

NAZAROVA Karina,
DSc (Economics), Professor,
Head of the Department of Accounting and Auditing,
Financial Analysis and Audit
Kyiv National University of Trade and Economics
19, Kioto str., Kyiv, 02156, Ukraine

E-mail: k.nazarova@knute.edu.ua

ORCID ID: <https://orcid.org/0000-0002-0133-7364>

KOMIRNA Olga,
PhD (Economics), Docent, Associate Professor
of the Department of Accounting and Auditing,
Financial Analysis and Audit
Kyiv National University of Trade and Economics
19, Kioto str., Kyiv, 02156, Ukraine

E-mail: o.komirna@knute.edu.ua

ORCID ID: <https://orcid.org/0000-0001-8842-1624>

NEHODENKO Viktoria,
PhD (Economics), Senior Lecturer of the Department
of Accounting and Auditing, Financial Analysis and Audit
Kyiv National University of Trade and Economics

E-mail: v.nehodenko@knute.edu.ua

ORCID ID: <https://orcid.org/0000-0001-6873-2011>

ANTI-CORRUPTION AUDIT

The article is dedicated to topical questions of anti-corruption audit. This new direction of services with evaluation of corruption and fraud contributes to the reduction of negative trends caused by the actions of company officials related to abuse of power. The article discloses the main areas of anti-corruption audit, specifies the types of corruption risks and factors of the emergence.

Keywords: anti-corruption audit, fraud, corruption, internal control, audit.

Назарова К., Комирная О., Негоденко В. Анतिकоррупционный аудит.
Рассмотрены актуальные вопросы антикоррупционного аудита – направления услуг по оценке коррупции и мошенничества, способствующего снижению негативных тенденций, вызванных действиями должностных лиц компании, связанных со злоупотреблением служебными полномочиями. Обозначены основные направления антикоррупционного аудита, уточнены виды коррупционных рисков и факторов их возникновения.

Ключевые слова: антикоррупционный аудит, мошенничество, коррупция, внутренний контроль, аудит.

Background. Today, the fight against corporate fraud is an important condition for economic sustainability for both business entities and the state. In practice, only part of the economic crimes is solved, while others remain in the shadows. In view of this, more than 190 domestic companies have joined the UN Global Compact, under which companies are committed to creating and upholding the ethical foundations of corporate culture at both operational and strategic levels [1].

Increased attention from regulators (such as the US Department of Justice, UK Fraud Office) to prosecuting violators has made the fight against bribery and corruption a focus for companies operating internationally, including Ukraine. However, according to the study by Ernst & Young Global Limited as of 2018 Ukraine ranks first in terms of corruption and fraud. Also, in the International Corruption Perception Index, Ukraine ranks 130th (out of 167 places) and is rightly considered a high-risk corruption country [2].

According to this background, the issue of anti-corruption measures remains important, which plays an important role in anti-corruption audit, which controls the compliance with anti-corruption restrictions, as well as the implementation of anti-corruption measures in companies, public authorities or local governments.

Analysis of recent researches and publications. Anti-corruption audit is relatively new to national science and practice. However, today there are a number of publications related to this issue. In the article L. Gnilitskiy breaks down the differences between business audit and anti-corruption audit, as well as outlines the tasks and methods of anti-corruption audit [1]. A. Fadeeva, S. Sazhina underline the importance of anti-corruption audit for the effective development of both individual organizations and the state as a whole [3]. O. Novikov reveals the nature of implementation of the anti-corruption compliance in the activities of domestic companies as one of the mechanisms of prevention of corruption. Scientists of the department of financial analysis and audit at Kyiv national university of trade and economics investigated business protection through the lens of anti-corruption audit [4]. The scientific researches of the given problem have allowed to establish that the method of conducting anti-corruption audit is not fully disclosed and needs new scientific researches.

The **aim** of the article is to identify the tasks of anti-corruption audit, features and problems of its implementation, as well as methodological directions of its implementation.

Materials and methods. The materials of the research were scientific works of foreign and domestic scientists on anti-corruption audit, data from the global rating of Ukraine among the countries of the world in terms of corruption, as well as statistics on the activities of Ukrainian enterprises. The research was conducted using both general scientific methods of cognition of economic phenomena and processes, and special research methods, in particular, analysis, synthesis, systematization, theoretical generalization and comparison, statistical analysis, structural analysis, method of expert assessments and forecasting.

Results. Corporate fraud detection studies in Ukraine indicate a trend toward growth. According to the report by PricewaterhouseCoopers (PwC), World Economic Crime and Fraud Survey 2018: Surveys of Ukrainian Organizations, it is found that bribery and corruption are the most common types of corporate fraud (23 % of respondents). At the same time, the level of bribery and corruption in their own companies has grown from 56 % of respondents in 2016 to 73 % in 2018. So, according to analytics, the level of corruption that businesses face is currently rising [5].

Surveillance of fraud facts in 2018 by the National Anti-Corruption Agency revealed 471 administrative offenses and brought to court (*figure 1*) [6].

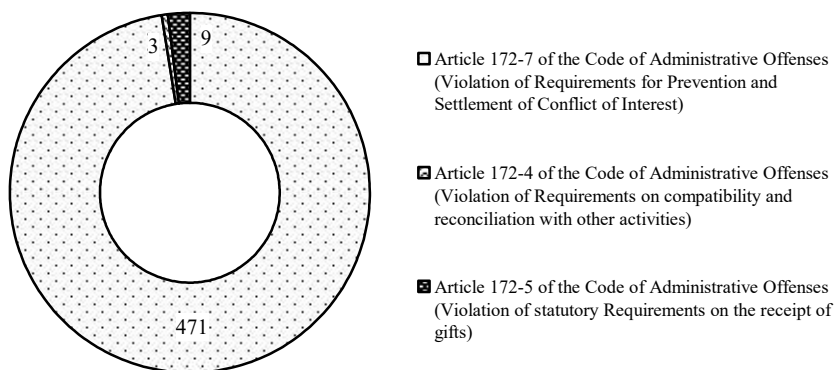


Figure 1. Number of fraudulent administrative reports sent by the National Anti-Corruption Agency in 2018 [6]

In modern literature, the researchers consider anti-corruption audit as a component of fraud audit along with the facts of accounting fraud and asset theft cases [7]. Anti-corruption audit should be understood as a system of measures to manage the risks of non-compliance with the laws of Ukraine and other countries, other normative documents, standards and ethical standards related to the fight against corruption.

Corporate anti-corruption auditing is an effective tool for combating corruption and corporate fraud. It helps to reduce the negative trends caused by the actions of company officials related to abuse of power. The peculiarity of conducting anti-corruption audit is to evaluate the presence and observance of the company anti-corruption policy, which promotes transparency, investment attractiveness of the company and prevention of penalties.

The main goals and objectives of anti-corruption audit include:

- checking the company compliance with anti-corruption legislation and anti-corruption policy;
- verification and evaluation of anti-corruption system in the company (anti-corruption program);
- research and analysis of the unusual financial transactions;
- estimation and analysis of representative expenses on their justification.

We agree with the opinion of Gnilitska L. [1] on the existence of differences between independent (external) audit and anti-corruption audit:

- anti-corruption audit can be conducted on the irregular basis, especially after receiving evidence of wrongdoing by company employees, as opposed to "classic" audit;
- the main purpose is not to confirm the articles of the financial statements but to establish the facts of corruption, to identify the persons involved and to determine their guilt;
- application during the audit in addition to traditional audit methods, psychological methods, methods of actual verification of assets, specific means of ensuring economic security.

To achieve the goal of anti-corruption audit, auditors develop appropriate anti-corruption programs. Anti-corruption program should be understood as a set of rules, standards and procedures for detecting, counteracting and preventing corruption in a company. In the Law of Ukraine "On prevention of corruption" № 1700-VII from 14.10.2014 (Art. 62–63) [8] the procedure for approving anti-corruption program and the requirements for its provisions, which are formed taking into account the assessment of corruption risks is provided.

According to the studies of the current practice of managing the majority of domestic enterprises, a serious problem facing their leadership in the implementation of anti-corruption audit is the lack of the organizational and legal support for such activities at the legislative level, the haphazard nature of existing methodological developments on the use of audit technologies, the analysis of anti-corruption technologies and the analysis of the lack of adaptation system of training such specialists in domestic educational institutions to the requirements of the market of relevant services [9].

Considering the composition of economic crimes caused by corruption and fraud, the main areas of anti-corruption audit include: verification of financial records and actual availability of company assets; assessment and monitoring of corruption risks; conducting the economic investigations into identified cases of corruption and fraud; diagnosis of the financial statements for fraud detection (*figure 2*).

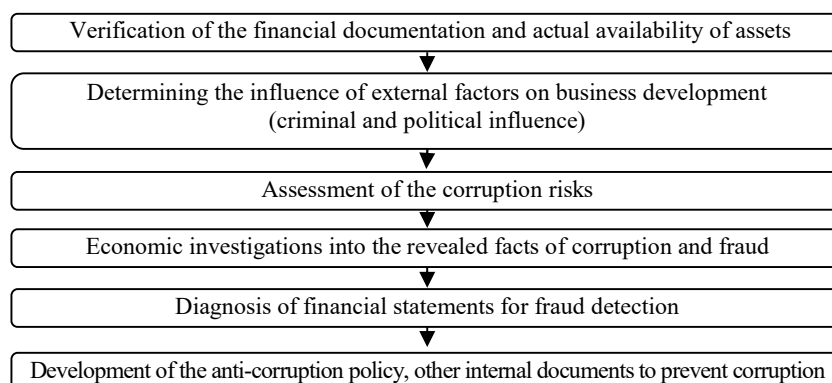


Figure 2. Imperative directions of the anti-corruption audit

Source: developed by the author.

One of the directions of anti-corruption audit is to assess corruption risks in the activities of a legal entity. According to the decision of the National Agency for prevention of corruption № 75 from 02.03.2017 (paragraph 9, article 2) [10] the legal entity at least once in three years must undergo an external assessment of corruption risks audit, legal or consulting company.

Audit minimizes the occurrence of risk events, increasing the transparency of legal persons and lower the probability of committing corruption actions of the officials.

Under the corruption risks it is necessary to understand the legal, administrative, organizational and other factors (conditions) in the activities of the officials of legal entities that contribute or could contribute to corruption offenses.

The results of the study conducted by the department of financial analysis and audit of KNUTE, give grounds to assert that audit of corruption risks should include: identification, assessment, management of corruption risks and development of anti-corruption programs and plans, monitoring their implementation. The identification of corruption risks involves the identification and definition of the facts of the occurrence of corruption risks. The evaluation requires the calculation of the losses that company may suffer upon the occurrence of the corruption risks and determining the probability of their occurrence in the activities of structural subdivisions or the company as a whole. Management of corruption risks is the definition and selection of the most effective measures to combat and prevent corruption offenses and offenses related to corruption in the company.

At the stage of planning and monitoring the implementation of the relevant anti-corruption programs and plans, the development of further steps of the enterprise to identify, assess and manage corruption risks is carried out, the effectiveness of previously implemented counter-measures and prevention of corruption offenses is analyzed, and their implementation is monitored.

During audit of corruption risks, the auditor should develop a risk identification questionnaire and a risk map. The card should contain information regarding the most likely risks that may affect the company's activities as well as the rules for eliminating (minimizing) corruption risks. It is advisable to schematically outline the possible corruption risks and the factors that influence them (*figure 3*).

Native companies usually counteract corporate fraud with the following units: security service, internal audit, internal control, financial department, legal department, compliance officer, HR service. Sometimes the staff of the company is invited to a polygraph examiner.

If the company has internal control (audit) department, the auditor should evaluate the frequency of anti-corruption audits and their results. The obtained information will give the opportunity to evaluate the level of controls, the competence of the employees conducting internal audit, as well as to determine honesty and integrity of the company management.

During anti-corruption audit it is advisable to take into account the possible collusion between the company management and the accounting department.

The owners are often manipulated financial results of the company to obtain the maximum revenues, improved investment attractiveness of the company or compliance with conditions (restrictions) contracts with third parties.

Therefore, it is very important to use techniques and methods to identify corrupt elements that can reveal the involvement of the leadership to offenses of corruption by the distortion of accounting (financial) statements.

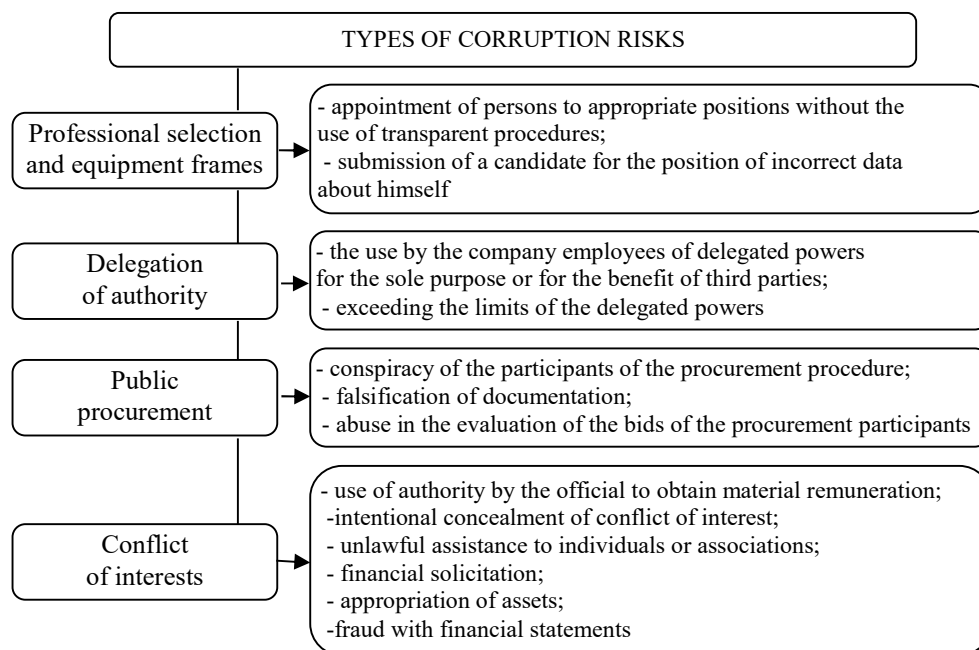


Figure 3. Types of corruption risks and their impact factors

Source: developed by the author.

There are many misstatement ways of the financial statements. The main ones include the falsification of the original documents, fictitious accounting entries, the tapering of assets and liabilities, the pooling of heterogeneous sums in one article reporting the payments through shell companies, etc. the studies of insert that the biggest fraud risk in the domestic companies may also include:

- the fraudulent actions with documentation of the enterprise (counterfeiting or falsification of the documents);
- the creation of controlled entities and receiving operations;
- artificially high prices;
- the conspiracy contracts (suppliers, clients) and fake documentation, the application of the system of "kickbacks";
- create invoices for outstanding work (services);
- the presence of atypical economic operations and transactions at the end of the year, affecting the financial performance (capital, assets and liabilities) of the company;
- the use of company assets for personal purposes, etc.

External auditors in assessing fraud risks can be identified by certain signs, namely: if the company has advanced or illogical organizational structure, the observed high turnover of staff, specifically managerial staff and directors. Also, the auditors may alert over risky operations which are carried out by the company, and what in the future may bring considerable profit.

The corruption schemes also include the following operations:

- incomplete recording of inventory items;

- unjustified write-off cargo-material values for excessive losses during storage, transportation, natural disasters, etc.;
- disclosure of trade secrets for financial reward;
- the payment for not provided services or backlogs (services);
- the payment of wages to employees who do not work in the company, etc.

The factors that affect the risk of fraud are: the presence of the contractors who have family ties with the company management; the specific and illogical contract terms between the company and the counterparty; the presence of a weak internal control system in the absence of allocation of duties, responsibilities, documents and records, independent checks, physical security, and disregard of the corporate security policies.

Today, the important way of combating corruption is to implement cybersecurity mechanisms. According to Allianz and WEF, cyber risks take the 2nd place among all business threats and are in the TOP 10 risks of mankind. According to the data of FBI's Internet Crime Complaint Center, the losses caused by cybercrime in the world over the last 5 years has amounted to 12 trillion USD.

The study has show that the most common types of crimes faced by the company are the misappropriation of property (46 %), fraud in procurement (33 %) and personnel management (33 %), cybercrime (31 %). Six thousand crimes were revealed in the sphere of high information technologies in Ukraine for 2018 [11].

Information space hasbecame the place and tool for crimes, because now crime can be carried out with the help of information and communication systems. With the help of computer viruses and other illegal technical means fraudsters have access to databases of bank accounts, automated control systems business. Therefore, the important element of the anticorruption policy of the company should be the implementation of secure computer systems and applications which will help to protect the company from possible abuse during the use of cyberspace.

It should be noted that the fight against corporate fraud must be permanent and systematic. If there are no specialized units to prevent corporate fraud, or the user is not satisfied with the results of their work, it is important to determine at which maturity level is the whole system of the corporate security.

The companies irrespective of their organizational-legal forms are obliged to develop and adopt measures to prevent abuse and fraud, and may include:

- define the departments and employees of the company who are responsible for prevention of corruption and other offences;
- cooperation with law enforcement agencies;
- development and implementation in the practice standards, procedures aimed at ensuring effective and open work of the company;
- prevention and settlement of conflicts of interests;
- preventing the formation of unofficial reporting and the use of forged documents.

During the implementation of anti-corruption auditing, the auditors should evaluate the experience and integrity of the top management of the company by conducting the interviews, checking awareness of the company's

corporate culture. During audit, they are working on the analysis of corporate business structure, corporate governance structure and corporate security, also study the external environment of enterprise, the possibility of political and criminal influence. The map of risks, organizational and administrative documentation, the competitive environment are also analyzed.

It should be noted that the basis of all kinds of fraudulent actions of employees lies with the imperfect regulatory legal acts, the complexity and multi-layered economic and financial relations within the enterprise, the intricate system of accounting for and control of employees, incompetence and legal ignorance, carelessness and over-confidence of leaders.

During the implementation of anti-corruption audit, it is advisable to use appropriate software such as software-analytical complex GSA (Global Security Assessment). This program is based on the check-list of more than 1.600 questions in 24 major subsystems of corporate safety, including anti-corruption compliance; corporate intelligence; information and analytical work; financial and economic, personnel, internal legal; information and computer security; security holders (top management) and members of their families; the physical security of office, manufacturing, warehouses, distribution centers; safety of the transport of goods and persons; security, advertising, cultural events, business meetings and negotiations; technical security and other subsystems. External audit of corporate security of the company makes it impossible or greatly minimizes the downside risks experienced by the majority of companies, the structure of which even have its own security service.

It should be noted that the auditors who are required to conduct anti-corruption audits should be aware of both domestic and foreign legislation on preventing and combating corruption. In the practice of listening, it is advisable to use interviewing skills, theoretical and practical knowledge that is required to assess the risk of transactions for "red flags" testing, indicating potential violations.

It should be noted that the task of the auditors should is to identify and evaluate potential corruption transactions for compliance with applicable law. The auditor should gather the necessary information on high-risk transactions at the planning stage of audit. Within the scope of anti-corruption audit, it is advisable to select the following types of payment transactions for the analysis and in-depth evaluation:

- the settlements with resellers, suppliers and other counterparties, which are characterized by a high level of risk (government orders deserve special attention);
- the payments for obtaining licenses, permits made in the framework of cooperation with state authorities;
- the transfer of funds for gifts, holidays and other entertainment activities of the company;
- the cash transactions, including advance payments and representation expenses;
- the operations for spending money on charitable events, political goals;
- the unclear purpose payments, such as those related to "other payments".

Conclusion. During anti-corruption audit, it is advisable to apply the sampling method and the method of testing the internal control system. The selection should be based on the professional judgment of the auditor, which is the feature of anti-corruption audit and depends on the awareness of the specifics of the client's business, the ability to formulate correct judgments and identify areas of potential risk of the payment transactions, which should be analyzed for the regulatory compliance. The conformity assessment involves verification of the relevant documents, including the existing contracts, invoices, checks, cash receipts, etc. Treaties are reviewed for the purpose of examining their anti-corruption schemes and compliance with corporate policy as a whole.

The importance of anti-corruption audit as an element of the system of economic and social security of the state, which contributes to increasing transparency, investment attractiveness of companies and combating corruption, is identified.

Therefore, anti-corruption audit is a sufficiently effective means of preventing corruption in the private sphere. Expanding the practice of anti-corruption audit is not the only but important step in the fight against corruption and it will be possible to reduce the negative tendencies caused by the corporate management activities.

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Назарова К., Комірна О., Негоденко В. Антикоруційний аудит.

Постановка проблеми. Боротьба з корпоративним шахрайством є важливою умовою економічної стійкості як для господарюючих суб'єктів, так і для держави. В сучасних умовах актуальними залишаються питання запровадження заходів боротьби з корупцією, важливу роль у чому відіграє антикорупційний аудит, за допомогою якого здійснюється контроль за дотриманням антикорупційних обмежень, а також виконанням антикорупційних заходів у компаніях, органах державної влади або місцевого самоврядування.

Аналіз останніх досліджень і публікацій показав, що попри наявність окремих наукових доробок, залишається невирішеною важлива науково-практична проблема щодо запровадження організаційно-методичних заходів антикорупційного аудиту.

Метою статті є визначення завдань антикорупційного аудиту, особливостей, проблем його впровадження, методичних напрямків його реалізації.

Матеріали та методи. У процесі дослідження використано як загальні методи пізнання економічних явищ і процесів, так і спеціальні, зокрема, аналізу, синтезу, систематизації, теоретичного узагальнення та порівняння, статистичного аналізу, структурного аналізу, експертних оцінок і прогнозування.

Результати дослідження. Розкрито особливості проведення антикорупційного аудиту в Україні, встановлено його основні цілі та завдання. Враховуючи склад економічних злочинів, спричинених корупцією та шахрайством, до основних напрямків антикорупційного аудиту віднесено: перевірку фінансової документації та фактичної наявності активів компанії; оцінку та моніторинг корупційних ризиків; здійснення економічних розслідувань щодо виявлених випадків корупції та шахрайства; діагностику показників фінансової звітності з метою виявлення фактів шахрайства.

Висновки. Встановлено, що антикорупційний аудит є достатньо ефективним засобом запобігання корупції у приватній сфері. Розширення практики антикорупційного аудиту є важливим, але не єдиним кроком в подоланні корупції. Така практика уможливить зниження негативних тенденцій, спричинених діяльністю корпоративного менеджменту.

Ключові слова: антикорупційний аудит, шахрайство, корупція, внутрішній контроль, аудит.