ANTI-CORRUPTION HELPDESK

PROVIDING ON-DEMAND RESEARCH TO HELP FIGHT CORRUPTION

TRANSPARENCY INTERNATIONAL
the global coalition against corruption

THE ROLE OF EXTERNAL AUDITING IN FRAUD AND CORRUPTION

QUERY

What is the relationship between corruption and the support of audit controls? How can auditing controls serve as a tool to cover-up fraud and corruption? What are good practices in using auditing to fight against corruption?

PURPOSE

We will be participating in a couple of events on sustainable development next June in Mexico, where we will give a presentation on the challenges of fraud and corruption and the role of accountants in this regard.

CONTENT

1. The role of accountants in the fight against corruption
2. The role of the auditing profession in facilitating corruption
3. Recommendations for the auditing profession
4. References

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SUMMARY

There is broad consensus in the literature on the importance of sound auditing and accounting to fight corruption, and a general expectation that accountants have a key role to play in detecting, preventing and deterring corruption.

The role of accountants in covering fraud and corruption is less documented in the literature beyond anecdotal evidence of auditors being instrumental in falsifying records and misrepresenting financial statements to disguise their clients' illicit activities. The auditing profession is particularly vulnerable to such corruption challenges due to the nature of the relationship that auditors maintain with their clients, which can lead to conflicts of interest and undermine their independence and impartiality in auditing their clients' accounts. The recent Luxembourg leaks and Panama papers scandals have also revealed the dubious role that accountants can play in facilitating money laundering and tax evasion schemes through the use of offshore financial centres.

Measures to address these challenges and enable the auditing profession to play its role in the fight against corruption include clarifying the mandate of auditors to detect corruption and money laundering, providing adequate anti-corruption training to accountants, strengthening the oversight of the profession, and promoting transparency and citizens' participation in auditing activities.

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European Commission

1 THE ROLE OF AUDITORS IN THE FIGHT AGAINST CORRUPTION

Growing awareness of the role of accounting in the fight against corruption

There is a broad consensus on the importance of sound auditing to curb corruption, and accounting actors increasingly recognise that accountants are at the forefront of the fight against corruption at the national and global levels (Everett, Neu and Ramahan 2007). As early as 1994, the World Bank stated that countries wanting to fight corruption should: 1) implement an effective and integrated financial management information system; 2) develop a professional base of accountants and auditors; 3) adopt and apply internationally acceptable accounting standards; and 4) empower a strong legal framework for supporting modern accounting practices (Everett, Neu and Ramahan 2007; World Bank 1994).

In line with these recommendations, Article 8 of the OECD convention on combatting foreign bribery and Article 12 of the United Nations Convention against Corruption (UNCAC) contain explicit accounting and auditing provisions to promote transparency and accountability in financial reporting.

National level legislation, such as the 2002 Sarbanes-Oxley Act, were adopted as a response to financial scandals and also recognise the important role that the auditing profession plays by tightening oversight of the accounting industry, including establishing stiffer penalties for corruption and accounting fraud (Bazerman, Lowenstein and Moore 2002).

Important international accounting bodies, such as the International Federation of Accountants (IFAC), the International Organisation of Supreme Audit Institutions (INTOSAI) and the International Accounting Standards Board (IASB), have been promoting the use of a single set of accounting standards as the basis for cross-border financial transactions (Wu 2005).

International organisations, such as the United Nations and the World Bank, are also committed to ensuring that the accounting profession is equipped with the relevant skills to address corruption within their mandate, including by conducting assessments of the accounting and auditing standards at national and regional levels, facilitating knowledge exchanges and communities of practices, and supporting training programmes (Everett, Neu and Ramahan 2007; World Bank 2015).

Empirical evidence, although relatively limited, tends to confirm the importance of auditors and accountants. A study using a cross-country dataset found that better accounting practices can reduce both the incidence of bribery and the amount of bribes.

Complying with high quality accounting standards alone, however, may be insufficient to automatically reduce levels of bribery (Wu 2005). A 2010 study using data from 57 countries found evidence that accounting and auditing quality, as measured by the increased presence of the big four auditing firms (i.e. KPMG, Deloitte, PwC and EY), and the perceived quality of accounting are significantly associated to a country's perceived level of corruption (Malagueno et al. 2010). A 2012 study drawing on data from IFAC suggests that countries with an audit profession oversight body are perceived to be less corrupt (Albrecht et al. 2012). Another study shows that strong auditing monitoring can mitigate the negative impact that political corruption has on firm value in the US, suggesting that strong auditing helps to reduce the inefficiencies that may result from operating in politically corrupt environments and curb losses associated with corruption (Brown et al. 2013).

Although these findings and recent developments tend to confirm that sound external auditing helps combat corruption, there are still important knowledge gaps and a lack of awareness of the links between corruption and auditing, the responsibility of auditors vis a vis corruption, and the extent to which external auditors can assess and respond to corruption risks. As part of their mandate, external auditors have a key role to play in the fight against corruption as they "are responsible for detecting material misstatements whether due to errors or fraud" (IAASB 2007). This mandate implicitly covers corruption as it is the auditor's responsibility to detect and report misstatements resulting from illegal acts that can directly affect financial statement amounts, including those arising from corruption (Kassem and Higston 2016).

However, none of the international auditing standards make explicit reference to the external auditors'

responsibilities regarding corporate corruption, assuming that corruption does not necessarily have a *direct* impact on financial statements. While some examples of the red flags that auditors need to consider as indicators of non-compliance implicitly cover bribery and corruption risks (including: “cases where low-bid awards are followed by changed orders or amendments that significantly increase payments to the vendor”; “unusual or unexplained fluctuations in payables, expenses or disbursements”; “unusually high priced contracts for goods or services purchased by a company” and “improper or unauthorised payments for goods and services”) there is little clarity and guidance on the extent to which illegal acts such as corruption could have a direct or indirect impact on financial statements and how auditors can assess and respond to these risks (Kassem and Higston 2016).

The role of accountants in the fight against corruption

Accounting standards aim to make financial information transparent and accurate, to mitigate risks of illegal and unethical use of an organisation’s assets by those in power. This is expected to make corrupt practices more difficult to commit and conceal (Malagueno et al. 2010). In the private sector, external audits are conducted by auditing firms such as the “big four” mentioned above. In the public sector, external audits are typically being performed by supreme audit institutions (SAIs), which are responsible for overseeing the management of public finances and promoting public sector transparency and accountability.

Detecting corruption

There is a tacit expectation from the public that external auditors have a central role in the fight against corruption, irrespective whether the audit is performed by SAIs or auditing firms. The auditing profession has both an information function through financial statements, and a monitoring function of checking the accuracy of the information provided in the financial statements. This provides auditors with important opportunities to detect corrupt activities (Kimbor 2002).

Accurate information is essential to detect corruption, as it usually involves a financial payment leaving a paper trail in the accounting records. As auditors monitor financial transactions recorded in accounting systems, unusual and excessive expenditure may immediately draw the attention of well-trained accountants on the possibility of corrupt payments (Wu 2005).

The types of corruption most likely to be detected by auditors in the course of their work include falsified statements and claims, purchasing for personal use, illegal bidding practices in procurement competitions, tax or duty evasion, irregularities in the award of procurement contacts, overpayment for and non-delivery of goods and services, third-party transactions, and so on (Evans 2008).

There are a number of ways financial statements can be misleading and conceal illegal activities, such as fraud and corruption. Conflicts of interest can result in overpaying for goods and services purchased by an organisation in which employees have a hidden interest or writing off sales through the use of discounts or allowances (Pacini et al. 2002). Corrupt payments can be disguised as legitimate business expenses and transactions, such as consulting fees, loans and credit card expenses. Accounting records can also conceal bribery with fictitious payables, false purchases, ghost employees, interest-free loans, fictitious bids and over-billing, charging companies for services that were not delivered, inflating invoices, bonus payments, and so on (Cooper and Fargher 2011; Vona 2008; Wells 2011; ACFE 2012). Other areas of vulnerability that can be used to conceal corrupt practices include accounting for petty cash, gifts, travel and entertainment, payments, donations, accounts receivables, reimbursement and sales contracts (Kassem and Higston 2016).

Yet, as already mentioned, international auditing standards do not make explicit reference to the external auditors’ responsibilities in detecting corruption (Kassem and Higston 2016). This is also the case for INTOSAI’s common standards for SAIs (ISSAI Framework), which define two types of fraud (namely asset misappropriation and financial statement fraud) but do not explicitly mention corruption as a distinct category of fraud, which is likely to undermine the auditor’s role in relation to the detection of corruption.

In practice, SAIs tend not to prioritise the detection of corruption as some of them, such as those in Nordic countries, consider the risk of corruption to be low, while for others it is due to a low degree of

institutionalisation or lack of capacity, or because they the fight against corruption is not seen as a part of their mandate (Reichborn-Kjennerud et al. 2015).

Additionally, external auditors have limited investigative powers which restricts their ability to further investigate corruption cases. Investigations are generally carried out by the police or specialist anti-corruption agencies (Evans 2008).

Prevention and deterrence

There is a broad consensus in the auditor community that preventing fraud and corruption is easier than detecting it. Auditors in general, and SAIs in particular, can make a major contribution to prevention efforts by improving transparency and accountability and evaluating systems of internal controls with the view to supporting an environment that limits the opportunity for corruption (Reichborn-Kjennerud et al. 2015).

There is also a broad consensus that strong financial management systems, based on high quality accounting practices, effective financial reporting and the disclosure of any deviations, may have a dissuasive effect as corrupt officials face greater risks of being caught (Evans 2008). This also sends a signal to predatory officials that the organisation is committed to fighting corrupt practices (Wu Xu 2005).

Meanwhile, the major accounting firms are increasingly marketing themselves as watchdogs, as anti-money launderers with the expertise and know-how to help companies discourage bribery and other misconduct through their consulting services, de facto recognising the role they can play in preventing corruption (International Consortium of Investigative Journalists 2014).

2 THE ROLE OF THE AUDITNG PROFESSION IN FACILITATING CORRUPTION

The role of accountants and auditors in covering up fraud and corruption is not well documented in the literature beyond anecdotal evidence of external auditors colluding with corrupt boards and managers and turning a blind eye to irregularities in accounting reports (Wu Xu 2005). However, accounting scandals, such as the Enron case involving private accounting firms, have cast a doubt on external auditing, leading the public to assume that corruption and criminal activities permeate the accounting profession, with auditors routinely falsifying accounts on behalf of their unethical clients (Bazerman, Lowenstein and Moore 2002).

Independence of auditors: conflicts of interest and the revolving door

Conflicts of interest

While some errors can be attributed to fraud and corruption, some authors argue that the main issue originates from the nature of the relationships between accounting firms and their clients, leading to an "unconscious bias" which may "unintentionally" influence the way they perform their auditing duties. The independence of auditors may be impaired by the fact that they are hired and paid by those they audit, who have significant economic power over them.

The commercial pressure facing auditing firms creates a situation of conflict of interest that might have an impact on their auditing practices (Clikeman 2013). Auditing firms have strong incentives to maintain good relations with their clients and approve their accounts, as they can be hired and fired by the very clients they audit, and/or use audits as a way to build relationships that enable them to sell more lucrative consulting services (Bazerman, Lowenstein and Moore 2002). Furthermore, this profit-making logic driving accounting firms can provide them with incentives to offer services to their clients that raise legal and ethical questions, such as facilitating the use of the offshore financial system to minimise multinationals' tax payments (International Consortium of Investigative Journalists 2014).

Revolving door

While evidence is mixed in this regard, at the individual level, the practice of companies hiring accountants from their external audit firm may cast doubts on the audit and financial reporting quality, with the practice of the revolving door likely to have an adverse impact on auditors' independence (Zulkarnain and Shamsher 2007).

At another level, revolving doors between government and auditing firms can undermine efforts by government to scrutinise auditing activities or its ability to effectively reform laws regulating the accounting

industry and the services they offer to their clients (International Consortium of Investigative Journalists 2014).

An example of such revolving door concerns is illustrated by a recent scandal involving KPMG. The firm recently fired six US employees after the company recruited an employee from the Public Company Accounting Oversight Board (PCAOB), which is charged with overseeing accounting firms that audit US companies, including the big four. The PCAOB takes a random sample of audits annually and checks them for deficiencies and conflicts of interest. The new employee received a heads up from someone at the PCAOB about which audits would be inspected, de facto tampering with the random sampling process (Financial Times 2017).

Misleading financial statements

Transparency in financial reporting is impaired by bribery and conflicts of interest, leading to misleading financial statements that can misrepresent expenses and assets and cover corrupt and fraudulent practices. The Enron case is one of the most publicised accounting fraud cases where the company spent years practicing fraudulent and corrupt accounting procedures, ultimately leading to its collapse in 2001 (The Guardian 2015).

Failure by auditors to detect such concealment and fraudulent activities – whether intentionally or not – undermines the validity of the financial statements and exposes the profession to major reputational risks once the financial manipulation is revealed. This was the case when the FIFA corruption scandal came to light, although its external auditor, KPMG, had issued a clean opinion on the organisation's financial statement (Kassem and Higston 2016).

Auditors have also been criticised for their role in the global financial crisis and their performance in the banking sector, failing to provide warnings in the run-up to the crash (Jones 2011). Indeed, in many recent scandals, the accuracy of financial statements have been questioned, and external auditors and regulators have been blamed for their inability to detect anomalies, even though technically accounting standards were not breached (Cooper and Fargher 2011).

Beyond errors or failure to uncover malpractices, and while auditors can be deceived by their clients, external auditors can misbehave and corrupt accountants can be instrumental in falsifying records and misrepresenting financial statements to disguise illicit activities, including corruption for their unethical clients.

A 2015 survey of 1,700 accountants across the world suggests that the accounting profession is not immune to pressures from their clients and unethical behaviours. The survey found that 48 per cent of the respondents had either been pressured (or knew of someone that had) by a manager or partner to ignore an adjustment that should have been made to a set of accounts, while 40 per cent were aware of a senior staff member within their organisation making a decision that deliberately chose a commercial result for the company or client, even though the decision could be unethical. Some 66 per cent believe that between 5 per cent and 10 per cent of those in the profession have helped their clients create a set of accounts that are deliberately misleading, while a tenth thought this number was a high as 25 per cent (Warmoll 2015).

The biggest accounting scandals of recent years have shed light on the dubious roles played by accounting firms, with accountants misleading the public by certifying that the financial reports of fraudulent companies were correct. In the Enron case, for example, Arthur Andersen LLP not only failed to discover irregularities in financial reporting but was found to be responsible for the cover-ups as part of its extra services as a consultancy firm, as Enron used offshore vehicles in the Channel Islands to hide its debt and book fake profits (Richter 2010; International Consortium of Investigative Journalists 2014).

In another case, there are claims that Ernst & Young (EY) allegedly helped a gold refiner in Dubai soften an audit report submitted to Dubai regulators to downplay the buying and selling of "conflict gold", contributing to the violation of international standards aimed at combatting the trafficking of "blood minerals" (International Consortium of Investigative Journalists 2014). In December 2008, Deloitte was fined a record US$8 million by the PCAOB – the US auditing watchdog – for falsifying the audit of a Brazilian airline, altering documents and misleading inspectors reviewing the audit (Scannell 2016).

Facilitating tax avoidance through murky offshore transactions

The Luxembourg leaks illustrated the dubious role that auditors can play in facilitating secret tax agreements and murky offshore transactions for multinational corporations, allowing them to slash their global tax bills (The Guardian 2014). Leaked papers showed how these companies used complex webs of financial structures, internal loans, interest payments and inventive profit-shifting strategies to secure drastic tax reductions.

Auditing firms played an instrumental role in the process, as documented by the International Consortium of Investigative Journalists, which designated them as the prime architects of this system for their supporting role in a number of offshore scandals. Multinational companies such as Pepsi, Ikea and Deutsche Bank have shuffled their profits into Luxembourg to reduce their tax bill through the use of subsidiaries that maintain little presence in the country and obtained favourable tax rulings with the help of the big four auditing firms. For example, in the US, KPMG allegedly peddled offshore tax shelters creating massive fake losses for their clients while misleading the Internal Revenue Service about the scheme (International Consortium of Investigative Journalists 2014).

The leaked information revealed that the big four are embedded across the offshore world and maintain close relations with offshore services firms that set up offshore companies for tax avoidance purposes for clients. PwC, for example, helped incorporate hundreds of offshore companies through such firms for clients from China, Hong Kong and Taiwan while obtaining confidential tax deals from the Luxembourg authorities (International Consortium of Investigative Journalists 2014).

More recently, the Panama papers also revealed how international intermediaries, such as auditors, accountants, tax lawyers and banks, intervened as middlemen between wealthy clients and service providers like Mossack Fonseca (a law firm that specialised in setting up hard-to-trace offshore entities), practically facilitating tax evasion and money laundering schemes for their clients. All big four accounting firms have been identified as international intermediaries in the Panama papers (Vella 2017).

Accounting and money laundering

There have been documented instances where financial statements and records have been used to disguise the use of corporate funds for bribery and illicit campaign contributions. For example, such practices were revealed during the Watergate scandal in the 1970s which uncovered the illegal source of a significant proportion of Nixon's re-election funds. Investigations showed that financial statements and records had been manipulated by contributors and recipients to disguise the illicit use of corporate funds by major US corporations for campaign financing (Cooper and Fargher 2011).

Financial manipulations uncovered in this connection revealed a number of ways in which accounting was used as part of a money laundering process to disguise bribery and illicit campaign contributions (Cooper and Fargher 2011), including the following sample of methods:

- the use of foreign subsidiaries for corporate contributions to political campaigns to avoid attracting attention of the parent company's law enforcement and taxation authorities
- use of offshore corporate subsidiaries as a "cover" for revolving cash funds for domestic and foreign political activities
- use of fictitious expenses/issuing invoices for non-existing services, including compensation for the legal representative assisting the laundering process
- illegal contributions recorded as bonuses to selected corporate executives and employees
- anonymous foreign bearer stock corporations, used as depositories for secret illegal kickbacks on purchase or sale contracts
- payments to foreign consultants, consultants or commission agents made with accounting procedures insufficient to establish whether any services had been rendered by these consultants

Questions can be raised on why accountants, auditors and regulators often fail to recognise that financial statements are manipulated or disguise such practices (Cooper and Fargher 2011). External auditors can also be instrumental in covering up such money laundering practices. For example, Deloitte allegedly helped a British bank violate sanctions against Iran, submitting a softened report to regulators that omitted

information on the bank's avoidance of money laundering controls (International Consortium of Investigative Journalists 2014)

Undue interference in legislation and accounting standards

In spite of these documented practices, the accounting profession has been reluctant to acknowledge the relationship between money laundering, financial statements, and accounting and audit practices. IFAC, for example, issued statements in 2004 that money laundering only had an indirect impact on financial reports (Cooper and Fargher 2011).

Regulatory reforms to address such practices also receive little attention and are not always adequate to effectively address corruption and money laundering risks, as in the case of practices uncovered by the Watergate. Cooper and Fargher argue that this is due to politically motivated interference on legislation and accounting standards, which results in watering down regulatory measures to serve the business and politicians' interests involved in designing regulatory measures, either by weakening the scope and nature of legislation or by failing to provide enforcement bodies with adequate resources and funding.

Undue influence can also be exerted by accounting firms on law-making processes regulating the industry or the services they provide to their clients through lobbying or the use of revolving doors. For example, the big four accounting firms are known to lobby governments to write laws that benefit them or their clients, using their influence to undermine efforts to close loopholes and reform the offshore financial system. They have reportedly lobbied against giving national tax authorities more powers to demand information on global corporations' activities around the world. Revolving doors between governments and accounting firms further undermine reform efforts (International Consortium if Investigative Journalists 2014).

Even when enacted, reforms of accounting standards are not always enough to change accounting practices, due to implementation challenges and the incentives of the various stakeholders. Firms may lack incentives to improve the quality of financial reporting as they can benefit from lax rules for tax evasion purposes, while corrupt officials tolerate the manipulation of accounting information as it provides them with opportunities for extortion. In Asia, for example, there are major disparities between accounting standards in place and their implementation. A study shows that while 50 per cent of firms use international accounting standards and 60 per cent hire external auditors to audit their financial reports, only 34 per cent would report 100 per cent of their sales for accounting purposes (Wu Xu 2005).

3 RECOMMENDATIONS FOR THE AUDITING PROFESSION

Mandate clarification

To fully harvest the potential of external auditing to curb corruption, Kassem and Higston make a number of recommendations to strengthen the role of auditors in anti-corruption, including a clarification of their mandate with regard to the detection of corruption and money laundering (Kassem and Higston 2016):

- Audit regulators should clarify the role of external auditors with regards to corruption, explicitly referring to the responsibility of auditors in detecting material misstatements due to corruption.
- Audit standards need to deal with corruption not only as a type of internal fraud that can have an impact on the financial statement but also as an illegal act and provide guidance on how to assess and respond to corruption risks.
- Auditors need to be made aware of their responsibilities in uncovering corruption and the risk they face when failing to address them.

Training and guidance

In addition to clarifying their mandate vis a vis corruption and money laundering, auditors need to be equipped with the skills to effectively detect and address corruption risks, through adequate training and education. The first steps consist of developing a professional base of accountants and building sufficient capacity conducive to sound financial reporting practices.

A 2012 study confirms the role of professional training by providing empirical evidence that specific education requirements for the auditing profession, including practical experience, academic study and a licensing examination, are associated with lower levels of perceived corruption (Albrecht et al. 2012). Yet, in

many countries, the quality of professional accountancy education is not adequate, especially in developing countries where training programmes are under-funded or non-existent (Everett, Neu and Ramahan 2007).

Beyond educational requirements, external auditors need training and other awareness raising activities to be made aware of weaknesses in internal controls and high-risk accounts that provide opportunities for corruption, such as procurement, loans, petty cash, credit card expenses and accounts receivables. They should also be provided with guidance on how to react when management repeatedly ignores irregularities and weaknesses, which could be red flags for a deliberate intention to commit fraud and corruption (Kassem and Higston 2016).

Raising the ethical standards of the profession

Codes of ethics for the profession can provide guiding principles when performing audits, emphasising values of integrity, objectivity, professionalism, confidentiality and independence, and outline disciplinary measures when breaching these values. IFAC, for example, has developed a code of ethics for professional accountants that can be found here (IFAC 2006).

In addition, ethical training could be provided to auditors to ensure effective implementation of the code, provide guidance on ethical dilemmas facing the profession and disclose tools to detect self-serving biases on judgement (Bazermann, Lowenstein and Moore 2002).

Independence of auditors

The independence of auditors needs to be strengthened to reduce their incentives to please their clients with the results of an audit. A number of measures can be envisaged to address commercial pressure that auditing firms face and may undermine their independence (Bazermann, Lowenstein and Moore 2002). This includes limitations on consulting services, disclosure of conflicts of interest and rules about selecting and rotating auditing partners have been introduced (Transparency International 2009).

Auditing firms' independence would be strengthened if they did not fear losing their client for providing an unfavourable judgement on their accounts. Mandatory audit firm rotation could be a means to reduce client economic power over their auditors (Clikeman 2013). Alternatively, auditing firms could be provided with fixed and limited contract periods during which they cannot be fired and unchangeable terms of contract during this period (Bazermann, Lowenstein and Moore 2002).

As auditing firms face conflict of interest when marketing their lucrative consulting services while providing an impartial judgement on the company's financial reporting, auditing firms could also be prohibited from providing consulting services to the organisations they audit (Bazermann, Lowenstein and Moore 2002). As a result, three out of the big four accounting firms sold off their consultancy divisions after the Enron scandal. At the same time, as traditional auditing services make it difficult for firms to earn sufficient margins from this activity alone, accounting firms have significantly expanded their consulting activities in recent years, with the big four accounting providers re-entering the UK's top 10 consultancy fee earners (Transparency International 2009).

Revolving door challenges could be addressed by introducing a cooling-off period and prohibiting audit clients from hiring individual accountants for a period of time (Bazermann, Lowenstein and Moore 2002).

Strengthen auditors' supervision

Mechanisms also need to be in place to supervise the activities of accounting firms and develop systems of audit oversight and quality control. In the US, for example, following the Enron case, the Public Company Accounting Oversight Board (PCAOB) was established by the Sarbanes-Oxley Act of 2002 to oversee accounting professionals who provide independent audit reports for publicly traded companies. The PCAOB's responsibilities include the following (US Security and Exchange Commission website):

- registering public accounting firms
- establishing auditing, quality control, ethics, independence, and other standards relating to public company audits
- conducting inspections, investigations and disciplinary proceedings of registered accounting firms
- enforcing compliance with Sarbanes-Oxley

Citizens' participation

Auditors, especially those working in SAIs, also have an important role in raising public awareness of the importance of transparency and accountability by publishing timely and comprehensive reports on government activities and reporting on irregularities uncovered. This can strengthen voice mechanisms and empower citizens to demand accountability (Everett, Nau and Ramahan 2007; Evans 2008). Civil society can then campaign for the implementation of audit recommendations by audited bodies.

There are good practice examples of SAIs involving civil society in audit planning, resulting in an audit focus which better addresses corruption risks. Public input and complaints mechanisms set up by audit institutions have proved instrumental to help auditors select which public agencies to audit and identify areas of concern in countries such as Honduras or South Korea.

In South Korea, for example, the Citizens' Audit Request System allows citizens to request audits of public agencies on the grounds of perceived corruption or legal transgression. The Open Audit System also allows public input into the preparation and implementation of its audits (Evans 2008).

A previous Helpdesk answer specifically focuses on the role of supreme audit institutions and has more details on these and other good practice examples.

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