flag in assessing corruption risks. Shortcomings in the inner control framework could likewise help external auditors in recognizing areas where opportunities for corruption exist. Hence future examination could investigate how the COSO internal control structure may assist external auditors with distinguishing chances for corruption.

Future examination ought to likewise analyze public assumptions for external auditors corresponding to recognizing corruption. Examination featuring the effect of corruption on financial statements and its suggestions for external auditors is likewise required. A beginning stage could be an investigation of corruption cases to date to investigate the kinds of corruption submitted, how each was submitted and distinguished, what was the effect on the financial statements, and what were the ramifications for external auditors and the culprits.

CONCLUSION

This research planned to explain the job of external auditors regarding to corporate corruption, showing the effect of corruption on the financial statements and the audit calling, and giving suggestions to external auditors, audit regulators, and researchers on the best way to battle corruption.

Our discoveries uncovered that external auditors are logical liable for distinguishing material misstatements emerging from corruption that would have a material effect on the financial statements. Anyway, this was not straightforwardly and clearly expressed in audit principles yet rather suggested. Audit norms additionally unjustifiably implied that corruption probably won't affect the financial statements dissimilar to different sorts of internal fraud like resource misappropriation and financial reporting fraud. Notwithstanding, proof from earlier literature demonstrated something else and showed how corruption could prompt distortions in the financial statements. The discoveries likewise uncovered that on account of corruption scandals, external auditors are probably going to go under scrutiny. This was clear in a portion of the new corruption scandals when external auditors neglected to find corrupt practices by their audited clients over time of the audit. General society anticipates that external auditors should basically recognize chances for corruption when they exist. Disregarding corruption will contrarily affect the standing of audit firms and will raise worries about the worth of external audits. The explanation auditors ought to be stressed over corruption is that a misstatement coming about because of corruption might be all the more exorbitant to the audit firm and presumably the whole calling than a misstatement brought about by different factors, for example, on account of mistake. The FIFA model addresses this. Many individuals scrutinized the worth of audits in view of the spotless feelings that FIFA got every year. Albeit the majority of the public shock might result from a misconception of auditor obligations and auditing guidelines, that misconception might bring about higher settlement costs for review firms.

Our discoveries additionally uncovered a gap in earlier literature in the area of corruption, predominantly the obligation of external auditors regarding to corporate corruption and how external auditors could really evaluate and react to corruption risks.

Consequently, the momentum paper gives the accompanying proposals to audit regulators, external auditors, and analysts on the most proficient method to battle corruption.

Audit regulators ought to explain the job of external auditors concerning corruption. This requires audit standards to unmistakably express that external auditors are answerable for distinguishing material misstatements because of corruption and that they are needed to evaluate and react to corruption risks.

Audit standards need to clarify that corruption isn't just a sort of inward fraud that could substantially affect the financial statements yet in addition an illegal act.

Audit regulators ought to give direction to external auditors on the most proficient method to assess and react to corruption hazard. Instances of misstatements because of corruption and illicit acts that could tangibly affect the financial statements ought to likewise be given.

External auditors actually need direction on the most proficient method to respond to situations when the board or those accused of governance repeatedly disregard anomalies or shortcomings in the inward control framework. Rehashed botches or no endeavors by the executives to make convenient remedial moves may not exclusively be a sign of frail checking yet in addition an aim to submit fraud.

External auditors need to comprehend the idea of corruption, the classifications of corruption, and how each could be submitted. This is bound to assist them with distinguishing potential chances for corruption. They likewise need to comprehend the extent of their obligation corresponding to corruption and the risk of overlooking it.

External auditors should know about high-risk accounts that could show a high risk of chance for corruption like procurements, loans, petty cash, cost of services, debt claims, advances, credit card expenses, and disclosures in the financial statements, particularly those identified with related-party transactions.

External auditors additionally should know about shortcomings in internal control that could expand the chance for corruption. For instance, the absence of satisfactory isolation of obligations particularly in areas like obtainment or at the board level. A great deal of power in the hand of one individual could expand the risk of that individual mishandling this power by taking part in degenerate practices for their own advantage. Additionally, tone at the top could gigantically affect an association's culture. In the event that top management clarified that bribery and corruption won't go on without serious consequences, then, at that point corruption risk may be decreased. Accordingly, a detailed assessment of the executives' obligation to respectability and ethical values, the board's way of thinking and working style, and leading group of director's cooperation in the element's exercises could assist external auditors with assessing the risk of corruption.

Inspecting existing laws, guidelines, and rules including the bidding system just as interviewing key work force would assist external auditors with distinguishing opportunities for corruption.

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Researchers play additionally a significant part to play in battling corruption. They can help by leading examination that could assist with creating fitting preparing materials for external auditors to assist them with understanding the nature of corruption and how it very well may be submitted including money laundering strategies utilized by corrupt people, and how external auditors could evaluate and react to corruption risks. The following segment gives a few plans to future examination into this area.

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