



## **“Corruption and Money Laundering: Challenges for Supreme Audit Institutions”**

### **1. General Provisions**

The problem of corruption and money laundering is becoming more and more urgent for Supreme Audit Institutions from year to year; the importance of their role and position in the process of combating these negative phenomena is difficult to overestimate. Nevertheless, despite all efforts both in the frame of national SAIs and at the international level, the scale of corrupt practices and, most important, the general trend of their development, unfortunately, continue giving rise to serious concern.

It should be noted that corruption and money laundering is the most serious threat for SAIs themselves. A Supreme Audit Institution is by no means something separate and isolated from the external world, protected against the problems of internal nature. A SAI, just as any other structural element of state system, is affected by the entire range (from external to internal factors) of negative influence caused by corruption and money laundering.

The complexity of this problem is exacerbated by the fact that a Supreme Audit Institution, as a rule, is on the very edge of the anti-corruption activities of the State. Any flaw in the overall system of SAI operation, irrespective of whether it is of external or internal nature, may be a disastrous factor for the implementation of the entire national anti-corruption strategy (programme).

This gives rise to a task, the importance of which is difficult of overestimate: to identify the range of threats for Supreme Audit Institutions from the viewpoint of corruption and



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money laundering. Evidently, the compiled list of main challenges may become an essential support for SAIs. On the one hand, it will allow paying attention to those threats that, due to these or that reasons, remained out of the eyeshot of Supreme Audit Institutions in the frame of anti-corruption activities. In other words, the list may help to create conditions for more complete coverage of corruptogenic fields and minimization of risks of emerging facts of corruption and money laundering.

On the other hand, the list may become one of support materials to be used in the formation (improvement) of the system of measures aimed at combating corruption and money laundering. Evidently, the effectiveness of anti-corruption activities directly depends on the purposefulness of anti-corruption activities of Supreme Audit Institutions and other public institutions involved in the implementation of the national strategy (programme). In this case, the compiled list may be a starting point in the development of the most rational system of measures, which would simultaneously provide for a point impact on specific negative practices and assure the fullest coverage of corruptogenic areas.

These recommendations have been developed, first of all, to achieve these very objectives.

Taking into account the complexity of the problem, as well as the specific nature of national legislations and the systems of combating corruption and money laundering, the list cannot include absolutely all challenges. It contains the most common threats specific for most Supreme Audit Institutions.

This provision gives rise to the following main conclusions:

- the list may and should be supplemented and improved. This process is caused by the fact that forms, methods and points of application of corruption and money laundering

are not static. This fact forces Supreme Audit Institutions to constantly search for countermeasures and modernize the system of effective counteracting these negative practices;

– The compiled list of challenges may be considered as a basic material and be adapted to national conditions with due account of the peculiarities of legislation, the acuteness of problems SAI faces, etc.

As for the structure of the list, it is divided into two groups: challenges of external nature and internal threats.

Evidently, the capacities of Supreme Audit Institutions to counteract external challenges may be significantly limited due to the special features of national legislation. However, their consideration in everyday anti-corruption activities will contribute to improving the effectiveness of the system of measures to combat corruption and money laundering in general.

According to initial estimate, the success in countering threats of internal nature largely depends directly on a Supreme Audit Institution, i.e. on how purposefully and consistently the SAI deals with the problem of combating corruption and money laundering.

## **2. External Challenges**

2.1. Lack of national strategy (programme) for combating corruption and money laundering:

– The problem of combating corruption and money laundering at the national level loses its importance. The consequence is public distrust in state authorities and formation of favourable conditions for the development of corruption;

- Lack of system approach in anti-corruption activities both at the governmental and departmental level;
- The impossibility to assess the scale of corruption at the national level and, as a consequence, poor possibilities to develop a system of anti-corruption measures;
- Lack of list of priorities of the activity aimed at combating corruption and money laundering; the emerging of “gray zones” not covered by preventive influence of the government;
- Lack of possibility to appraise the level of involvement of a particular country into the international system of corruption and money laundering.

2.2. Poor degree of involvement of Supreme Audit Institutions into the implementation of the national strategy (programme) to counteract corruption and money laundering.

The role and position of SAI in this process are not defined:

- disproportionate distribution of functional load among law enforcement agencies and SAI, which results in low effectiveness of activities to identify the facts of corruption and money laundering;
- insufficient use of the possibilities of Supreme Audit Institutions in identifying the facts of corruption and money laundering, as well as the prevention of these negative practices;
- lack of express role and position of SAI in the national strategy (programme) to counteract corruption and money laundering, which leads to failures in the system of inter-agency information exchange and, as a consequence, to the lack of coordination in anti-corruption activities of governmental institutions in general;

– poor degree of involvement of SAIs in activities aimed at the prevention of practices of corruption and money laundering, first of all, at the objects of control of Supreme Audit Institutions.

2.3. Supreme Audit Institutions are authorized for functions to combat corruption and money laundering that are unnatural for SAIs.

2.4. Lack of system of regulatory legal acts dividing the powers of state authorities in the frame of the implementation of the national strategy (programme) to combat corruption and money laundering:

- the absence of regulatory and legal system, which results in dramatic degradation of activities of all state authorities involved in the process of combating corruption and money laundering;
- state authorities involved in anti-corruption activities independently determine their functions, which leads to groundless overestimation (underestimation) of powers;
- creation of legal conditions for inter-departmental competition and overlapping of functions.

2.5. Low effectiveness of the interaction of state authorities involved in the implementation of the national strategy (programme) to combat corruption. The lack of coordination in the activities of state authorities and SAI:

- violations and failures in the system of inter-departmental information exchange in the field of combating corruption and money laundering;
- overlapping of functions, which leads to low effectiveness of activities in general;



- groundless inter-departmental competition;
- state authorities involve in the implementation of particular anti-corruption measures employees without the necessary experience and knowledge typical of the specialists of Supreme Audit Institutions;
- lack of coordination of departmental plans for the implementation of anti-corruption measures, which leads to achieving a partial result.

2.6. Lack of the system of examination of regulatory legal acts at the state level for corruptogenic factors:

- creation of conditions for forming a corruptogenic legal system in the country;
- occurrence of favourable (from the legal point of view) conditions for the development of corruption and money laundering;
- reduction of capacity of public authorities in the field of preventing and combating corruption and money laundering caused by limitations of legal nature;
- impossibility for public authorities involved in activities for combating corruption and money laundering to influence the adoption of regulatory legal acts containing corruptogenic provisions.

2.7. The civil society is unprepared to positively perceive the national strategy (programme) for combating corruption and money laundering:

- nihilism, indifference and socio-political apathy from the part of society in respect of the issues of combating corruption and money laundering;
- the civil society is unprepared for specific measures taken by the government to combat corruption and money laundering. The current system is too familiar for the

society and prerequisites for the discontent caused by the level of corruption in the country have not yet reached the required level;

- public indifference, a low level of confidence in the system of state power.

2.8. The results of the SAI's activities are too invisible for the society, including the results in the frame of the implementation of the national strategy (programme) to counteract corruption and money laundering:

- lack of system of communicating to the public the results of measures taken in the frame of the implementation of the national strategy (programme) to counteract corruption and money laundering;
- Lack of mechanisms of public control over the SAI's activities;
- insufficient understanding by citizens of the role and position of the Supreme Audit Institution in the overall process of combating corruption and money laundering; biased assessment of the results of its activities from the part of the society;
- Incompleteness of information on the results of the SAI's activities available for citizens, which results in groundless speculations and, as a consequence, to the erosion of credibility to the Supreme Audit Institution.

2.9. Poor involvement of the Supreme Audit Institution in creating public intolerance towards any manifestations of corruption and money laundering:

- lack of measures aimed at forming public intolerance towards any manifestations of corruption and money laundering in the national strategy (programme).

2.10. Lack of system of criteria for the assessment of effectiveness of the SAI's activities in the frame of the implementation of the national strategy (programme) to combat corruption and money laundering:

- impossibility to achieve objective assessment of its own activities to combat corruption and money laundering;
- lack of basis for the formation of an optimal system of measures in the frame of combating corruption and money laundering.

### **3. Internal Threats**

3.1. Ill-developed (non-available) system of regulatory legal acts aimed at preventing corruption practices:

- lack of system of regulatory documents determining both the responsibilities of officials to prevent the facts of corruption and money laundering and the liability for criminal acts committed by them;
- imperfect methodological framework preventing employees from acting professionally in any situations of corruptive nature;
- employees lack clear understanding of their rights, responsibilities, extent of liability and algorithms of actions, which leads, on the one hand, to a sense of vulnerability to external corruptive influence and, on the other hand, creates an erroneous idea of the possibility of impunity for criminal acts.

3.2. Imperfect system of personnel selection and training from the viewpoint of the issues of combating corruption and money laundering:

- poor knowledge of the SAI's employees of the specifics of professional activities aimed at combating corruption and money laundering;
- lack of curricula for personnel training and retraining in the field of combating corruption and money laundering;
- insufficient study of the issues of preventing corruption threats at the stage of selection of specialists.

3.3. Insufficiently developed system of internal information support of the activities of the Supreme Audit Institution aimed at combating corruption and money laundering:

- insufficient or distorted information on the nature of consequences for those caught in corruption or assisting in money laundering, which results in misinterpretation of the results of the SAI's activities in preventing these negative practices;
- employees' sense of impunity for corrupt practices, pre-requisites for the expansion of number of persons inclined to wrongdoings of such kind, which is caused by the imperfection of internal information support;
- lack of transparency in the activities of the Supreme Audit Institution aimed at combating corruption and money laundering;
- impossibility to disseminate best practices of particular employees in the event of occurrence of corruptive situations.

3.4. Insufficient effectiveness of the system of preventing corrupt practices from the part of the SAI's employees:

- lack of structural units (officials) responsible for control over compliance with the restrictions and prohibitions applied to the SAI's employees;



- poor formalization of requirements to the SAI's employees in the frame of combating corruption and money laundering. In particular, the lack of a Code of Conduct or ineffective practical implementation of its provisions, the imperfectness of job descriptions, which fail to provide for officials' liability for corrupt practices;
- poorly developed system of forming conditions to avoid corrupt practices from the part of employees in the course of performing their functional duties (lack of rotation in the membership of groups carrying out audit activities; static nature of the relevance of the list of audited entities and employees involved in their audit, etc.);
- insufficient level of professional training of employees in the field of preventing the facts of corruption and money laundering. Inability to identify at an early stage the situations with a criminal nature;
- sense of false “corporativity” providing for concealing wrongdoings committed by colleagues;
- bureaucratic, moral and psychological barriers in the interaction of the staff with representatives of a structural unit (officials) responsible for combating corruption and money laundering.

### 3.5. Lack of system of assessment of internal regulatory legal acts adopted by the Supreme Audit Institution for the availability of corruptogenic factors:

- availability of job descriptions and other regulatory documents containing corruptogenic provisions;
- lack of a structural unit (official) responsible for expert examination of internal regulatory legal acts for the availability of corruptogenic provisions;

- unnecessarily formal attitude to documents regulating employees' activities, in particular, in the field of preventing and combating corruption and money laundering;
- employees' sense of legitimacy of criminal acts and, as a consequence, impunity for their commitment, caused by the availability of corruptogenic provisions in regulatory legal acts and other governing documents;
- lack of a system of multidimensional assessment (from the part of developers, structural units responsible for legal examination of documents, employees, etc.) of regulatory legal acts;
- lack of mechanisms for amending developed and adopted regulatory legal acts for the purpose of their improvement from the viewpoint of eliminating corruptogenic provisions.

#### **4. Conclusion**

According to the preliminary assessment, the presented list of threats may be used effectively enough by Supreme Audit Institutions both in their everyday activities aimed at combating corruption and money laundering and at the stage of developing conceptual provisions to create (improve) a system of anti-corruption measures.

At the same time, this list may be used to form a database of the best practices of SAIs in the field of combating corruption and money laundering.