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THE ROLE OF INTERNAL AUDIT IN PREVENTION AND REDUCTION OF CORRUPTION

The article describes the main tasks, powers and role of the internal audit units of public sector bodies in the prevention and reduction of corruption. There were identified: the main types of financial violations and shortcomings revealed by internal auditors, the State Financial Inspection of Ukraine, the Accounting Chamber and law enforcement agencies, and areas in which the most prevalent is the adoption of inefficient managerial decisions. There were analyzed groups of key reasons for violations and ineffective public resources management, and their impact on the performance of public sector bodies. There were determined causal relationships, which may indicate the presence of corruption in revealed violations. There were proposed to separate the areas which should be researched by internal auditors, from the areas which should be investigated by law enforcement agencies, and were identified the areas that are common for the experts of internal audit units and law enforcement agencies. The role of internal audit as a "third line of defence" in preventing and reducing the corruption was researched. For internal audit units of public sector bodies there were proposed the measures to prevent, reduce and detect corruption at the stages of: planning, conducting internal audits and reporting on the results. There were given the signs ("red flags") which might be identified and which must be evaluated by internal auditors on the subject of risks of corruption. The transfer of internal audit reports to the law enforcement, and the possibility of conducting the special types of audits, particularly forensic and anticorruption audits, were considered. Various types of reports on risks of corruption and the options of audit recommendations were proposed. Also in the article it was recommended to develop a strategy of internal audit development on 5-10 year period which should include measures for building integrity and righteousness.

Keywords: internal audit, corruption, corruptions risks, public sector.

JEL classification: D73, H83, M42.

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РОЛЬ ВНУТРІШНЬОГО АУДИТУ В ЗАПОБІГАННІ ТА ЗНИЖЕННІ КОРУПЦІЇ

У статті розглянуто ключові завдання, повноваження та роль підрозділів внутрішнього аудиту органів державного сектору в запобіганні та зниженні корупції. Визначено основні типи фінансових порушень і недоліків, що виявляються підрозділами внутрішнього аудиту, Державною фінансовою інспекцією України, Рахунковою палатою й правоохоронними органами, та сфери, в яких найчастіше приймаються неефективні управлінські рішення. Проаналізовано групи головних причин допущення порушень і неефективного управління державними ресурсами та їх вплив на результати діяльності органів державного сектору. Встановлено причинно-наслідкові зв'язки, котрі можуть свідчити про наявність корупційної складової, що сприяла допущенню виявлених порушень. Запропоновано розподіл сфер, які підлягають дослідженню внутрішніми аудиторами й правоохоронними органами, та визначено сфери, спільні для вивчення фахівцями підрозділів внутрішнього аудиту й правоохоронних органів. Досліджено роль внутрішнього аудиту як "третьої лінії оборони" в запобіганні та зниженні корупції. Для підрозділів внутрішнього аудиту органів державного сектору запропоновано заходи щодо запобігання, зниження й виявлення корупції на стадіях планування, проведення внутрішніх аудитів та звітування про їх результати. Наведено ознаки ("червоні прапорці"), при виявленні котрих внутрішні аудитори повинні здійснити оцінку корупційних ризиків. Розглянуто питання передачі матеріалів внутрішніх аудитів до правоохоронних органів та можливість проведення спеціальних аудитів, зокрема судового й антикорупційного. Запропоновано різні типи звітування щодо ризиків корупції та

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варіанти аудиторських рекомендацій. Надано рекомендації щодо розроблення стратегії розвитку внутрішнього аудиту на 5-10-річний період із включенням до неї заходів із побудови цілісності й добросовісності.

Ключові слова: внутрішній аудит, корупція, корупційні ризики, державний сектор.

Рис. 3. Табл. 1. Літ. 9.

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РОЛЬ ВНУТРЕННЕГО АУДИТА В ПРЕДОТВРАЩЕНИИ И СНИЖЕНИИ КОРРУПЦИИ

В статье рассмотрены ключевые задачи, полномочия и роль подразделений внутреннего аудита органов государственного сектора в предотвращении и снижении коррупции. Определены основные типы нарушений и недостатков, выявляемых подразделениями внутреннего аудита, Государственной финансовой инспекцией Украины, Счетной палатой и правоохранительными органами, и сферы, в которых чаще всего принимаются неэффективные управленческие решения. Проанализированы группы главных причин допущения нарушений и неэффективного управления государственными ресурсами и их влияние на результаты деятельности органов государственного сектора. Установлены причинно-следственные связи, которые могут свидетельствовать о наличии коррупционной составляющей, способствующей допущению выявленных нарушений. Предложено распределение сфер, подлежащих исследованию внутренними аудиторами и правоохранительными органами, и определены сферы, общие для изучения специалистами подразделений внутреннего аудита и правоохранительных органов. Исследована роль внутреннего аудита как "третьей линии обороны" в предотвращении и снижении коррупции. Для подразделений внутреннего аудита органов государственного сектора предложены мероприятия по предотвращению, снижению и выявлению коррупции на стадиях планирования, проведения внутренних аудитов и составления отчетов об их результатах. Приведены признаки ("красные флажки"), при выявлении которых внутренние аудиторы должны осуществить оценку коррупционных рисков. Рассмотрены вопросы передачи материалов внутренних аудитов в правоохранительные органы и возможность проведения специальных аудитов, в частности судебного и антикоррупционного. Предложены различные типы отчетов о рисках коррупции и варианты аудиторских рекомендаций. Даны рекомендации по разработке стратегии развития внутреннего аудита на 5-10-летний период с включением в нее мероприятий по построению целостности и добропорядочности.

Ключевые слова: внутренний аудит, коррупция, коррупционные риски, государственный сектор.

Auditors are at the heart of the corporate governance framework in every public sector organisation [1].

Solving the problem of corruption is a priority for the Ukrainian society at the present stage of development. Studies corroborates that corruption is one of the reasons that led to mass protests in Ukraine late 2013 — early 2014. According to the study 'Global Corruption Barometer', conducted by the international organization Transparency International in 2013, 36 percent of Ukrainians were ready to take part in the street protests against corruption [2].

Ukrainian legislation recognizes that corruption in Ukraine shows the signs of being a systemic phenomenon. It goes on to say that it is spreading its negative impact into all spheres of public life, and is increasingly taking root in everyday life as a basic, quick and effective method for illegally getting things done. The scale of corruption is threatening the national security of Ukraine [3].

Several important steps in the fight against corruption were taken in Ukraine. Domestic anti-corruption legislation was reformed. Ukrainian reforms, which have just been implemented, have an anti-corruption focus. Mechanisms for citizens' access to public information and for obtaining legal aid have been improved. The budget system and system of Public Internal Financial Control (PIFC) are being reformed. It is important that the internal audit functions were introduced in the public sector in 2012.

Several international organizations and foreign countries are supporting Ukrainian efforts by providing assistance to government agencies and NGOs to prevent and reduce corruption. For example, in the defence sector the NATO Program 'Building Integrity' (in the framework of the Partnership Action Plan on Defence Institutions Building), the 'Professional Development Program', and other initiatives are giving opportunities for representatives of Ukraine to more deeply explore the experience of other countries through working on projects of common interest. Introducing best international practices and recommendations of international organizations into Ukraine is an important part of building integrity, reducing corruption and avoiding mistakes.

In this article it is used the report which was prepared on the result of an internship of a representative of the Ministry of Defence of Ukraine with Transparency UK's International Defence and Security Program and with the Ministry of Defence of the United Kingdom of Great Britain and Northern Ireland [4]. But findings, conclusions and proposals are equal for all bodies in public sector, not only especially for defence and security sector.

Ukrainian legislation — both general and specific on internal audit — does not contain provisions on the role of internal audit in preventing and reducing corruption.

'Corruption' is mentioned only once in the government decree on the establishment of internal audit units in the system of central executive bodies. It prescribes, that internal auditors of the public sector must immediately inform the head of the central executive body (its territorial authority and public institutions) about the signs of fraud, corruption or misuse of budgetary funds, abuse of authority and other violations of financial and budgetary discipline that led to losses, and must to recommend necessary measures [5].

But now domestic internal auditors in the public sector have not have clear guidelines to prevent and detect corruption or to reduce corruption risks.

It is not a primary role of internal audit to detect corruption, but it is a role more people expect internal audit to undertake. There is, therefore, an expectations gap that needs to be filled given that internal audit has no legal responsibility to counter corruption. Its primary role is to give independent assurance on the effectiveness of the processes put in place by management to tackle the risk of corruption. Any additional activities carried out by internal auditors should be in the context of internal audit and not prejudicial to this primary role [4].

Many types of corruption are similar to fraud carried out by officials, and belong to the category of 'crimes against state (municipal) property'. This article does not aim to differentiate between crimes under different articles of the Criminal Code (fraud, abuse of office, bribery, theft, negligence, falsification of documents, etc.) or to classify types of special audit (Audit of Fraud, Forensic Audit, Anticorruption Audit, etc.). The contribution of internal audit should be seen mainly in the context of building integrity, spreading anti-corruption culture, and sustaining an environment of 'zero tolerance' to corruption.

Corruption is defined as the abuse of entrusted power for private gain. A characteristic feature of corruption is a conflict between the activities of an official and the interests of the body (authority) on whose behalf he/she acts. Many kinds of corruption are similar to fraud carried out by an official, and belong to the category of 'crimes against the state (municipal) property'.

Corruption may occur during the collection, distribution, use or disposition of public resources, provision of administrative and public services, issue of permits or licenses, human resources, and other control and surveillance (including audit) functions.

Internal auditors are not experts on preventing and combating corruption. They deal with violation of the law, inefficient use of public resources and assets, failure to comply with procedures, neglect of duties, and poor management practices.

It is important that auditors should be able (by proxy or consent of the head of the body) to evaluate anti-corruption strategies (programs), provide recommendations to prevent corrupt practices, and recognize signs that may indicate corruption or abuse of power during the control measures, and (if necessary) conduct an appropriate audit.

Therefore, there is a need to identify and analyse the connections between corruption (fighting against corruption is the main task of the specially authorized bodies) and inadequate management, accounting and internal controls, violations of financial, budgetary discipline, failure to achieve goals, and other cases which are uncovered with help from auditors.

Taking into consideration the specifics of the role of auditors, this study only analyses cases associated with financial and economic activities. Other instances of corrupt conduct and bribery are also dangerous, but lie outside the responsibility of auditors (such as bribes for positive evaluations in educational institution, promotion, granting leave, etc.).

The study of more than 200 reports on inspections, external and internal audits, and information of law enforcement agencies on criminal cases and protection of state interests found four categories depending on the consequences of certain actions or inactivity:

1. Loss (waste) of revenues.

2. Illegal expenditure (including expenditures made in violation of law, non-target costs, losses from lack of or damages of resources).
3. Violation of financial and budgetary discipline, which did not result in losses.
4. Inefficient managerial decisions.

In each category, some of the most common methods of violations and/or faults and mistakes are allocated. For example, loss (waste) of revenues is often a result of:

- unreasonable provision of free use of resources to some individuals/entities (no rent, no payment for land, etc.);
- unreasonable lowering of a price/value/volume of property sold, services paid for, work performed, rent, unreasonable privileges/discount for some buyers;
- economically disadvantageous contracts, provision of loans, elimination of financial sanctions to some providers/debtors in case of non-contract terms;
- elimination of budget/dividend payment by public enterprises.

Then were analysed the probability (frequency detection) and the significance (influence) of the impact of each method violations (by the three-level scale from 0 to 2).

Consideration was given to the financial implications of one 'huge' violation or mistake as well as the financial implications of relatively small, but very common violations or mistakes. Socially dangerous misdemeanours, regardless of their monetary equivalent, are also taken into consideration (e. g. theft of weapons or drugs). Again, a three-level scale was used to determine the consequences of certain actions: 0 — minor consequences; 1 — substantial consequences; 2 — glaring consequences.

Then were analysed the information available on the websites of law enforcement bodies regarding criminal proceedings and corruption. Attention was not paid to the title of the article of criminal law, but to the links between criminal cases and the state/public functions, organisational and regulatory or administrative and economic responsibilities, and the possibility of obtaining unlawful benefit to the defendants or third parties. Using the 3-level's scale, the likelihood of a corrupt element in the commission of specific types of violations of financial and budgetary discipline or mistakes was pictured: 0 — probability is very low or low; 1 — probability is at the middle level; 2 — probability is high or very high.

The results of the study revealed typical examples of violations and mistakes which might include corruption component (Table).

The classification is not exhaustive; it is simply an initial attempt to find connections between the findings of auditors and conclusions of law enforcement authorities. *These examples only assume that corruption might occur in such cases, but not that it necessarily has.*

Research has shown the main areas of corruption risks in the financial and economic activities.

Table. Types of violations of financial-and-budgetary discipline, mistakes and spheres of inefficient managerial decisions which have uncovered and which might include corruption component

Groups and types of violations, mistakes, and vulnerable spheres	Violations detected by means of the Accounting Chamber, State Control and Revision Office (SCRO), State Financial Inspection (SFI), Internal Control-and-Revision units (ICRUs) or Internal Audit Units (IAUs)		Likelihood of corrupt element
	Frequency (probability)	Significance (influence)	
I. Loss (waste) of revenues as a result of:			
1) Unreasonable giving free use of resources to some individuals / entities (without rent, payment for land, etc.)	2	2	2
2) Unreasonable lowering of a price / value / volume of state property sold, paid services, work performed, rent, unreasonable privileges / discounts for some buyers	2	2	2
3) Non-paying to the Budget appropriate amounts (including from the sale of assets, precious metals return, the difference between the amount of losses and refunded amount); non-paying by public enterprises the amounts due to the budget / dividends	1	1	1
4) Economically disadvantageous contracts, giving of loans, non-use financial sanctions to some providers / debtors in case of non-contract terms	2	2	2
II. Illegal expenditures as result of:			
1) Illegal alienation of property and other assets; improper write-off of property, other assets and accounts receivable	2	2	2
2) Writing-off of outstanding receivables which originated from pre-payment for goods, works or services in violation of the Budget Code of Ukraine	1	1	1
3) Unreasonable overstating amounts / value / price of obtained works (goods and services), without-goods (fictitious) transactions	2	2	2
4) Illegal payment for expenditures which must be paid by leasers	2	2	2
5) Illegal payment of salary, money allowances, scholarships and other types of incentives	2	2	2
6) Unreasonable overpayment of reimbursement for travelling expenses and sum paid out on account	2	1	2
7) Borrowing of budgetary institutions in any form or lending	1	1	2
8) Expenditure which must to be carried out from the other budget	0	0	1
9) Expenditure without budget assignments or above assignment; budgetary money directing to the lower levels of spending units or recipients without its reasons at the stage of financing (expenditures not foresees by budget, estimates, documents about limits)	1	1	2
10) Direction of budgetary funds to extrabudgetary funds or extra-budgetary accounts	1	1	2

Table continuation

Groups and types of violations, mistakes, and vulnerable spheres	Violations detected by means of the Accounting Chamber, State Control and Revision Office (SCRO), State Financial Inspection (SFI), Internal Control-and-Revision units (ICRUs) or Internal Audit Units (IAUs)		Likelihood of corrupt element
	Frequency (probability)	Significance (influence)	
III. Misuse of budgetary funds as a result of non-compliance to the budget assignments (law), directions of use of budget funds (passport, order the use of budgetary funds), budget allocation (schedule, budget estimate, plan for the use of budgetary funds)	1	1	2
unreasonable not-payment wages of public enterprises	2	2	2
IV. Losses from lack (damage) of cash, securities and monetary documents, fixed assets, intangible assets and other inventory items	2	2	2
V. Violation of financial-and-budgetary discipline, which did not result in losses:			
1) Overstatement of accounts payable and liabilities	2	2	2
2) Obligations taken into payment obligations without the budgetary appropriations or excess of power	2	2	2
3) Overstating the need for budget funds, the inclusion of incorrect figures to the budget requests	1	1	2
4) Understating the value of assets, accounts receivable and payable in the accounting; surplus assets	2	2	2
5) Illegal operations with public funds that did not result in losses (including illegally issued and repaid loans on time; receivables that arose because of a violation of a specified period of receipt of goods and services; budget funds expenditure for the maintenance of extra personnel or items; costs for non-top-priority targets in the presence of payables; improper placement of temporarily available budget funds; improper use of budget classification; overstatement of cost of products and services)	2	1	2
6) Breach of public procurement, which did not result in losses (on the stage of the procurement procedures, at the stage of concluding and implementing agreements)	2	2	2
VI. Inefficient managerial decisions in spheres:			
1) Public Procurement	2	2	2
2) Accounting, use and alienation of land	2	2	2
3) Construction and repair of facilities	2	2	2
4) Accounting, use and alienation of buildings, structures and unfinished construction	2	2	2
5) Management of public enterprises	2	2	2
6) Planning, financing, accounting and reporting	1	2	2

Source: Barynina M. The 3rd line of defence: how audit can help address defence corruption / M. Barynina, M. Pyman [E-resource]. — Available at: <http://archive.ti-defence.org/publications/1121-the-3rd-line-of-defence—how-audits-can-help-address-defence-corruption>.

The most common risk areas for the on budget and off-budget spheres are:

- Public procurement.
- Use of property, equipment and other assets (abuse, misuse, theft).
- Financial systems, accounting and reporting.
- Cash.

The most risky areas for the budget are:

- Revenues to a special fund and its expenditures.
- Construction and purchase of housing, other construction and repair work, payments to outside organisations for services.

- Salaries, money allowances, other payments.

The biggest risks in the economical activities include:

- Alienation of integral property complexes, land, buildings / structures, other property.

- Management of public enterprises.

As a result of the analysis were found four main types of causes (preconditions or input conditions) to committing violations of financial and budgetary discipline and the adoption of inefficient managerial decisions:

- mismanagement, lack of expertise, education, skills or best practices;
- inadequate accounting and control systems (no rules or vague rules), gaps in legislation or legal collisions;
- non-corrupted human factor: error, inattention, large amounts of work, fatigue, illness, stress, negligence, failure to fulfil obligations of officials;
- conflict of interest, selfish goals (the presence of intention).

That is, only one of the factors may indicate corruption — conflict of interest and/or selfish goals.

The types of improper financial and economic activities can be grouped by the following three main characteristics:

- 1) actions which violate the laws, other regulations, standards, rules, procedures;
- 2) inactivity instead of actions which must be done in accordance with the laws and other regulations, standards, rules, procedures;
- 3) inefficient managerial decisions.

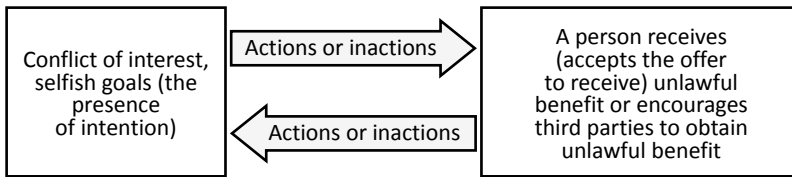
The consequences (products) of such actions are divided into the following:

- loss (waste) of revenues;
- illegal expenditures (including expenditures made in violation of law, non-target costs, losses from lack of or damages of resources);
- violation of financial and budgetary discipline, which did not result in losses;
- failure to achieve goals; ineffective, inefficient or unproductive activity;
- small violations of procedures that do not have a significant effect.

Finally, the results of such actions are rated in two fields — public and personal:

- A person receives (accepts the offer to receive) unlawful benefit or encourages third parties to obtain unlawful benefit.
- A person does not receive (does not accept the offer to receive) unlawful benefit and does not encourage third parties to obtain unlawful benefit.
- Impact on a reputation of an authority (ministry, organisation), public confidence in it and its representatives.

Talking about corruption is only possible in cases where there is a strong link between preconditions (input), actions (inactions) and personal results (Figure 1).



Source: Barynina M. The 3rd line of defence: how audit can help address defence corruption / M. Barynina, M. Pyman [E-resource]. — Available at: <http://archive.ti-defence.org/publications/1121-the-3rd-line-of-defence-how-audits-can-help-address-defence-corruption>.

Figure 1. **Link between preconditions (input), actions (inactions) and personal results**

It is important to understand, that investigation of cause and effect links described above do not fall under the authority of auditors, but are the task of law enforcement.

The results of the research are depicted schematically in Figure 2 below.

It is also possible to look at these improper actions according to who is engaged in tackling them. In Figure 2, the actions are split according to the role of audit bodies, law enforcement, and areas covered by both: *Italic* — for the sphere of audit, **Bold Italic** — for the sphere of law enforcement, and Calibri Regular — for the sphere of both — internal auditors and law enforcement.

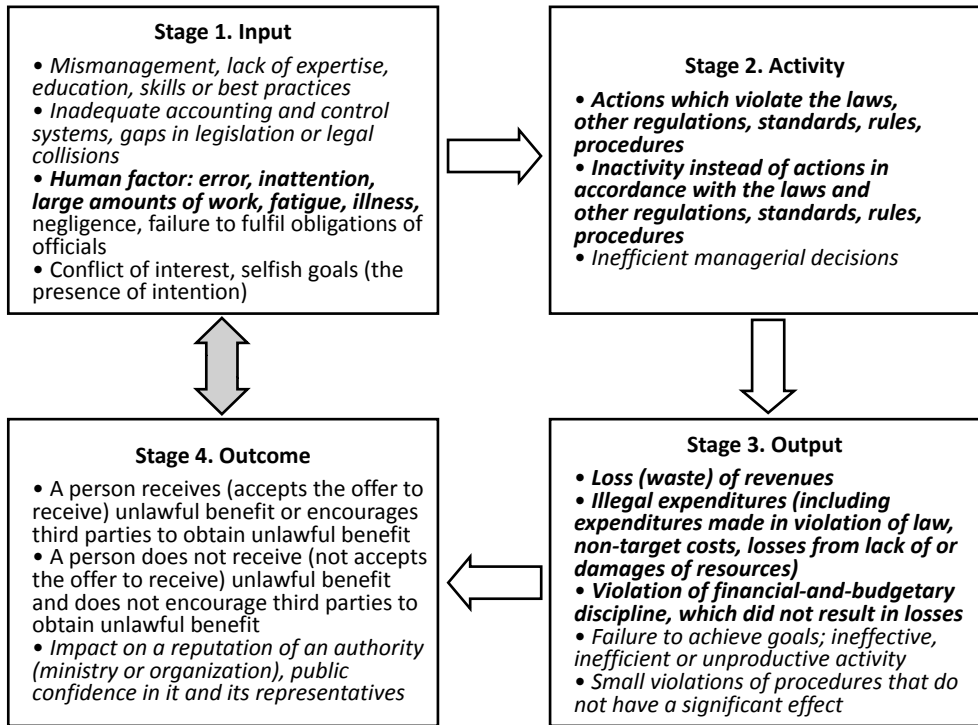
The main task [5] of internal audit units is to provide objective and independent conclusions and recommendations about:

- The functioning of the internal control system and its improvement;
- Improving governance;
- The prevention of facts of illegal, inefficient and non-effective use of funds;
- The prevention of errors or other deficiencies.

It is important to understand that internal audit is just one of the sources of assurance, as part of the so-called ‘third line of defense’ [6] as shown in Figure 3.

The first line of defence consists of management controls and internal control measures (operational or line management has ownership, responsibility and accountability for assessing, controlling and mitigating risks).

The second line of defence ‘holds’ the risk management function, compliance, inspection, quality and others that facilitate and monitor the implementation of



Source: Barynina M. The 3rd line of defence: how audit can help address defence corruption / M. Barynina, M. Pyman [E-resource]. — Available at: <http://archive.ti-defence.org/publications/1121-the-3rd-line-of-defence-how-audits-can-help-address-defence-corruption>.

Figure 2. Links between preconditions and results of improper activities

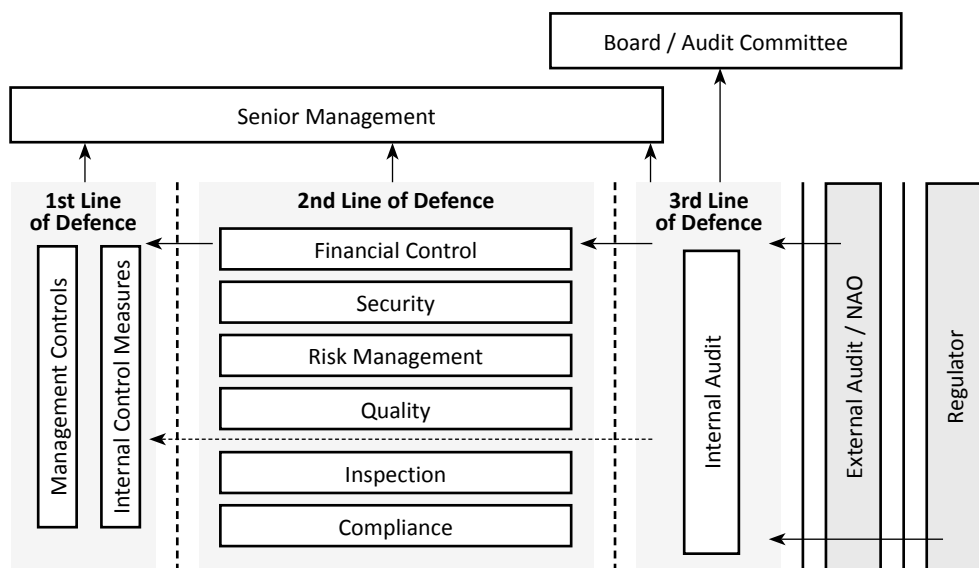
effective risk management practices by operational management. They also assist the risk owners in reporting adequate risk related information up and down the organization¹.

The first and second lines of defence support the senior management. The third line consists of internal audit, external audit, and supervisory authority².

The third line is based on risk approach and assurance of the governing body and senior management on how effectively the organisation assesses and manages its risks — including how the first and second lines of defence operate. The assurance tasks cover all elements of the organisation’s risk management framework, from risk identification, risk assessment and response, to communication of risk related information (through the entire organisation, to senior management and governing bodies).

¹ For example, in-house inspections, checking teams, functional reviews are part of the second line in the Ministry of Defense of the United Kingdom of Great Britain and Northern Ireland.

² For example, the appropriate Parliament committee. Also assumed that civil society provides some supervision over the activities of public sector authorities.



Source: The Three Lines of Defence in Effective Risk Management and Control. IIA Position Paper — Strongly Recommended Guidance [E-resource]. — Available at: <https://na.theiia.org/training/templates/Pages/The-Three-Lines-of-Defence-in-Effective-Risk-Management-and-Control.aspx>.

Figure 3. The three lines of defence model

Therefore, the following are some proposed measures that internal audit could play in preventing and reducing corruption.

Prevention

At the highest declared level, the priority areas of anti-corruption policy should be (i) identification and elimination of conditions that contribute or could contribute to corruption, (ii) prevention of attempts to create the same and (iii) provide effective efforts to identify and combat corruption [7].

The main groups of preconditions for committing violations of financial and budgetary discipline, mistakes and the adoption of inefficient managerial decisions were identified, as stated above. In order to help minimize their influence, internal audit units should:

1. Include in the annual programme (based on risk assessment) the conducting of internal audits in the spheres most vulnerable to corruption, and / or specific audits.
2. Periodically assess the degree of implementation of measures and goals identified in the anticorruption strategy (programme, annual plan).
3. Periodically assess the risks (including risks of corruption), which negatively affect performance of the functions and tasks.
4. Assess, in the first instance, areas most vulnerable to corruption:

- efficient functioning of the internal control system;
- efficient planning and implementation of budget programmes and the results of their implementation;
- quality of administrative services and implementation of control and supervisory functions and tasks of certain legislative acts;
- state of preservation assets and information;
- management of state property;
- accuracy of accounting records and the reliability of financial and budget reports.

5. Conduct a preliminary analysis of draft orders and other documents (standards, regulations, procedures) associated with the use of budget funds and state assets.

6. Participate in training activities (as trainers) on accounting, internal control systems, and other matters in accordance with the responsibility of internal audit.

7. Actively promote and spread knowledge about the code of ethics (conduct) of civil servants and other persons holding public office.

8. Promote the development and spread of anticorruption culture and environment, and to support 'zero tolerance' towards corruption.

9. Provide consultation to the managers on request, particularly in the form of:
— workshops for 'brainstorming'/identifying risks and controls in a particular area/activity;

— special consultations on specific risks and controls, for example, on the development of new systems or modification of existing ones.

Detection

Searching and detecting instances of corruption are not the main tasks of internal audit. However, the internal auditor should:

- Consider the possibility that corruption could be present in the course of each audit.

- Be able to recognise signs of agreements and transactions that may be associated with corruption.

These symptoms usually include:

- unofficial reporting;
- presence of unaccounted transactions;
- unaccounted revenues;
- recognition of non-existent (fictitious) costs;
- improper identification or evaluation of accounting objects;
- falsified documents;
- destruction of accounting documents before the deadline;
- lack of accounting;
- making deliberately/obvious economically disadvantageous agreements;

- understating the price of sold goods and services;
- overstating the price of purchased goods and services.

In particular, one of the consequences of corruption is higher prices due to the inclusion of a bribe as a mandatory component of the pricing formula for goods and services [3].

When an abnormality (so-called 'red flag') is detected in the audit, an auditor should assess the likelihood of corruption.

A criteria should be developed by which agreements and transactions must be evaluated in terms of likelihood of corruption in a respective institution (enterprise, organization), or in an activity or process.

Another important issue is the documentation of findings. Depending on the purpose of the audit, the findings may be included in a general audit report or be singled out in a separate or special report destined to the head of the appropriate level. This will depend on the purpose and type of audit, the kind of findings, and how dangerous they could potentially be. In any case, documentation must be in accordance with the standards of internal audit.

At the same time the legislation [5] requires that internal auditors must immediately inform the head of the central executive body (its territorial agency, budgetary institutions) about signs of fraud, corruption or misuse of budget funds, waste, abuse and other violations of financial and budgetary discipline that led to the loss or damages. Internal auditors must also provide recommendations on the measures required.

Investigation

Usually the investigation lies within the remit of law enforcement. However, in some cases the agencies require assistance to determine which legal acts have been violated, the consequences of those violations, amount of losses (damages), and so on.

The authority to carry out special types of internal audits depends on national legislation. It may be the same as inspections or checks conducted by the State Financial Inspection and internal control-and-auditing units. The results of revisions and checks are the basis to probe infringement and pursue a criminal investigation.

A considerable proportion of corruption can be documented through compliance audits which evaluate compliance legislation, plans, procedures, contracts on safe keeping of assets, and information and management of state property, or through financial audits, which assesses the legality and accuracy of the financial statements, and the correctness of the accounting.

Specific audits can be fraud audit (audit of fraud), forensic audit or audit of conflict of interest, or other types of anti-corruption audit.

In some countries internal auditors can be involved as experts in official or criminal investigations which are being conducted by the law enforcement agencies.

In such cases, internal auditors express their professional opinions (judgments) as to the essence of the violation (which of the legal acts that govern defined issues of financial and economic activities were violated), its consequences and scope.

Reporting and monitoring

Reporting of the Internal Audit Service may include:

1. Separate audit reports (assignments) on the following issues:
 - identified signs ('red flags') of corruption;
 - inadequate accounting systems and controls;
 - vague rules, lack/redundancy of rules;
 - gaps in the law or legal conflicts;
 - degree of compliance of education and experience of employees to perform certain functions or tasks;
 - problems in the organisation of labour and the distribution of duties between departments or employees, etc.
2. Special reports (assignments) on specific areas (activities, processes), the main findings from monitoring the implementation of recommendations.
3. Specific (consolidated) annual report on corruption findings (cases) from monitoring the implementation of recommendations.
4. Special chapter (paragraph) in the annual report on the activities of internal audit.

It is important to give recommendations for making managerial decisions together with the reports, as well monitor their implementation.

In the future, at a more advanced stage of internal audit in Ukraine, it would be advisable to include not only the recommendations (as provided to domestic legislation), but the concrete administrative actions, which have been agreed with the head of the appropriate level (as is done in the Ministry of Defence of the United Kingdom and Northern Ireland).

Next steps

Internal audit has no legal responsibility for corruption but is required to give independent assurance on the effectiveness of the processes put in place by management to address the risk of corruption. Any additional activities carried out by internal auditors should be in the context of internal audit and not prejudicial to this primary role [8].

The contribution of internal audits should be seen mainly in the context of building integrity, the spreading of anti-corruption culture, and sustaining an environment of 'zero tolerance' to corruption.

Taking into account the main objectives and limitations of internal audit services, it is considered appropriate to develop a strategy for internal audit implementation in the ministry (another central or territorial body). This will serve as a road map in the

next 5 to 10 years. A separate chapter (paragraph) of the strategy should be devoted to issues of building integrity, including training, code of conduct (ethics), etc.

It is also possible to develop an action plan to implement the strategy. An internal audit, to this extent, should be spread into three levels:

- 1) staff (people);
- 2) operations and processes;
- 3) organization(s).

The main practical steps for internal audit services for the next years could include the following measures:

- seminars ('brainstorming') for the management of risk, including risks of corruption;
- annual internal audit programme based on risk assessment and prioritization of risk (including risk of corruption);
- development of the internal list of signs ('red flags'), that may indicate corruption, and should be brought to each auditor;
- development of criteria by which agreements and transactions must be evaluated in terms of the likelihood of corruption in the respective institution, enterprise or organization;
- development of an internal algorithm for conducting and documenting special types of internal audit, which aim to confirm or disprove the violations that may contain corrupt elements;
- establishment of reporting of internal audit service on building integrity (separate reports, special reports, separate chapter in annual report);
- establishment of clear procedures for monitoring proposals and recommendations of internal audit;
- cooperation with the Accounting Chamber, the Ministry of Finance of Ukraine, the State Financial Inspection, educational and research institutions, and professional organisations (including international and foreign);
- promotion of the development of anti-corruption culture, and supporting 'zero tolerance' towards corruption (including use of media);
- education and training of internal auditors, including under the auspices of the Ministry of Finance of Ukraine and the State Financial Inspection and with support from international organisations and foreign countries.

Supporting the establishment of internal audits by international organisations and foreign countries in Ukraine is very important. Therefore it is expedient to use the opportunities provided by various programmes and initiatives (such as NATO's 'Building Integrity', and 'Professional Development' Program), or those implemented in accordance with intergovernmental agreements.

In the future, the establishment of separate units for combating fraud within the internal audit services of the public sectors should also be considered, as is done

in the Ministry of Defence of United Kingdom and Northern Ireland, the central government of the United States of America and elsewhere.

Information about building integrity should be included in White Papers in following years. Further, the creation of electronic databases of internal audit and spread the use of modern software (e.g., Galileo Audit Management [9]) for the management of internal audits would be additional steps in the right direction.

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