

The Role of Internal Audit in Fighting Corruption

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Abstract

The present paper relates to the key role of internal auditors in reducing corruption and bribery on public governance. Risk mitigation starts from the top of organizations, requires a strong compliance environment and organizational culture, developing and implementing anti-corruption programs. Public and private organizations are more conscious over bribery and corruption and are trying to combat them by respecting international agreements, regional conventions, best practice guidelines and corruption perception indicators and cases. Fighting corruption means also detecting risks as a main worldwide concern. The most efficient way to combat it is to prevent it, by developing implementing ethics standards, procedures and policies, implementing processes, conceiving clear and strong laws.

Key words: corruption, bribery, auditing, accounting

J.E.L. classification: D73, M42, H83

1. Introduction

Bureaucracy comes along with corruption and audit failure leads to poor organizational performance. Corruption is driven by economic, political and sociocultural factors and has a high impact on tax revenues, diminishes trust and domestic investments. Corruption reduces legitimacy of the public institutions for citizens, market competition and economic growth, restricts raise living standards, weakens product quality, leads to higher prices. Adequate anti-corruption programs include defining top management's leadership towards ethical behavior, honesty and integrity, the organization's governance structure, risk assessment, communication, monitoring and auditing, investigations and reports, enforcement and sanctions, and reviews and updates (IIA 2014).

2. Theoretical background: Understanding terms of corruption

We can define **corruption** as a form of dishonest or illegal behavior, which involves a person entrusted with power. Corruption is associated with persons with authority that can use their power on their own benefit or on their peers (businesses, friends, family) in exchange of some form of services, gifts, and money.

There are several categories of corruption but we usually refer on the political corruption which occurs on highest levels of political authority and bureaucratic corruption that appears when the execution of public policies takes place, and concerns the local or central public administration employees.

Table no. 1 Types of corruption, explained

Corruption forms	Definition
Bribery	The act of offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal or a breach of trust. [Transparency International] Bribe reflects the money or the value used for corrupting a person's behavior.
Embezzlement	It refers at the act of converting in a fraudulent way the money or property of someone for own use by someone who was in charge of keeping them safe. Wikipedia embezzlement as a premeditated crime, performed methodically, with precautions that conceal the criminal conversion of the property, which occurs without the knowledge or consent of the affected person.
Facilitation payment	It refers to a type of bribe which is given to a government official to accomplish or hasten one of his duties.
Fraud	It consists in a breach of confidence aiming to gain an illegal benefit.
Collusion	A conspiracy between two parties in order to cheat or deceive a third party; Dictionary.com defines it as a secret agreement for a fraudulent purpose.
Extortion	It is the practice of obtaining something, especially money, through force or threats [oxforddictionaries.com]
Patronage, clientelism and nepotism	Patronage is the support, encouragement, privilege, or financial aid that an organization or individual bestows to another [Wikipedia.com]. Clientelism refers to the social order that patronage relations refers to. Oxford dictionary defines nepotism as the practice among those with power or influence of favoring relatives or friends, especially by giving them jobs.

Source: Authors explanations of types of corruption and (Transparency International, Wikipedia, Dictionary.com, Oxforddictionaries.com)

3. Findings

Corruption leads to a decline in development, economic stagnation, social regress, raises the living standards costs and affects citizens from their birth until the death, from countries of all stages of development. A mother can go to hospital for giving birth to her baby and is obliged to pay the doctor a bribe for the delivery procedure, while another is desperate because of a family death and pays no matter how much for a burial tax in a 'good' rest place and religious service, of course, with no invoice given.

According to the Global Corruption Barometer, one in four persons around the globe paid a bribe when accessed public services in 2016, and the percent of Romanians who paid graft for public services in the same year of study was 20 - 30%. We cannot affirm weather losing confidence in public organization is a matter of cause or effect of corruption.

It is proven that if businesses consider that other businesses have unfair privileges may also lack trust in the judicial system and tend not to pay their taxes and are likely to pay bribes.

Romania has started a stronger fight against corruption fifteen years ago, and in the last ten year prosecuted more high-level officials for corruption than any other EU state. As the EU Anti-Corruption Report for our country states, 50 members of the Parliament and 10 ministers were investigated by the and more than 5200 fines were applied by the National Integrity Agency (ANI).

Romanian Court of Accounts is the independent institution that conducts audits in the public Romanian institutions and informs the Parliament, the Government and citizens about how the public money is spent. Only in 2014 they evaluated a financial impact that damaged the state with

€395,7 million and in 2015 the non-compliance with legal regulations led to a loss of €812,9 million. This loss occurred either from the failure of setting, tracking and collecting some budget revenue, or causing damage or distorting data and information in the financial statements. In 2017, along with the change of the RCA leadership, the evaluated losses from the conducted audits were totaled at € 374 million.

Nonetheless, this not means that we have combated or diminished corruption in Romania. People continue to die because of corruption. The only way to fight against it remains building a system from basis, implementing standards for controlling corruption, with a free press, people with honest mentalities, acting for justice.

4. Preventing and detecting corruption through auditing

Public and private organizations are more conscious over bribery and corruption and are trying to combat them by respecting international agreements, regional conventions, best practice guidelines and corruption perception indicators and cases.

Organizations conduct audits as most effective method to monitor corruption and bribery. Audit failure directly influences organizational performance.

Anti-corruption authorities may be successful if they are independent, they have strong financial resources and well implemented mechanisms and if they act in a strong governance environment. Public awareness has a strong impact on fighting against corruption by holding public institutions accountable and supporting anti-corruption reforms, citizen engagement, participatory budgeting.

The organization's board needs to set through a code of conduct, including anti-corruption policies and admit zero tolerance regarding its appliance. The role of internal audit consists in assuring that management attitude towards corruption is utmost prohibitive and well known across the organization.

Policies should explain the way would behave in case of corruption to their employees, partners or other stakeholders. Procedures will include third party protocols, especially acting with government officials, payment processing, including risky accounts, expenditures reporting, revenue recognition, reserves, training, conflict of interest.

Auditing helps assess the anticorruption programs, foresees risks and detects the existing and potential incidents. (IIA, 2014)

On the one hand, audit can be used to check on each component of the anti-corruption implemented program and, on the other hand, include in every audit an evaluation of anti-corruption actions. The role of internal audit, according to IIA and Deloitte Global Center for Corporate Governance, should:

- include specific procedures to evaluate corruption and bribery risks,
- evaluate corruption schemes,
- evaluate internal control environment,
- correlate the outlook of the audit techniques with evaluated risks,
- evaluate the entire compliance structure, legal and internal audit function,
- risk assessment evaluation criteria for accounts and activities,
- evaluate trainings as content, frequency and methods of delivery,
- assess the effectiveness of due diligence system (policies and procedures, business sponsor partnership, requirements for due diligence, risk ranking, red flags protocols to identify and resolve them, contractual certification, mergers and acquisitions)
- evaluate the whistleblower reporting systems,
- assess monitoring and review of processes, protocols for investigating and reporting, internal audit programs
- evaluate disciplinary and incentive procedures for non-compliances

Auditing must have response and remediation procedure if there are case evidence of illegal acts of conduct. First of all internal audit should seek legal advice or make a recommendation for management to ask for it. Internal audit should work together with an investigation team and management to conclude the existence of a irregularity and measure its effect.

5. Conclusions

Weak governance and low institutional quality lead to corruption. Investments area, social spending and environment suffer the most due to corruption, including deforestation, pollution, smuggling wood or wildlife.

There are different types of corruption, so various solutions need to get implemented, depending on the framework, stakeholders and nature of the corrupt behavior, such as: public financial management, supreme audit institutions, direct anti-corruption interventions and social accountability initiatives.

Democracy of a state and freedom and independence of the press may have positive effects in anti-corruption game, emphasizing the social accountability. The internal audit role is to share information with other functions of the organization, like external audit, compliance and fraud investigation.

Fighting corruption means also detecting risks as a main worldwide concern. The most efficient way to combat it is to prevent it, by developing implementing ethics standards, procedures and policies, implementing processes, conceiving clear and strong laws. A measure in preventing corruption and bribery can be training employees working in public administration, and generally speaking, the persons dealing with power, about ethics and integrity with the aim to stand against graft.

Accounting standards and audit techniques should be modified in such a way that corruption should not be seen only as internal fraud (which can have a significant impact on the financial statements) but also as an illegal act. (Ivakhnenkov, 2016) For fighting against corruption is necessary to have cooperation between regulatory authorities, independent internal auditors, etc.

Corruption is a problem of education, cultural and political background. It is proven that the higher educated societies are, the lower their corruption level is, so it is important to pay more attention to the education system and governance of a country. A solid organizational culture and a more rigorous legal framework on governance matters will be able to improve the public institutions' performance, will increase their efficiency in fighting corruption and adopt an anti-bribery behavior.

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