

The Oversight Role of Accounting in Combating Corruption

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Abstract

Financial and administrative corruption is a social scourge—an age-old phenomenon that has existed throughout history and across all societies, whether rich or poor, educated or illiterate, powerful or weak, and continues to this day. Its emergence and persistence are linked to the human desire to obtain material or moral gains through unlawful means, and it is particularly evident in Third World societies, especially within their government institutions, where it is the cause of their economic problems and their failure to keep pace with progress. Many modern societies have strived to eradicate this social scourge, which stands as an obstacle to the sound and proper development of those societies, and its prevalence in state institutions and organizations is considered one of the most serious obstacles to economic recovery, as it manifests in the abuse of power for personal gain—whether through the trading of public office, extortion, favoritism, or the squandering or manipulation of public funds, whether directly or indirectly—and results in adverse effects, namely the diversion of resources and real potential from the public interest to the benefit of specific individuals, whereby interests and wealth become concentrated in the hands of a small segment of society; this is not in the state's long-term interest and is considered a harmful and detrimental tool for the future. This study focused on the actual reality of the oversight role of accounting in combating corruption in its various aspects. The study addressed the causes of financial and administrative corruption and its root causes. The leading role in addressing these causes is one aspect of this research. Regulatory bodies, whatever their names may be, are responsible for playing a constructive and

fundamental role—a topic addressed in this research—along with the necessary means to achieve the national interest of the state.

Keywords: Financial Corruption, Administrative Corruption, Accounting Oversight, Regulatory Institutions, Public Funds.

Introduction

Countries are committed to combating financial and administrative corruption because it poses a serious threat to all areas of security, the economy, and development, and can lead to their collapse—thereby hindering a country's progress, plundering its wealth, and stifling urban development, progress, and economic prosperity(1). In addition to the fact that the spread of this phenomenon hinders the state's development and prevents it from achieving its objectives, financial and administrative corruption has deep roots in Iraqi society; spreading throughout the state's infrastructure, society, the civil service, and the fabric of social relations, thereby slowing the pace of social development and economic progress. Therefore, the Iraqi government must strengthen its capabilities by promoting transparency, enacting laws, and enforcing them on the ground so that it can identify the causes of corruption, address them in accordance with the law, and build a healthy, sound society free of social ills, restore order, and keep pace with the progress of other nations in all respects. It should be noted that the majority of these causes were, in fact, financial in nature and resulted from accounting irregularities, which led the entities responsible for preparing these studies and audits to recommend the importance of discussing and analyzing development trends across many relevant sectors(2).

The oversight role of accounting and auditing plays a vital role in combating financial and administrative corruption by protecting public funds, uncovering irregularities and manipulation of records, and ensuring transparency and accountability in government and private institutions through document review and the evaluation of internal control systems.(3)

Accounting Control Mechanisms to Combat Corruption

1. Preventive (Proactive) Control: Examining and evaluating the effectiveness of internal control systems to close loopholes before fraud occurs; conducting pre-approval reviews of expenditure disbursements and contracts to ensure compliance with financial laws and regulations.
2. Detective (Post-Transaction) Control: Tracking the flow of funds and detecting fictitious invoices or suspicious duplicate accounting entries.
3. Evaluation of the Financial and Administrative Performance of Government Units: To measure the extent to which economy, efficiency, and effectiveness are achieved (4).
4. Forensic Accounting and Investigation: Collecting financial forensic evidence to support legal investigations into cases of fraud and embezzlement, and cooperating directly with judicial authorities and integrity agencies to provide accurate reports on violations.

The importance of regulatory integration lies in enhancing transparency by disseminating internationally recognized accounting standards and principles to standardize transactions, eliminating room for deviant personal interpretations, enforcing accountability, and linking regulatory reports to legal rewards and penalties to ensure that those who fail to comply do not escape punishment, as well as supporting regulatory bodies (5).

The integration of the work of internal and external auditors with the supreme financial oversight and anti-corruption bodies is the most important point that must be addressed and acted upon.

The Role of Supreme Audit Institutions in Combating Corruption

Supreme audit institutions, such as the Board of Audit and other audit bodies, play a pivotal role in protecting public funds; they examine and audit the financial records of government agencies and entities under their oversight. The goal is to ensure that public funds are managed in accordance with laws and regulations and to uncover any violations, abuses, manipulation, waste, or embezzlement(6). These bodies also receive and investigate reports of corruption, making them the first line of defense against corruption at the national level.

The Role of Accounting in Combating Financial Corruption

The accountant can advise the attorney by formulating a strategy, reviewing documents, and providing additional support in resolving the case.

The Role of Forensic (Criminal) Accounting in Combating Fraud and Corruption

Forensic accountant must collect financial evidence, preserve its integrity, and analyze it in a clear and reliable manner that allows it to be presented and relied upon in court (7).

Technological advancements and the rapid shift toward digital systems have increased the importance of forensic accounting, but at the same time, they have made financial fraud more complex. Just as technology has helped accelerate financial processes and improve the accuracy of data storage, it has also provided new means for manipulation and fraud, particularly with the growing reliance on electronic systems and digital financial transactions. Consequently, forensic accountants now need skills that go beyond traditional accounting, such as analyzing large volumes of digital data, tracking electronic transactions, examining digital records and files, and handling electronic evidence. These skills help uncover more complex fraud schemes, such as embezzlement through electronic systems (8).

The Role of Cost Accounting in Internal Control

A cost accounting system provides accurate data that aids in sound decision-making; therefore, it is essential to establish a comprehensive cost accounting system within organizations so that it can efficiently achieve its intended objectives—that is, to design a cost accounting system based on scientific principles and foundations, while taking into account the characteristics of the cost accounting system.

Functions of the Oversight and Anti-Corruption Authority

The Oversight and Anti-Corruption Authority is responsible for safeguarding integrity, promoting transparency, and combating financial and administrative corruption in all its forms. Its responsibilities include

conducting audits to uncover violations and corruption offenses (such as bribery and abuse of power), receiving and investigating reports, carrying out criminal arrests, filing lawsuits before the competent court, and pursuing the recovery of funds owed to the state(9).

Here, the role of the Board of Audit (or Financial Oversight Board) in curbing financial corruption within the government agencies under its oversight is particularly significant, as it is the primary body responsible for protecting public funds from theft and embezzlement.

Research Objective

This research aims to:

1. Identify and address the causes of financial and administrative corruption and the main factors that led to it.
2. Identify accounting irregularities and eliminate them.
3. Develop strategies and recommendations to curb accounting irregularities and address them as quickly as possible.

Importance of the Research

The significance of this research lies in achieving the following:

The ability to develop the necessary tools and methods to identify accounting irregularities that have led to the spread of financial and administrative corruption, with the aim of addressing this phenomenon and mitigating its negative effects by actively keeping pace with developments in impartial regulatory bodies to limit the occurrence of such accounting irregularities.

Research Hypothesis

The phenomenon of financial and administrative corruption can be addressed, and its negative effects mitigated, by preventing or limiting accounting irregularities through the active involvement of impartial oversight bodies and the promotion of professional ethics among employees at various administrative levels.

Current Challenges Facing the Central Organization for Control and Auditing

The fight against corruption, the promotion of accountability, and the protection of public funds are at the forefront of the Organization's mission and represent the common thread in the fight against corruption.

Here, two main mechanisms of corruption can be identified:

A. The payment of bribes and kickbacks to employees and officials in the government and the public and private sectors to facilitate the conclusion of deals and smooth the way for businesspeople and foreign companies.

B. Disguised or in-kind bribery in the form of misappropriation of public funds and securing high-ranking positions for children, in-laws, and relatives within the civil service and in the public and private business sectors. This second level represents the most dangerous form of corruption prevalent in the Arab region.

Corruption can generally be classified by its manifestations into the following types: (Al-Waeli, 2006:4).

Political Corruption

This refers to the overall range of financial irregularities and violations of the rules and regulations governing the operations of a state's political institutions. The fundamental difference between societies whose political systems follow democratic principles and those governed by totalitarian regimes lies in the prevalence of corruption in both types of systems, which manifests as a corrupt system of governance (one that does not represent the general public and is not subject to effective accountability by them). Manifestations of political corruption include corrupt authoritarian rule, the absence of democracy, the corruption of rulers, and the dominance of the state's governing system.

Financial Corruption

This encompasses all financial irregularities and violations of the financial rules and regulations governing the financial and administrative operations of the state and its institutions, as well as violations of the instructions issued by financial oversight bodies—such as the Central Financial Oversight Authority, which is responsible for auditing and monitoring the accounts and funds of the government, public agencies and institutions, and private-sector organizations. Manifestations of financial corruption can be observed in bribery, embezzlement, tax evasion, land allocation, and favoritism and nepotism in job appointments (10).

Administrative Corruption

This refers to manifestations of corruption and administrative, professional, or organizational misconduct, as well as violations committed by an employee while performing their job duties within the framework of legislation, laws, regulations, and the system of individual values that govern them. Here, manifestations of administrative corruption include failure to adhere to work hours and schedules for arrival and departure; spending time reading newspapers or receiving visitors; refraining from performing work duties; negligence, laziness, and a lack of accountability; divulging job-related secrets; and deviating from teamwork. Furthermore, the prevalence of disguised unemployment in many sectors of the state has led to the waste of public funds.

In fact, the manifestations of corruption are numerous and intertwined, and one inevitably leads to the spread of others; often, the prevalence of one form serves as a contributing factor, manifested in the overall ethical and behavioral deviations related to an employee's personal conduct and actions. Such as engaging in indecent acts in the workplace; combining one's official position with other outside work without management's permission; exploiting authority to achieve personal goals at the expense of the public interest; or practicing favoritism—known as “personal favoritism”—without regard for considerations of competence and merit.

Accordingly, corruption can generally be defined as any act involving the misuse of public authority for private purposes, whether by violating, exploiting, or disregarding the system or the law to achieve a private benefit for an individual or a group. Financial corruption, on the other hand, is based on the same concept but focuses solely on the financial aspect. Financial corruption is often linked to fraud; they are two sides of the same coin, as both involve illegal practices aimed at achieving personal gain.

The key factors contributing to the spread of corruption in society

1. The existence of motives for committing corruption

The most significant of these motives are widespread poverty, greed, avarice, and laxity, which drive individuals to unlawfully appropriate money through bribes, abuse of power, manipulation, and collusion with others to facilitate the misappropriation of public funds, concealing information, making it available only to certain groups, or spreading malicious rumors to steer individuals toward wrong decisions that serve private interests. Furthermore, the prevalence of unethical behavior drives corrupt individuals to steal and embezzle public funds, particularly in the absence of effective oversight or in the presence of weak oversight.

2. Opportunities for Corruption

Opportunities for corruption arise from a weak oversight and monitoring system on the one hand, and management practices that foster corruption on the other. For example:

- A. A weak system of oversight, monitoring, and accountability.
- B. The prevalence of corruption within the organization, where corruption breeds more corruption.
- C. Corruption committed by senior management reduces others' fear of being caught.
- D. Weak mechanisms for detecting and combating corruption.
- E. Weak penalties for corruption.
- F. Collusion to cover up detected cases of corruption.

3. The Existence of Justifications for Corruption:

The most dangerous aspect of corruption is that it spreads like cancer and eventually becomes normalized among a large number of individuals and employees within the state's administrative apparatus. When flimsy and unethical justifications become widespread among members of society, acts of fraud and corruption become acceptable and are seen as justified. In summary, the phenomenon of financial and administrative corruption is nearly universal and tangible; it is a complex phenomenon whose various aspects are shrouded in considerable ambiguity.

Modern Trends and Methods for Detecting Financial and Administrative Corruption and Ways to Curb It

Chapter II of the Convention addresses preventive measures (Articles 5 through 14), which serve as a practical guide that can be used as a reference and adopted as oversight procedures.

1. **The World Bank** has developed a set of steps and strategies to help countries combat corruption and mitigate its negative effects on economic development.
2. **The International Monetary Fund** has sought to curb corruption by suspending financial assistance to any country where corruption hinders economic development.
3. **The Organization for Economic Cooperation and Development (OECD)** aims to assist member and non-member governments in their efforts to strengthen and improve the legal, institutional, and regulatory framework for corporate governance in their countries, and to provide advice and recommendations to stock exchanges, investors, companies, and other parties involved in the process of establishing sound corporate governance standards, in order to prevent fraud and corruption.
4. **Transparency International** was established in 1993 as a nongovernmental organization dedicated primarily to combating and

reducing corruption through clear legislation and the simplification, stability, and harmonization of procedures.

5. **Global Organization of Parliamentarians against Corruption:** This organization was founded at an international parliamentary conference held in Canada in October 2002. It is committed to objectivity, flexibility, and adaptation to economic, social, and administrative changes by promoting the principles of accountability, integrity, and transparency. It has expanded to include more than 250 parliamentarians from 72 countries. The organization serves as a global coordinating body, while regional networks work to strengthen parliamentarians' capacity to address corruption issues (11).

Locally in Iraq, there are a number of oversight institutions that have been established to combat financial and administrative corruption, namely: (Abdullah, 2011: 10)

1. **The Financial Control Bureau:** established by Law No. 17 of 1927 in Iraq, has kept pace with developments; the most recent amendment to its law was Law No. 6 of 1990, as amended by Legislative Order No. 77 of 2004. Its mission is to provide the public and the government with accurate information regarding government operations and financial conditions, and to coordinate with the Integrity Commission, the offices of the Inspectors General, and other oversight bodies to strengthen the economy through financial auditing and performance evaluation, and to combat financial and administrative corruption.(12)
2. **The Public Integrity Commission:** was established pursuant to Decree No. 55 of 2004. Its mission is to investigate suspected cases of corruption, such as the acceptance of gifts and bribes, nepotism, discrimination on ethnic or sectarian grounds, the abuse of power for personal gain, and the misuse of public funds.

Modern Approaches to Curbing Accounting Irregularities

The idea of audit committees emerged in the United States following the severe financial upheavals caused by manipulation of financial reports, which led both the New York Stock Exchange (NYSE) and the U.S. Securities and Exchange Commission (SEC) to recommend the following:

1. The need to establish a committee following the economic collapses and financial crises that affected many economies in East Asia, Latin America, and Russia in the late 20th century, as well as the financial collapses in many global markets, and in light of the opening of global financial markets, market globalization, and reliance on the private sector to boost economic growth rates in many countries around the world.
2. To narrow the range of accounting alternatives and treatments by reducing the number of available options or specifying the circumstances under which each treatment may be used; For this reason, the International Accounting Standards Board, in its most recent amendments, has eliminated alternative treatments from its standards and established a standard treatment in most of them.
3. Limiting the misuse of certain accounting policies, which is achieved through the following:
 - A. Enacting rules that limit the use of certain accounting policies or even eliminate them.
 - B. Enforcing the principle of consistency; consistency here refers to consistency in the application of accounting policies adopted by the preparers of financial statements.
4. Ensuring that auditors, supervisors, and audit committees remain vigilant and competent in detecting accounting irregularities committed by certain parties; this is achieved by selecting audit firms that are highly competent and credible(13).
5. Fostering an accounting culture among investors, stakeholders, and users of financial information across the board; this is achieved through self-education undertaken by some investors or users of financial information to improve their accounting knowledge.
6. Strengthening the professional regulation of the accounting and auditing professions and establishing a code of professional conduct.

Disclosure and Transparency to Combat Financial and Administrative Corruption

The legal and regulatory framework in Iraq addresses some of the fundamental requirements for disclosure and transparency that joint-stock companies must comply with or observe:

1. Preparing analytical schedules to accompany the primary financial statements, and highlighting the importance of the management's annual report and the information it contains, which supplements the information provided in the financial statements (14).
2. Emphasizing the importance of the auditor's role in expressing an opinion on the fairness and accuracy of the information presented in the companies' financial statements in the auditor's report, the contents of which are specified.

Conclusions:

Financial corruption is nothing more than the abuse of power resulting from a weak regulatory system, a lack of standardization in its core functions, and leniency toward—and cover-ups of—those who fail to fulfill their duties, all of which contribute to the spread of corruption. The misuse of public funds for personal gain—prioritizing personal interests over the public interest—as well as the exploitation of or disregard for financial laws and regulations is often linked to financial fraud.

Accounting irregularities—most notably the failure to update accounting policies and other practices that are incompatible with modern frameworks—lead to failures.

It is clear that there are ethical standards governing the profession, and that the existence of such standards will lead to the advancement of the accounting profession.

The challenges facing professional ethics stem from both internal and external factors; external challenges, in particular, pose a risk that must be addressed.

The separation of politics from management that has existed in many organizations has led to the entrenchment of the principle of employee ethical neutrality and the treatment of employees as individuals capable of

setting aside their beliefs and principles to align with the policies of the organization in which they work, regardless of the consequences of such policies.

Recommendations

Certain regulatory measures can be implemented to combat financial and administrative corruption, including the following:

1. Monitoring the use of public funds.
2. Enacting strict laws to prevent the waste of public funds and administrative and financial corruption.
3. Amending laws to enable judicial authorities to ensure accountability (since accountability is one of the tools of oversight) and to hold individuals and state agencies accountable for expected outputs or results.
4. Creating job opportunities and encouraging financial investment.
5. Establishing effective and rigorous systems to evaluate the performance of government financial institutions.
6. Strengthening oversight systems in financial institutions to curb money laundering.
7. Strengthening international cooperation in the fight against corruption.

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