

# Research on Audit Risk Control for Overseas Related-Party Transactions of Multinational Corporations: A Case Study of Samsung

Yuxi Sun\*

School of Business, Northwest University of Political Science and Law, Xi'an, China

\*840619735@qq.com

## Abstract

In recent years, as market competition has intensified and the securities market has developed rapidly, related-party transactions have become increasingly frequent. Some companies, driven by self-interest, manipulate revenue and profits by embellishing their financial statements—a practice that has attracted significant public attention. This trend necessitates that auditors place greater emphasis on the audit of overseas related-party transactions and enhance audit quality. This study adopts a case analysis approach, focusing on the audit risk control of Samsung Group's overseas related-party transactions. By identifying risks of material misstatement and detection risks, the study proposes corresponding control measures to address existing audit risks. This research holds practical significance for enriching the theory of audit risk in related-party transactions and improving the quality of audits concerning overseas related-party transactions.

## Keywords

Samsung; Overseas Related-Party Transactions; Audit Risk; Risk Control.

## 1. Introduction

### 1.1. Research Background and Significance

#### 1.1.1. Research Background

In the context of economic globalization, multinational corporations have continuously expanded their overseas operations, establishing numerous subsidiaries and branches while forming diverse cooperative relationships with foreign enterprises. This has led to a sustained increase in the volume and scale of related-party transactions, accompanied by growing complexity in their forms. To optimize resource allocation, reduce costs, and enhance efficiency, multinational corporations actively integrate industrial chains, further contributing to the frequent occurrence of related-party transactions.

In recent years, several high-profile audit failures involving related-party transactions of multinational corporations have raised concerns within the auditing industry and the business community. For instance, in 2001, Enron Corporation fabricated profits and concealed debts through capital restructuring and complex related-party transactions, ultimately leading to its bankruptcy, with involved amounts reaching \$49.8 billion. The auditing firm Arthur Andersen failed to maintain independence and fulfill its auditing responsibilities, resulting in a significant audit failure. Such incidents underscore the urgent need for auditing and regulatory bodies to strengthen the supervision and auditing of multinational corporations' related-party transactions to mitigate audit risks.

As a leading player in the electronics industry, Samsung boasts a vast business scale, strong technological capabilities, and extensive market influence. Its financial status and business

conduct attract significant public attention. Any financial issues or audit risks related to Samsung are likely to draw media and public scrutiny, potentially damaging the company's reputation. Although Samsung emphasizes compliance with ethical and legal standards, potential audit risks may still arise in such a complex business environment. This paper takes Samsung as a case study to conduct an in-depth analysis of audit risks associated with its overseas related-party transactions.

### 1.1.2. Research Significance

(1) Enriching the audit theory system. Current research on audit risks in overseas related-party transactions of multinational corporations remains in the exploratory stage. An in-depth case analysis of Samsung helps reveal the characteristics and patterns of such transactions, providing empirical support for the development of audit theory and enriching the overall audit theoretical framework.

(2) Providing decision-making support for Samsung. Strengthening research on the audit risk control of overseas related-party transactions can help Samsung's management gain a more comprehensive understanding of the risks in its overseas operations. This facilitates the formulation of sound business and risk management strategies, reduces operational and financial risks, enhances internal control capabilities, and strengthens the company's competitiveness and sustainable development.

(3) Offering reference value for other multinational corporations. As a globally renowned multinational company, Samsung's experience and lessons in auditing and controlling risks in overseas related-party transactions provide valuable insights for other enterprises. This study can offer inspiration to other multinational corporations, assisting them in better addressing audit risks associated with overseas related-party transactions and improving their governance and financial transparency.

## 1.2. Research Methods

This study adopts the literature review method and the case study approach. By examining domestic and international academic literature, policy regulations, and industry reports, it captures the current research status and development trends in audit risk control of overseas related-party transactions by multinational corporations, thereby laying a theoretical foundation for subsequent analysis. Using Samsung's overseas related-party transactions as a case study, the research conducts a thorough analysis of its transactional practices and audit risks, summarizes experiences and lessons, and provides a practical basis for proposing audit risk control strategies.

## 1.3. Literature Review

In recent years, related-party transaction (RPT) incidents have occurred frequently in China. For example, Kangmei Pharmaceutical failed to disclose a massive RPT of RMB 8.879 billion; the funds were embezzled for stock investments, and the company colluded with related parties to fabricate transactions, inflating its revenue and profits. Xinqiu Agriculture, in its pursuit of listing on the National Equities Exchange and Quotations (NEEQ), resorted to fabricating transactions with related parties to seek an Initial Public Offering (IPO). These incidents involve diverse tactics, posing challenges for audit and regulatory authorities in their responses. The domestic theory on RPT audit risks primarily covers the following aspects:

### 1.3.1. Research on Related-Party Transaction Audit Risks

Wan Yuting [1] pointed out that priority should be given to identifying RPTs that are large in scale and involve substantive issues; efforts should also be made to identify all related parties as much as possible to prevent unfair transactions in subsequent fiscal years. During the audit process, it is necessary to clarify audit clues and methodologies. Li Mochou et al. [2] proposed the specific application of risk-oriented auditing in practice, emphasizing that auditors should

maintain professional skepticism. This method still provides guidance for the formulation of audit plans and the allocation of audit resources.

Through case analysis, Wang Meiyang and Sun Xu [3] argued that the core of risk-oriented auditing lies in the identification and assessment of risk factors. However, there are numerous factors that are difficult to quantify during the assessment process, and the assessment procedures have a weak impact on risk identification. Thus, continuous improvements are required in practice based on specific issues. Feng Yi [4] and Yang Xiaotong [5] suggested that prior to the audit, a comprehensive understanding of the company should be gained, and a clear audit framework should be established to define the audit focus and acceptable deviation levels.

### **1.3.2. Research on Common Methods for Related-Party Transaction Audits**

Zhao Zhenzhi and Huang Jing [6] proposed that focus should be placed on the purchase and sales behaviors between related enterprises. Auditors should verify whether funds of the parent company are transferred to insolvent holding companies or other related parties, and examine accounts such as contingent liabilities, accounts receivable, bad debts, and investment income. They also emphasized for the first time that overseas business should be a key area in RPT audits. Zhou Shengjie and Zhang Chunyan [7] noted that related parties not explicitly disclosed in the annual financial reports of listed companies are often deliberately concealed by the audited entities. Large-scale related-party purchase and sales transactions frequently serve as a means of financial fraud and should therefore be treated as a priority in audits. Wang Cuilin and Ma Ling [8] summarized cases of non-compliant RPTs involving listed companies on the Shanghai Stock Exchange (SSE) since 2009. They found that the frequency and amount of RPTs have increased year by year, with purchase/sales operations and mortgage guarantees being the main non-compliant tactics. Issues are particularly prominent in capital-intensive industries, which require special attention during audits.

## **2. Audit Risks of Overseas Related-Party Transactions in Multinational Corporations and Their Causes**

### **2.1. Definition of Audit Risk for Related-Party Transactions**

Audit risk for related-party transactions refers to the possibility that auditors fail to detect material misstatements or omissions in an enterprise's related-party transactions due to various factors, thereby issuing inappropriate audit opinions. This risk comprises two components: material misstatement risk and detection risk. The former denotes the likelihood that errors or fraud exist in the transactions themselves, while the latter refers to the probability that auditors fail to identify such material misstatements.

### **2.2. Audit Risks of Overseas Related-Party Transactions in Multinational Corporations**

#### **2.2.1. Inherent Risk**

The inherent risk of overseas related-party transactions is primarily characterized by transaction complexity and potential for manipulation: Differences in cross-border legal systems, accounting standards, and cultures enable related parties to adjust financial data through means such as unfair transfer pricing, concealed related-party relationships, or fabricated transactions. Geographical separation exacerbates information asymmetry, increasing the likelihood of material misstatements in the absence of internal control interventions.

#### **2.2.2. Control Risk**

Control risk mainly stems from flaws in internal control design or failure in internal control implementation: The headquarters may face issues such as inconsistent policies and lax

approval processes in its oversight of overseas related parties. Overseas subsidiaries often experience weakened internal control execution due to factors like distance and language barriers. Additionally, "insider control" (a situation where internal managers dominate decision-making) is prone to occur under complex equity structures, rendering internal control mechanisms ineffective in preventing or correcting misstatements in related-party transactions.

### **2.2.3. Detection Risk**

Detection risk arises from limitations of audit procedures and constraints of the external environment: Overseas related parties may restrict access to audit materials by citing commercial confidentiality or local regulations, resulting in incomplete audit evidence. If the audit team lacks understanding of the laws, tax regulations, and business practices in overseas markets, it will struggle to accurately assess the fairness and compliance of transactions. Furthermore, traditional audit methods are insufficient to fully cover cross-border capital flows and logistics, potentially leading to the omission of material misstatements.

## **2.3. Causes of Audit Risks for Overseas Related-Party Transactions in Multinational Corporations**

### **2.3.1. Complex Corporate Structures and Business Models**

Multinational corporations (MNCs) form intricate overseas related-party networks through multi-layered shareholding, offshore companies, and cross-border mergers and acquisitions (M&As). Some enterprises exploit special purpose entities (SPEs) to conceal related-party relationships, increasing the difficulty of transaction identification. Cross-border businesses involve complex forms such as supply chains, technology licensing, and cash pools; transaction pricing integrates multiple factors including market conditions, costs, and intangible assets. This requires auditors to possess industry-specific knowledge and cross-border experience—without which they may easily misjudge the substance of transactions.

### **2.3.2. Differences in Accounting Standards and Regulations**

Accounting standards vary across countries in terms of related-party definitions, disclosure requirements, and measurement methods. For example, rules governing the capitalization of interest on related-party loans may be more lenient, or the scope of disclosure may differ, across jurisdictions. If audit teams lack a thorough understanding of local standards and tax laws, it may lead to improper accounting treatments or incomplete disclosures. Additionally, there are variations in the enforcement intensity and provisions of anti-tax avoidance regulations across countries (e.g., the Base Erosion and Profit Shifting (BEPS) Action Plan, transfer pricing documentation requirements). Failure to verify compliance during audits can easily trigger tax risks, undermining the accuracy of audit conclusions.

### **2.3.3. Information Asymmetry and Communication Barriers**

Information asymmetry is prominent in overseas related-party transactions: parent companies struggle to obtain complete data from overseas subsidiaries, especially for non-wholly owned subsidiaries or entities in regions with significant cultural differences—where practices such as concealing transactions or tampering with vouchers may occur. Language and cultural differences reduce communication efficiency, and key information is prone to distortion during transmission. Some related parties may refuse to provide audit evidence or delay its submission, restricting the implementation of procedures such as confirmation and on-site visits. This results in insufficient audit evidence, increasing the risk of misjudgment.

### 3. Analysis of Audit Risks in Overseas Related-Party Transactions of Samsung Group

#### 3.1. Overview of Samsung's Overseas Related-Party Transactions

As a globally renowned multinational corporation, Samsung's overseas related-party transactions span multiple industries and regions. In terms of goods trading, its overseas subsidiaries may procure electronic components from the parent company or other related parties for product manufacturing. In the context of technology transfer, Samsung may license its advanced technologies to overseas related parties. For instance, in its semiconductor business, there are cases of selling chips to overseas related parties and authorizing the use of patented technologies.

#### 3.2. Identification of Material Misstatement Risks

##### 3.2.1. Material Misstatement Risks at the Financial Statement Level

(1) Risk of significant performance fluctuations. Samsung Electronics reported full-year revenue of 258.94 trillion won in 2023, representing a 14.32% year-on-year decrease; its operating profit stood at 6.57 trillion won, a year-on-year drop of 84.85%; and net profit reached 15.49 trillion won, the lowest in 12 years. In the second quarter of 2024, its sales volume was 74.07 trillion won (a 23% year-on-year increase), with net profit rising by 471% year-on-year to 9.64 trillion won. In the third quarter, its consolidated revenue amounted to 79.1 trillion won (a 7% quarter-on-quarter increase), while operating profit fell to 9.18 trillion won. Such significant performance fluctuations increase the likelihood of material misstatements in financial statements, undermining the accurate reflection of operating conditions and sustained profitability, which may easily lead to misjudgments by investors.

(2) Risk of industry competition and market demand changes. The semiconductor and electronics industries are highly competitive, with rapid changes in market demand. In 2023, global demand for mobile phones declined—mobile phone shipments in the Chinese domestic market dropped by 22.6% year-on-year—leading to reduced demand for products such as chips and a sharp plunge in Samsung's operating profit. The rise of competitors like Yangtze Memory Technologies Co., Ltd. (YMTC) has also impacted Samsung's market share and performance. To cope with competition, Samsung may adopt aggressive marketing or investment strategies, such as large-scale R&D investments and capacity expansion. Failure to appropriately reflect these decisions in the financial statements would give rise to material misstatement risks.

##### 3.2.2. Material Misstatement Risks at the Assertion Level

(1) Revenue assertion risks. In the third quarter of 2024, Samsung Electronics' consolidated revenue totaled 79.1 trillion won. Specifically, revenue from its Mobile & Networks Business reached 30.52 trillion won, revenue from the Device Solutions (DS) Division was 29.27 trillion won, and revenue from the Semiconductor Display (SDC) Division stood at 8.0 trillion won. Against the backdrop of revenue growth, risks related to the accuracy and completeness of revenue recognition require focus. Inadequate internal controls or deviations in policy implementation may result in overstated or understated revenue. For example, in transactions with sales return clauses, failure to fully consider the possibility of returns may lead to revenue being recognized in advance, thereby causing material misstatements. Cost and expense assertion risks. In the first quarter of 2023, Samsung's semiconductor business incurred a loss of 4.58 trillion won, compared to a profit of 8.45 trillion won in the same period of 2022. Raw material prices are highly volatile; imperfect cost accounting and pricing mechanisms may lead to inaccurate recognition of production costs. If inventory valuation or product cost accounting methods are not adjusted in a timely manner when raw material prices rise, production costs will be understated and profits overstated. Additionally, Samsung invests heavily in R&D: the



DS Division's capital expenditure in the second quarter of 2023 amounted to 9.9 trillion won. Incomplete or inaccurate R&D cost accumulation (e.g., classifying non-R&D expenses as R&D costs, or failing to include all directly related costs) will result in misstatements of R&D costs, affecting financial statement users' judgments on the enterprise's innovation capabilities and future profitability. It is necessary to examine whether costs and expenses are accurately recorded and reasonably allocated to prevent misrecording or omissions from impairing the accuracy of profits.

## **4. Analysis of Audit Risks in Overseas Related-Party Transactions of Samsung Group**

### **4.1. Overview of Samsung's Overseas Related-Party Transactions**

As a globally renowned multinational corporation, Samsung's overseas related-party transactions span multiple industries and regions. In terms of goods trading, its overseas subsidiaries may procure electronic components from the parent company or other related parties for product manufacturing. In the context of technology transfer, Samsung may license its advanced technologies to overseas related parties. For instance, in its semiconductor business, there are cases of selling chips to overseas related parties and authorizing the use of patented technologies.

### **4.2. Identification of Material Misstatement Risks**

#### **4.2.1. Material Misstatement Risks at the Financial Statement Level**

(1) Risk of significant performance fluctuations. Samsung Electronics reported full-year revenue of 258.94 trillion won in 2023, representing a 14.32% year-on-year decrease; its operating profit stood at 6.57 trillion won, a year-on-year drop of 84.85%; and net profit reached 15.49 trillion won, the lowest in 12 years. In the second quarter of 2024, its sales volume was 74.07 trillion won (a 23% year-on-year increase), with net profit rising by 471% year-on-year to 9.64 trillion won. In the third quarter, its consolidated revenue amounted to 79.1 trillion won (a 7% quarter-on-quarter increase), while operating profit fell to 9.18 trillion won. Such significant performance fluctuations increase the likelihood of material misstatements in financial statements, undermining the accurate reflection of operating conditions and sustained profitability, which may easily lead to misjudgments by investors.

(2) Risk of industry competition and market demand changes. The semiconductor and electronics industries are highly competitive, with rapid changes in market demand. In 2023, global demand for mobile phones declined-mobile phone shipments in the Chinese domestic market dropped by 22.6% year-on-year-leading to reduced demand for products such as chips and a sharp plunge in Samsung's operating profit. The rise of competitors like Yangtze Memory Technologies Co., Ltd. (YMTC) has also impacted Samsung's market share and performance. To cope with competition, Samsung may adopt aggressive marketing or investment strategies, such as large-scale R&D investments and capacity expansion. Failure to appropriately reflect these decisions in the financial statements would give rise to material misstatement risks.

#### **4.2.2. Material Misstatement Risks at the Assertion Level**

(1) Revenue assertion risks. In the third quarter of 2024, Samsung Electronics' consolidated revenue totaled 79.1 trillion won. Specifically, revenue from its Mobile & Networks Business reached 30.52 trillion won, revenue from the Device Solutions (DS) Division was 29.27 trillion won, and revenue from the Semiconductor Display (SDC) Division stood at 8.0 trillion won. Against the backdrop of revenue growth, risks related to the accuracy and completeness of revenue recognition require focus. Inadequate internal controls or deviations in policy implementation may result in overstated or understated revenue. For example, in transactions

with sales return clauses, failure to fully consider the possibility of returns may lead to revenue being recognized in advance, thereby causing material misstatements.

(2) Cost and expense assertion risks. In the first quarter of 2023, Samsung's semiconductor business incurred a loss of 4.58 trillion won, compared to a profit of 8.45 trillion won in the same period of 2022. Raw material prices are highly volatile; imperfect cost accounting and pricing mechanisms may lead to inaccurate recognition of production costs. If inventory valuation or product cost accounting methods are not adjusted in a timely manner when raw material prices rise, production costs will be understated and profits overstated. Additionally, Samsung invests heavily in R&D: the DS Division's capital expenditure in the second quarter of 2023 amounted to 9.9 trillion won. Incomplete or inaccurate R&D cost accumulation (e.g., classifying non-R&D expenses as R&D costs, or failing to include all directly related costs) will result in misstatements of R&D costs, affecting financial statement users' judgments on the enterprise's innovation capabilities and future profitability. It is necessary to examine whether costs and expenses are accurately recorded and reasonably allocated to prevent misrecording or omissions from impairing the accuracy of profits.

## **5. Control Measures for Audit Risk in Transactions with Overseas Related Parties of Multinational Corporations**

### **5.1. Control Measures for Inherent Risk**

To address inherent risk, efforts should focus on the nature of transactions and their alignment with the operating environment. A dynamic management system for related-party information should be established, utilizing digital tools to integrate a global directory of related parties, clarify the tiers of relationships, and understand transaction contexts. Particular attention should be paid to the qualification review of related parties in emerging markets or regions with significant legal differences to avoid hidden related-party transactions. A standardized transaction pricing mechanism should be developed, incorporating international standards and local tax laws. Compliant methods such as the Comparable Uncontrolled Price Method (CUP) should be adopted to determine prices, with supporting documentation retained. For multi-currency settlements and differences in accounting standards, specialized teams should be assigned to conduct cross-border financial adjustments and compliance checks to ensure consistency in transaction records and reduce the risk of misstatement at the source.

### **5.2. Control Measures for Control Risk**

Mitigating control risk requires strengthening the global implementation and execution monitoring of internal controls. A unified yet flexible internal control framework should be designed, with the headquarters establishing universal standards such as approval authority and disclosure procedures for related-party transactions. Overseas branches should be allowed to refine operational details based on local regulations and business characteristics, subject to headquarters review at critical junctures. Leveraging information technology, end-to-end management of internal control processes should be achieved through ERP systems to track the entire lifecycle of transactions-initiation, approval, and execution-in real time. Early warning mechanisms for abnormal indicators should be implemented, and the effectiveness of internal controls should be regularly evaluated, with a focus on deviations from headquarters policies in overseas operations. The corporate governance structure should be enhanced by establishing an independent Related-Party Transaction Supervision Committee under the board of directors, incorporating external experts with cross-border experience to counterbalance "insider control" and ensure the effective operation of internal control mechanisms within multi-layered ownership structures.

### 5.3. Control Measures for Detection Risk

Reducing detection risk necessitates enhancing the specificity and adaptability of audit procedures. A cross-border specialized audit team should be formed, comprising professionals familiar with overseas laws, taxation, and languages, or collaborating with local accounting firms to obtain localized support. Audit procedures should adopt a "full-chain tracking method," cross-validating the authenticity of transactions through contracts, financial records, logistics documents, fund flows, and customs declarations. Independent assessments by third-party valuation institutions should be introduced for high-risk areas such as transfer pricing. The digital transformation of audits should be promoted, utilizing big data to analyze historical data and industry benchmarks to identify abnormal transaction patterns. Remote auditing technologies should be employed to overcome geographical limitations and access real-time information. An audit evidence preservation mechanism should be established, with pre-agreed information provision obligations with overseas related parties. Local legal means should be leveraged to ensure the completeness of the audit scope and avoid risk omissions due to insufficient evidence.

## 6. Conclusion

This study provides an in-depth analysis of the audit risk control mechanisms for Samsung's overseas related-party transactions. The findings reveal that the extensive scope of operations, the large number and wide distribution of related parties, and the diversity of transaction types contribute to the high complexity and variability of Samsung's overseas related-party transactions. These factors pose significant challenges for auditors in identifying, assessing, and addressing associated risks. Through case analysis, the primary sources of audit risks in overseas related-party transactions have been identified, including information asymmetry, differences in legal environments, and variations in accounting standards. Control measures have been proposed from three perspectives: inherent risk, control risk, and detection risk. These measures offer valuable insights not only for Samsung but also for other multinational corporations seeking to enhance the audit risk control of their overseas related-party transactions. The recommendations aim to standardize related-party transactions among listed companies, improve audit procedures, and contribute to the healthy development of the securities market.

## References

- [1] Wan Yuting. A Brief Discussion on the Identification of Related Party Transactions in China from an Audit Perspective[J]. *Commercial Accounting*, 2012, (14): 34-35.
- [2] Li Mochou, Zhou Hong, Xia Lijun. Has the Risk-Oriented Auditing Standard Improved Auditors' Risk Sensitivity?[J]. *Journal of Finance and Economics*, 2015, 41(09): 96-107. DOI: 10.16538/j.cnki.jfe.2015.09.011.
- [3] Wang Meiyang, Sun Xu. Investigation and Analysis of the Application Status of Risk-Oriented Auditing[J]. *Communication of Finance and Accounting*, 2018, (22): 94-97. DOI: 10.16144/j.cnki.issn1002-8072.2018.22.024.
- [4] Feng Yi. Construction of a Logical Framework for Professional Judgment in Risk-Based Auditing[J]. *Finance and Accounting*, 2018, (21): 54-56.
- [5] Yang Xiaotong. Rethinking the Theory and Application of Risk-Oriented Internal Auditing[J]. *Journal of Shanxi University of Finance and Economics*, 2018, 40(S1): 26-28.
- [6] Zhao Zhenzhi, Huang Jing. Auditing of Related Party Relationships and Transactions[J]. *Finance and Accounting Monthly*, 2012, (20): 54-56. DOI: 10.19641/j.cnki.42-1290/f.2012.20.021.
- [7] Zhou Shengjie, Zhang Chunyan. Motivations, Characteristics, and Auditing Analysis of Undisclosed Related Party Fraud[J]. *Financial Community*, 2013, (21): 229-230.



- [8] Wang Cuilin, Ma Ling. Analysis of the Current Situation of Related Party Transactions in Chinese Listed Companies: Evidence from Shanghai A-Share Listed Companies from 2009 to 2015[J]. Jiangsu Commercial Forum, 2017, (03): 60-64. DOI: 10.13395/j.cnki.issn.1009-0061.2017.03.016.