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CORPORATE ANTI-CORRUPTION ACCOUNTING CONTROLS

Practical Guide

- April 2022 -

INTRODUCTION

The *French Anti-Corruption Agency Guidelines* of 12 January 2021[1] define the procedures for implementing the corruption prevention and detection programme[2] mentioned in Article 17 of the Transparency, Anti-Corruption and Economic Modernisation Act 2016-1691 of 9 December 2016 (also known as the Sapin II Act). This programme is based on three inseparable pillars: senior management's commitment to corruption-free performance of the organisation's business, risk mapping to raise awareness of the organisation's exposure to corruption risks, and measures to prevent, detect and address the identified risks.

An anti-corruption programme should be appropriate to the organisation's risk profile and designed in such a way that each component is essential to the functioning of the system as a whole. If implemented correctly, the programme provides reasonable assurance that the organisation has taken all necessary measures – including the anti-corruption accounting controls covered in this guide – to protect itself against corrupt practices, including those not reflected in its accounting records. In this regard, it is important to recall that while some corrupt practices may be visible in a company's accounting records (e.g. those involving movements of funds) or in its other systems (e.g. outgoing inventory movements), others may leave no documentary trace whatsoever (e.g. practices intended to gain a non-financial advantage).

Anti-corruption accounting controls ensure compliance with the same principles and use the same methods as general-purpose accounting controls. Their difference resides in the fact that they are instituted by enhancing or supplementing general-purpose controls in order to focus specifically on the high-risk situations identified by the corruption risk mapping exercise.

This guide is intended for large companies,[3] in all sectors and industries, that are subject to the requirements of Article 17(II)(5) of the Sapin II Act, which requires senior management to put in place an anti-corruption programme that includes "internal or external accounting control procedures intended to ensure that the books, ledgers and accounts are not used to conceal corruption or influence peddling" (referred to as "anti-corruption accounting controls" in the remainder of this guide). If a company subject to Article 17 is found, during an AFA audit, to have breached these requirements, it is liable to face the sanctions laid down in Article 17(V) of the Act, which in some cases may be imposed by the AFA Sanctions Committee.[4] This guide will also prove useful for smaller companies, again in any sector or industry, that recognise the importance of addressing

1 AFA, *French Anti-Corruption Agency Guidelines*, 12 January 2021, courtesy translation of the French version published in the Official Journal of the French Republic (*Journal officiel de la République française*).

2 Companies with 500 or more employees, or part of a group controlled by a parent company registered in France and employing 500 or more people, and with turnover or consolidated turnover in excess of €100 million.

3 In the remainder of this guide, the term "corruption" is used to refer to the offences of corruption and influence peddling.

4 By way of illustration, the AFA Sanctions Committee penalised a company for failing to establish effective accounting controls following the three-lines-of-defence model. The Committee gave the company in question 13 months to provide evidence that it had brought its accounting procedures up to standard. The relevant decision (in French only) can be found here: https://www.agence-francaise-anticorruption.gouv.fr/files/2020-10/DECISION%2019-02%20COMMISSION%20DES%20SANCTIONS%20%20ANONYME.PDF

corruption risk and the benefits of implementing a corruption prevention and detection programme.[5]

This guide draws on the experience acquired by the AFA in the course of its auditing and advisory activities. It is not binding and creates no legal obligations for its intended audience. Companies may adapt the recommendations to their business area and structure, and to the legal framework governing their operations. This guide was developed with input from an AFA-coordinated working group comprising representatives of the Haut Conseil du Commissariat aux Comptes (High Council of the Order of Statutory Auditors, H3C), the National Company of Auditors (CNCC), the Order of Certified Accountants (OEC), the Association of Finance Directors and Management Controllers (DFCG) and the French Institute of Internal Audit and Control (IFACI). It is not intended to be exhaustive. Instead, it is designed as an instructive compendium of best practice and illustrations underscoring how detailed and comprehensive accounts, prepared in line with relevant standards, can contribute significantly to preventing and detecting corrupt practices. It also emphasises how companies can further safeguard their business activities by introducing dedicated, formalised, documented accounting controls focusing specifically on the exposures identified in their corruption risk map.

[5] The AFA has published a standalone guide on anti-corruption programmes for SMEs and smaller mid-sized firms, which includes a section on anti-corruption accounting controls.

CONTENTS

1. KEEPING DETAILED AND COMPREHENSIVE ACCOUNTS LIMITS CORRUPTION RISK

A French company's accounts may be described as "detailed and comprehensive" when the organisation prepares, processes and verifies its accounting and financial information in accordance with the accounting rules and principles applicable in France.

While large companies will be accustomed to applying these accounting rules and principles, it is worth recapping them in this guide for two reasons: firstly because they play a vital role in an anti-corruption programme, and secondly because they may be less familiar to other companies, as well as to compliance officers and other individuals tasked with implementing anti-corruption measures.

1.1 GENERAL ACCOUNTING PRINCIPLES

This guide deals specifically with the requirements that apply to French companies. It recognises that other standards apply to different areas of a company's activity, especially outside France.

The legal basis for keeping accounting records

Keeping accounting records is a legal requirement

The legal requirement to keep accounting records is provided for in Article L.123-12 of the French Commercial Code: "All natural or legal persons with the status of trader shall enter in their accounts the movements affecting the assets of their undertaking. These movements shall be recorded chronologically." The same article states that the company must "check, by means of a physical inventory count at least once every twelve months, the existence and value of the assets and liabilities of the undertaking" and that it must "prepare annual financial statements at the end of the financial year in view of the entries made in the accounts and the physical inventory count".[6]

[6] The accounting requirements incumbent on a company depend on its tax regime (especially for smaller companies). However, the law sets out a common core of requirements that apply to companies of all sizes.

A company may entrust responsibility for its accounting to internal employees or to a chartered accountant. For some companies (such as members of an approved management centre), using a chartered accountant is mandatory.

Accounting standards

The accounting standards that companies must follow are determined by the French Accounting Standards Authority (ANC). ANC regulation 2014-03 of 5 June 2014 on the French Chart of Accounts (in French only) includes rules on balance sheet and income classifications and stipulates the information that should be included in the explanatory notes to the financial statements.

A company's annual financial statements consist of the balance sheet, the income statement and the explanatory notes, which form an indivisible whole:[7]

- **The balance sheet** separately describes the entity's assets and liabilities and clearly indicates its shareholders' equity and, as applicable, other equity capital
- **The income statement** summarises the expenditures and income for the financial year, irrespective of the date of payment or receipt
- **The explanatory notes** contain all information of material importance intended to supplement and comment on the information given in the balance sheet and the income statement

In addition to these three core documents and the inventories mentioned in Title I, Chapter I, Section I of ANC regulation 2014-03 of 5 June 2014 on the French Chart of Accounts, companies are also required to keep a daily ledger (listing all transactions in chronological order) and a general ledger (containing all entries in the daily ledger organized according to the classification system used in the French Chart of Accounts).

Small and medium-sized companies may prepare their annual financial statements in an abridged format, subject to the conditions laid down in an ANC regulation.

Listed French companies, including listed groups and large multinational groups, are also required to prepare consolidated financial statements in line with the International Financial Reporting Standards (IFRS). Smaller companies that wish to adhere to the IFRS accounting rules can use the separate standard for SMEs.

The requirement to issue certified financial statements

Some companies are required to have their financial statements certified by a statutory auditor if they exceed certain thresholds (balance sheet total, pre-tax turnover, and employee headcount in the preceding financial year).[8]

[7] Article 111-1 of ANC regulation 2014-03 of 5 June 2014 on the French Chart of Accounts: "The provisions of this regulation apply to all natural persons or legal entities subject to the legal obligation to prepare annual financial statements comprising the balance sheet, the income statement and the explanatory notes, except where otherwise provided for in any provisions specific to them."

[8] This requirement applies to companies (private limited companies, limited liability sole proprietorships, public limited companies, simplified joint-stock corporations, partnerships limited by shares and general partnerships) that exceed two of the following three thresholds:
• Pre-tax turnover of €8 million or more
• Balance sheet total of €4 million or more
• Headcount of 50 employees or more in the preceding financial year

Simplified joint-stock corporations that control or are controlled by another entity are also required to appoint a statutory auditor.

The statutory auditor examines the company's accounting records and conducts compliance checks, following applicable rules. In particular, the auditor ensures that the records give a regular, faithful, and true and fair view of the company's earnings (see section 3.3 below). For ethical reasons, if a company uses a chartered accountant, it must commission a separate auditor to certify its financial statements.

The five principles governing the preparation of annual financial statements

Annual financial statements must be prepared in accordance with five key principles which, if followed, contribute significantly to preventing and detecting corruption:

Accounting principle	Definition (based on the French Chart of Accounts)	Example of how the principle helps prevent and detect corruption	Practical illustrations
True and fair view	The financial statements must provide a true and fair view of the entity's assets, financial situation and earnings at the end of the financial year.	The company's assets, as shown in its accounting records, must reflect its physical inventory count.	Inventory accounting procedures can reveal outgoing items without a corresponding invoice, pointing to the use of company inventory to bribe a customer in return for the award of a contract.
Comparability and going concern	The financial statements must be comparable from one period to the next and support an assessment of the entity's ability to continue as a going concern.	Comparing financial statements allows inconsistencies to be detected and analysed, potentially uncovering irregularities that could be the result of corrupt practices. The accounts must be numbered consistently and any changes in numbering must be properly documented.	A comparative analysis of account items could reveal inflated raw material orders that do not match the company's sales, potentially pointing to a clandestine arrangement whereby someone has granted a supplier permission to issue fake invoices in return for an undue advantage. A review of account numbering changes could uncover a practice whereby someone has deleted an account for intermediary commissions and distributed these commissions into other accounts in order to dilute the amounts and make them harder to detect.

Accounting principle	Definition (based on the French Chart of Accounts)	Example of how the principle helps prevent and detect corruption	Practical illustrations
Regularity and faithful presentation	The financial statements must be prepared in accordance with applicable rules and procedures, which must be applied faithfully so as to convey the knowledge that those responsible for preparing the statements have of the reality and relative importance of the events they record.	The accounting procedures should therefore make it possible to match an invoice with a service actually performed before it is paid.	Checking that services have actually been performed could bring to light a situation whereby a service provider issues an invoice for a fake service as part of a corrupt arrangement.
Prudence	The financial statements must be prepared on the basis of prudent judgements and estimates, in order to avoid the risk of uncertainties that could harm the company's assets and earnings being carried forward to subsequent reporting periods.	The company could set aside provisions for credit losses in relation to customer receivables. If a customer is wound up by a court order, these receivables are written off as unrecoverable losses. Accounts of this type should be reviewed and closely monitored.	Monitoring and reviewing provision accounts for bad debts and unrecoverable losses could reveal a practice whereby a customer receivable has been written off without justification in return for an undue advantage.
Consistency in accounting methods	The company's accounting methods, and the structure of its balance sheet and income statement, must be consistent from one period to the next for reasons of comparability.	Asset depreciation periods must be clearly defined and cannot be altered without justification.	A review of depreciation period changes could uncover a practice whereby the period applicable to a particular asset has been shortened without good reason in order to reduce the asset's book value so it can be sold to a third party at an artificially low price.

Rules governing the organisation of accounting and financial information

Annual financial statements that are prepared in accordance with the five principles set out above should therefore adhere to the following accounting rules:

No offset

Other than in a handful of exceptional cases, assets and liabilities on the balance sheet cannot be offset against each other. The same rule applies to income and expenditure items in the income statement.

One effect of this rule is that the company will have a record of credit notes issued against customer invoices, allowing it to detect instances where an employee (such as a sales representative or accountant) issues an unwarranted credit note in return for an undue advantage.

Historical cost accounting

Under this rule, for valuation purposes, an asset is recognised at its purchase cost and a manufactured product is recognised at its production or construction cost. One way to eliminate an asset from the balance sheet is to write it off as scrap. However, assets cannot be scrapped without a prior analysis supporting the rationale for the decision. As such, assets that could be used for corrupt purposes (such as lightly damaged goods, old vehicles or raw material waste) cannot be scrapped without formal approval of their value.

Accrual accounting

Under the accrual accounting method, a company's financial statements record income and expenses when transactions occur rather than when money is received or dispensed. In this sense, it differs from cash basis accounting, which records transactions on the basis of cash flows (i.e. when payments are made or received). Following the accrual method means, for instance, that a receivable is recorded at the point that a customer places an order for goods, allowing the company to track the age of the receivable and identify when the corresponding invoice becomes overdue. As a result, if goods have been delivered to customer in return for an undue advantage, any delay in the payment due from the customer in respect of those goods will be detectable in the company's accounting records.

Inalterability of the opening balance sheet

The opening balance sheet at the start of a financial year must match the closing balance sheet at the end of the previous year (before appropriation of earnings). This rule avoids a situation whereby unverified transactions occur between two financial years.

Retention of information

The French Chart of Accounts states that accounting documentation must be "retained for the same period as applies to the accounting records to which it relates". This rule means that, if a company has any concerns about transactions that could present a corruption risk, it can search through its records for previous financial years.

No parallel accounting

A company's financial statements should provide a true and fair image of its assets, financial situation and earnings. Parallel accounting is therefore prohibited, since this practice could allow corrupt payments to be recorded in a separate ledger.

1.2 ROBUST ACCOUNTING SYSTEMS AND PROCEDURES

An organised and skilled accounting team

Segregation of duties across the company's internal processes is essential in ensuring independent control and risk mitigation. This fundamental principle implies that the key steps in a transaction (authorisation, recording, asset custody, and oversight) should be assigned to different people. For instance, in sales and procurement processes, each of the following tasks should be performed by separate individuals:

- Inputting and updating customer or supplier details in the company's database
- Placing/taking orders
- Receiving incoming goods/dispatching outgoing goods
- Maintaining accounting records
- Paying suppliers/taking payment from customers
- Managing inventory records (issuing credit notes, writing off unrecoverable losses, manually adjusting receivables and debts)

An accounting team should therefore be organised with this principle in mind, e.g. by assigning responsibility for customer billing to one person while having someone else take charge of receiving payments.

Collective decision-making is another key factor: companies should exercise caution in situations where decisions are made by a small number of managers, or where sales representatives or buyers have a high degree of decision-making autonomy. The company should have a clear, documented signing authority procedure, which should be kept under review as its organisation chart evolves. A copy of the procedure should be kept centrally and made available for review, including as part of internal controls by the accounting team if necessary.

The company should therefore make sure that its accounting team is organised in accordance with these two principles, including by clearly defining individual roles and responsibilities, by drawing up an appropriately detailed organisation chart and documenting approval channels within its information system, and by ensuring that team members have access to the information they need to carry out their duties.

Senior management will also need to ensure that the company's finance and accounting function is adequately resourced, in terms of staffing and budget.

Senior management must also be satisfied that staff responsible for maintaining the company's accounting records have the skills they need to fulfil their responsibilities, or that they can gain these skills quickly. Beyond their background and general expertise in accounting and finance, these staff may also:

- be considered as exposed to corruption risk based on the company's risk mapping (e.g. staff responsible for releasing payments)
- be asked to identify existing accounting controls covering the company's financial and operational processes as part of the corruption risk mapping exercise
- be required to perform first- and second-line-of-defence anti-corruption accounting controls on work or tasks carried out by other individuals

Consequently, these staff require specialist, in-depth training on preventing and detecting corruption,[9] in the same way as employees involved in implementing the company's anti-corruption programme.

Accounting procedures

The French Chart of Accounts requires entities to prepare "documentation describing the accounting procedures and organisation in order that the processing system can be understood and monitored". It also emphasises the need to implement a "closing-off procedure intended to fix the chronology and guarantee the inalterability of entries [...]". These requirements imply that the company's accounting procedures must be formally documented.

Transactions must be recorded in accounts with designations corresponding to their nature, in accordance with the French Chart of Accounts. As such, it is prohibited to record entries in an account in order to conceal a corrupt payment.

All accounting entries must be accompanied by dated supporting documentation (in paper or computerised format, provided that the medium in question clearly and faithfully reproduces the content of the document and enables it to be retained for the appropriate period of time, as governed by legal accounting requirements and by the General Data Protection Regulation (GDPR)). The processing system must be organised in such a way that accounting entries can easily be linked to supporting documentation. Supporting documentation and physical inventory count data must be retained and organised in such as a way as to justify the content of each balance sheet and income statement item.

The procedure for recording a transaction in the accounts – including accounting controls that draw on operational controls performed at the earliest stages of the transaction process – therefore provides assurances as to:

- the rationale for the transaction and its purpose
- the reality of the transaction and its size (e.g. the proportionality of the price to the service/product in question)
- the compliance of the transaction with the company's internal procedure
- the identity of the third party and the beneficial owner

[9] In accordance with Article 17(II)(6) of the Transparency, Anti-Corruption and Economic Modernisation Act 2016-1691 of 9 December 2016, the persons mentioned in Article 17(I) are required to implement "a training programme for managers and employees most exposed to risks of corruption and influence peddling".

- the traceability of the approvals and commitments that enabled the transaction to take place (including signing authorities, tracking in the ERP system, etc.)
- the means of payment and its origin or destination, etc.

By prohibiting the recording of a transaction without supporting documentation, this rule means, for instance, that no payment can be made without accompanying evidence.

A high-quality accounting and financial reporting system

The data held in a company's accounting and financial reporting system – like other components of its information system – must be kept secure and protected from unauthorised access. Weaknesses in general-purpose system access and security controls present a risk to the company's book-keeping and accounting processes.

Appropriate safeguards must therefore be in place for the accounting and financial reporting system, including:

- rigorously managed access privileges and permissions (i.e. who is authorised to add and edit data), which should match the user's role and responsibilities and should be assigned in accordance with the segregation of duties principle
- arrangements for managing editable data (such as a procedure that prohibits accounting entries from being edited or deleted without approval)
- security controls for the database of third parties, given the high degree of risk associated with the creation, editing and deletion of related accounting data (such as bank details)

In particular, these safeguards should ensure that:

- all operations performed within the information system can be traced (including through exhaustive event logs) and verified
- the system is configured in a way that blocks unauthorised users from inputting or accessing data as appropriate
- user passwords are kept confidential

The accounting and financial reporting system should also allow users to access documentation relating to data analysis, programming and processing, in particular so that the necessary tests can be performed to verify the conditions under which entries are recorded and retained.

A secure accounting and financial reporting system allows a company, for instance, to restrict access to customer and supplier records, to manage data that could be disclosed in return for payment, and to detect irregular changes to customer or supplier terms (such as amounts or payment terms) that could be introduced into the system in return for an undue advantage.

1.3 IMPLEMENTING EFFICIENT ACCOUNTING CONTROLS

Efficient accounting controls are based on an assessment of the risks inherent in the company's accounting process. This assessment could be informed, for instance, by the results of external controls carried out by the company's chartered accountant or statutory auditor, or by the findings of audits and inspections by the regulator, the customs authorities, the Social Security and Family Benefit Contribution Collection Office (URSSAF) or another official body.

Accounting controls can include up to three lines of defence:

- The purpose of the **first line of defence** is to conduct preventive controls prior to implementing a transaction that could give rise to an entry in the company's books, ledgers and accounts,[10] in order to ensure that the tasks that are inherent in an accounting process are performed in compliance with the company's procedures. These can include business process-specific application controls such as system configuration, interface controls and restrictive controls. These controls are performed by members of the accounting team or by their superior. For certain high-risk accounting operations, the company may introduce a second layer in the first line of defence, with the superior carrying out additional checks following the controls performed by line personnel
- The purpose of the **second line of defence** is to conduct controls on transactions that have already been implemented (or after a potential corruption risk materialises, e.g. after a payment is made),[11] in order to ensure that the first-line-of-defence controls have been properly executed. These controls, which may be conducted at prescribed intervals or randomly, may be performed by the accounting and finance department, the compliance officer,[12] the internal control function (or the permanent control function within a bank), the quality function, the risk management function or management control. The second-line-of-defence controls must be conducted by someone different and independent from the person who performed the first-line-of-defence controls
- The purpose of the **third line of defence**, also known as "internal audit", is to conduct ex post audits in order to ensure that the control system complies with the company's requirements and is implemented effectively and kept up to date. These controls may be performed internally or by a competent external provider. If the company appoints an external provider, it remains responsible for the design, quality and relevance of its audit plan

[10] As defined by the AFA: AFA, *French Anti-Corruption Agency Guidelines*, 12 January 2021, courtesy translation of the French version published in the Official Journal of the French Republic (*Journal officiel de la République française*), para. 332, p. 43.

[11] As defined by the AFA: AFA, *French Anti-Corruption Agency Guidelines*, 12 January 2021, courtesy translation of the French version published in the Official Journal of the French Republic (*Journal officiel de la République française*), para. 65, p. 10.

[12] The AFA defines the compliance officer as the person responsible for overseeing the deployment, implementation, evaluation and updating of the anti-corruption programme, working closely with the relevant teams and departments within the organisation. Detailed information about the duties and scope of this role can be found in the AFA publication entitled *Practical Guide: The corporate anti-corruption compliance function*, which is available at: *https://www.agence-francaise-anticorruption.gouv.fr/files/2020-06/Pratical%20Guide%20The%20corporate%20anti-corruption%20compliance%20function_0.pdf*

Example of accounting controls in the accounts payable process (invoice entry sub-process):[13]

Example of the tasks involved in entering an invoice into the system (according to the accounting procedure)	Check that the supplier is included in the approved database.	Check that the authorising officer has confirmed that the invoice matches the purchase order (amount, type of goods delivered/service performed, quantity of goods delivered/ number of hours worked).	If an anomaly is found on either of these points, enter the invoice (principle of prudence) but include it in an anomaly tracking file and send this to the department that placed the order for analysis, indicating when a response is expected. Otherwise, enter the invoice with "normal" status.
First line of defence	The "invoice entry" application only opens if the supplier name is included in the "approved suppliers" database (automated control built into the system).	The head of accounts reviews a sample of invoices pending payment authorisation to ensure that the authorising officer has checked the invoices against the purchase orders and documented these checks.	For each invoice flagged as "anomalous", the head of accounts approves the change of status to "normal" once the department that placed the order has provided an explanation.
Second line of defence	Each month, the compliance officer selects a predetermined number of paid invoices and checks that the first-line-of-defence controls have been performed. The compliance officer checks that the first-line-of-defence controls have been performed for all invoices issued by high-risk suppliers that were initially flagged as "anomalous" and subsequently changed to "normal" status following feedback from the department that placed the order. The head of accounts (or the compliance officer) reviews the invoices in the anomaly tracking file that have not been changed to "normal" status because a satisfactory explanation has not been received.		
Third line of defence	The internal audit function conducts periodic checks to ensure that: • the first- and second-line-of-defence controls have been properly executed • any problems that were found have been addressed and, where relevant, the procedure has been updated or other remedial action has been taken (e.g. training) • the entire process – from order to payment – provides sufficient safeguards to prevent the payment of non-approved suppliers or fraudulent invoices		

[13] In organisations with mature accounting systems, this type of reconciliation is typically computerised and automated. In such cases, the first line of defence could involve the head of accounts checking the system-issued report for invoices that have not been flagged as anomalous. Nevertheless, the head of accounts should still manually check a sample of approved invoices at prescribed intervals.

Effective general-purpose accounting controls contribute to preventing and detecting corrupt practices. In the illustration above, for example, these controls ensure that the company cannot pay non-approved suppliers without first analysing the rationale for the payment. They also prevent the company from paying invoices whose amount exceeds the quantity of goods delivered or the agreed price stated in the purchase order (which could conceal a corrupt agreement between the supplier and the buyer).

2. DEFINITION AND CONTENT OF ANTI-CORRUPTION ACCOUNTING CONTROLS

As mentioned earlier in this guide, keeping detailed and comprehensive accounts, prepared in line with relevant principles, contributes significantly to preventing and detecting corrupt practices. But companies are exposed to specific corruption risks, which are shaped by factors such as their business activities, their location, structure and history, and their dealings with different categories of third parties.

An effective corruption prevention and detection system is based on a corruption risk map, which is the result of a review and analysis of the company's processes. The company will use this map to identify any risks inherent in its processes that are not adequately mitigated by existing measures and procedures. In many cases, the company will need to implement additional corruption risk mitigation measures for some of these processes, as well as strengthen its existing accounting controls or introduce new ones. These anti-corruption accounting controls – so named because of their link with the corruption risk map – supplement existing accounting controls and are incorporated into the company's general-purpose internal control system.

2.1 ANTI-CORRUPTION ACCOUNTING CONTROLS ARE DETERMINED ON THE BASIS OF THE CORRUPTION RISK MAP

Detailed guidance on corruption risk mapping can be found in the *French Anti-Corruption Agency Guidelines*.[14]

In broad terms, this exercise involves the following six steps:

- Identifying the company's processes
- Conducting a detailed analysis of these processes to identify the corruption risk scenarios to which the company is exposed through its operational, managerial and support activities (ignoring the effect of existing mitigation measures at this stage)
- Assessing this "gross" risk exposure, taking into account the likelihood of these risks materialising, their impact should they materialise, and any aggravating factors

[14] AFA, *French Anti-Corruption Agency Guidelines*, 12 January 2021, courtesy translation of the French version published in the Official Journal of the French Republic (*Journal officiel de la République française*), paras 377–415, pp. 50–54.

- Identifying existing internal control measures that contribute to mitigating "gross" risks and updating the risk assessment to reflect the effect of these measures in order to determine the company's "net" or "residual" risk exposure
- Identifying risk scenarios that are not adequately mitigated by existing measures and introducing additional mitigation measures as part of a documented and monitored action plan
- Formalising, updating and archiving the risk map

Accounting and financial processes are included in the corruption risk mapping exercise (step 1).

The existing risk mitigation measures covering all of the company's processes (identified at step 4) are diverse in nature and may include existing anti-corruption accounting controls. These general-purpose accounting controls contribute to preventing and detecting corruption.

The additional risk mitigation measures (introduced at step 5) may also include "anti-corruption accounting controls". In some cases, this may involve strengthening existing controls (such as increasing their frequency, introducing higher approval requirements or expanding the sample size). In other cases, the company may need to introduce new measures.

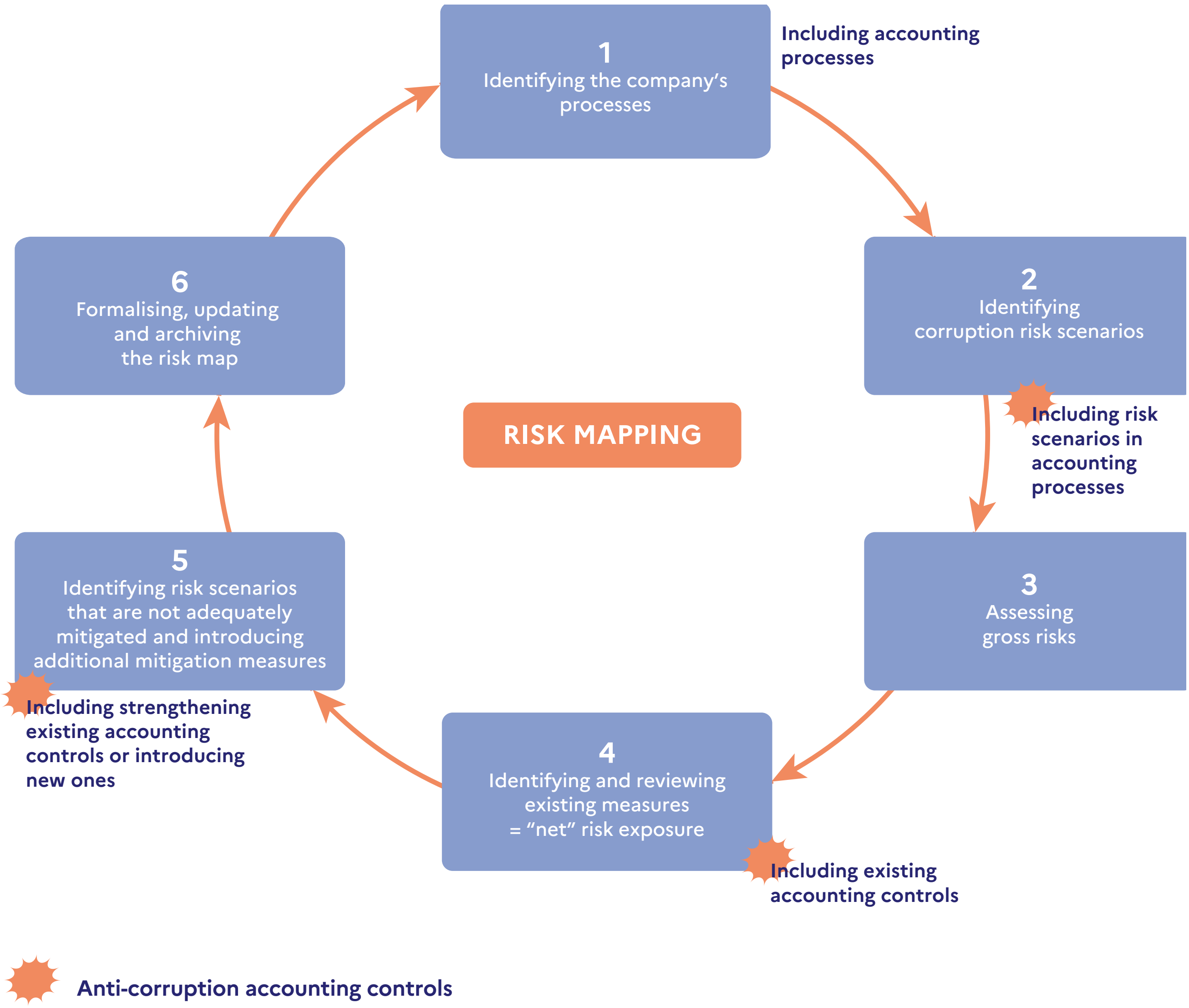
The corruption risk mapping exercise therefore enables the company to determine appropriate mitigation measures for each of the corruption risks it has identified.

For instance, an effective control chain for the purchasing process will cover everything from selecting the supplier to paying the invoice, while for the recruitment process, it will cover everything from hiring the employee to paying their salary. In these cases, accounting controls are designed to ensure that the entire control chain has been properly executed. Returning to the example of the recruitment process, these controls will work backwards from a payroll transaction, checking that the employee in question followed the correct hiring process, that the company announced a job vacancy, that the person is properly registered as an employee, that they have worked the hours for which they are being paid, and so on.

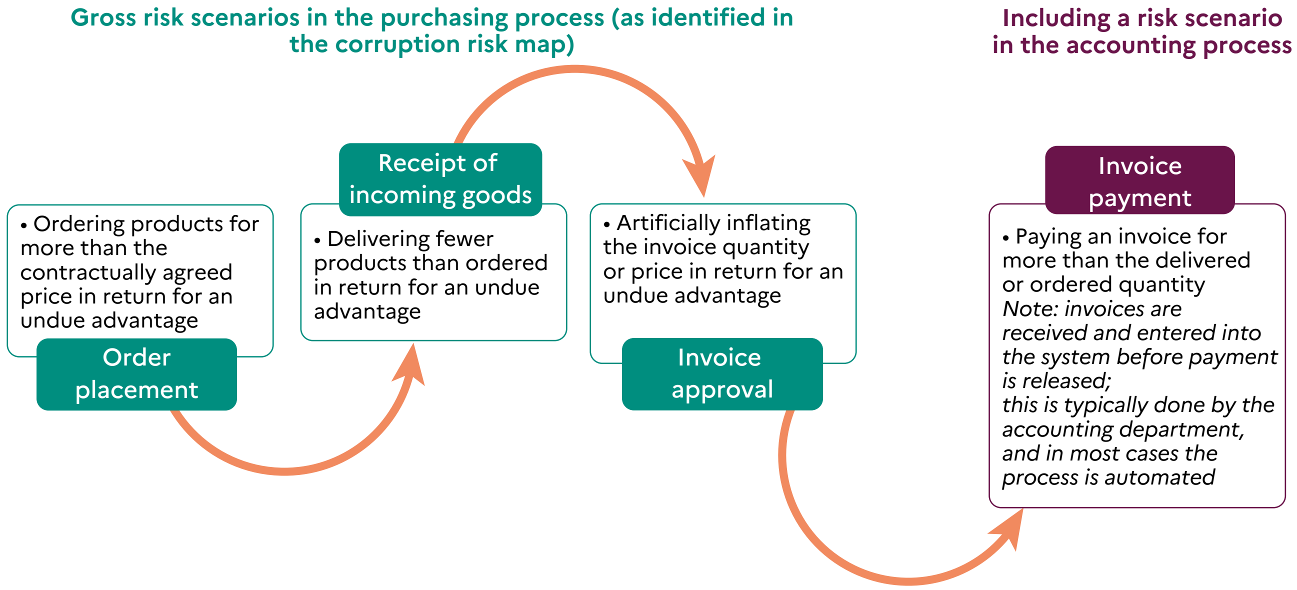
Accounting controls are typically performed at the end of the process and draw on other controls carried out previously, helping to ensure that these other controls are effective.

In conclusion, anti-corruption accounting controls are implemented with a view to mitigating risks identified in the corruption risk map, and specifically for the purpose of ensuring that the company's books, ledgers and accounts are not used to conceal corruption or influence peddling.

Links between corruption risk mapping and anti-corruption accounting controls

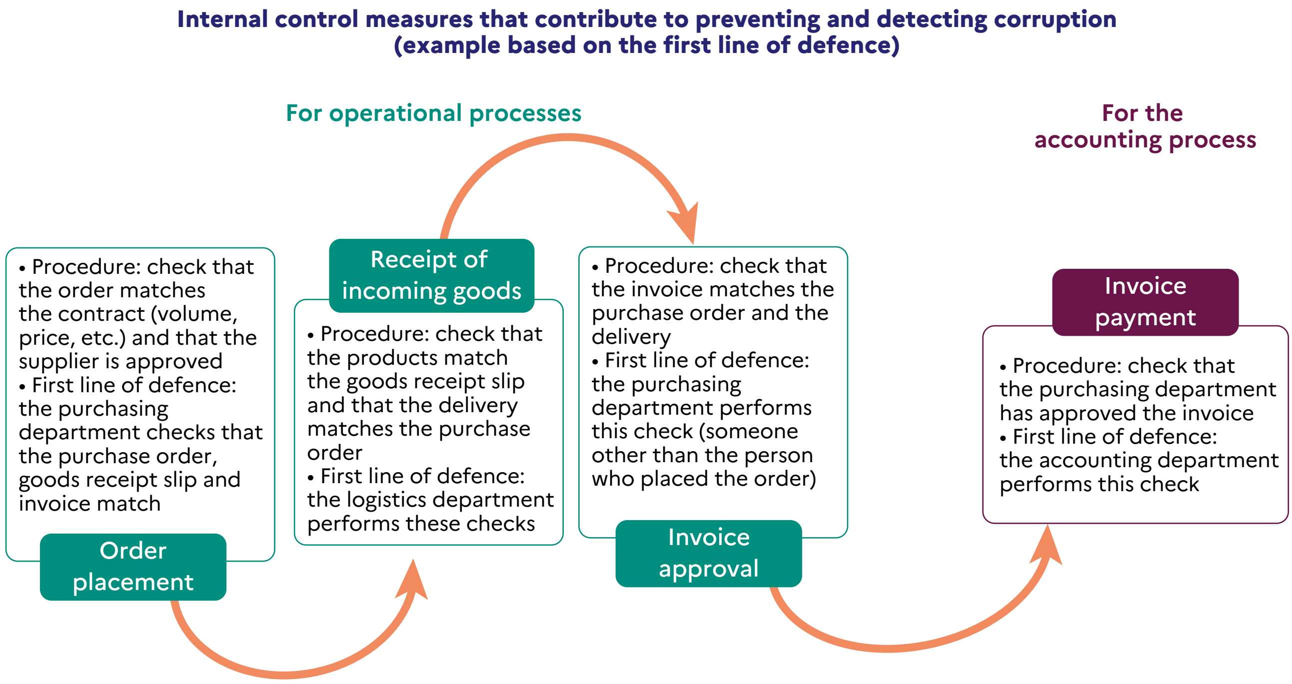


Based on the risk scenarios identified in the corruption risk map, the company will determine what existing internal control measures and procedures (including accounting controls) contribute to mitigating the associated risk. For risk scenarios that could materialise as accounting entries, the company may identify accounting controls among its existing risk mitigation measures. In this case, these controls will be treated and listed as anti-corruption accounting controls. Likewise, general-purpose IT controls that relate specifically to the company's accounting and financial reporting system are identified and listed as accounting controls that contribute to mitigating corruption risk.



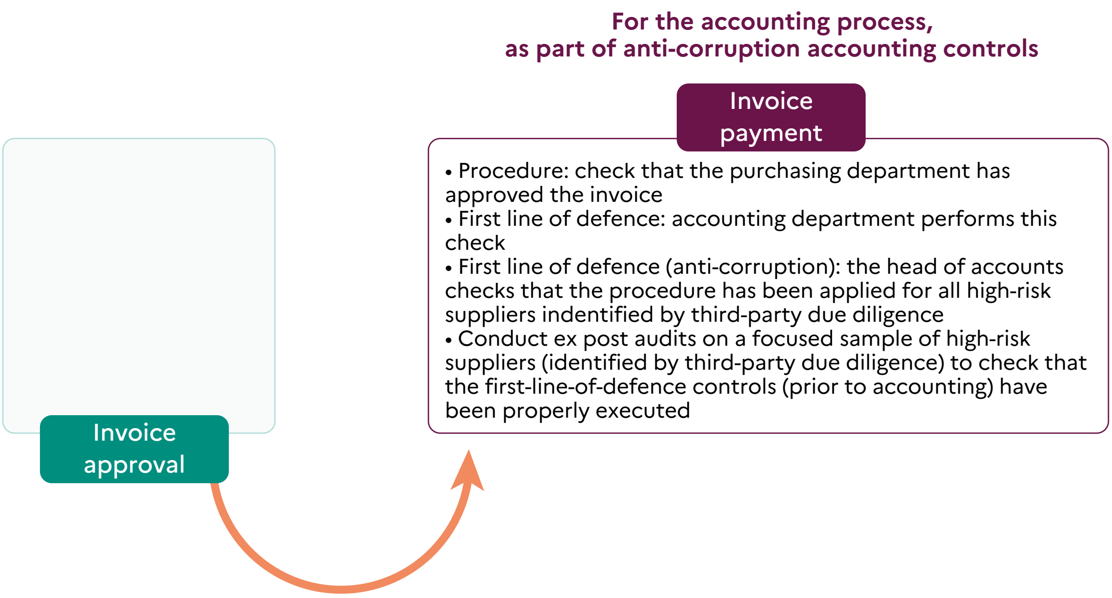
The above example is based on a passive corruption scenario, but the same logic applies to active corruption scenarios.[15]

Where the company considers that a risk scenario is not adequately mitigated, it may introduce additional measures, including strengthened internal control measures and anti-corruption accounting controls.



By way of illustration (and continuing the example above), the company could strengthen its first line of defence for high-risk third parties. For instance, it could introduce an additional anti-corruption accounting control under which invoices issued by high-risk suppliers (identified by third-party due diligence) must go through a specific approval procedure including the purchasing department and the head of accounts.

[15] Active corruption refers to the actions of the bribe-giver, while passive corruption refers to the actions of the bribe-taker.



As stated in para. 152 of the French Anti-Corruption Agency Guidelines, the company should assess whether it needs to update its risk map once a year. Whenever the risk map is updated, the associated anti-corruption accounting controls should also be reviewed.

2.2 ILLUSTRATIONS AND EXAMPLES OF CORRUPTION RISK EXPOSURES

Examples of situations requiring enhanced accounting due diligence

When assessing risk scenarios, the company may wish to pay close attention to the following situations, among others:

- Accounting processes lacking adequate control, such as processes that are based on manual entries, that include a limited number of automated controls or that are poorly integrated with upstream operational systems (such as purchasing, sales, inventory and expense claim systems)
- Accounting processes involving a limited number of people, preventing proper implementation of the segregation of duties principle
- Accounting processes with limited oversight by external third parties (such as statutory auditors, customs authorities, regulators and chartered accountants)
- Accounting processes that the company has recently introduced (such as after acquiring a subsidiary or implementing a new information system)
- Locally managed accounts, especially when the accounting standards in the country in question are less strict than those that apply in France

- Accounting processes at shared service centres located in high-risk countries
- Accounting processes at subsidiaries that appear to be inactive or dormant and/or are not included in the company's consolidated financial statements
- Accounting processes linked to the company's emergency procedures (such as emergency purchases)

Examples of transactions that may require enhanced accounting due diligence

When assessing risk scenarios in its operational processes, the company should pay special attention to the following situations:

- **Processes relating to promotions, gifts and hospitality:**
  - Sponsorship and patronage activities
  - Financing of trade unions and non-profit organisations
  - Management of expense claims
  - Gifts and hospitality (giving and receiving)
  - Processes involving travel agencies
  - Marketing, communication and advertising activities
- **Processes involving outflows of funds or other assets** (other than standard bank transfers to suppliers):
  - Management of samples/free products/gifts in kind
  - Transactions including payments in cash
  - Payment cards/card management (such as corporate credit/debit cards)
  - Transactions in which facilitation payments may be requested in order to induce the recipient to facilitate or expedite an otherwise routine task[16]
  - The writing-off of fixed assets or inventory as scrap
- **Specific human resource management processes:**
  - Non-standard expenditures (such as if the company pays tuition fees or accommodation costs or covers employees' income tax)
  - High-risk human resource management transactions (severance grants, bonuses, payroll costs, salary advances)

[16] Facilitation payments are illegal in France. They may be tolerated in other jurisdictions, including in the United States.

- **Extraordinary and high-stakes transactions:**
  - Acquisitions and equity investments
  - Major capital investment projects, establishing new factories
  - Real-estate transactions, rental/lease agreements, payment of rents on behalf of a third party
- **Expenditure processes without proper controls:**
  - Expenditures recorded without requiring a purchase order or cost estimate (as is sometimes the case with facilities management and other types of services)
  - Contracts awarded without a formal tender or via a poorly defined procedure
- **Movements of funds or commodities to accounts or third parties belonging to a high-risk group as identified in the risk map:**
  - Third parties receiving variable compensation (commission)
  - Intermediaries, consultants and agents
  - Public entities

Examples of high-risk account items[17]

Most account items can be used to conceal corrupt practices. But some accounts require special attention because they can present a high degree of corruption risk. In the corruption risk mapping exercise, the company must therefore review existing control and audit procedures for these high-risk accounts. If it judges that they do not adequately mitigate its corruption risk exposures, it may need to strengthen its procedures – especially those covering the highest-risk locations or activities.

Reversing accounts and entries

Under the double-entry book-keeping method, account items typically show a debit or credit balance according to their nature. Expense accounts will tend to include debit entries, while income accounts will contain credit entries. Meanwhile, on the balance sheet, supplier accounts will by nature be in credit, while customer accounts will be in debit. Any entry or balance that contradicts the nature of the account item may be subject to enhanced scrutiny and the reason for the contradiction documented:

- any entry in a purchase or sales account that is contrary to the nature of the account

[17] Where applicable, the numbers are those used in the French Chart of Accounts.

- rebate, discount and allowance accounts, such as rebates, discounts and allowances on purchases (accounts numbered 609XX – on goods, 619XX – on external services, and 629XX – on other external services), and rebates, discounts and allowances granted to customers (accounts numbered 709XX)
- accounts for debts receivable and payable (accounts numbered 409XX – suppliers in debit, and accounts numbered 419XX – customers in credit)
- accounts for recording write-offs of debts or receivables (e.g. bad debts written off) or expense deferrals (e.g. transfers of expenses)
- credit entries in fixed asset accounts other than cumulative depreciation on fixed assets (e.g. write-off as scrap entries)

These accounting entries may be perfectly legitimate. But they may also reveal evidence that a company employee (such as an accountant, sales representative or buyer) has reduced the amount owed by a customer or increased the amount payable to a supplier in return for an undue advantage. For this reason, they should be subject to enhanced scrutiny.

Suspense and imprest accounts

In some circumstances, these accounts can be used to extract funds from the company for corrupt purposes. For instance, advances paid to an employee (potentially as a bribe) that are not properly tracked may later give rise to a reversing entry if too much time has passed since the payment was made and the employee in question no longer works at the company.

Accrual accounts (numbered 48XX) may also present a particularly high risk, given the unusual nature of the transactions involved.

Account items relating to intellectual services

Debts payable accounts relating to suppliers of intellectual services (class 4XX) and the corresponding expense accounts (class 6) may also present a high degree of risk because it is more difficult to establish whether the related services were actually performed, and the corresponding performance date and value, than for deliveries of physical goods with a catalogue price. Examples of high-risk accounts in this respect include 604 (purchases of project studies and services), 617 (project studies, surveys, assessments) and 622 (agents remuneration and fees). Consequently, the company may need to introduce specific controls (accounting and operational) to ensure that the invoices are legitimate and correspond to services that were genuinely performed.

Sundry accounts

Any accounts that are not precisely named or assigned to a clearly designated purpose could be used to conceal corrupt practices. Examples include accounts ending in the number 8 (such as 6238 – sundry (e.g. tips, standard donations)) and payable or receivable accounts numbered 468 (sundry – accrued expenses and income receivable).

Off-balance sheet and off-income statement commitments, such as collateral and guarantees, may also present a high risk and warrant enhanced due diligence. For instance, a company could guarantee a loan for third party and then, if the third party defaults on the loan, pay the instalments on its behalf, thereby transferring funds to the third party for corrupt purposes.

A more exhaustive list of examples of high-risk account items can be found in Appendix 2.

3. IMPLEMENTING ANTI-CORRUPTION ACCOUNTING CONTROLS

3.1 ANTI-CORRUPTION ACCOUNTING CONTROL METHODS

Some of the general-purpose accounting controls that companies implement contribute to mitigating corruption risk (e.g. verifying invoices, bank details and expense claims). After reviewing its risk map, the company may decide to strengthen these controls (e.g. by requiring invoices to be approved by two people) or introduce specific anti-corruption accounting controls (e.g. focusing specifically on spending on gifts or patronage activities). If the mapping exercise highlights areas of particular risk, the company may also widen these controls by increasing their frequency, extending their scope or expanding their sample size. In terms of methods, anti-corruption accounts controls therefore follow the same principles as general-purpose accounting controls.

Anti-corruption accounting controls focus on the accounting records mentioned earlier in this guide (balance sheet, income statement, explanatory notes, general ledger and daily ledger), on other records the company is required to keep by law (such as its employee and securities registers) and on its analytical accounting records (especially if the company works on long-term contracts). A company's accounting control methods are typically documented in its **accounting policies and procedures manual** and cover both accounting and financial auditing practices.

Companies may use the methods outlined below to verify accounts and transactions identified as high-risk in the risk mapping exercise described earlier in this guide. Note that the accounting audit, analytical review and physical inventory count methods are by nature second- or third-line-of-defence controls.

Accounting audit

The accounting audit method involves checking and justifying account items on the company's balance sheet or income statement, typically by reviewing the relevant supporting documentation.

An accounting audit may involve **consistency reviews**, whereby accounting records are compared against non-accounting records or against supporting documentation. Examples include:

- reconciling the gifts register with accounting entries
- reconciling supplier/customer accounts with the corresponding expense/income accounts (e.g. "other sundry expenses")

- reviewing credit notes to make sure all credit notes issued by the company have been recorded
- reviewing debts written off
- checking that accounting entries are consistent with the relevant supporting documentation (such as contracts, purchase orders, goods receipt slips, invoices or delivery notes)

As part of this process, the company also conducts an **account allocation review**, in order to ensure that an entry has been allocated to the correct account. For instance, it could check that documented, authorised contractual agreements exist for all rebates, discounts and allowance in its records.

Identifying and analysing unusual or recurring amounts under a given account item can also help the company to detect corrupt practices (such as in fees and commissions accounts).

Reviewing the descriptions of entries in a given account can likewise be helpful for detecting anomalies:

- searching entries by key word (fees, intellectual services, etc.)
- checking that expenditures have been allocated to correct analytical accounts

Another useful aspect to review is the **accounting entry date**, especially for entries recorded when the company is closed or during traditional holiday periods (when approval procedures may be relaxed).

Lastly, the accounting audit process could include a **review of system-generated anomaly reports**. For instance, the company could look at:

- anomaly reports for discounts, rebates and allowances if these transactions are automated (e.g. the percentage differs from the contractually agreed level)
- anomaly reports for the recording of turnover in its accounting software

Analytical review

An analytical review uses a comparative method to check the consistency of the value of an account. For instance, this comparison could be performed against:

- the same account in previous years
- changes in the related data (e.g. changes in the company's headcount for the payroll account item)
- key ratios and industry benchmarks

Any material discrepancies should be supported by a logical explanation. If unexplained inconsistencies remain, the account in question should be subject to enhanced checks. For instance, this accounting control method can allow the company to:

- identify purchase prices that exceed budgeted levels or the prices paid in previous financial years, such as when the unit price billed by a supplier is artificially inflated in order to conceal sums paid as part of a corrupt arrangement

- identify selling prices that are lower than its standard list price or that deviate from its terms and conditions of sale
- detect unusual outgoing inventory movements by monitoring mark-downs and breakage
- detect anomalies by monitoring management indicators (discount rate per contract/supplier, unexpected sales, etc.) that could point to corrupt practices
- analyse employee bonuses against salaries

When determining whether a discrepancy is material, the company should consider not only its value (in monetary terms) but also the wider risk environment. For instance, the company may wish to analyse transactions involving high-risk third parties in greater detail, and to set a lower materiality threshold for these third parties than for its standard suppliers. The risk exposures covered by these controls are determined according to the company's risk map.

Sampling

This method involves reviewing a sample of accounting operations to ensure they are compliant. Given the extremely high volume of accounting entries in a company's books and records, these checks are normally performed on a selected sample. The sample selection method is determined using specific criteria based on the company's risk map, while the sample size is determined by the person performing the checks according to the degree of risk associated with the account in question. The company may use special tools to help it select representative samples of the "population" under review. If the review can be automated, the sample could be widened to include more operations – or even the entire population.

Threshold sampling methods – i.e. reviewing all account entries that exceed a predetermined value – should be treated with caution. While this approach can be appropriate for conventional accounting audits, it may not be suitable for corruption-specific accounting controls, since the value of accounting entries is not always a reliable indicator of corrupt practices. Companies that employ threshold sampling methods are therefore advised to conduct additional controls on random samples.

Automated, computerised accounting processes and controls allow companies to process higher volumes of accounting data and transactions. While automation contributes to better risk mitigation, companies should have suitably robust controls in place to ensure that these system-based checks are effective, and should not rely solely on reviewing anomalies detected by the system.

Book-to-physical procedures

This category covers all procedures by which an account balance is compared against physical quantities. As well as reviewing inventories of fixed assets and stock (such as raw materials, finished and semi-finished products, waste, scrap and demonstration products), these checks can also involve reconciling cash and account balances.

When carrying out these controls, the company should review any material discrepancies. These should be justified and addressed by way of an adjusting entry for a limited period of time.

3.2 RELATIONSHIP BETWEEN ANTI-CORRUPTION ACCOUNTING CONTROLS AND OTHER CONTROLS

Relationship between anti-corruption accounting controls and existing accounting controls

Anti-corruption accounting controls ultimately ensure compliance with the same principles as general-purpose accounting controls and use the same methods. The procedures are instituted by enhancing or supplementing existing general-purpose controls with regard to the high-risk situations identified by the corruption risk mapping exercise.

The below example shows an anti-corruption accounting control that supplements existing, general-purpose accounting controls for a specific process (in this case, processing expense claim refunds for sales representatives):

Anti-corruption accounting controls and internal control

Companies usually have a general-purpose internal control and audit system, which is determined according to its risk assessment and contains up to three lines of defence:

- The purpose of the first line of defence is to ensure that the tasks that are part of an operational or support process are performed in compliance with the company's procedures

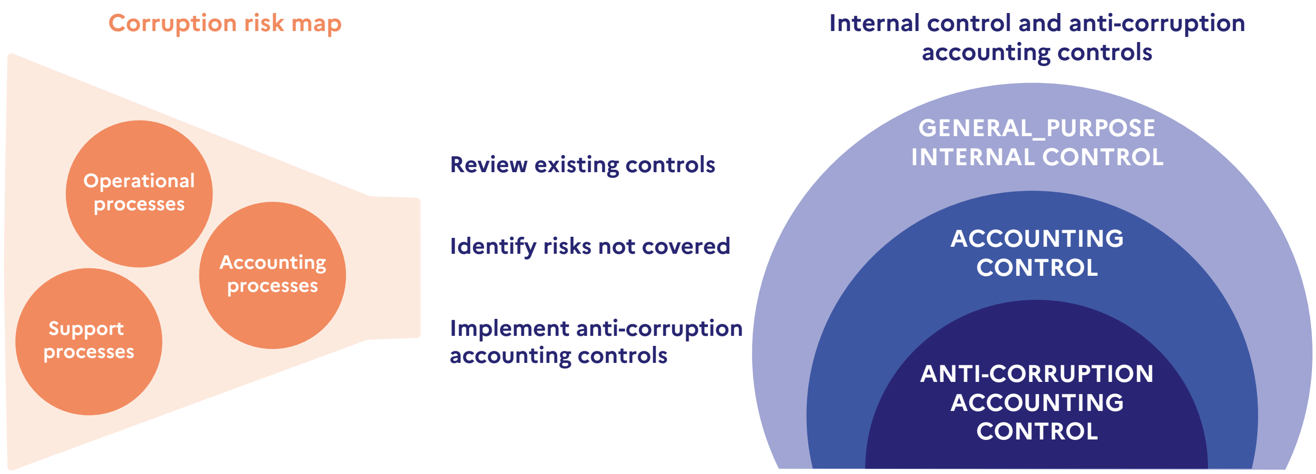
- The purpose of the second line of defence is to ensure that the first-line-of-defence controls are properly executed. These controls may be conducted at prescribed intervals or randomly
- The purpose of the third line of defence, also known as "internal audit", is to ensure that the control system covers the identified risks, complies with the company's requirements, and is implemented effectively and kept up to date

This general-purpose internal control and audit system may also be helpful for ensuring broader coverage of the company's risks as identified in the corruption risk mapping exercise.

The company can use the risk map to:

- identify high-risk situations that are not covered or poorly covered by control measures
- assess existing control measures that could mitigate these risks

Accounting control and audit procedures are the preferred means of preventing and detecting corruption as part of the internal control and audit procedures. **Anti-corruption accounting controls are part of the company's internal control system and are founded on its corruption risk map.**



Companies are encouraged to ensure that their general-purpose internal control and audit system:

- covers the high-risk situations identified in their corruption risk map
- is appropriate for these risks and capable of mitigating them
- is updated regularly on the basis of the risks encountered and the findings of the controls conducted

The controls defined in this way supplement the action plan derived from the corruption risk mapping exercise. They are formalised in a procedure that specifies the identified high-risk processes and situations, the frequency of controls and control procedures, the persons responsible for these controls, and the procedures for submitting their findings to senior management.

Anti-corruption accounting controls are organised into three lines of defence, following the same model as general-purpose internal controls:

- The anti-corruption accounting controls for the first line of defence are generally performed by those responsible for entering and approving accounting entries, who ensure that the entries are properly justified and documented (especially manual entries). Cross-checks between staff members are satisfactory for entries involving sums under a set threshold. Entries for greater amounts may require approval by a superior

- The anti-corruption accounting controls for the second line of defence are performed all year long by staff who are independent from those who performed the controls for the first line of defence. The purpose of these controls is to ensure the proper performance of the anti-corruption accounting controls for the first line of defence. When sampling is used, the sampling method must be representative of the risks incurred in the transactions (including manual entries, approval authority and segregation of duties). The sampling procedures are defined with regard to a prior analysis of the various entries and risks incurred to ensure representativeness. If the anti-corruption accounting controls for the first line of defence are automated, the controls for the second line of defence should be adapted accordingly

- The effectiveness of anti-corruption accounting controls is assessed on a regular basis as part of the accounting controls for the third line of defence. These controls cover the whole accounting system to ensure that the anti-corruption accounting controls comply with the company's requirements, and that they are effectively implemented and kept up to date. For this purpose, the accounting controls for the third line of defence assess the appropriateness and effectiveness of:

    - governance and resources for anti-corruption accounting controls

    - the methods for the development (particularly the integration of the corruption risk map) and application of anti-corruption accounting controls for the first and second lines of defence

Relationship between anti-corruption accounting controls and other financial controls

Companies may be required to put in place certain accounting and financial control measures under French law or in accordance with the legislation that applies in other jurisdictions. While these measures can, in some cases, help to prevent and detect corruption, adhering to these rules does not automatically mean that the company is compliant with the anti-corruption accounting control requirements laid down in Article 17 of the Transparency, Anti-Corruption and Economic Modernisation Act 2016-1691 of 9 December 2016.

Sarbanes-Oxley Act

The Sarbanes-Oxley (SOX) Act of 2002[18] applies to listed companies and companies whose shares are publicly traded in the United States, as well as to their subsidiaries. The Act requires both management and the statutory auditor to issue an opinion on the company's internal control procedures. Companies must therefore take formal steps to demonstrate that they comply with internal control principles. Although effective internal control procedures contribute to preventing and detecting corruption, they do not cover all possible corruption risk exposures, which can only be identified by way of a corruption risk mapping exercise. Likewise, the contribution of anti-fraud measures introduced under the SOX Act can be assessed during the risk mapping exercise, which includes a review of the effectiveness of existing measures in mitigating the identified risks. Anti-corruption accounting controls should target the corruption risks identified in the mapping exercise. Any controls put in place in compliance with the SOX Act that serve this purpose must be identified and documented.

Fraud prevention

Anti-fraud accounting controls (such as bank-detail checks and bank reconciliation) actively contribute to preventing and detecting corruption. These measures will almost certainly feature among the existing accounting controls identified in step 4 of the corruption risk mapping exercise (see section 2.1).

Anti-money laundering and combating the financing of terrorism (AML/CFT)

The French Monetary and Financial Code requires some businesses to put in place AML/CFT risk assessment and management systems.[19] While certain aspects of these systems can contribute to preventing and detecting corruption, they remain focused on specific types of third parties, and on customers in particular. Moreover, these systems are geared specifically towards AML/CFT and the information requested from customers may differ from that gathered as part of anti-corruption measures. For instance, companies that are required to implement AML/CFT systems do not, as part of these controls, ask their legal-entity customers if they have put in place an anti-corruption programme. In addition, AML/CFT customer due diligence rules do not require companies to implement anti-corruption accounting controls. Banks and insurance companies are also subject to the Basel and Solvency II frameworks, which require them to put in place an internal accounting control system. Once again, the contribution of this system can be assessed during the risk mapping exercise, which includes a review of the effectiveness of existing measures in mitigating the identified risks.

[18] Public Law 107-204 of 30 July 2002.

[19] Articles L.561-1 *et seq.* of the French Monetary and Financial Code.

3.3 A STANDALONE, DOCUMENTED PROCEDURE

Anti-corruption accounting control procedures are formalised under a procedure that sets out:

- the purpose and scope of the controls
- the roles and responsibilities for implementing these controls for the first, second and third lines of defence (as well as for presenting the controls to senior management and the arrangements for having action plans approved by senior management)
- the thresholds and materiality criteria that trigger controls
- the sampling procedures for transactions subject to controls, as appropriate
- a control plan that may include, depending on the degree of identified risk, systematic and rotational controls, along with the time scales for these controls
- the procedures for managing problems

The procedure also specifies the documentation, traceability and archiving arrangements for these controls. The company may find it helpful to draw up a matrix showing the risks identified in the risk mapping exercise and the accounting controls that contribute to mitigating these risks.

The procedure could also state the extent to which anti-corruption accounting controls (including IT controls) should be documented. For instance, it could indicate that the documentation should include:

- operating procedures and methods
- step-by-step narratives outlining business cycles and processes, with standalone descriptions of risks and associated controls
- decision-making flow charts and process diagrams
- self-assessment questionnaires on the design and performance of the internal control system
- matrices detailing the purpose, steps and frequency of different controls, along with the targeted risks

The anti-corruption accounting control procedure – like all other measures and procedures in the company's anti-corruption programme – is subject to an internal control and audit system. The purpose of this system, which follows the three-lines-of-defence model, is to:

- monitor the effective implementation of the anti-corruption accounting control procedure
- identify and understand any deficiencies in the implementation of the procedure
- formulate, where necessary, recommendations or other appropriate corrective measures in order to improve the procedure

An example of a three-lines-of-defence internal control system, as it applies to the anti-corruption accounting control procedure, is given below.

First line of defence	Monitoring of approval authority. Monitoring of the proper application of anti-corruption accounting controls.
Second line of defence	Regular monitoring of the proper execution of first-line-of-defence controls after transactions are executed and based on a representative sample.
Third line of defence	Monitoring of the proper execution and effectiveness of the first- and second-line-of- defence controls. Analysis of the execution of accounting controls and the proper allocation of resources. Analysis of the appropriateness of the accounting controls with regard to the risks identified in the map. Analysis of the systematic nature of the programme, e.g. critical analysis of existing accounting control measures with regard to updates of the corruption risk map.

3.4 ROLES AND RESPONSIBILITIES

Numerous operational and support departments are involved in ensuring the proper implementation of the company's anti-corruption programme. However, accounting controls are only one of several types of controls that the company puts in place as part of this programme. Consequently, these controls entail a smaller number of individuals, teams and departments, with different parties involved at different stages in the process (assessing risks, approving the risk mitigation strategy, designing the procedures, developing the control plan, and executing and monitoring the controls). The table below provides an illustrative example of how the various tasks involved in this process could be divided. Companies can adapt this arrangement to their own circumstances, keeping in mind the need to apply the segregation of duties principle.

	Senior management	Compliance officer	Accounting and finance department	Accounting team	Internal control	Internal audit	Statutory auditor	Chartered accountant
Risk mapping	X	X	X	X		X		
Design of anti-corruption accounting control procedures		X	X					
Development of the anti-corruption accounting control plan		X	X			X		
First line of defence			X	X				
Second line of defence		X	X		X	X		X
Third line of defence	X					X	X	X

Senior management formally approves the results of the risk mapping exercise and the associated action plan. It understands how the company needs to strengthen its existing accounting controls, and what new controls need to be introduced, in order to mitigate the identified corruption risk exposures. Once the control processes have been implemented, senior management is kept informed of the key findings of internal audits and receives copies of the statutory auditors' reports. It ensures the execution of action plans to improve corruption risk management, including by ensuring that these action plans are adequately resourced.

The **compliance officer** leads the company's anti-corruption programme. They work closely with the finance department and internal audit on the section of the programme dealing with anti-corruption accounting controls. During the risk mapping exercise, the compliance officer works with the finance department to list existing accounting controls for each identified risk scenario and to determine what additional controls are needed to address risks that are not adequately mitigated. Working with the same department, they document the anti-corruption accounting control procedure. The risk manager, when the company has one, also contributes to defining the methodology for identifying, analysing, ranking and managing corruption risks. The compliance officer and the risk manager work in close collaboration on this point.

The compliance officer also performs some second-line-of-defence controls. For instance, they may reconcile the records contained in the gifts and hospitality register with the corresponding account item.

The **accounting and finance department**, as mentioned below, participates in drawing up the list of existing accounting controls, in introducing new anti-corruption accounting controls (if required), and in designing the anti-corruption accounting control procedure. Accountants working in this department also carry out first- and second-line-of-defence controls. In the first line of defence, for instance, they could be tasked with approving all rebates, discounts and allowances above a certain amount, while in the second line of defence, they might check a random sample of rebates granted by the company, at prescribed intervals, in order to ensure that these have been formally approved by the sales director (thereby certifying that they match the contract).

The **finance and accounting team** conducts the anti-corruption accounting controls for the first line of defence. High-risk accounting entries should be reviewed and approved by a staff member who is independent from the person making the entries in order to mitigate the risks associated with self-auditing.

The **internal control function** (and, in some banks, the permanent control function) is involved in conducting controls for the second line of defence.

The **internal audit function** conducts controls for the third line of defence, which are designed to ensure that the anti-corruption accounting control procedures are effective and comply with the company's requirements. Staff in this function may therefore be called upon to provide information about the proper application and effectiveness of existing accounting control procedures as part of the risk mapping exercise. In doing so, they contribute to a documented assessment of the company's net risk exposure. The internal audit function incorporates anti-corruption accounting control procedures into its audit programme.

Statutory auditors

The Transparency, Anti-Corruption and Economic Modernisation Act 2016-1691 of 9 December 2016 expressly states that companies that are required to have their financial statements certified may "task an external auditor" with performing anti-corruption accounting controls "to coincide with the statutory audits provided for in Article L.823-9 of the French Commercial Code."[20] Article L.823-9 of the French Commercial Code states that "the statutory auditors certify, with justification for their assessments, that the annual financial statements are true and fair and give a faithful picture of the results of the operations during the financial year and of the person's or entity's financial position and assets and liabilities at the end of the financial year".

The statutory auditor's principal task is to certify the organisation's annual and consolidated financial statements, issuing a certification report that indicates whether:

- the financial statements are prepared regularly and in accordance with the French Chart of Accounts
- the accounts are sincere (prepared honestly and in good faith)
- the information provided is a faithful representation of the company's situation (principle of prudence, financial representation of reality)

[20] Article 17(II)(5) of the Transparency, Anti-Corruption and Economic Modernisation Act 2016-1691 of 9 December 2016.

To this end, the statutory auditor conducts an audit in order to obtain reasonable assurance that the financial statements do not contain material misstatements.[21] As part of this audit, the auditor reviews both the entity's financial statements and its internal control system, conducting predefined controls based on a risk assessment. The content and format of these audits are governed by professional standards. The statutory auditor sets out the results of the audit in a written report, giving its opinion on the financial statements with regard to the applicable accounting and financial reporting framework.

The statutory auditor's actions and assigned objectives contribute to preventing potential problems for the audited company and to preventing and detecting corruption. The auditor is required to notify the public prosecutor of any offences, including corruption, found when conducting the audit.

The company is free to decide whether to conduct anti-corruption accounting controls internally, to task its statutory auditor or a specialist consulting firm with carrying out these controls, or to adopt a hybrid approach. Whichever approach it chooses, the company still remains responsible for the design and implementation of its anti-corruption accounting controls. If the company entrusts this task to its statutory auditor, the auditor is permitted to perform this service (i.e. a service other than certifying the company's financial statements) provided that it follows ethical rules. Other than when certifying the financial statements of a public interest entity (which entails a ban on certain services), the statutory auditor is free to perform any service as long as doing so does not compromise its independence in the performance of its statutory audit. As such, in addition to certifying the company's financial statements, and adhering to the ethical rules applicable to its practice, the statutory auditor may provide services in connection with the company's anti-corruption accounting controls,[22] including:

- assessing the effectiveness of existing anti-corruption accounting controls introduced as part of the company's anti-corruption programme
- checking that these controls comply with the company's overall control framework
- identifying the strengths and weaknesses of internal control measures and procedures introduced as part of the company's anti-corruption programme
- recommending ways to improve the internal control measures and procedures introduced as part of the company's anti-corruption programme

These external auditing services are entirely separate from the statutory audit.

When certifying the financial statements of any entity (public-interest or otherwise), the statutory auditor must be able to demonstrate that it has assessed the risks that its independence in the conduct of the audit could be compromised and that it has taken appropriate steps to maintain such independence.

[21] Statutory auditors may refer to the professional standard outlining the principles applicable to statutory audits (Article A.823-2 of the French Commercial Code – NEP-200).

[22] Further details on the accounting controls for the third line of defence can be found in the *French Anti-Corruption Agency Guidelines* (paras 308–310).

Chartered accountants

The chartered accountant plays a key role in ensuring that the company adheres to applicable accounting rules and standards. This firm may therefore provide advice on implementing controls to ensure that the company's books, ledgers and accounts are not used to conceal corrupt practices.

RELATIONSHIP BETWEEN ACCOUNTING CONTROLS IN A GROUP OF COMPANIES

Companies that control other entities, such as subsidiaries, branches and agencies, are encouraged to establish procedures and internal controls **to ensure the quality and effectiveness of the anti-corruption programme or programmes deployed in all of the entities under their control.**

In groups of companies, some accounting controls are conducted at group level (within the parent company or its branches/divisions) and others are carried out locally (within subsidiaries). Group-level controls are typically performed by the group's management control and/or internal audit function. Consequently, these controls are generally supervisory and detective in nature. **The group may prepare a set of general principles, as well as predetermined lists of internal controls and procedures, which its subsidiaries will then apply and, where relevant, supplement in accordance with their own corruption risk maps.** Importantly, anti-corruption accounting controls will need to be adapted and strengthened if the group includes companies that are located or operate in high-risk countries.

In situations where the group jointly controls a subsidiary or holds a non-controlling interest, the parent company should closely monitor the accounting control procedures implemented within the entity in question.

The audit committee, if the group has one, has overall responsibility for coordination and supervision.

In accordance with the French Commercial Code,[23] the audit committee, under the authority of the board of directors or the supervisory board as relevant, is responsible for monitoring:

- the process for producing financial information
- the efficiency and effectiveness of internal control and risk management systems
- the statutory audit of the annual and, where applicable, consolidated financial statements
- by the statutory auditors

[23] Article L.823-19 of the French Commercial Code.

3.5 ADDRESSING PROBLEMS

- The company must address any problems found as a result of anti-corruption accounting controls
- The findings of the anti-corruption accounting controls for the second line of defence are summarised and, if any problems are found, corrective actions are decided upon and documented in an action plan. The findings of the controls for the third line of defence are set out in a report, and the main conclusions are presented to senior management
- If a problem is found, the company may need to amend certain existing accounting procedures in order to remedy the problem. Problems found also contribute to updates of the corruption risk map and may be presented, in coordination with the compliance officer, as additional examples to illustrate the code of conduct and training materials on preventing corruption
- If the problem stems from a failure in the implementation of procedures or the anti-corruption programme, the superior may consider taking measures against the person responsible for the failure. These measures may range from a reminder about the rules to a sanction, depending on the severity of the failure
- If the problem leads to suspicions or reveals corrupt practices, it must be reported to the compliance officer and to senior management, which may decide to launch an internal investigation

APPENDIX 1
COMPARISON OF ANTI-CORRUPTION ACCOUNTING CONTROL FRAMEWORKS IN FRANCE AND ENGLISH-SPEAKING COUNTRIES

Accounting control procedures are discussed at length in *A Resource Guide to the U.S. Foreign Corrupt Practices Act* (FCPA). By contrast, the UK Bribery Act (UKBA) only mentions these procedures in passing, in an example relating to internal control.

The FCPA guide devotes an entire chapter to anti-corruption accounting procedures ("Chapter 3: The FCPA: Accounting Provisions"), specifying that they operate in tandem with the anti-bribery provisions contained in the Act. However, it is important to remember that the accounting recommendations in the guide are limited in scope, since they only apply to companies listed on stock exchanges in the United States (known as "issuers").

As a starting point, the anti-corruption accounting control recommendations in the AFA guidelines are not legally binding, whereas failing to comply with the accounting provisions of the FCPA may constitute a civil and criminal offence.

Like the AFA guidelines, the FCPA guide emphasises that the design of a company's anti-corruption accounting controls must take into account the operational realities of the company's business and the exposures identified in its risk map. Therefore, the FCPA guide does not specify a particular set of controls that companies are required to implement. Instead, it gives companies the flexibility to develop and maintain a system of controls that is appropriate to the specific risks they have identified.

In another point of similarity, the FCPA guide – like the AFA guidelines – stresses the importance of detailed and accurate book- and record-keeping for preventing and detecting corruption (the "books and records provision"). Likewise, it emphasises the need for an internal accounting control system as an added layer of assurance (the "internal accounting controls provision"). However, the FCPA guide does not specify what control methods companies should use, other than comparing their accounts with their physical assets at regular intervals.

The FCPA guide states that auditors who become aware of illegal acts must report them to the Securities and Exchange Commission (SEC – the U.S. government agency responsible for regulating the securities markets). This requirement mirrors the obligation under French law for statutory auditors to notify the public prosecutor of any presumed offences found when conducting their audit.

The FCPA guide gives fewer examples of high-risk situations or account items, although it mentions that corruption is often concealed under the guise of legitimate payments such as commissions or consulting fees.

APPENDIX 2
OTHER EXAMPLES OF HIGH-RISK ACCOUNT ITEMS[24]

1. INCOME STATEMENT

604 – Purchases of project studies and services

608 – (account reserved, as applicable, for recapitulation of ancillary purchase costs)

609 – Purchase rebates, discounts, allowances on purchases

611 – General subcontracting

613 – Rental

618 – Sundry

  6185 – Colloquium, seminar, conference costs

619 – Purchase rebates, discounts, allowances on external services

622 – Agents remuneration and fees

623 – Advertising, publications, public relations

  6232 – Samples

  6234 – Gifts to customers

  6235 – Premiums

  6238 – Sundry (e.g. tips, standard donations)

625 – Business travel, missions and receptions

628 – Sundry

641 – Personnel wages and salaries

  6413 – Premiums and bonuses

  6414 – Allowances and sundry benefits

658 – Sundry current operating expenses

654 – Bad debts written off

671 – Extraordinary expenses on operating transactions

  6713 – Gifts and donations

  6714 – Bad debts written off for the financial year

  6718 – Other extraordinary operating expenses

[24] The numbers are those used in the French Chart of Accounts.

708 – Income from related activities (examine all sub-accounts)

709 – Sales rebates, discounts, allowances granted by the entity

75 – Other current operating income

758 – Sundry current operating income

79 – Transfers of expenses

86 – Utilisation of voluntary contributions in kind

860 – Assistance in kind

861 – Items made available free of charge

862 – Services

864 – Voluntary personnel

87 – Voluntary contributions in kind

870 – Gifts in kind

871 – Services in kind

875 – Voluntary help

All account items ending with the number 8 (“sundry” accounts).

2. BALANCE SHEET

35 – Product stocks

40 and 41 – Accounts relating to high-risk third parties

512 – Banks

53 – Cash on hand

471 to 475 – Suspense accounts

455 – Partners/associates – current accounts

Accruals accounts

Goodwill accounts

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