GUID 5270

Guideline for the
Audit of Corruption
Prevention

INTOSAI

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INTRODUCTION

This guideline is designed to help SAI auditors in preparing and conducting the audit of anti-corruption policies and procedures in government organizations within the scope of their mandate. It highlights anti-corruption policies, structures and processes in these organizations and can be used as an audit tool by the auditors. It may, however, also be used by the auditees (such as government departments, government institutions etc.) as guidance for implementing and carrying out their own anti-corruption-activities. Those SAIs that do not have a mandate to conduct performance audits can use this guideline for internal purposes.

The guideline assumes the reader is aware of general and specific audit methodology and procedures applicable to this area of audit as set out in the International Standards of Supreme Audit Institutions ISSAIs, ISAs, audit manuals, and other relevant auditing standards and guidance. Given the enormous amount of information widely available on the subject, this guidance is not intended to be final or exhaustive but rather to explain and illustrate the relevant features and to present practical solutions for SAI auditors.

The guideline covers key areas of anti-corruption structures and procedures that may be found in government organizations. It also describes the setting up of anti-corruption-structures, the approaches for risk assessment and risk analysis and monitoring processes. The main emphasis is placed on the modules of an effective anti-corruption organization such as the delimitation of duties, job rotation, role of internal review, human capital including raising awareness and training of employees.

This guideline does not cover fraud investigations, although some SAIs have investigative units. In most cases the SAI does not lead an investigation since it does not possess adequate knowledge or resources to do so. The investigative authorities may even ask the SAI to stop carrying out audit work in the area concerned so as not to jeopardize the findings of the investigation team. The SAI, however, may also be asked to cooperate and even work alongside the investigative team. The fraud and corruption investigation actively seeks out cases of deception and hidden figures and is not concluded before it has gathered sufficient evidence on the extent and financial impact of the problem.

One of the key issues, which has been known for years among scientists and practitioners of public management, is the need to ensure institutional balance (transaction cost theory). There is no possibility of effective implementation of formal institutions, such as anti-corruption law, without concurrent changes of informal institutions, as well as convincing citizens of the need to make changes in order to effectively fight corruption.

The authors of the guideline have covered this concept in the first part of the guideline that provides general information about the phenomenon of corruption. This guideline is not only a kind of anti-corruption methodology, where risk-based principles and procedures are discussed, but is also intended to help readers understand the importance of the fight against corruption. Therefore, in the first part of the guideline that is directed towards representatives of public institutions around the world, the authors have decided to gather general information about the phenomenon of corruption, its causes and consequences.

1.1   THE CONCEPT OF CORRUPTION

Before discussing how to reduce corruption, it is worth mentioning why the issue of corruption is essential to public management, and how corruption is related to public governance. The term governance is generally used to encompass all aspects of the way a country, corporation, or other entity is governed. Good governance is a precondition for the sustainable development of societies and regions. This means competent public management of a country's resources and public tasks in a manner that is right, transparent, accountable, equitable and responsive to people's needs. Corruption is a narrower concept than governance as it is often defined as the abuse of public authority or trust for private benefits. These two concepts are closely linked, where there is poor governance, there are greater incentives and more scope for corruption. Thus, the promotion of good governance helps to combat corruption. It also complements efforts that target corruption more directly, such as raising public awareness and strengthening the enforcement of anti-corruption legislation. There is also a reverse link: corruption undermines governance to the extent that it distorts policy decisions and their implementation.[1]

The International Monetary Fund's operations and its relations with member states have always been concerned with good governance. But in 1996, the policy-making committee of its Board of Governors added an explicit mandate. In its Declaration on Partnership for Sustainable Global Growth, the Interim Committee stressed, among other things, the importance of "promoting good governance in

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1   *The IMF's Approach to Promoting Good Governance and Combating Corruption — A Guide*, International Monetary Fund, Washington D.C. 2005 Retrieved November 2, 2009.

all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper"[2].

The World Bank also prepared the Worldwide Governance Indicators, and listed six key dimensions of governance as follows: Accountability, Political Stability and Lack of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption[3]. In addition, the Financial Action Task Force, recognizing that corruption and money laundering are intrinsically linked, has developed a reference guide to raise awareness of how its recommendations for combating money laundering can also be used in the fight against corruption.[4]

There is no doubt that corruption can have a major negative impact on economic performance. Corruption can reduce investment and economic growth. It also diverts public resources to private gains and away from needed public spending on education and health. It tends to compress operation and maintenance expenditures while boosting for public investment and defense spending, which are both highly amenable to corruption. By reducing tax revenue, corruption can complicate macroeconomic management, and since it tends to do so in a regressive way, it can accentuate income inequality.[5]

The United Nations Convention against Corruption does not contain a single definition of corruption, but lists several specific types[6]. There are, however, several "working definitions". For example, Transparency International defines corruption as "the abuse of entrusted power for private gain"[7]. The working definition of corruption adopted by the World Bank Group is more oriented to the public sector and reads as follows: "The abuse of public funds and/or office for private or political gain"[8].

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2   *Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund*, Press Release Number 96/49, September 29, 1996, International Monetary Fund, Washington, D.C.

3   See: http://info.worldbank.org/governance/wgi/index.asp.

4   F*inancial Action Task Force, Corruption: A Reference Guide and Information Note on the use of FATF recommendations to support the fight against corruption*, 2010.

5   *The IMF's Approach to Promoting Good Governance and Combating Corruption — A Guide*, International Monetary Fund, Washington D.C. 2005 Retrieved November 2, 2009

6   UNODC, 2004. *The United Nations Anti-Corruption Toolkit*, 3rd Edition. Available at https://www.un.org/ruleoflaw/files/UN_Anti%20Corruption_Toolkit.pdf , p. 10.

7   *Transparency International, Frequently asked questions about corruption.* Available at www.transparency.org/news_room/faq/corruption_faq.

8   Available at https://openknowledge.worldbank.org/handle/10986/6848

The Civil Law Convention on Corruption by the Council of Europe, defines corruption as requesting, offering, giving or accepting, directly or indirectly, a bribe or any other undue advantage or prospect thereof, which distorts the proper performance of any duty or behavior required of the recipient of the bribe, the undue advantage or the prospect thereof.[9]

In terms of how widespread it is, corruption can be divided into individualized corruption – involving a definite number of people, and collective corruption – extending to entire interest groups, leading to dependencies in which the donor becomes the recipient and vice versa. A distinction can also be drawn according to the spheres of state and society in which corruption occurs: in the private sector, at the interface of the private and public sectors, and in the public sector. By adopting an 'actor-centric' approach towards giving and accepting corruptive advantages, passive and active corruption can be distinguished. Passive corruption involves the deliberate action by an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or for a third party, or accepts a promise of such an advantage, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties. Active corruption involves the deliberate action of whoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official for himself or for a third party in order for him to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties.[10]

According to the Criminal Law Convention on Corruption by the Council of Europe, active bribery of domestic public officials is defined as an act committed intentionally by the promising, offering or giving by any person, directly or indirectly, of any undue advantage to any of its public officials, for himself or herself or for anyone else, for him or her to act or refrain from acting in the exercise of his or her functions. Passive bribery of domestic public officials is defined as an act committed intentionally by the request or receipt by any of its public officials, directly or indirectly, of any undue advantage, for himself or herself or for anyone else, or the acceptance of an offer or a promise of such an advantage, to act or refrain from acting in the exercise of his or her functions.[11]

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9   See Article 2, *Civil Law Convention on Corruption*, done at Strasbourg on 4 November 1999, https://www.coe.int/en/web/conventions/full-list/-/conventions/rms/090000168007f3f6

10   Z. Dobrowolski, Trust, Corruption and Fraud [in:] B. Kozuch, Z. Dobrowolski, *Creating Public Trust: An Organisational Perspective*, Peter Lang GmbH, Frankfurt am Main 2014, pp. 132-136.

11   *Criminal Law Convention on Corruption*, see: http://conventions.coe.int/treaty/en/Treaties/Html/173.htm

The concept of corruption could also be referenced to two types, grand and petty corruption. Grand corruption involves substantial amount of money and usually high-level officials. Petty corruption is the corruption that involves smaller sums and typically more junior officials.

Among other types of wrongdoing, corruption is associated with nepotism or favoritism, clientelism, cronyism, patronage, graft, bribery, extortion, embezzlement, theft and fraud. Nepotism is defined as providing favors based on consanguinity. It is also defined as favoritism granted to relatives regardless of merit. Favoritism means giving favors based on informal relations or the practice of giving special treatment to a person or group[12]. The term clientelism refers to a complex chain of personal bonds between political patrons or bosses and their individual clients or followers. These bonds are founded on mutual material advantage: the patron furnishes excludable resources (money, jobs) to dependents and accomplices in return for their support and cooperation (votes, attendance at rallies). The patron has disproportionate power and thus enjoys wide latitude about how to distribute the assets under his control[13].

By definition, favoritism, nepotism and clientelism all involve abuses of discretion, although a number of countries do not criminalize the conduct (for example, Article 7 of the *UN Convention Against Corruption* covers merit selection without even mentioning nepotism). Such abuses usually involve not only a direct personal benefit to an official but also promotes the interests of those linked to the official, be it through family ties, a political party, a tribe, or religious group. A corrupt official who hires a relative (nepotism) acts in exchange, not of a bribe but of the less tangible benefit of advancing the interests of others connected to the official. The unlawful favoring of – or discrimination against - individuals can be based on a wide range of group characteristics: race, religion, geographical factors, political or other affiliation, as well as personal or organizational relationships, such as friendship or shared membership of clubs or associations.[14]

Cronyism is showing partiality to long-standing friends, especially by appointing them to positions of authority, regardless of their qualifications. Patronage is the support,

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12   *The American Heritage New Dictionary of Cultural Literacy*, Third Edition. Houghton Mifflin Company, 2005. 10 Aug. 2009, http://www.thefreedictionary.com/favouritism.

13   D.W. Brinkerhoff, A.A. Goldsmith, *Clientelism, Patrimonialism and Democratic Governance: An Overview and Framework for Assessment and Programming. Prepared for U.S. Agency for International Development Office of Democracy and Governance, under Strategic Policy and Institutional Reform*, Abt Associates Inc., Bethesda 2002, p. 2.

14   *United Nations Handbook on Practical Anti-Corruption Measures for Prosecutors and Investigators*, op.cit., p. 28.

encouragement, privilege, or financial aid that an organization or individual bestows upon another. In some countries the term is used to describe political patronage, which is the use of state resources to reward individuals for their electoral support. Although in some countries patronage systems are legal, the term may refer to a type of corruption or favoritism in which a party in power rewards groups, families, ethnicities for their electoral support using illegal gifts or fraudulently-awarded appointments or government contracts.

Graft is a form of political corruption that can be defined as an unscrupulous use of a politician's authority for personal gain. Most governmental systems have laws in place to prevent graft although this does not always halt political corruption. Bribery is the act of conferring a benefit in order to improperly influence an action or decision. It can be initiated by an official who asks for a bribe or by a person who offers to pay one. Bribery is probably the most common form of corruption. Definitions or descriptions appear in several international instruments, in the domestic laws of most countries as well as in academic publications. Typically, it is used to describe a payment extracted by a public official from an unwilling member of the public before the citizen can receive the service to which he or she is entitled. Strictly speaking, such a transaction is not one of a "bribe" being given by an accomplice in corruption, but a "payment being extorted" from an unwilling victim.[15]

The "benefit" conferred by a "bribe" can take a variety of forms: cash, company shares, inside information, sexual or other favors, entertainment, employment or, indeed, the mere promise of a benefit in the future (such as a job on retirement).

The Criminal Law Convention on Corruption by the Council of Europe defines bribery associated with the phenomenon of corruption, namely: active or passive bribery.[16]

In the context of corruption, embezzlement, theft and fraud all involve stealing by an individual exploiting his or her position of employment. In the case of embezzlement, property is taken by someone to whom it has been entrusted (e.g. a pay clerk). Fraud involves the use of false or misleading information to induce the owner of the property to part with it voluntarily. "Theft", per se, goes well beyond the scope of any definition of corruption. However, "embezzlement" - essentially the theft of property by someone to whom it was entrusted - is universally regarded as falling

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15   *United Nations Handbook on Practical Anti- Corruption Measures for Prosecutors and Investigators*, op.cit., p. 24.

16   *The Criminal Law Convention on Corruption*, Strasbourg, 27 January 1999, Articles: 2, 3, 7, 8 of the Convention.

within corruption definitions wherever it occurs, carrying with it, as it does, a breach of a fiduciary duty.[17]

1.2. CAUSES OF CORRUPTION

Flaws of human nature are mentioned among the causes of corruption. The urge to enrich one quickly by dishonest means makes this phenomenon persistent in any society, regardless of a political system. The tolerance for corrupt behavior may not only have a cultural, but also a historical background. For instance, the absence of one's own national state may generate a disregard for legal norms, perceived as rules imposed by the occupying power. This, in turn, can translate into a generalized disregard for legal norms, and – more broadly – for ethical standards. In addition, some mistakes of state economic policies may catalyze corruption. For instance, in the circumstances of a shortage economy, with mismatched supply and demand, a desire to get some consumer goods may generate corrupt behavior.[18]

Several studies have identified three common characteristics (Fraud Triangle model) that may have an impact on the conduct of a corrupt or fraudulent person[19]:

- Incentive/pressures: The need a corrupt person is trying to satisfy by committing a dishonest act.

- Opportunity: The ability of the corrupt person to act dishonestly due to his/her position.

- Rationalization: The corrupt person's ability to justify the act in his/her mind.

In a market economy, corruption may be encouraged by the existing legal and organizational regime which may restrict the freedom of business, by imposing restrictions on business transactions. These restrictions may give rise to secret agreements, various informal groups, which can affect the existing society system[20]. Such agreements can occur in various societies with different cultures. It is worth noting at this point that an act considered to be a corrupt practice in one community

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17   *United Nations Handbook on Practical Anti- Corruption Measures for Prosecutors and Investigators*, op.cit., p. 26.

18   Z. Dobrowolski, Trust, Corruption and Fraud [in:] B. Kozuch, Z. Dobrowolski, C*reating Public Trust. An Organisational Perspective*, Peter Lang GmbH, Frankfurt am Main 2014, pp. 129-130.

19   Dr. Donald Cressay; *Criminal Organization: Its Elementary Forms*, 1972

20   Z. Dobrowolski, Trust, Corruption and Fraud [in:] B. Kozuch, Z. Dobrowolski, *Creating Public Trust. An*

may not necessarily fit into such classification adopted in another community. A gratuity offered to an official after he or she has completed a task may – for some – be a sign of corruption (establishing a "climate" for successful completion of other affairs in future), and for others – only an expression of gratitude acceptable in the culture.[21]

In considering the reasons why the corrupting party pays bribes, the following factors can be distinguished:

- access to restricted goods, for instance contracts, licenses, permits, real property in attractive city districts,

- access to information, for instance on the contractual terms and conditions, on a bill of quantities with prices, on the activities planned by decision-makers,

- favorable treatment of some matter, which allows avoiding or cutting some costs, depriving other entities of some benefits.[22]

In light of what has been discussed so far, corruption develops when the freedom to do business is restricted, there is excessive discretion in decision-making, little or no accountability of decision-makers, inefficient control system, lack of transparency in the activities of institutions using public funds or property.[23]

1.3 COST OF CORRUPTION

Corruption generates costs. However, the problem with corruption is that unlike other crimes, those that are victims of corruption are often not directly linked, either in place or in time, with the corrupt activities. There are, however, some estimates of overall bribes paid worldwide. Corruption alone is estimated to cost the EU economy EUR 120 billion per year, just a little less than the annual budget of the European Union[24]. Furthermore corruption has more far-reaching and damaging serious corruption problems and two in three worldwide suffer from corrupting[25] consequences

Organisational Perspective, Peter Lang GmbH, Frankfurt am Main 2014, pp. 129-130

21   *Ibidem*

22   *Ibidem*

23   *Anticorruption in Transition: A Contribution to the Policy Debate*, World Bank, Washington D.C. 2000 (reproduced typescript), pp. XV-XVII.

24   *Report from the Commission to the Council and the European Parliament*, EU Anti-Corruption Report, COM (2014) 38 Final

25   *Corruption Perceptions index 2015*; Transparancy international.

for society and the economy as a whole as is evident based on such estimates. For instance, the money looted usually leaves the country and is thus not accessible there anymore for other productive or redistributive purposes. Also, the possibility to extort bribes biases the incentives for government officials and has detrimental effects on overall governance, and thus on the quality and the availability of public services. Bribes and embezzlement are just two aspects of this corruption. Non-monetary and monetary effects of favoritism and nepotism as well as fraud (e.g. the manipulation or falsification of information) have to be added to the picture.[26]

Corruption negatively affects productivity and deters investments. One of the reasons for this is because the effects of corruption are comparable to a tax on investments. A firm wishing to make an investment has to take into account the unpredictable costs of bribery for setting up and operating a business.[27]

Environmental quality also suffers from corruption, and corruption undermines effectiveness of environmental policies. Indeed, pollution may increase due to a less effective environmental regulation which can be circumvented through bribes.[28]

Corruption can undermine the system of democracy. First of all, in most countries a social and political consensus has been established that private wealth is subject to a redistributive system to guarantee the provision of public goods and services, and to prevent excessive social inequality, therefore income is taxed. Through bribing tax officials or through tax evasion, corrupt practices undermine the ability of the state to tax private wealth and revenues. Secondly, public expenditures are agreed on in the budget, which is usually approved and determined by parliament, central audit authorities and by civil society and media. But, as already mentioned, corruption distorts the budget towards expenditures offering the highest corrupt opportunities, undermining the democratically desired use of resources and favoring narrow interests over public interest. Finally, corruption may also seek to directly influence the policy making and the rules and regulations of a society, thereby undermining democratic processes as well as the legitimacy of the state.[29]

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26   Quote from the publication: F. Boehm, J. Joerges, *Cost of Corruption: Everyone Pays – And the Poor More than Others*, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, Division State and Democracy Supporting the Implementation of the UN Convention against Corruption, Federal Ministry for Economic Cooperation and Development, Eschborn 2008, p. 2.

27   F. Boehm, J. Joerges, *Cost of Corruption*, op.cit., pp. 5-6.

28   H. Welsch, Corruption, Growth, and the Environment: A Cross-Coutry Analysis. Environment and Development Economics, 2004, Vol.9: 663-93 cited by F. Boehm, J. Joerges, *Cost of Corruption*, op.cit., p. 7.

29   Quote from the publication: F. Boehm, J. Joerges, *Cost of Corruption*.., op.cit., pp. 9-10.

1.4 THE ROLE OF THE SAI IN THE FIGHT AGAINST CORRUPTION

One of the most important aspects of the SAI's role in combating corruption is the work it does in strengthening public institutions, which are the elements of the national integrity system. The public institution, within its statutory powers, supports this national integrity system like pillars that support the roof of the building. Sound governance in such a system is based on integrity, transparency and accountability. Taking into consideration that it is much better to prevent than detect corruption, the SAI's fight against corruption should be multifaceted. It includes, but is not limited to: (1) incorporating corruption and wrongdoing issues in SAI's routine audit work; (2) heightening public awareness of corruption and other wrongdoing through timely and public disclosure of SAI's audit findings; (3) improving methods and tools of combating corruption and other types of wrongdoing; (4) providing a means for whistleblowers to report instances of wrongdoing; and (5) cooperating with other institutions in the fight against corruption.[30]

The SAI should analyze corruption phenomena (its occurrence, causes, areas and mechanisms) as appropriate during each audit, and through its audits the SAI should attempt to identify ways to reduce arbitrariness in the application of rules and regulations, simplify administrative procedures, and eliminate unequal access to information. Through SAI's daily analysis of irregularities identified during audits and analysis of legislation the SAI should attempt to identify the mechanisms that can contribute to corruption. Through its work, the SAI should try to influence the laws and regulations so that they themselves do not encourage corruption. If the SAI makes a decision that a law or a regulation creates a situation that permits or encourages corruption, it makes proposals for change. It is worth noting that when irregularities are identified in an audit, the SAI should recommend corrective measures, although most of SAIs have no executive powers and do not issue legal verdicts.

By carrying out this comprehensive strategy aimed at combating corruption and other types of wrongdoing, the SAI helps to strengthen the financial management systems of public institutions, knowing that ongoing accountability within the government will create a preventive environment that does not favor corruption and

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30   Z. Dobrowolski, Corruption and Fraud Prevention [in:] B. Kozuch, Z. Dobrowolski, *Creating Public Trust. An Organisational Perspective*, Peter Lang GmbH, Frankfurt am Main 2014, pp 181-185.

other types of wrongdoing. A strong financial management system incorporates the following: accurate, complete, and timely financial reporting, to include financial statements audited by the SAI or independent auditors and reports on internal controls and compliance with laws and regulations; a reliable system of internal controls; and cost accounting capabilities. A strong financial management system also contributes to and provides a basis for effective performance measurement. Simultaneously the SAI should evaluate internal controls (an important line of defense in preventing wrongdoing) and makes recommendations to strengthen any weaknesses identified.[31]

The SAI should attach great importance to its informational role and heighten public awareness of corruption and other wrongdoing through the timely and public disclosure of its audit findings. Increased public awareness of corruption helps to foster accountability. It is worth noting, however, that in many countries the SAIs have certain information gathering tools for combating wrong doings and can report on corruption in the public sector. In some countries, SAIs do not have the competences of a police agency or prosecutor office. In the case of a well-founded suspicion of a crime or any offence, the SAI should notify the body called upon to investigate crimes and offences (in instances required by Criminal Law). In some cases auditors may play an important role during criminal prosecutions by being witnesses for the prosecution.[32]

The SAI's effectiveness and efficiency in the area of wrongdoing detection is the result of its strategy. Therefore the SAI should constantly work in a systematic manner to improve its methodology to identify and combat wrongdoing. The SAI should also increasingly turn its focus on training of its staff, knowing that the success of the fight against wrongdoing depends not only on its audit procedures and tools, but also on having staff with appropriate skills, knowledge, and abilities to identify and assess potential irregularities.[33]

The SAI should create a commitment to individual integrity not only through its own staff. Additionally it should be an institution to which whistleblowers can provide information about suspected or actual wrongdoing in the workplace. Many SAIs have a complaint gathering system. Telephone hotlines and Internet technology are examples of commonly used whistleblowing mechanisms. The efficiency of

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31   *Ibidem.*
32   *Ibidem.*
33   *Ibidem.*

any whistleblowing system, however, depends not only on the availability of such a solution for citizens, but also on how the system ensures the anonymity of whistleblowers, and the belief of citizens that the information on irregularities in public life, provided by individuals to the authorities of the state are properly used by the authorities. All information gathered from such individuals by an SAI's complaint system should be transmitted over a secure connection, and the SAI should safeguard all information provided by whistleblowers or others against unauthorized disclosure.[34]

In their efforts to combat corruption SAIs should encourage public organizations to put effective pre-employment screening procedures in place. Such procedures should verify the qualifications, suitability and experience of potential candidates for employment. Specific techniques that should be used include confirmation of educational and professional qualifications, verification of employment background, criminal history searches and credit checks. Such pre-employment screening techniques must, however, be carried out in accordance with appropriate laws and regulations. Screening applicants can reduce the likelihood of individuals with a history of dishonest or fraudulent behavior being given a role within the organization, and is therefore an important corruption prevention procedure.[35]

1.5 LAWS AND REGULATIONS

Laws and regulations concerning the prevention and fight against corruption, fraud and money laundering should be a part of the legal system of each country. Given the number of countries and SAIs, relevant laws and regulations have not been included or referenced in this guideline.

Some countries have individually developed initiatives to combat international corruption. However, only since the latter half of the 1990s, has the international community established a legal framework to strengthen enforcement through cooperation. The main instruments are the following:

- The Convention of the United Nations against the Corruption.

- The Inter-American Convention against corruption, the ICAC, of the Organization of American States, OAS.

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34   *Ibidem.*
35   *Fraud risk management. A guide to good practice*, Chartered Institute of Management Accountants,2008, p.35.

- Civil and Criminal Law Conventions on Corruption by the Council of Europe.

- The Convention International Anti bribery, of the Organization for Cooperation and Economic Development, OECD.

- African Union Convention on Preventing and Combating Corruption.

It should be pointed out that the mentioned conventions contain the majority of the recommendations made in the various national and international forums to combat transnational corruption such as mutual legal assistance, joint investigations, the prevention and detection of transfers of assets illicitly acquired, measures for the direct recovery of assets and the exchange of information, among others.[36]

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36   Statement of Cartagena de Indias "Transparency Against Corruption".

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According to World Bank anti-corruption approach as well as Robert Klitgaard corruption model efficient fight against corruption requires eliminating monopoly, reducing discretion and promoting transparency and the rule of law.

Seven key components have been identified for an effective fight against (and prevention of) corruption:

Anti-Corruption Organizational Culture, Objectives/Strategy, Organizational Responsibility, Risk Management, Modules of Corruption Prevention (anti-corruption programme), Communication and Information and Monitoring and Modification. This chapter has been prepared to provide a comprehensive explanation on its relevance and impact to reduce and prevent corruption in government organizations, but it also covers the SAIs' role establishing guidance on how supreme auditing contributes to corruption prevention.
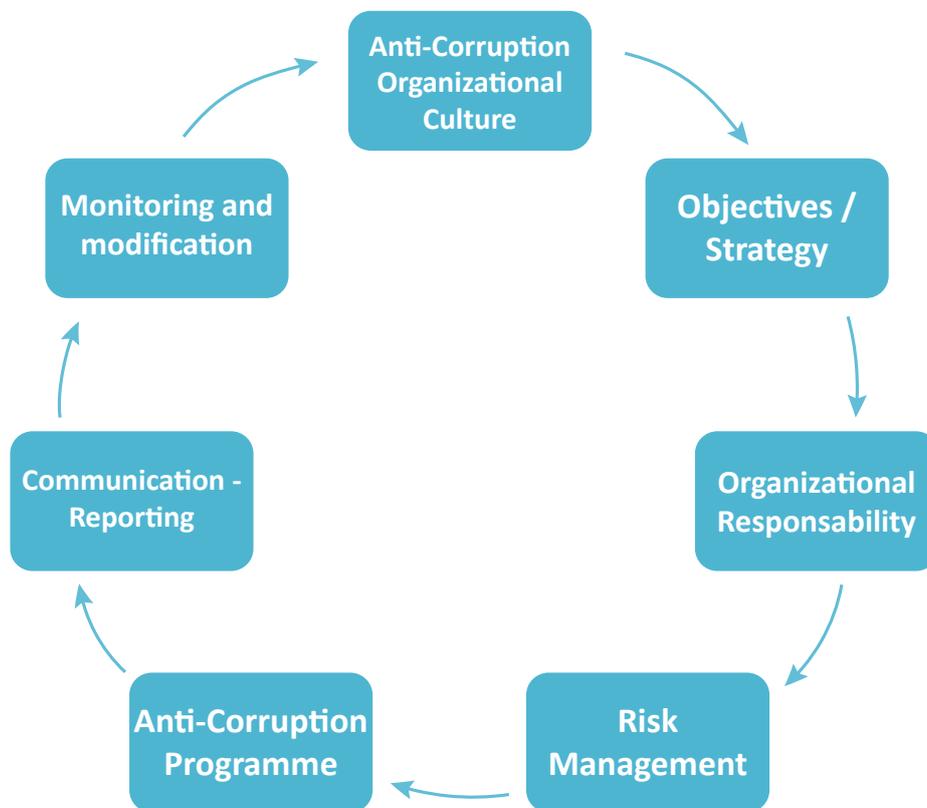
Fig. 1: Components of Corruption Prevention Systems, SAI of Austria

2.1 ANTI-CORRUPTION ORGANIZATIONAL CULTURE

It should be pointed out that the design and implementation of an effective anti-corruption prevention system is a challenge for every institution and it requires the active participation and professional judgment of all public officials so that it constitutes more than an inertial set of steps destined to comply with specific policies and procedures.

In this context the role model function of the management of all hierarchical levels is essential for an efficient corruption prevention system. Without the "tone from the

top" and the full commitment of the management to a comprehensive approach for the fight against corruption preventive measures are inefficient.

The governing bodies and senior management use their expertise and professional judgment to assess the necessary degree of control over integrity. Mid-level management and administrative staff, among other public officials, use their expertise and their professional judgment on a day-to-day basis to select, develop and implement the anticorruption controls within their responsibility areas.

Likewise, auditors and other bodies in charge of institutional control apply their professional judgment to supervise and evaluate the effectiveness and efficiency of the anticorruption system. Possible indicators for a desirable anti-corruption organizational climate can be:

1)   The organization demonstrates a commitment to integrity and ethical values.

2)   The oversight body should oversee the entity's internal control system.

3)   Management establishes, with board oversight, structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives.

4)   The organization demonstrates a commitment to attract, develop and retain competent individuals in alignment with objectives.

5)   The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

2.2 OBJECTIVES / STRATEGY

The first key element for a successful fight against corruption is the establishment of related strategic objectives or priorities. To create a corruption free environment within an organization is a desirable goal but may not always be a realistic objective as in some cases corruption can only be curbed to an acceptable level but not completely extinguished.

Derived from a mission statement or vision, the management of an organization has to define long-term organizational objectives or priorities. These objectives have

to be consistent with the overall strategy of the organization and must fit the legal and budgetary framework. Typically, such objectives deal with the enhancement of organizational integrity, the strengthening of corruption prevention systems or improvement of the effectiveness and efficiency of such systems. Definite and comprehensive anti-corruption objectives underline the commitment of management in the effort to curb corruption within an organization.

Based on this objective or priorities, operational goals have to be defined that underline which impact should be achieved by implementing a comprehensive anti-corruption program.

These goals have to be targeted toward the prevention of corruption, realistic, appropriate, time framed and measurable.

2.3 ORGANIZATIONAL RESPONSIBILITY FOR CORRUPTION PREVENTION

In some countries, internal control standards require managers to establish an organizational structure, among other actions, to achieve the program's objectives. In this context, a leading practice is to designate an entity within the structure to design and oversee these activities . Further if the results of risk analyses or other circumstances warrant, organizational responsibility for corruption prevention within the institution should be clearly assigned. This could be organized within the institution, as a specific anti-corruption unit, as a senior anti-corruption officer or externally by other institutions. They shall understand the program and its operations, as well as the anti-corruption risks and controls throughout the program; have defined responsibilities; and be independent and have the right to report directly to the head of the organization.

The unit/person for corruption prevention shall be established based on the tasks and size of the organization and it may be responsible for more than one organization.

This unit/person may be charged with the following tasks covering the whole organizational activities:

- serving as a contact for organization staff and management, if needed without having to rely on official channels, along with private persons (the

unit/person shall have direct access and may report to top management level (e.g. Head of Organization);

- being the repository of knowledge on anti-corruption-risks and advising organization management;

- keeping staff members informed (e.g. by means of seminars, e-learning tools and presentations on a regular basis);

- assisting with training and having access to all anti-corruption related training sessions;

- managing the risk assessment process

- monitoring and assessing any indications of corruption;

- helping keep the public informed about penalties under public service law and criminal law (preventive effect) while respecting the privacy rights of those concerned.

If the unit/person becomes aware of facts leading to reasonable suspicion that a corruption offense has been committed, the organization management shall be informed immediately and recommendations shall be made on:

- conducting an internal examination,

- taking measures to improve transparency

- informing the law enforcement authorities (the organization management shall take the necessary steps to deal with this matter) and

- reporting deficiencies in the existing corruption prevention systems.

The unit/person shall not be delegated any authority to carry out disciplinary measures and shall not lead investigations in disciplinary proceedings for corruption cases.

Organizations shall provide this unit/person promptly and comprehensively with any information needed to perform their duties, particularly with regard to incidents of suspected corruption. The organization has the task to support the unit/person for corruption prevention in carrying out their duties (e.g. by setting up special e-mail addresses or providing appropriate resources).

Even after completing their term of office, they shall not disclose any information they have gained about staff members' personal circumstances. They may, however, provide such information to organization management or personnel management if they have a reasonable suspicion that a corruption offence has been committed. Personal data shall be treated in accordance with the principles of personnel records management.

The unit/person for corruption prevention is to be formally appointed. This appointment is to be announced in the person's area of responsibility. If the unit/person for corruption prevention is to be responsible also for implementing the anti-corruption directive of the organization, in particular for heading the independent organizational unit, the relevant organization may formally appoint the unit/person to be its official.

Staff members responsible for carrying out security clearance of personnel may not serve as unit/person for corruption prevention.

While continuing to perform their duties, the unit/person should work with staff in the internal audit unit and with those responsible for implementing corruption prevention policies.

2.4 RISK ASSESSMENT AND RISK ANALYSIS (RISK MANAGEMENT)

In all government organizations, at regular intervals measures shall be carried out to identify areas of activity especially vulnerable to corruption and as warranted by circumstances. This task may either be performed by external or internal organization. The use of risk analyses shall be considered for this purpose.

Risk analyses are to be performed by government organizations on a regular basis and on an ad hoc basis if actual threats materialize to identify and analyze organizational elements or processes that are vulnerable to corruption. Organizations that effectively assess risks try to take into consideration specific risks that the organization or program faces; analyze the potential likelihood and impact of corruption; and ultimately prioritize risks and document these decisions. In addition, the risk assessment process can be used to determine the extent to which controls may no longer be relevant or cost-effective. There is no universally accepted approach

for risk assessment; however, they generally involve the following five actions: (1) identifying risks affecting the program, (2) assessing the likelihood and impact of inherent risks[38], (3) determining the organization's risk tolerance (e.g. willingness to accept a certain level of risk of corruption based on the circumstances of the individual programs and other objectives); (4) examining the suitability of existing controls and prioritizing risks; and (5) documenting the program's risk profile (e.g. summarizing and documenting key findings and conclusions from the prior steps).

Specific steps that risk assessments may comprise include

- evaluation of individual organizational structure, processes and procedures with regard to the risk of corruption;

- evaluation of audit records;

- based on this, identification of potential risks (especially for financial fraud, e.g. in financial statements);

- valuation of potential financial losses and damage to reputation;

- checking the probability of risks and their consequences;

- evaluation of internal control systems (e.g. security systems).

The results of the risk assessment shall be used to determine any changes in structures, procedures or personnel assignments in order to eliminate the deficiencies identified.

The identification and analysis of areas of activity that are especially vulnerable to corruption is a major task to be performed by government organizations.

An area of activity vulnerable to corruption is one where the following occurs (by staff, custom or decision):

- third parties (individuals, businesses, associations, companies, other institutions) receive material or non-material advantages or are preserved from disadvantages, and

- third parties are able to provide staff members with advantages to which they are not entitled by law or collective bargaining agreements.

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38   This could also include the consideration of the nature of the risks themselves in the analysis. Even though a risk may have a small impact or likelihood of occurrence, by its very nature it may be significant to the organization and should be considered and a response determined.

Furthermore, an area of activity associated with any of the following is especially vulnerable to corruption:

- frequent outside contacts – also in the course of checking and supervisory activities;

- management of large budgets;

- awarding of public contracts or subsidies, including the awarding of grants or other funding;

- imposing of conditions, granting of concessions, approvals, permits, and the like, setting and levying of fees;

- processing of transactions and operations using internal information not intended for third parties.

This applies only if:

- the potential advantage has a significant material or non-material value for third parties or

- the potential disadvantage to third parties would result in punishment, a threat to their business or to the existence of the affected institution.

The need for risk analysis in areas of activity considered especially vulnerable to corruption should in principle be evaluated on a frequent and regular basis, required by significant circumstances (e.g. every one to five years or following organizational or procedural changes or changes in the nature of assigned tasks). In order to identify individual areas vulnerable to corruption, the following two-step procedure is expected to be performed by the government organization:

- a brief examination of vulnerability to corruption and of the effectiveness of existing safeguards and internal controls (e.g. by examining organizational charts).

- if a risk analysis is needed: Identify operations which are especially vulnerable to corruption as well as existing safeguards and internal controls (e.g. by means of questionnaires and supplementary interviews).

If a need for action is determined, the risk analysis should conclude by recommending and/or ordering additional preventive measures and detective and corrective measures as well.

In addition to the items noted above, the following questions may be asked by the organization's management, anti-corruption unit/person and individual staff members through self-assessment, as well as SAI auditors when auditing whether an activity is vulnerable to corruption:

- Are there or have there been instances of corruption in the area of activity?

- Have third parties tried to influence the decisions of a staff member in this area?

- Does the area manage budget funds or resources?

- Is the area responsible for contracts, subsidies, funding?

- Does the area impose conditions, grant concessions or authorizations?

- Does the area charge fees?

- Have there been known cases of corruption in comparable areas of activity at other organizations?

- Does the area of activity follow specifically defined work processes?

- Is the position associated with special scope for action and discretionary powers?

- Does the extent of decision-making authority vary depending on the size of contracts or other criteria?

- Does the area of activity have a final say regarding processing and decision-making?

- Is there adequate administrative and task-related supervision?

- Is personal integrity the only barrier to corruption in the area of activity?

- What in-house control mechanisms are in place?

- Does the decision-making process provide for the double control by involving more than one official responsible?

- Do other organizational units also have to approve decisions?

- Does decision-making ensure transparency, e.g. by means of checking operations, reporting, explicitly designating responsibilities, or supplying accurate and full documentation (minutes, notes, reports, proper record-keeping)?

- Is the decision-making process required to be transparent even if no consent is needed from a superior or another organizational unit entitled to participate?

- Is there a requirement that a transparent, written record be kept of the decision-making process, which can be followed by an auditing authority?

- Are there any known violations of regulations (e.g. budget law, law on public procurement)?

- Are there any complaints by the SAI or another supervisory authority, e.g. the independent organizational unit for overseeing corruption prevention?

Government organizations as well as SAIs should be aware of factors related to increased vulnerability, such as complexity, organizational change / dynamics, management style, working environment and prior integrity incidents.[39]

Also a system of harmonized performance indicators could be established to measure the level of corruption in a country based on transparency, disclosure and effective reporting.

Public institutions could perform self-assessments periodically to identify vulnerabilities.

IntoSAINT, for example, is a tool used by SAIs but can also be used by other public organizations to self-assess their vulnerability concerning potential integrity breaches.

IntoSAINT is targeted at corruption prevention and leads to management recommendations to support the integrity of the organization. It is a 'qualitative tool' that enables the user to design a tailor made integrity policy and at the same time increases the integrity awareness of employees.

The basic principles of IntoSAINT are self-assessment, targeted at prevention, raising general integrity awareness, learning to think in terms of vulnerability and risk, and concrete management reports/action plans.

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39   Handbook for Self - assesment Integrity IntoSAINT, 2011. SAI of the Netherlands.

2.5 ANTI-CORRUPTION PROGRAM (MODULES OF CORRUPTION PREVENTION)

Based on the results of an entity's risk assessment, including its risk profile (if this step was taken), the organization should develop and document a strategy for fighting corruption; including identifying specific control objectives and developing and implementing appropriate measures and specific control activities to prevent corruption.

A comprehensive and reasonable anti-corruption programme has to be integrated into the overall organizational structure. This programme must focus on three elements: Prevention – Detection – Reaction.

| Prevention (i.a.)	Detection (i.a.)	Reaction (i.a.)
Framework of standards and	Whistle blower mechanism	Investigations / Examination
Code of Ethics		
HR - Management		
Internal Controls	Internal Audits	Sanctions / Penalties
Use of e-government		
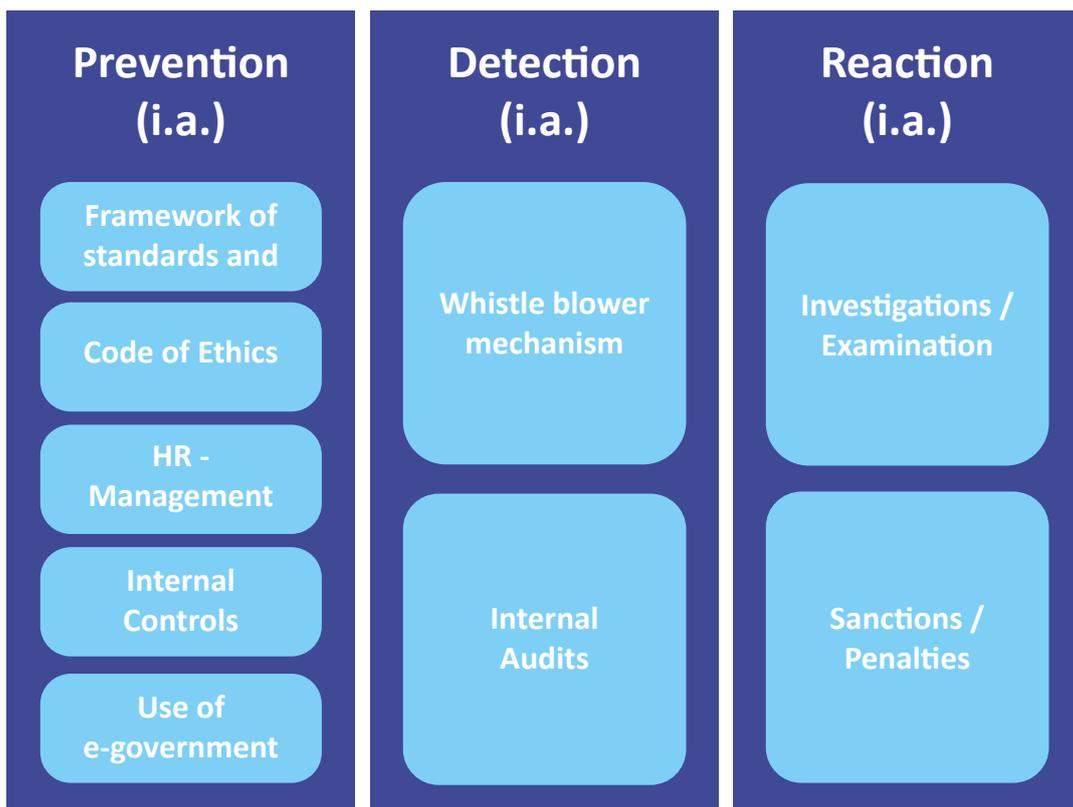
Fig. 2: Modules of Corruption Prevention, SAI of Austria

2.5.1 PREVENTION OF CORRUPTION

A primary objective for the government is to prevent errors or irregularities from occurring in an organization due to corruption or other misconduct.

For the prevention of corruption the following program elements should be considered:

- Appropriate framework of standards and regulations
- Code of ethics
- Appropriate Human Resources management
- Appropriate internal control system
- Use of E-government

2.5.1.1 APPROPRIATE FRAMEWORK OF STANDARDS AND REGULATIONS

In the past two decades, there have been radical changes in public sector management. Although the issues between developed and developing countries are different, one common theme is how to bolster public management accountability. Key stakeholders such as the public and the legislature have become increasingly interested in how public funds are allocated and spent, as well as how to reduce public spending by limiting costs associated with moral hazard (the risk that the presence of action will affect other parties) and adverse selection (a situation where asymmetric information results in harming other parties).

Results-based management attempts to address these issues. Governments around the world should take additional steps to ensure that public service is being performed in an effective manner which will also help further anti-corruption efforts. Results based management has been acknowledged as a successful reform in the developed countries such as United States, New Zealand, Sweden and United Kingdom.

In the 2003 United Nation Guide for Anti-Corruption Policies, the United Nation also mentioned the importance of result-based management.[40] In order to provide a coherent accountability framework, many governments and organizations have adopted results-based management, also known as facts-based management and performance management.

Managers who effectively manage corruption and other risks develop and document strategies that describe the organization's approach for addressing the risks identified in its risk assessment. A compendium of documents, guidelines, regulations and other tools is an essential element of corruption prevention systems. The scope of these documents has to cover all vulnerable areas to corruption in an organization that are ideally identified as the result of a risk analysis. Additionally, the values of an organization have to be emphasized in such documents.

Topics for such regulations might be:

- Secondary employment
- Conflict of interests
- Acceptance of gifts or invitations
- Handling of whistleblowers
- Handling of restricted information
- Post-public employment

In addition, the issue of open government, where citizens have the right to access the documents and proceedings of the government, allows for further effective public oversight and thus deters corruption. Requests for information by citizens have been embedded in legislation in a number of countries through the enactment and coming into force of the Freedom of Information Act.

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40   *United Nations Guide for Anti-corruption Policies*. www.unodc.org/pdf/crime/corruption/UN_Guide.pdf

2.5.1.2 CODE OF ETHICS

Every public institution should be equipped with a code of ethics.

A code of ethics is a set of conventional principles binding any person, from managerial to official level, to properly behave in accordance with stakeholders' expectation.[41]

Code of ethics is a moral guidance to be obeyed by all management and staff in an organization to maintain individual and organization credibility. At the minimum, a code of ethics should set out:

- Core values of an institution, covering integrity, independence, objectivity, impartiality, confidentiality, and competence.

- Obligation of the institution's management and employees to meet the core values.

Every public institution should disseminate the code of ethics as an integrated part of corruption prevention.

Effective corruption prevention could be achieved if all management and staff understand the institution's code of conduct properly. A good understanding of an institution's code of ethics can be achieved through a regular and effective dissemination of the code to every level of the organization.

Usually, a new employee is equipped with a complete set of company guidelines including the code of ethics. However, without any proper explanation on the substance of the code of ethics, the new employee would not get a comprehensive understanding and he/she may not practice it properly in daily business.

Every public institution should establish an appropriate way to monitor the implementation of its code of ethics.

A specific unit or committee is established to ensure that the code of ethics is utilized properly and to impose punishment to the violation of the code of ethics, e.g. Ethics Committee.

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41   *ISSAI 130 Code of Ethics*

If a public institution and/or SAI establishes a committee, its members should consist of representatives of top management, legal division, internal auditor division and independent party.

Every public institution should review its code of ethics periodically.

A code of ethics is strict in nature but should be dynamic and follows any changes in business practice and related regulations. The code of ethics should be reviewed on a frequent and regular basis (e.g. every five years) or as required by significant circumstances, depending on the serving term of top management.

There are few questions in relation to the code of ethics that should be asked by the auditor including:

- Does the organization have a code of ethics?

- What is stipulated in the code of ethics?

- Does the code of ethics set out core values of an organization, such as integrity, independence, objectivity, impartiality, confidentiality and competence?

- Does the code of ethics set out obligations of the organization's management and staff to meet the core values?

Examples of core values in an organization are objectivity, integrity and professionalism. Thus, the code of ethics reflects the following:

- observation of professional oath and pledge

- acting neutrally and impartially

- avoiding any conflict of interests

- acting firmly in implementing principles, norms and decisions

- acting firmly in expressing and/or conducting anything required based on their consideration and conviction

- acting in good faith by maintaining confidentiality

- avoiding receiving undue advantages

- avoiding the use of state confidential information which becomes

disclosed due to their positions or function for personal, group, or other party interests

• avoiding to perform actions beyond their scope of duties and authorities

2.5.1.3 APPROPRIATE HUMAN RESOURCES (HR) - MANAGEMENT

Besides an appropriate framework of standards and regulations, human resource management is an important aspect in the prevention of corruption.

In this context the following elements have to be considered:

• Merit-based human resources management

• Training

• Job rotation

» MERIT-BASED HUMAN RESOURCES MANAGEMENT

Merit-based human resources management is a key element in fighting against corruption. To prevent the undue influence of public sector human resources management processes, selection and promotion criteria and procedures need to be fair, predefined and clearly documented, so that the margin of discretion and arbitration is limited. Appeal structures and mechanisms also need to be in place to ensure effective remediation. Effective human resource management can reduce potential risks and control weaknesses through the appointment of competent staff to implement procedures and controls. This includes also the payment of adequate and fair remuneration to all civil servants so that they may not become involved in corruption.

Personnel for areas that are especially vulnerable to corruption must be recruited with special diligence. For executive or management positions the need for completing anti-corruption trainings should be a prerequisite for appointment, promotion and succession.

» TRAINING

Every public institution should organize a training program to enhance employee's awareness on the danger of corruption. The training program is required to accelerate the understanding of the danger of corruption, thus enhancing the corruption prevention efforts. The training should be repeated periodically and should cover the need and rank of the specific position. Newly hired staff shall undergo a specific anti-corruption training to be documented in the personal file. Efforts should be made by the organization to ensure a clear understanding of the code and its principles has been achieved by staff after training.

» JOB ROTATION

Job rotation is a job design technique that systematically assigns employees to various jobs and departments over a period of a few years. The objective is to expose employees to different experiences and wider variety of skills to enhance job satisfaction and to cross-train them. In addition to being a learning mechanism, job rotation can also be used as a tool to prevent corruption. However, there are both positive and negative effects involved in job rotation that need to be taken into due consideration when the decision to utilize this technique is made.

Positive effect of job rotation

Job rotation is an aspect of successful work environment that is often ignored by employers. Job rotation can provide tremendous benefits to both employees and employers alike, including in the following area:

Increase employee knowledge: Rotating jobs enable employees to learn different aspects of the job, to gain a wider spectrum of their studies and to experience how to perform their jobs at their best. Hence, they have the opportunity to learn necessary skills which can help them to advance within the organization. This may also boost their morale and self-efficacy. Apart from that, having several employees who are knowledgeable about different tasks can be of merit as if one employee decides to leave, the other can take his/her place without too much effort needed.

Key staff: Employers often have difficulty trying to hire for key positions or hard-to-find skills. Job rotation solves this by offering internal set of employee skills that can often be helpful in other positions in addition to an employee's current ones. Hence, the organization can run more efficiently, and as a result, become more productive and profitable.

Cost savings: Job rotation seems to be costly, yet in reality hiring someone who is completely new to a position will require additional training.

Develop career: Job rotation can be seen as a means to develop an employee's career and move him laterally. Whatever the move is, it can be advised as a promotion or advancement along the career path to a new position which requires further knowledge in different departments or organization activities.

Minimize corruption: Instead of having a few employees undertaking activities that have a high risk of corruption, more employees can be trained to also undertake those activities thus the risk of corruption may be reduced, especially when combined with job rotation allocation of tasks.

Negative effects of job rotation:

There are some negative attributes associated with job rotation. Some positions within an organization may not be eligible for rotation due to the need for special expertise. These positions may not fit the profile for rotation opportunities because of rules and regulations on competency and also costs involved to train the workers. Another problem faced by organizations is the possibility of having to compensate staff for cooperation with job rotation implementation, since this can lead to wage inequality. Utilization of job rotation may have the effect of reducing a workforce because of the cross-training involved; an organization may not need to hire additional staff to cover positions and may possibly lay-off current employees no longer considered necessary. Finally, job rotation could lead to improper behaviors including corruption especially if an employee wants to avoid such rotation.

Job rotation as a tool for fighting corruption:

The decision to utilize job rotation needs to be thoroughly evaluated based not only on the positive but also negative aspects an organization may face. More importantly, the organization should also evaluate the risk of corruption associated

with the task. Although top management may have a conception of what corruption is, the image may differ from executive to executive and may, indeed, differ widely in respect of the true nature of corruption. In order to adopt a job rotation policy to fight corruption within the organization, a full corruption risk assessment is required to identify the specific opportunities a given set of operations. Only then can a system of internal controls related to job rotation be designed to address those specific risks. Even then, corruption can never be truly eliminated but they can provide reasonable assurance that not only instances of corruption but also waste and general misuse of resources can be reduced.

Red flags are early warning indicators that the risk of corruption in a particular area is either higher than is normally tolerable or has increased over a period of time. Identifying activities and jobs that are especially at risk in relation to corruption is important. The need for job rotation should be considered when certain employee behavior is observed, including the following:

- Employee maintains a very close relationship with vendors or customers

- Employee accessibly dominates and controls a particular process

- Employee refuses a promotion

- Employee refuses to take vacation time

- Employee works unnecessary overtime

- Productivity decreases and signs of dissatisfaction at work increases

- Mood changes and irritability increases

- Borrowing money from co-workers

- Rewriting records for neatness

- Sudden increase in the visibility of material possessions without a reasonable cause

- Apparent increase in absenteeism

- Dislike of oversight

- Destroying work-related information

Implementation of job rotation:

The policy of job rotation varies between entities. For example, in one INTOSAI member country, the heads of the regional departments of federal bodies and their deputies responsible for control and supervisory functions will be subject to job rotation. In April 2010, the government adopted measures aimed at implementing a job rotation mechanism for public servants. The need for job rotation as an anti-corruption measure is also required by law in regards to the federal public service within this country. The term of service for the heads of regional departments and their deputies will last three to five years. All the decisions on their job rotation will be made by the president or the government. The job rotation for public servants is also mentioned in the United Nations Convention against Corruption (UNCAC) adopted in 2003. This member country had previously ratified this legally binding international anti-corruption instrument that obliges the signatories to implement a range of anti-corruption measures affecting their state's legislation, institutions and practices.

In ensuring that job rotation is sufficient and effective, an auditor should take necessary steps to ascertain the existence of control mechanisms.

There are few questions in relating to job rotation planning and implementation that should be asked by an auditor including:

- Does the entity have any policy regarding job rotation?

- Is its design based on risk analysis?

- Is the policy being implemented? If not, why?

- Who makes decisions regarding job rotation?

- Does he/she have the authority?

- Who is eligible for job rotation? Why?

- What action has been taken to ensure that the policy is adhered to in the future?

- Is the policy being reviewed?

- How, when and why is rotation to take place?

- How much time does it take to choose the right candidate?

- Are the right people being notified?

2.5.1.4 INTERNAL CONTROL

Internal control is broadly defined as a process, affected by an organization's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial and non-financial reporting and compliance with applicable laws and regulations.

Internal control is also the process designed to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws in order to safeguard organization assets against theft and unauthorized use, acquisition or disposal.[42]

In addition, internal controls include a training program of analyzing and preparing reports for different administrative levels which enable the executives to conduct internal control in various activities particularly in large organizations.

Examples of internal controls are:

- Segregation of duties

- Multiple eye principle

- Supervision

- Transparent decision-making processes

- Need to know principle

- Information Technology Control Activities

 "There are several keys to effective corruption prevention, but some of the most important tools in the institution or organization toolbox are strong internal controls"[43]. The focus of this part is on strengthening the role of internal control in corruption prevention.

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42   Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013.

43   *Fraud prevention: Improving internal controls*, By Daniel Draz, M.S., CFE, March 2011. http://www.csoonline.com/article/678375/fraud-prevention-improving-internal-controls-

The following case studies illustrate some weaknesses in internal controls:

» CASE STUDY 1

In 2010, a contractor was bidding for a highway construction tender by a Ministry of the Federal Government. On the day before the tender result was to be announced, the contractor received an email sent from an unknown webmail account soliciting a bribe amounting to a percentage of the project value to guarantee the contractor would win the project. The contractor did not respond and the tender was awarded to another party.

The initial complaint of the contractor was investigated for what evidence could be obtained and the results forwarded to the Ministry. The resulting investigation revealed a number of contributing factors, in what proved to be tender rigging by an employee of the Ministry who was ultimately convicted of the offence by the courts, which would have thrown up red flags of potential corruption. The perpetrator was in charge of a number of functions in the ministry and this was due to a lack of delimitation of duties.

» CASE STUDY 2

Information was provided to the Chief Executive Officer by a whistleblower that two employees in charge of its workshop were receiving kickbacks from a transport contractor. The investigation uncovered information that indicated payments were made by the contractor to workshop employees. In addition, it was determined that the Contractor was overcharging the organization and numerous other suspected frauds perpetrated on the organization by the two employees were discovered. It was revealed that one of the two individuals involved was responsible for commissioning work from the contractor, preparing material orders to be signed by the project managers in charge of budget and often signed invoices as well. This shows that there was no delimitation of duties in this organization.

» CASE STUDY 3

An organization often received complaints about overcharging of prices by a supplier. An investigation was carried out on suspected overcharging by a supplier providing services under contract. The investigation began as a data review for duplicate payments, and when a number of events were detected, the investigation was widened. Further anomalies were detected including progress payments processed without adequate justification or a milestone associated with the payment not having been reached. Payments or invoices that could not be linked to any particular work were also found. A review of the relationship with the vendor indicated a sudden increase in volume of work three years before. It was found that tender documents were written to favor the vendor by the individuals that recommended the vendor. This occurred in this organization due to no delimitation of duties.

Knowing where to look for areas vulnerable to corruption and what specific signs or red flags to look for is an important starting point for managing the risks of corruption. After these are identified, policies can be developed and implemented to prevent corruption. Such policies should accommodate an accurate risk profile for an organization, as well as provide for training and awareness programs that target the risk points, encourage the effective delimitation of duties and involve targeted surprise audits to detect acts of corruption.

The following case studies illustrate some of the signs of weaknesses in supervisory controls:

» CASE STUDY 1

In a government organization it was reported that an executive officer of a regional development board had engaged in corrupt conduct. He had illegally obtained public funds and used them for the benefit of himself and his family.

The man was a middle-ranking public official of long standing on a modest salary, working in a location away from the head office of his organization. Reporting lines were ambiguous or not properly understood or applied by the relevant managers. He reported to a regional office but on an ad hoc basis and mostly via telephone, which was not adequately recorded on files. This lack of supervision meant that he was able to exercise a high level of discretion.

Another risk factor identified in the investigation was the apparent lack of direction by senior management and the lack of performance management. Remote officials were expected to define, create and manage their own work program with minimal reference to the head office and little or no supervision.

It was recommended that:

- appropriate management, performance management, accountability and reporting controls be placed on small, remote offices and that internal audit programs pay particular attention to their program management and expenditures and

- adequate access be provided to employees in regional and remote offices to incorporate training, including training in ethical standards and codes of conduct.

» CASE STUDY 2

In a training institute under the Ministry of Youth and Sports, a procurement contract was signed with a contractor to supply certain tools for the specific programs conducted at the training institute. However, the auditor found that there were significant differences in price quoted in the supplier's contracts when compared with the prices of the same tools that were being supplied by different suppliers to the same institution. In this case, exorbitant prices were charged for tools, digital cameras and other items.

The underlying cause was attributed to the absence of supervision by the head of the training institute. Adequate supervision is essential in operations such as those related to contracts. It was found that monitoring the operation of the contract is the key to ensuring that suppliers meet the terms and conditions of the contract for price, standards, and delivery.

» CASE STUDY 3

The Anti-Corruption Agency has arrested an engineer with a Municipal Council and a contractor for alleged graft involving $47,100. The contractor was arrested for

allegedly providing false information when making his claim for the construction of a retaining wall. The engineer was arrested as he was alleged to have abetted the contractor. It was found that the contractor had submitted a claim for $88,100 as the cost of construction for the retaining wall when in fact the cost was only $41,000. Both were being investigated and charged in the court.

Auditors found during their review that the contractor allowed unsupervised modification without any documentary support and verification by superiors. Auditors also identified supervision, as well as lack of training as an internal control weakness.

2.5.1.5 USE OF E-GOVERNMENT

E-government may also be used as a specific corruption measure as the use of IT depersonalizes and standardizes the provision of services, requires that rules and procedures be standardized and made explicit for IT systems to function effectively and makes it possible to track decisions and actions. All these serve as a deterrent to corruption.

2.5.2 DETECTION OF CORRUPTION

Managers have the task to continually monitor their operations and take prompt, responsive action on all findings of irregular, uneconomical, inefficient, and ineffective operations. Monitoring operations is very important to ensure that controls are achieving the desired results. Often it was found that without the necessary understanding and monitoring, it is more convenient for people not to follow established control practices. In some cases, instances of weak internal controls are identified and reported, management responds to the points raised and early corrective action is normally taken.

The following examples of instruments for the detection of corruption can be considered:

2.5.2.1 WHISTLEBLOWING MECHANISM

A whistleblowing mechanism is a formal means of communication established by the institution so that public officials and any interested third party may provide information about possible corrupt actions or transgressions that have happened in the past or are currently happening.

This mechanism may be comprised of letter-boxes, telephone lines, emails or websites designed to receive the above mentioned denunciations.

Whistleblowing mechanisms are a fundamental means of preventing, detecting and deterring corrupt actions, integrity breaches and inappropriate behavior.

Specialized studies have pointed out that whistleblowing mechanisms have traditionally been the most effective way to discover corrupt actions, frauds and other irregular behaviors, surpassing by far other corruption controls such as external and internal audits and management verifications.

These mechanisms are also important dissuasive elements as they convey the message that actions opposed to the integrity policy may be easily reported and taken care of.

Likewise, when such a mechanism is adequately tailored to the institution's needs and implemented, it significantly reduces the amount of actual corruption that takes place and the amount of losses the institution faces due to earlier detection.

The correct implementation of a whistleblowing mechanism requires, among other things, that the policy is properly communicated within the institution at every level and with interested third parties. The policy should also ensure that whistleblowers can inform about irregularities in an anonymous, confidential and consequence-free fashion.

The mechanism must include a tracking system that records the reports and that ensures that reports are followed up on appropriately. The institution's anti-corruption unit, or an equivalent, should supervise the effectiveness of compliance with the mechanism.

Senior management must periodically promote that any suspicious activity is reported in a timely manner and emphasize the anonymity of the whistleblowers and the lack of reprisals for them.

The Institute of Internal Auditors provides a framework of worldwide professional practices which may also be taken into account by the auditors evaluating the corruption prevention system.[44]

2.5.2.2 INTERNAL AUDIT

Internal audit is an important tool to detect corrupt practices and can be usually divided into:

a)   Administrative (operational) audit that includes:

- assessing and testing administrative activities and management results;

- evaluating and examining processes of the entity and

- evaluating the efficiency of utilizing human and material resources, and developing recommendations for improvement.

b)   Financial audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework[45], including:

- tracking accounting entries by performing documentary and arithmetic tests;

- ascertaining the integrity and compatibility of systems, regulations, and generally accepted accounting principles;

- ensuring the presence of safeguards for the assets against embezzlement, fraud, and abuse and

- testing and assessing the strength, reliability, and efficiency of internal controls.

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44   https://na.theiia.org/Pages/IIAHome.aspx
45   *ISSAI 200 Financial Audit Principles.*

SAI auditors are expected to ask at least the following questions about internal audits, including whether the internal auditors:

- perform their duties honestly, diligently and responsibly?

- observe the implementation of financial laws and expect to detect wrongdoings by doing so?

- respect and promote the legal and ethical objectives of their institution?

- take part in any activities that may undermine their impartial judgements?

- accept any material benefits that may undermine their professional judgement?

- disclose all material findings detected in the course of their work?

- safeguard information obtained in the course of their work according to the principle of confidentiality?

- perform their duties with due care and diligence according to the standards of the profession?

- consistently enhance and develop their efficiency and effectiveness in performing their duties?

2.5.3 REACTION TO CORRUPTION

Every organization should ensure that corrupt or fraudulent misconduct is subject to appropriate response or reaction by management. This includes measures established by criminal law, disciplinary law, labor law or private law. Corruption cases should be analyzed and, where necessary, should be a reason for the revision of the corruption prevention measures.

Corruption response refers to a plan of action that is put in place when a suspected corrupt behavior is discovered or reported. The purpose of this plan is to define the responsibilities for actions, such as:

- Examining corruption cases and taking appropriate action,

- Securing evidence for disciplinary and/or criminal action,

- Preventing further loss,

- Recovering losses,

- Establishing lines of communication with the relevant law enforcement organizations,

- Reviewing internal controls following a corruption case, and

- Corruption reporting arrangements.

Once a suspected corruption case has been reported or identified, an assessment of the situation should be made. Consideration should be given to the following factors:

- The source of discovery of the suspected corruption,

- The authenticity of the information initially received; and

- Line management's initial assessment of the circumstances involved.

The purpose of an assessment is to allow a decision to be made on the appropriate action to be taken. This could include:

- Whether or not the matter should be reported to the relevant law enforcement organizations,

- Whether or not the matter requires reporting to the State Audit Institution or any other external organization,

- Whether or not a formal internal investigation is required,

- Who should conduct an internal investigation,

- Whether or not action needs to be taken to secure the organization's assets, resources or information.

Suspected corruption should be reported to the relevant law enforcement organizations where there is the likelihood that criminal activity has taken place. If the suspected corruptive or fraudulent activity is considered to be of this nature and the matter is reported to the relevant law enforcement organizations, no attempt must be made by the organization's personnel to question the employee(s) or third parties involved as this could prejudice future investigations and subsequent prosecutions of relevant law enforcement organizations.

Investigations may involve people from the organization itself, such as internal auditors or finance managers, or may involve external parties who have particular skills and are engaged specifically to assist the investigation.

The decision will depend on the circumstances and the relevant expertise required. In any event, the person chosen must have the appropriate qualifications and experience to carry out an investigation. In some cases it may be necessary to take action to secure assets and preserve information. Such actions could include:

- Directing the Head of Human Resources to stand down or suspend from work the suspected employee(s), pending the outcome of any investigation,

- Securing the suspect's work station and documentation and making it inaccessible to the suspect and any other unauthorized employees,

- Directing the Head of Information Technology to ensure that information contained on PCs, laptops or on the organization's network relating to corruption cannot be accessed, destroyed or corrupted,

- If an external contractor/supplier/consultant is suspected, directing the Head of Finance to immediately suspend any payments due, and

- Physically securing cash, assets or other material that may be at risk.

As part of the examination, the actual amount of any loss will be quantified to the extent possible. Repayment of losses caused by any corrupt, fraudulent or unethical activity should be sought in all cases. This includes an assessment of the costs versus the benefits. Where the loss is substantial, legal advice should be obtained about the possibility of freezing the suspect's assets through the court, pending conclusion of the investigation. Legal advice may also be obtained about prospects for recovering losses through the civil court, if the person involved refuses to make repayment.

A critical outcome of a corruption investigation is the identification of the control failures that allowed the corruption to occur. In each instance where a corrupt activity is detected a review should be undertaken to assess the adequacy of the organization's internal controls and determine what action needs to be taken.

Irrespective of whether the investigation is internal or external, proper records should be maintained for all investigations. This includes for the investigation itself and any consequent disciplinary proceedings and changes to internal control arrangements.

Once an investigation is concluded, the results should be reported to the Board or Audit Committee, and the Head of Internal Audit. An annual report on corruption may also be presented detailing:

- All instances of corruption reported against the organization,

- The outcome of internal corruption investigations,

- The status of cases of corruption referred to external organizations for investigation,

- The results of any completed prosecutions or administrative actions, and

- Internal control modifications made subsequent to any corruption.

2.6 COMMUNICATION – REPORTING

2.6.1 REPORTING TO INSTITUTIONS OUTSIDE THE AUDITEE'S BODY (SAI, PARLIAMENT, IG, PROSECUTORS)

Information is necessary for an institution to perform its corruption prevention responsibilities and to carry out its activities in a way that contribute to the accomplishment of goals and objectives and within an effective and transparent environment.

Likewise, when communication flows internally and externally, it gives public officers the necessary information to execute anticorruption activities on a daily basis and it enables them to understand the individual shares of responsibility on the achievement of institutional integrity goals and objectives, the fulfillment of legal obligations and avoiding the misuse or waste of resources.

Fig. 3: Internal and External Communication Flows, SAI of Mexico

2.6.2 GATHERING AND DISSEMINATING INFORMATION FROM INTERNAL AND EXTERNAL SOURCES

The information coming from internal and external units is gathered and analyzed continuously while institutions carry out their duties and make decisions regarding the general functioning of the institution and specific activities of each area.

It is essential that the institution implements adequate mechanisms throughout this process to identify and communicate within the organizational structure information relevant to integrity safeguarding.

The anticorruption unit or its institutional equivalent must assure that the relevant and pertinent information produced internally reaches the senior management and the head of the institution in a timely manner.

As a supporting feature, this unit should also monitor for any external information that may be relevant to the institution meeting its integrity goals and objectives and share this information with senior management and the head of the institution. Such information can include: audit findings, legal changes that affect the institution's operations or the issuing of new guidelines, operation rules or general programs related to the entity.

The institution will have a better chance of being effective and efficient about its integrity tasks and responsibilities if it is effective in identifying, gathering and delivering relevant information to the adequate public officials, in the correct way and at the right time.

As to mid-level management, they should receive analytical information to help them identify specific actions to perform in order to promote integrity and avoid corruption in their areas of responsibility. The degree of detail of this information will depend on the directive level.

The information presented has to be clear, simple, synthesized and it has to be at hand for an effective follow-up on vulnerable events, activities and operations that enhances prompt responses.

Summing up, all public officials must receive, according to their authority level and their degree of responsibility towards the institutional integrity, information that helps them determine if anti-corruption strategic objectives are being met, if the annual development plans on the topic are being followed and if the institutional goals on transparency, legality and accountability are being achieved.

2.6.3 COMMUNICATIONS

Communication is the continuous process of providing, exchanging and obtaining information that an institution performs to support the gathering and dissemination of relevant information, which protects it against corruption and helps safeguard its

integrity. Internal communication is the means to transmit and spread information throughout the whole institution.

Such information enables public servants to receive from the head of the institution and senior management a clear message stating that the anti-corruption, internal control and integrity enhancing responsibilities should be taken seriously.

External communication goes both ways: on one hand it provides institutions with external information related to its values and principles and, at the same time, it is the channel whereby the entity delivers information to external parties in response to its needs, expectations and institutional integrity criteria.

In this way, communication with other public institutions, providers, media, citizenry and other stakeholders allows the institution to gather and deliver information to develop and better address the mission, goals, objectives and integrity risks that the institution faces.

Even though there are multiple ways and means available for institutions, each organization should establish those that are most suitable according to its mandate and duties.

2.6.4 WRITTEN PLAN ON INSTITUTIONAL COMMUNICATION

Communication methods within institutions include handbooks, guidelines, directives, policies, procedures, reports, memos, statistical reports, notifications, notice boards, websites, intranet, recorded messages and videos, email and speeches, among others.

These methods should ensure the quality of the information in terms of integrity, reliability, completeness, precision and pertinence; the release of unreliable or mistaken information affects the institution's image and increases the possibility of corruption materialization.

Thus, institutions need to develop, administer and test their information systems and trace a continuous improvement plan to guarantee the effectiveness and reliability of the information it conveys.

The operation of information and communication systems is to be based on a plan whose goals and objectives are related to the institutional strategic plan, ensuring the existence of mechanisms to identify the upcoming information needs.

Also, as part of the information management process, the institution should control, analyze, evaluate and improve their technological infrastructure in order to increase its response ability to its users.

The head of the institution and senior management have to supervise periodically by proper mechanisms, the quality of the produced and transmitted information according to the directives contained in the information systems continuous improvement plan. These actions should take into consideration factors such as the precision and exactness of the contents, as well as relevance and accessibility of data.

It should be pointed out that the information that institutions convey to external parties is usually governed by legal obligations relative to transparency, accountability and information access. As so, the data gathered by the government institutions is public; public officials do not hold exclusivity rights over it and it must be available to petitioners.

Every institution is to analyze its information access obligations and set up the communication mechanisms it will use to spread and deliver data according to the applicable legal provisions.

2.6.5 EFFECTIVE INTERNAL COMMUNICATION

Effective internal communication is a central element for ensuring that integrity rules and directives are applied in a timely manner and adequately because it is necessary to spread the above mentioned message of the head of the institution about the seriousness of the anticorruption responsibilities. Hence, government institutions have to set up mechanisms that facilitate the vertical, horizontal and transversal flow of information within the entity so as to promote a dynamic, simple and prompt communication between the different authority lines.

Public officials must be clearly informed about their specific tasks through formal mechanisms so that they identify their responsibilities regarding integrity safeguarding and the way in which their work is interconnected with the one of other public servants and third parties. This helps prevent and deter possible corrupt activities.

Further, communication on integrity issues should include letting the public officials know that, if they discover the lack of enforcement of an existing control, not only are they to analyze and register the incident, but also the underlying causes that led to it in order to be able to correct the structural weaknesses of anticorruption controls.

There are cases in which some areas of the institution are temporarily or periodically located on distant geographic places. If so, the entity must carry out special efforts to assure a constant communication between senior management and all operative executives and regional programs is properly established.

Such interaction should create a synergy that contributes to ensuring that all public officials, regardless of the place they are, are working towards the same goals and objectives and that every area is aware of each other's integrity indicators and anticorruption directives.

The institution must establish adequate mechanisms for officials to communicate relevant and pertinent integrity information to higher hierarchical levels without depending on his direct supervisor. In turn, the head of the institution and senior management must show a true will to listen.

A common practice to achieving this goal is the implementation of websites or emails, telephones or letter-boxes. All received cases have to be registered and properly and promptly followed up under clearly defined authority lines.

As mentioned above, staff must be sure that no reprisals will be brought for informing about possible corrupt acts or violations to the integrity policy. Otherwise, the effectiveness of the whistleblowing mechanism will be seriously diminished.

As a supplementary activity to the channels for communicating irregularities, institutions design mechanisms to let the public officials and third stakeholders to

suggest improvements to the entity's operations, such as letter-boxes, emails or hotlines. Finally, codes of ethics and conduct perform an important role as internal communication methods that disseminate knowledge about the conducts that are acceptable and those that are not, as well as the consequences of an inadequate conduct.

2.6.6 EFFECTIVE EXTERNAL COMMUNICATION

In order to mitigate possible corruption from external parties it is important that entities establish effective communication with all entities that might have an impact on the integrity of its activities, programs, projects, operations and other institutional activities.

Therefore, institutions must implement formal communication channels with other public entities, providers, contractors, consultants, citizenry and other interest groups that could contribute on the quality and design of the functions, products and services offered by the institution, according to its mandate and responsibilities.

The extended use of social networks and technological development contribute to the implementation of these kinds of practices. Regardless of the means by which information is obtained from external sources, it should be processed and documented formally and it must be continuously monitored in a way that assures its effectiveness and efficiency.

Likewise, it is important that the institution guarantees that every external party with whom it communicates is informed of the ethical rules that govern the entity's actions and that it conveys the message that improper actions, such as the filing of inaccurate bills or the attempt to bribe a public official, among other, will be detected and sanctioned.

The infrastructure that handles communications varies among entities according to their nature, size and mandate. However, every public institution should ensure that its communications comply with the best practices through clear policies and programs that are adequate in terms of cost-benefit evaluations.

2.6.7 REPORT ISSUING

Communication activities involve issuing institutional reports (such as budgetary, financial, operational and programmatic reports) of proper quality, content and scope and that are compiled under the supervision of the head of the institution, senior management and any personnel designated with this responsibility.

In order for reports to support the institution's values, the head of the institution and senior management must establish adequate mechanisms by which to incorporate key principles, such as data reliability, in order to eliminate the possibility of presenting inexact data and issuing reports of low quality (for example, having an insufficient scope or overly complex presentation).

Similarly, reports shouldn't overestimate or underestimate events and numbers that affect the knowledge about the position of an entity. Hence, the institution must formally establish and document a policy for issuing reports, which has to include specific procedures for each of the different steps: the gathering of information, the verification of the data, the testing of the pertinence and integrity of the information, the final validation by the competent authorities, and the final release of the document.

Since there must be logic and adequate mechanisms to generate the reports, the head of the institution and the senior management, in their respective area of responsibility, must disclose all data about the exercise of resources, budgets, and financial statements that is required to properly understand the position of the entity. Through those activities, the entity enhances transparency and accountability, according to the pertinent legal norms.

Due to the importance of issuing reports that precisely reflect the status of the institutional operations and the progress towards the achievement of objectives, it is essential that the head of the institution and the senior management establish internal responsibilities in a proper and clear way. In this way, the information and the authorization procedures can be effectively allocated among public servants at distinct levels of responsibility.

Likewise, the policy to issue reports must establish that the information is available to senior management; it must specify the information requirements to allow a proper performance, and it must exactly define the degree of accomplishment of responsibilities.

Staff involved in developing and issuing reports should clearly understand the report process, including the delegation of responsibilities and levels of review, in order to avoid any duplication of efforts, contradictory instructions and confusion among members of the institution.

Within the process of creating reports, there are usually risks due to the disconnection between operational and managerial activities. However, the policy for issuing reports should establish a structure of relationships that promote effective communication between senior, middle and operational management.

2.7 MONITORING AND MODIFICATION

2.7.1 PERMANENT MONITORING PROCESS

Even if the corruption prevention system is adequate and there are not serious corrupt or anti-integrity cases, the entities have to remain alert and establish continuous monitoring activities.

The head of the organization and senior management must establish a strategy to guarantee that a continuous monitoring process is present and effective, and that it allows for independent evaluations when deficiencies are detected. Effective monitoring and evaluation should focus on measuring outcomes and progress toward the achievement of objectives, rather than simply reviewing outputs and progress in implementing control activities.

There are different sorts of assessments that the entity can execute for specific aspects, such as design, implementation and impact assessments.

The design evaluation contributes to determine the viability of the corruption prevention system, and to estimate the possibilities of success. It is done before

the implementation of controls and it involves the analysis of the measurement methods according to the specific problem that is to be solved and the resources that the entity has.

The evaluation of implementation is relevant to determine whether the Program is executed in the best possible way. This assessment is done when the anticorruption controls are being established and it consists in verifying that the public servants are doing the proper actions.

The impact evaluation has the purpose of measuring the effects of the system related with its quality and scope. This assessment is done after the implementation of the program, and it involves testing whether a specific situation improved when the Program was applied in comparison to a situation in which the Program was not applied.

An independent periodical review is related to specific sections of the internal control system.

To determine the scope and frequency of the independent evaluations, the institution must consider the results of the corruption risks assessment. This assessment is usually done inside the entity and it helps to identify the vulnerable areas of the institution.

The institution should also carry out independent evaluations after relevant changes in its strategic plans, when there is an increase or decrease of personnel or institutional abilities, or when the information systems related to the use of public resources have changed dramatically.

Even in the absence of relevant changes in the activities related to public resources, it is convenient to do independent evaluations frequently of these activities and any other activities vulnerable to corruption.

Furthermore, the strategy of continuous monitoring and independent evaluations must be clearly documented and communicated to the institutional staff. The institution must guarantee that those activities of supervision are carried out by personnel with the proper professional and ethical competencies.

The conclusions and results of the evaluation must be available to the respective public servants, so that they can improve their performance and contribute to the protection of integrity.

2.7.2 ANALYSIS OF LESSONS LEARNED

The results of monitoring and evaluations should be used to improve the design and implementation of corruption risk management activities. The implementation of a corruption prevention system does not eliminate the existence of corrupt cases and instances. Because no system is perfect, controls can sometimes be avoided and structural weaknesses may not be timely identified.

That is why it is required, as a part of the monitoring activities of the program, to analyses in detail the corruptive acts that have already occurred and to use the results to permanently improve the system.

The head of the institution and senior management, in coordination with the anticorruption department and internal auditors, must communicate in order to address specific issues and lessons learned. Through the dynamic feedback of those communications, the entity can detect the structural problems that make corruption possible and, in consequence, it can improve the institutional integrity program, adopt better measures and prevent the recurrence of those problems in the future.

As an example, the next questions should be asked so that their responses can contribute to anti-corruption efforts and help concentrate institutional resources in a more efficient, effective and economical way:[46]

- How did the corrupt or anti-integrity act happen?

- What controls failed? Why?

- What controls were avoided? By whom?

- Why was not the irregular act detected before?

- Which indicators (red flags) were not seen by the governing bodies, the head of the institution, the senior management and the control units? Why?

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46   *The Institute of Internal Auditors, Practice Guide "Internal Auditing and Fraud"*

- How can future irregular acts be prevented or how can they be easily detected?

- Which controls must be reformed?

- Which processes to safeguard the integrity must be improved?

- What kind of additional training is required?

3

3.1 COOPERATION WITH OTHER INSTITUTIONS INVOLVED IN FIGHTING AGAINST CORRUPTION

Fighting against corruption requires the establishment of institutions with specific capacities to perform actions for preventing and tackling corruption.[47] Cooperation between institutions involved in the fight against corruption, such as SAIs, organizations or commissions with the mission of corruption prevention, among other entities, is therefore fundamental.[48] In this sense, it is important for such organisms to strengthen cooperation between them in order to reach better results.

3.2 COOPERATION BETWEEN SUPREME AUDIT INSTITUTIONS (SAIS)

As corruption is a common phenomenon across different societies, regardless their form of government, the fight against corruption requires the comprehensive commitment of each country's institutions in order to build a culture of public ethics, with the active participation of citizens as a whole.

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47   See *United Nations Convention against Corruption* and

48   Article 38 United Nations Convention against Corruption, states that State Parties shall take such measures as may be necessary to encourage, cooperation between, its public authorities, as well as its public officials, and, its authorities responsible for investigating and prosecuting criminal offences.

In that sense, SAIs have an important role in the fight against corruption and the fulfilment of these responsibilities may benefit from the exchange of knowledge and experiences with one another, as stated in the INTOSAI P-1 Lima Declaration.[49] Based on their experience in prevention, detection and sanctioning corrupt activities, within their respective legislative framework, SAIs may develop common approaches to fight corruptions, exchange good practices and conduct joint interventions.[50]

For this, every SAI may, for example, adopt cooperation agreements to detect acts of corruptions in international public procurement or information exchange. In addition, whenever the legal framework allows it, SAIs may perform joint interventions, such as cooperative audits on those matters.[51]

3.3   APPOINTMENT OF GOVERNMENT AGENCY

A Government Agency could also be established to promote good governance and anti-corruption and handle alleged cases of corruption. It could also be responsible to train the business sector and financial institutions in transparency, integrity and other good governance principles. It could also liaise with international institutions in case of international corruption.

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49   *Lima Declaration*, article 15

50   *Article 43 United Nations Convention against Corruption, states that States Parties shall consider assisting each other in investigations of and proceedings in civil and administrative matters relating to corruption, where appropriate and consistent with their domestic legal system.*

51   In January 2011, the Supreme Audit Office of the Czech Republic (Czech SAI – NKÚ) and the Bundesrechnungshof of Germany (German SAI – BRH) agreed to conduct parallel audits both of the EU-wide awarding of building contracts and of corruption prevention. The audit focused on the application of EU procurement law as transposed into national law and corruption prevention of contracts for building construction and road construction and/or transport. The audit also covered contract awards below the EU thresholds with a view to corruption prevention. For more references see http://www.nku.cz/assets/publikace/spolecna-zprava-nku-a-brh-2013_1.pdf