Audit of Transnational Transactions in Foreign Economic Activity Through the Lens of Information Asymmetry

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Abstract. *The article examines the role of auditing transnational transactions in foreign economic activity through the lens of information asymmetry. It shows that in a globalised economy, where international operations are complicated by multiple layers of regulation, cultural barriers and currency risks, information asymmetry becomes a fundamental challenge to ensuring the transparency and reliability of financial reporting. It finds that unequal access to data increases the risk of financial distortions, which negatively affects managerial decisions and the efficiency of transnational transactions. The paper examines the theoretical aspects of information asymmetry, its manifestations in transnational transactions, and its implications for auditing. This study places particular emphasis on the role of auditors in identifying informational distortions, conducting risk analyses, and ensuring transactions adhere to international standards. The research methodology encompasses an analysis of regulatory documents, including International Standards on Auditing (ISA), and their comparison with local regulatory requirements. The practical aspect focuses on analysing specific risks, including legal, currency, and reputational risks associated with transnational transactions. It has been shown that effective auditing of cross-border transactions requires the integration of innovative approaches to information management, such as the automation of data collection and analysis processes, the use of digital platforms and the application of artificial intelligence algorithms. Moreover, the necessity of harmonising international and local regulatory standards is substantiated in order to minimise discrepancies in reporting requirements and ensure transparency in operations. The proposed recommendations are aimed at improving auditing methodologies through the implementation of proactive risk assessment approaches and the development of adaptive strategies tailored to changes in the regulatory environment and global economic trends. The conclusions of the article hold practical value for auditors, financial analysts, and transnational corporations seeking to enhance the efficiency of their foreign economic activities.*

Keywords: *audit of transnational transactions, information asymmetry, foreign economic activity, informational distortions, International Standards on Auditing.*

JEL Classification: *F23, M42, G32, K34, H25*

1 Introduction

In the contemporary context of globalised economic processes and increased integration of international markets, enterprises are confronted with the challenge of ensuring the transparency and reliability of financial information. The complexity and scale of external economic activities give rise to numerous risks, including information distortions, which can significantly impact the outcomes of international transactions. A significant aspect of this issue is information asymmetry, defined as a situation in which parties to a transaction have unequal access to financial, operational, or legal data, which complicates informed decision-making and increases uncertainty.

Transnational transactions are particularly vulnerable to these challenges, as they encompass multifaceted processes across various jurisdictions governed by different legal systems. This multi-layered complexity complicates the evaluation, documentation, and reporting of such transactions. When considered in conjunction with currency risks, regulatory differences, and cultural disparities, the problem of information asymmetry in transnational agreements becomes one of the most critical issues in external economic activities.

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The development of auditing approaches that address the aforementioned challenges is imperative. Such approaches should assess the financial results of transactions and identify hidden risks associated with informational inequality. Auditing of transnational transactions, given these characteristics, must go beyond verifying the accuracy of reporting and ensure the detection of inconsistencies and deficiencies that may arise from information distortions. Therefore, the audit of transnational agreements in external economic activities, examined through the lens of information asymmetry, emerges as a vital tool for ensuring transparency, trust, and efficiency in international operations. Its function extends beyond the scope of conventional audit methodologies, establishing the theoretical underpinnings for risk mitigation and the establishment of a stable environment conducive to the execution of international financial agreements.

2 Research Objective and Methodology

The objective of the present study is to ascertain the particular characteristics of auditing transnational agreements in the context of external economic activities. This will be achieved by means of an analysis of the challenges associated with information asymmetry, and the development of approaches to enhance the efficiency of audit procedures.

The research methodology is founded upon a comprehensive approach encompassing an analysis of regulatory aspects, the impact of discrepancies between jurisdictions, and a practical examination of the particularities of auditing practices. The study employs a range of analytical methods, including content analysis of regulatory documents, such as International Standards on Auditing (ISAs), as well as a comparative analysis of the requirements stipulated by local and global regulators.

3 Information Asymmetry as a Fundamental Issue in International Economic Relations

Information asymmetry represents a pivotal challenge pervasive to all dimensions of international economic relations. It occurs when the parties to a transaction possess unequal access to information, which has ramifications for decision-making, contract terms and the effectiveness of obligation fulfilment. In the global economy, where transnational agreements frequently encompass multifaceted operations, multiple jurisdictions, and intricate financial structures, the issue of information asymmetry assumes even greater significance. The consequences of information inequality encompass heightened risk, distorted economic efficiency, augmented transaction costs, and diminished trust among the parties involved.

This phenomenon impacts various aspects of the international economy, including external economic activities, the operations of multinational corporations, international investments, and financial markets. Information asymmetry can manifest in two distinct ways: firstly, as deliberate withholding of crucial data, and secondly, as objective limitations in accessing information due to differences in legal, cultural, and economic systems. Consequently, it has the potential to engender scenarios in which one party acquires an unjustified competitive edge over another, thereby subverting the tenets of egalitarianism and transparency in international relations.

The theoretical underpinnings of information asymmetry in international economic relations were initially established in the seminal works of Joseph Stiglitz (Stiglitz, 2017) and other prominent economists (Dyba, Zahorodnii & Partyn, 2015; Mahdich, Lymonova, 2019; Ohiienko & Luniakov, 2017; Pushkar, 2019; Uzbek, 2022) who have extensively researched the phenomenon of unequal access to information. The extant literature demonstrates how informational inequality disrupts ideal market mechanisms, thereby enabling monopolistic conditions or distorting market signals. In the context of international trade and financial transactions, this issue is further complicated by barriers such as linguistic and cultural differences, unequal access to legal information, and the challenges of assessing market conditions across different countries.

A significant manifestation of information asymmetry is the so-called "invisible hand of risk", which occurs when risks associated with external economic activities are misjudged due to a lack of or distorted information. To illustrate this point, consider an investor who, due to a lack of accurate data regarding the financial condition of a company in another country, may make decisions that culminate in substantial financial losses. A similar scenario can be observed in the context of transnational agreements, where parties may have unequal access to information regarding customs tariffs, currency risks, or specific local legal requirements.

Information asymmetry has been demonstrated to exert a significant influence on pricing in international trade. A dearth of access to pertinent information regarding market conditions in foreign countries can result in the undervaluation or overvaluation of goods and services, thereby disrupting the competitive balance. For instance, suppliers might inflate prices due to a lack of

understanding of importers' costs, or buyers might undervalue products due to an absence of information about their quality or production conditions.

Another critical aspect of information asymmetry is its impact on the regulation of transnational agreements. International law is intended to harmonise approaches to regulating economic relations, but does not always ensure equal conditions for all parties. Discrepancies in standards for financial reporting, tax regulation, and corporate governance requirements can engender informational gaps that certain parties may leverage for their own benefit.

Information asymmetry is a key issue for multinational corporations, as it can create both risks and opportunities. The leveraging of informational advantages may be a component of their strategic approach to fortifying competitive positions. However, this practice concomitantly engenders heightened mistrust from partners and regulatory authorities. In a number of instances, including transfer pricing, the use of information asymmetry is employed to minimise tax liabilities, thereby posing further challenges for international regulators.

Information asymmetry is of particular significance in financial markets, where the speed and accuracy of data access is pivotal to the success of market participants. A significant problem in this context is the use of insider information, which disrupts market equilibrium and creates unequal conditions for investors. This phenomenon is among the causes of crises in international financial markets, where unequal access to asset risk data can lead to substantial losses for less informed participants.

Information distortions, a derivative phenomenon of information asymmetry, arise during interactions between participants in transnational agreements. The underlying causes of this phenomenon are structural, legal and organisational factors that are inherent to international activities. These factors have a direct impact on the quality, completeness, and timeliness of access to relevant data, which in turn has a significant effect on the planning, execution, and control of agreements.

The causes of information distortion include the following:

1. Jurisdictional differences. Distorted information is frequently attributable to the divergent regulatory approaches employed by the countries involved in an agreement. For instance, financial reporting standards, customs regulations, and taxation can differ significantly, creating barriers to objective transaction analysis.

2. Linguistic and cultural barriers. A lack of understanding of the language or cultural nuances of a counterparty can result in the distorted interpretation of contract terms, which in turn complicates the exchange of information and increases the risk of misunderstandings.

3. Deliberate information concealment. In the context of information systems, one party may intentionally conceal or distort data to gain a competitive advantage, thereby posing the most perilous form of asymmetry. This encompasses financial data and critical information pertaining to products or services.

4. Poor data quality. The absence of contemporary digital instruments or standardised methodologies for data accumulation can lead to distortions, even when the involved parties act with integrity.

The ramifications of information distortions in transnational agreements have the potential to be extensive. Financial losses are the most common consequence, as the parties involved miscalculate transaction terms due to incomplete data on costs, taxes, or other financial aspects. Furthermore, such distortions can result in contract breaches, as misinterpretation of agreement terms can give rise to conflicts between parties. Erosion of trust in relationships is another critical consequence, complicating further co-operation and creating reputational risks for transaction participants.

The effective auditing of transnational agreements necessitates the consideration of these challenges through innovative approaches. The automation of data collection, the utilisation of digital platforms, and the fostering of international coordination among audit firms have the potential to significantly enhance audit quality and mitigate risk. Notwithstanding the intricacy of the aforementioned challenges, the successful overcoming of information distortions engenders conditions conducive to transparency, trust, and stability in external economic activities.

4 Analysis of Challenges and Risks in Auditing Transnational Agreements

Auditing in a transnational environment is a highly complex undertaking, due to the diverse legal and regulatory requirements that define the framework of external economic activities in different jurisdictions. The legal systems of various countries differ significantly in their structure, approaches to financial reporting regulation, tax requirements, and corporate governance standards. Consequently, auditors are required to ensure compliance with international standards, such as the International Standards on Auditing (ISAs), whilst taking into account local regulatory particularities.

This creates multilayered challenges related to transparency, completeness, and reliability of financial data on a global scale.

Transnational agreements involving multiple jurisdictions frequently encounter discrepancies in reporting requirements, engendering risks of dual regulation, conflicts between national standards, and difficulties in harmonising legal approaches (Chaikovska, 2015). In such circumstances, auditors are required to perform two functions. Firstly, they must ensure the accuracy of their audits. Secondly, they must act as intermediaries, facilitating adaptation to complex legal environments.

The legal and regulatory aspects of auditing in a transnational environment are based on three key components: compliance with international standards, consideration of local legislation, and integration of regulatory requirements into the audit process.

One of the fundamental principles of auditing transnational agreements is the ISA, which establishes global standards for the verification of financial reporting. ISA furnishes auditors with the tools necessary to assess data compliance with international transparency and reliability standards. Nevertheless, despite the efforts to standardise auditing practices, discrepancies between national legislation remain a significant challenge. For instance, some countries prioritise full transparency in tax operations, while others allow more flexible approaches to their evaluation.

Local regulatory differences also include requirements regarding the form, structure and level of detail of financial reporting. For example, financial reporting in the United States is governed by GAAP standards, while in the European Union IFRS standards are preferred. For auditors, this means considering both global and local standards, which can lead to conflicts when evaluating the same financial transactions.

A pivotal regulatory consideration pertains to the matter of customs regulations and tax restrictions. In the context of transnational agreements, particular emphasis is placed on adherence to customs regulations and the legal framework governing the cross-border movement of goods and services. It is important to note that different countries have varying requirements for assessing customs value, calculating tax rates, or providing incentives for external economic operations. In such conditions, the risk of erroneous representation of these operations in financial statements is heightened for auditors, which can lead to financial and legal consequences.

A further challenge pertains to the harmonisation of corporate governance and reporting within the context of global companies. Transnational corporations operating in multiple jurisdictions frequently encounter regulatory requirements that are in conflict with one another. This is especially pertinent in the context of transfer pricing, a domain regulated by both international OECD principles and local tax regulations. The auditors must achieve a balance between compliance with global principles and adherence to local requirements, a task that demands a high level of expertise and the ability to adapt swiftly.

The role of accountants becomes even more critical in cases where regulatory standards are constantly changing. For example, changes in tax legislation, such as the introduction of new tariffs or sanctions, can have a significant impact on the nature of cross-border arrangements. Auditors must not only take these changes into account, but also proactively adapt their methodologies to mitigate the risk of non-compliance.

The International Auditing Standards (ISAs) mentioned above play a key role in ensuring the quality of audits worldwide. They set out general principles, approaches and requirements for auditing financial statements with the aim of enhancing transparency, confidence and efficiency in financial markets. However, their application in practice is subject to numerous risks related to the heterogeneity of regulatory environments and operational challenges.

The risks associated with ISA compliance are amplified in transnational agreements, where auditors face the complexity of harmonising local laws with global standards, cultural and linguistic differences, and ambiguities in interpreting ISA requirements within the context of multinational operations.

The use of ISAs in cross-border audits is a necessary step to ensure a consistent approach to the assessment and verification of financial reporting. However, these standards do not always take into account the specificities of individual markets or industries. This leads to risks of misstatement, conflicts between international and local requirements, and difficulties in reaching objective conclusions. Understanding the nature of these risks and developing mechanisms to minimise them are essential elements in improving audit practice.

The risks tied to ISA compliance can be examined through several interconnected aspects:

– Regulatory discrepancies. The discrepancy between national regulations and ISA standards gives rise to a number of complexities in terms of alignment, and concomitantly increases the risk of errors in financial assessments.

– Operational challenges. The necessity to align international principles with local practices gives rise to a more complex audit procedure.

– Cultural and linguistic barriers. Misinterpretations resulting from cultural divergences or linguistic limitations can compromise the audit's precision.

– Dynamic legal environments. Frequent regulatory changes require auditors to remain agile and proactively adapt their methodologies.

Addressing these risks necessitates the development of innovative approaches, the leveraging of digital tools, and the fostering of international collaboration among audit firms to enhance the quality of audits and minimise vulnerabilities.

Risks associated with compliance with ISA can be considered through several interrelated aspects (Table 1).

The risks associated with compliance with ISA are multidimensional, encompassing both regulatory and operational aspects of auditing activities. In order to demonstrate their competence in this area, auditors must evidence a high level of professionalism, the ability to adapt to changing conditions, and a commitment to continuously improving their skills. The successful navigation of these risks is of paramount importance in enhancing the quality of audits within a transnational context, thereby ensuring transparency within global financial markets.

5 Prospects for Improving Audit Methodology in the Context of the Global Economy

The prevailing conditions of the global economy necessitate the development of novel approaches to ensure transparency, reliability, and effectiveness in financial reporting. The globalisation of markets, the growth of multinational corporations, the integration of digital technologies, and the strengthening of regulatory requirements have created a need to enhance audit methodologies. Conventional audit methodologies, predicated on standardised procedures, are proving inadequate for conducting comprehensive analyses in conditions of multifactorial uncertainty. In such an environment, auditing needs to transform, incorporating innovative technologies, adaptive

Table 1 Key aspects of risks in the application of ISAs

Risk category	Risk essence	Impact examples	Possible consequences
Regulatory risks	Discrepancies between ISA requirements and local legislation	Differences in tax regulations, reporting standards (GAAP vs IFRS)	Conflicts between audit conclusions and regulatory requirements; legal liability
Operational risks	Difficulty accessing client information or its incompleteness	Inaccessibility of internal documentation, multi-level corporate structures	Incomplete analysis of material misstatement risks; improper audit conclusions
Subjectivity risk	Professional judgment in interpreting ISA standards requirements	Varied interpretations of "risk probability" or "materiality of misstatement"	Inconsistencies in findings affecting trust in the audit report
Technological risks	Insufficient integration of digital technologies into the audit process	Limitations in the use of automated systems for analysing digital evidence	Gaps in verifying digital financial flows; incomplete audit procedures
Human factor risks	Inadequate qualifications of auditors for working with transnational agreements	Errors in selecting risk response procedures caused by lack of experience	Low audit quality, fines, loss of reputation for the audit firm
Communication risks	Impact of language and cultural barriers on the quality of the audit	Misunderstanding of contract terms or the client's internal procedures	Distortion of risk assessments; reduced quality of audit conclusions
Risks of changes in the regulatory environment	Constant changes in regulations in clients' jurisdictions	Introduction of new taxes, customs rules, or restrictions in financial reporting	Non-compliance of audit procedures with new rules; potential legal consequences for the client
Ethical risks	Conflicts of interest between auditors and clients	Client pressure on the auditor to "optimise" conclusions	Reputational losses for the audit firm; legal sanctions

Source: developed by the author on the basis of (Dyba, Zahorodnii & Partyn, 2015; Plastun & Dudkin, 2012; Uzbek, 2022)

risk management approaches and the integration of global standards. The following are key directions for improving audit methodology in the context of the global economy.

1. Harmonisation of global audit standards. The enhancement of audit methodology is rendered unfeasible in the absence of harmonised international standards. The International Standards on Auditing (ISAs) must evolve to become more adaptable to the particularities of local markets and industries. This necessitates the development of novel approaches to the application of standards across diverse legal and economic systems. Achieving harmonisation will require enhanced collaboration among national regulators, thereby mitigating the potential for discord between local and international requirements.

2. Expanding the use of ESG factors in auditing. The integration of Environmental, Social, and Governance (ESG) factors into audit practices is a prevailing trend in the global economy. ESG-oriented auditing facilitates the evaluation of a company's financial stability in addition to its adherence to the tenets of sustainable development. In order to enhance audit methodology, it is essential to take into account the particularities inherent in the evaluation of non-financial indicators, including but not limited to carbon footprints, corporate responsibility, and the social impact of activities.

3. Rethinking risk management in auditing. The global economy is creating new types of risks that affect companies' financial reporting, including cyberattacks, currency market volatility, changes in the regulatory environment, and other factors. Audit methodology needs to be enhanced with a focus on proactive risk management. This includes the introduction of adaptive audit procedures that use scenario analysis and forecasting to enable auditors to identify emerging risks in a timely manner and respond effectively.

4. Enhancing auditor qualifications. Transforming audit methodology is not possible without improving the professional skills of auditors. This includes training in the use of cutting-edge technology, understanding global standards and gaining experience in managing complex multinational transactions. International certification programmes, such as ACCA or CPA, play an important role in providing auditors with access to global best practice.

5. Fostering international co-operation. Strengthening audit also means strengthening international co-operation between audit firms, regulators and professional bodies. This creates opportunities to share experiences, solve problems together and improve the quality of audits. Establishing global platforms for the exchange of information between auditors will enable rapid responses to changes in the global economy and reduce risks.

Prospects for improving audit methodology in the global economy focus on integrating innovative technologies, harmonising international standards, implementing ESG approaches and enhancing auditor professionalism. These directions will enable auditing to adapt to globalisation, improve the transparency and quality of financial reporting, promote confidence in business and create a stable environment for international economic relations. Improving audit methodology is a necessary condition for the effective functioning of the global economy in a dynamic and unstable world.

6 Conclusions

In the context of global economic integration and the expansion of transnational activities, auditing plays a critically important role in ensuring transparency, accuracy, and trust in financial reporting. The challenges posed by information asymmetry, the need to comply with international auditing standards, the requirement to adapt to local regulatory requirements, and the integration of innovative technologies create new opportunities for the improvement of audit methodologies. Modern auditing of cross-border transactions requires a comprehensive approach that incorporates digital technologies, harmonisation of international standards, risk management and consideration of environmental, social and governance (ESG) issues. Moving away from traditional methods in favour of adaptive and technology-enabled solutions increases the efficiency of audit procedures, reduces information distortions and strengthens trust among participants in international economic relations.

The development of auditing in a global environment is impossible without the following three things: first, the strengthening of international coordination; secondly, the improvement of auditor qualifications; and thirdly, the active utilisation of modern tools for analysis and forecasting. The enhancement of auditing methodologies will contribute to the improvement of the quality of financial reporting, the creation of conditions for stable international markets, and the ensuring of the sustainable development of the global economy. In the 21st century, auditing is evolving from a mechanism for verifying reports into a strategic tool for fostering trust and transparency in an ever-changing world.

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