

ROLE OF AUDIT IN FIGHTING CORRUPTION

By

**Muhammad Akram Khan
Chief Resident Auditor,
United Nations Mission in Sudan (UNMIS)**

Khan124@un.org

Makram100@yahoo.com

Paper Prepared

For

Ad Hoc Group Meeting

On

**“Ethics, Integrity, and Accountability in the Public Sector: Re-building
Public Trust in Government through the Implementation of the UN
Convention against Corruption”**

26-27 September 2006

St. Petersburg, Russia

ROLE OF AUDIT IN FIGHTING CORRUPTION

By

Muhammad Akram Khan
Chief Resident Auditor,
United Nations Mission in Sudan (UNMIS)
Khan124@un.org
Makram100@yahoo.com

Summary

Corruption is distinct from fraud as it does not leave any telltale in the records of an organization and the auditors, who generally work with documents, find it difficult to play an effective role in fighting corruption.

The paper has four parts. Part A aims at defining the role of audit in fighting corruption. It raises and answers some of the concerns that the auditors may have. It also shows that participatory auditing can be one of the options where corruption has taken place as a result of collusion.

Part B deals with corruption audit process using the usual methodology of planning, executing and reporting. While discussing planning for corruption audit the paper introduces the concepts of “Inventory of Corruption Opportunities” and “Corruption Opportunity Test”. The execution of corruption audit suggests a greater role for public and employee surveys.

Part C highlights the role of performance auditing as a tool of corruption audit. It shows how findings relating to diseconomy, inefficiency and ineffectiveness can also indicate existence of corruption.

Part D deals with strengthening the Supreme Audit Institutions (SAIs), as audit against corruption cannot take place unless there is an enabling environment. The paper makes recommendations for strengthening the role of SAIs and the action that the international community should take to support the SAIs of the countries willing to commence with corruption auditing. Part E makes some concluding remarks.

A. Role of Audit in Fighting Corruption

Nature of Corruption Auditing

Many people use ‘corruption’ and ‘fraud’ interchangeably. The present paper asserts that these two terms need to be used distinctly. ‘Corruption’ takes place in the form of bribery, kickbacks, commissions, or other benefits without leaving any trace in the official records. ‘Fraud’ consists of deriving undue benefit by bypassing some controls or bending some rules. There remains some evidence in the records to trace the fraud. In the same tone, ‘corruption auditing’ needs to be distinguished from ‘fraud auditing.’ There is a considerable volume of literature on the role of auditors in detecting, preventing and investigating fraud. Almost all professional bodies of auditors have published standards and techniques about fraud auditing. There are training courses being offered by a large number of organizations on fraud auditing. There is also an Association of Certified Fraud Examiners who awards certificates to those who qualify their examination. *The Internal Auditor*, journal of the Institute of Internal Auditors, USA, has devoted a regular feature to fraud auditing and reporting.

General Lack of Concern with Corruption Auditing

There is, however, very little discussion in the literature on corruption auditing. The United Nations Office of Drug Control and Crime Prevention, Vienna, is spearheading the campaign against corruption. It has published a wealth of literature on corruption, including an Anti-Corruption Tool-Kit in its *Manual on Anti-Corruption Policy*. It has identified thirty tools for fighting corruption¹. However, auditing is not even part of this list. The *Manual* does devote, though, one page to auditing at a later stage. The INTOSAI *Journal of Government Auditing*, the most prestigious publication of the world government auditors, has published only two articles during 2000-05 on corruption². There seems to be a general neglect of this subject in the methodology tool-kit of the auditing profession.

The auditing profession, as it has evolved, has its roots in the private sector where audit against corruption is not a serious concern of the stakeholders. They are more interested in fraud or theft of their assets. Corruption is not their worry, as who would bribe an employee of a private company for getting a service or buying a product? Corruption in private sector can take place when the top management decides to bribe government functionaries to get some benefits. In such a situation, why would they ask their auditors to report on corruption? The only situation when corruption could be of some concern for the stakeholders of private companies is when, in very large organizations, some of their employees try to receive bribe in procurement of goods and services and recruitment of staff. To control this type of corruption the private sector companies have evolved strong internal controls. Briefly, the methodology and standards of corruption auditing have not developed, since most of the standard setting in the auditing profession has taken place in the private sector and corruption

¹ *United Nations Manual on Anti-Corruption Policy (draft)*, Vienna: UNODCCP, 2001, pp.24-25. (www.ODCCP.org/corruption.html)

² Sparberg, D, “Fighting Corruption and Fraud”, *IJGA*, Washington (27:3), July 2000, pp10-12; & Siame, F.M., “Contributions and Challenges in the Fight Against Corruption – an Auditor General’s Perspective,” *IJGA*, (29:4), October 2002, pp.7-9.

has not been a concern of the private sector. In a very legitimate sense, corruption auditing is a concern of the government auditors or public sector internal auditors. Significantly, they have remained dormant in methodology development in this field.

Auditors' Dilemma

Corruption is a highly complex phenomenon. The parties involved leave very little telltale in the form of irrefutable hard evidence. Most of the corruption takes place in an informal manner and under the dark cover of isolated contacts. At times it does not even require a spoken word. Mere eye contact can establish a relationship of corruption.

The auditors find themselves at cross-purposes with the society. The social expectations are that the auditors should play an effective role in reducing, if not eliminating, corruption. The auditors, whose profession makes them concentrate on documentary or physical evidence, often find it hard to gather such evidence. They feel that they cannot do much about corruption. In such a situation, what precisely is the role of the auditors? The paper aims to define the role of auditors in fighting corruption.

Type of Corruption the Auditors Can Deal With

In their professional work, while working in a large bureaucratic organization or a government department, auditors 'smell' corruption but feel that they are helpless to deal with it. They do not find handy tools in their tool-kit to handle the problem. Auditors know that they cannot physically see all transactions and all situations. An example is the bribe taken by a police constable from a violator of traffic signal. No one can ever detect it until the policeman is caught red-handed. The auditors are not in the business of catching people 'red-handed.' Thus, they cannot do much in such cases. Similarly, the auditors do not deal with *political, social, or cultural* corruption. Even when we exclude these areas, the auditors still come across corruption in government offices and in large public and private organizations that fall under the purview of the auditors' routine work. There could be situations, in large public or private sector organizations and in government departments, where the rules and regulations are quite foolproof, yet corruption continues to flourish because of poor implementation. The auditors can point out these weaknesses as potential sources of corruption. The rules, regulations, procedures and operational standards of these organizations often leave lacunae, which create opportunities for corruption or at least protect corruption. Auditors deal with such phenomena.

The present paper deals with corruption of public employees working in government departments or public corporations, where the citizens are the losing party. Such corruption may be protested by the citizens if the delivery of certain services is significantly sub-standard. The auditors may 'listen' to the noise of protests by the public on service delivery and 'smell' some sort of corruption. However, corruption may remain hidden from auditors if the citizens are colluding with the public functionaries. For example, in case of a corrupt deal between an income tax officer and a businessman where the former reduces the tax obligation by accepting bribe from the latter, there is collusion between the two parties. None of them is likely to protest or reveal the deal. Both are benefiting from it. Such cases of collusion cannot

be covered by any audit examination. The auditors of these organizations have a real challenge in auditing against corruption.

Enabling Environment for Audit against Corruption

Corruption requires a multifaceted attack. It requires, for example, a set of regulations against corrupt practices, a code of conduct for employees and vendors, awareness-raising campaigns, training of staff, internal controls, sanctions and incentives, protection of whistleblowers and an open approach towards information reporting. Audit is only one such mechanism. The auditors can succeed only if the enabling environment exists for fighting corruption. Effective corruption control requires commitment and involvement of all agencies, employees, customers, external service providers, in brief, all citizens of the society.

The scope of auditors' contribution has a close relationship with the 'tone at the top'. If the top management, in particular, the chief executive of a company or a minister of a department or a prime minister of a country engages in corrupt practices, the auditors cannot make much contribution as these very persons would not let the auditors get closer to anything as auditing against their corruption. Obvious examples are the cases of Enron and WorldCom in the USA where the top executives were involved in corruption.

Corruption and Audit Evidence

The auditors should remain aware of the limitations of their professional work. In case of corruption, they can hardly *detect* or *investigate* into the actual event of corruption, since the culprits, generally, do not leave any documented evidence. It is, therefore, important to know that the auditors cannot quantify corruption nor can they report the actual event of corruption. They can only indicate the existence of *opportunities for corruption*. Such a report can become basis for corrective action by the government to forestall corruption in future or minimize the opportunities for corruption.

Corruption and Collusion

The situations where the systems and procedures provide an opportunity for corruption are relatively easy for the auditors to handle and make a recommendation. However, the auditors may come across situations where the systems and procedures are satisfactory as they were designed to prevent or minimize corruption. However, corrupt persons find out ways to by-pass these systems and procedures. It is usually done through collusion. For example, in public works departments, there are usually detailed procedures for awarding contracts, preparing bill of quantities, supervising the contractor, controlling and supervising the work and certifying contractor invoices. Generally, these procedures have sufficient built-in internal controls that can prevent corrupt practices and ensure good quality of work by the contractor. In practice, these procedures are befooled by collusion. For example, all the officers from top to bottom, who are required to ensure quality and compliance with contract, join hands. They share the "booty" taken from the contractor, who obliges by reducing quality of the work done, by an institutional arrangement, whereby all paper-work is done in a neat manner. All reports are prepared with due dates on them and all certificates are signed by the competent authorities. Only the work claimed to have

been done is not in proper order. The entire administrative machinery which was engaged to make sure that the work was of right specifications join hand to defeat the system. In such a situation, what can the auditors do? They do not see any signs of corruption opportunity. Everything is neat and fine on paper. In such a situation, participatory auditing is the answer. The auditors should involve the users of the facilities built by the public works department in conducting the audit.

Participatory auditing is one option.

Participatory auditing is a new idea and is yet at conceptual stage. Experienced auditors, who have sensed collusion quite often without being able to do much about it, have started considering the possibility of involving the clients or general public in ascertaining if there was a proper delivery of the public services funded from the public budgets. This is a major departure from the traditional auditing approach where the auditors are not supposed to go ‘beyond the books’. The participatory auditing techniques have yet to be developed fully. However, germane to it are the tools of general public surveys or household surveys for determining user satisfaction from the services or facilities provided by a public sector organization or government department.

Seen in this perspective, if the auditors adopt participatory auditing in the example under discussion, they should try to get the opinion of the users of the works completed by the public works department. For example, if the public works department has built a residential building, the users can talk about the quality of work relating to plumbing, woodwork, sewerage, electricity, etc. Similarly, the public works department may have built an office building for another department. The users of the building can also give some information about the design and quality of the work. In both cases, the auditors can design a survey to find out if the users of the building find it according to their needs and are of right quality. The audit criteria could be the approved design of the building, the main features of which could be made available to the users by the auditors, along with the survey questionnaire, asking them if they find the actual facilities according to the design. The auditors may come across independent assessments by the users, which can lift the curtain on any corruption that may have gone into the whole process. At least, the departmental machinery would be made to stand in dock for answering the questions from the public or users. This would also have a deterring effect. Once the officials in the public works department know that the users of the work would get an opportunity to make an assessment of quantity and quality of the work, they may be careful in indulging in corrupt practices. Thus, corruption can be prevented by giving a ‘voice’ to the general public, if the work done is being used by the general public, or to the other government departments if they are the users. This democratic approach would have a deterrent effect on corruption. The idea is well-known to economists³. It is time the auditors also start practicing it. A real life example of this technique has been quoted by Vivek Ramkumar and Warren Krafchik about a Philippines-based NGO, *The Concerned Citizens of Abra for Good Governance (CCAGG)*, which gets feedback from the community about the public works claimed to have been completed by the government departments in a particular area.⁴

³ See, e.g., *World Development Report*, Washington: World Bank, 2004.

⁴ Vivek Ramkumar and Warren Krafchik, *The Role of Civil Society Organizations in Auditing and Public Financial Management*, pp.15-17. [www.cbpp.org]

It is important to mention that the concept of social audit used by some civil society organizations mixes up fraud auditing with corruption auditing⁵. In fraud auditing, the evidence is extracted from the documents of the organization. But in case of corruption auditing, such evidence simply does not exist. The role of participatory audit in case of corruption is focused in identifying any *opportunities for corruption* which the existing system may allow to nourish, while in case of fraud auditing, it is detection of fraud, if it has taken place.

What if the citizens and public functionaries join hands?

There is a second more serious situation of collusion where even ‘voice-to-the-public’ option does not work. It is a situation where the collusion takes place between the general public and the government functionaries and the only loser is the government. For example, as cited earlier in this paper, a businessman can collude with an income tax officer or with a customs official for evading taxes and duties. A violator of traffic rule can collude with the police constable on duty to avoid fine. A politician exercises his or her influence, bribes a government functionary and gets license for doing business in a particular sector. In such situations, the ‘deal’ is between the citizen and the government official where the latter accepts a lower level of bribe for foregoing a higher level of government levy or granting a lucrative opportunity. There would be no complainant in this case. In such situations of collusion, there is hardly anything that the auditors or even an executive supervisor of a department can do. There would be no documents or other evidence to show that corruption has taken place. What should the auditors do in this situation? There is not much that the auditors can do in such cases of collusion. One recommendation could be to design systems where the occasions for personal contact between the public and the government functionaries are minimized. For example, the system could provide that the businessmen or their tax advisors would not visit the income tax offices and would submit all the information electronically. Similarly, the system of having income tax inspectors visiting the business premises could be disbanded, making self-assessment a going concern. These systemic changes should be preceded by a wholesale system of documenting the economies. However, these are beyond the domain of an auditor. Even such an approach would not prevent all types of corruption, for example the traffic constables’ bribe that we mentioned earlier in this paper can still take place.

In such situations of collusion, corruption can be handled only through investigation into the wealth and financial state of government employees, about whom there is some evidence of living beyond means, such as holding sumptuous parties on wedding ceremonies of their children, or having foreign trips with family members and staying at expensive places, etc. This is not an area for audit. Anti-corruption agencies have a role to play here.

⁵ For example, Vivek Ramkumar and Warren Krafchik, in their valuable paper , *The Role of Civil Society Organizations in Auditing and Public Financial Management*, refer to social audit by an NGO, MKSS (pp.11-13). The NGO uses the documents of the project as a basis for the audit evidence. In case of corruption, such evidence does not exist. [www.cbpp.org]

Non-traditional Sources of Information

Traditionally, the auditors are supposed to rely on the information available within the organization: from its own records, books and reports. They are not supposed to collect information from outside and quote it to reach any conclusion. However, for corruption auditing this approach is quite simplistic. There are occasions when the management, in collusion with the vendors or as a result of bid-rigging, enters into procurement contracts at exorbitant prices as compared to open market prices available to an ordinary person. Keeping one's eyes shut to this commonplace information on the plea that the auditors are not supposed to hunt for outside information is overly simplistic. Now information about the prices of various products has become available on Internet as well. Besides, getting information about products available in the open market and comparing them with the lowest quoted bids should be part of the standard audit exercise if the auditors have to succeed in corruption auditing. The present writer came to know, in his practical experience, that the organizations bought goods and services at several times the open market prices on the plea that the purchases were made at the lowest bid price. This should not be an excuse for making uneconomical purchases. However, it too has a caveat. The management should not use this technique of making procurement from those sources which did not participate in the open bidding process. If they find out that the lowest bid price is significantly higher than the open market price, they should scrap the whole bidding exercise as it may have an element of collusion or bid-rigging. It should not be an excuse for the managers to make purchases from those sources which did not participate in the bidding process.

Corruption and Discretion

At times corruption emanates from a perfectly legal source: the law or the regulations provide discretion to the decision-makers. The person making the decision uses his or her discretion in such a manner that it provides undue benefits to the decision-maker or to his or her family or friends. Discretion is a sort of necessary evil as not every situation can be visualized at the time of framing laws, regulations and rules. Some unforeseen situations keep on cropping up. For providing flexibility to decision-makers, some discretion, perhaps, is necessary in all systems. However, in corrupt environments, the discretions are used to manipulate the state assets and to derive undue benefits for oneself or for one's family and friends. A common example in countries like Pakistan, for example, is the allotment of state land by the head of the state or prime minister at dirt-cheap rates as compared to market process. Another example could be to offer employment to undeserving persons without following due process. Still another type of corruption could be the use of discretion for awarding contracts of procurements.

There is nothing that can be done to forestall the corruption of granting state lands if the law itself provides such discretion. In situations like this, only authorities like the head of SAI of a country can raise the issue to abolish such a law. At lower levels, the auditors should treat such laws and regulations as *opportunities for corruption* and recommend that the parliament issue binding guidelines for using the discretion. It should be possible according to the law, in that case, to take legal action against the decision makers who violate the guidelines. In case of unmerited appointments, the state law must be amended to disallow any discretionary appointment and make it

mandatory to follow the usual methods of recruitment based on merit and objective evaluation. The awarding of procurement contracts, similarly, should be covered by open competitive bidding. As a general rule, where some form of discretion exists, the auditors should insist on the development and publication of guidelines based on objective and transparent criteria for using the discretion by the decision-makers.

Role of Auditors in Corruption Investigations

Auditors may come across situations, during their examinations, which smack of corruption. Since investigation requires different standards and skills, the auditors cannot get into the business of investigating a suspected case of corruption. However, they can forward extracts of their reports to investigating agencies for further probe.

As compared to auditing, investigation is a different area of oversight. However, auditors can play a vital role in assisting the agencies responsible for investigation against alleged cases of corruption. The investigating agency could be an internal entity, some anti-corruption commission, police, judiciary or a specialized body for a mega corruption case. The investigation may be initiated on a complaint from a citizen, employee, auditor or a supervisor in an organization. Internal auditors usually have more diversified and detailed knowledge of operations in different parts of the organization than the investigating agency staff that may be deployed only for a particular case. The internal auditors can assist the investigating staff in interpreting various rules, in explaining various practices, in sharing some of the confidential information that they may possess or discussing technical details of operations. The internal auditors can pinpoint areas of excessive cost and weaker controls which can help the investigating staff in detecting corruption.

Figure 1 below summarizes the role of auditors in corruption auditing.

Figure 1	
Auditors' Role in Corruption Auditing	
Situation	Auditors' Role
Lack of Documentary Evidence	Point out Opportunities for Corruption
Collusion between Contractors and Public Functionary	Resort to Participative Auditing
Collusion between Citizens and Public Functionary	No Role
Discretionary Powers of Public Functionary	Insist on Public Disclosure of Guidelines for the Use of Discretion
Detection of Corruption	No Role
Investigation of Corruption	Cooperate with Investigators

B. Corruption Audit Process

Objective in Corruption Auditing

As a starting point for corruption auditing, the auditors should hold on to the traditional assumptions about the behavior of the staff with respect to organization's business and should not commence audit planning with the suspicion of corruption. However, at the stage of familiarization of the organization and its operations, they should remain alert to the opportunities for corruption. Therefore, they should proceed cautiously. In the process of normal audit planning, they should try to determine the possibilities of corruption through review of departmental laws, regulations, rules and procedures. Besides, in the process of interviews of key personnel, they should identify any opportunities for corruption.

The audit plan can state the audit objective of corruption audit, besides other audit objectives, as follows:

One of the objectives of this audit is to assess the opportunities of corruption in ... (name the function or operation under audit) of the ... (name) the organization and to evaluate the efficacy of the existing control environment in preventing it.

Planning for Corruption Audit

The corruption audit planning process would also pass through the familiar audit planning stages. However, it will have some specific features as discussed below.

The full range plan for corruption audit would involve the following steps:

- (a) Knowing the Audit Entity
- (b) Developing the Audit Criteria
- (c) Building Inventory of Corruption Opportunities
- (d) Applying Corruption Opportunity Test (COT)
- (e) Writing the Audit Plan

Knowing the Audit Entity

The familiarization process will start with a detailed review of applicable laws, regulations, rules and operational standards with a view to understanding the audit entity and its operations. It would enable the auditors to understand the mandate, mission, objectives and main operations of the organization. It will also inform the auditors about the organization's structure, staffing, locations, clientele and operational plans. While doing so, the auditors will remain alert to the identification of possible opportunities for corruption.

Developing the Audit Criteria

The audit criteria for corruption audit should be developed in the light of good management practices accepted in the field of operation under audit. The auditors should familiarize themselves with the lead practices in the field through study of various manuals and background literature on the subject. The audit criteria, as the

term itself specifies, acts as a benchmark to see if the organization's systems and procedures comply with them. Any gap between the criteria and the actual systems and procedures, indicates possibilities of corruption. For developing the audit criteria, the auditors should keep in view the applicable laws, rules, procedures, and controls in respect of each operation under review and ask the following question;

For managing this operation (...name the operation), what should the management do to make sure that the operation is performed honestly, economically, efficiently and effectively?

An answer to this question would help the auditors develop the audit criteria as they proceed further from one segment of the client operations to the other.

Building Inventory of Corruption Opportunities

Review of basic documents, interviews with key personnel and development of audit criteria would enable the auditors to build an inventory of corruption opportunities in the organization under audit. The inventory of corruption opportunities does not indicate the existence of corruption. It is a list of theoretical possibilities of corruption in the given situation. For example, if the auditors are auditing procurement, they should conceive the total procurement cycle and then try to see, theoretically, what could be the opportunities for corruption, given the audit criteria and the organization's rules and procedures? A list of such possibilities constitutes *Inventory of Corruption Opportunities*. This does not show that all these opportunities are being availed of by corrupt people in the organization. However, it gives the auditors a framework for further focus during the field work. The method of building this list is to look for certain *indicators of corruption*. If the auditors perceive that these indicators exist, then they can include them in the opportunity for corruption in this list.

Applying Corruption Opportunity Test

Once the auditors have an inventory of corruption opportunities, they should proceed to prepare a short-list of these opportunities in the environment of the organization under audit. This can be done by applying *Corruption Opportunity Test (COT)*. They should try to figure out the status of the organization or its various operations with respect to opportunities for corruption. This is a unique tool that this paper is advocating for corruption audit.

The objective of the Corruption Opportunity Test is to determine if the actual circumstances prevailing in an organization are conducive to corruption and if so, to what extent. It is possible that the systems and procedures of the organization are not robust, yet the culture of the organization or the overall environment of the country act as a deterrent and people still do not indulge in corruption at a significant scale. It could be vice versa as well. The systems and procedures of the organization may be quite robust, yet the actual practice may provide opportunities for corruption due to environmental reasons or due to laxity of the top management or due to non-implementation of the rules against corruption. Thus Inventory of Corruption Opportunities is a theoretical possibility. By applying Corruption Opportunity Test, the auditors go a step further to assess the likelihood that the opportunities for

corruption are actually being availed by corrupt people in the organization. If they assess that the opportunities for corruption exist and the probability of their existence is high, then they should plan an extensive examination of organization's operations. During field work, in such a situation, the auditors should select larger samples of various transactions from the high corruption-risk areas to confirm their assessment emerging from the application of COT.

The auditors can apply the COT both at the level of organization and at the level of specific operations or functions under audit. For example, if the auditors are planning to audit human resource management or procurement or travel functions of an organization, it would be pertinent that the COT exercise is focused on these areas. However, where the whole organization is subject of audit, the COT should be focused on the entire organization. In that case, the objective of auditors will be to identify those functions or operational areas where the risk of corruption is the highest.

Developing the Corruption Opportunity Test

Each corruption opportunity is based on some indicator for corrupt behavior. The auditors should look for the existence or absence of these indicators while developing and applying the COT. The auditors will have to go around and feel for themselves how the business of the organization was going on in practice. It is possible that rules and regulations are adequate but in practice they are being violated and bent according to whims and wishes of certain people. While reviewing the list of corruption opportunities, the auditors should carefully pose the following question in each case:

“What is the probability that the applicable rule, regulation, procedure, instruction or practice could be misused or bypassed in this case to indulge in corruption?”

Or

“Alternatively, are there controls in place that would forestall a corrupt person to indulge in corruption by abuse of authority or misuse of discretion or misinterpretation of rules in this case?”

At the same time, while reviewing the environment of the organization, the auditors should assign a score to each corruption opportunity according to their best judgment. In their working papers they should record, why they have assigned a particular score to a particular indicator, so that the audit supervisor is able to review the score. If the auditors assess that the likelihood of corruption is there, they should allocate an appropriate score according to their judgment of the situation. For each indicator of corruption, the auditors should assign a score and arrive at percentage of the total score.

Reply to the above questions would depend upon the auditors' judgment. However, the judgment can be quantified as follows on a scale of 0-9, where zero stands for a *dry land* and 9 for a *green pasture* for corruption. A suggested ranking is as follows:

- None 0
- Minor 1-3
- Medium 4-6
- High 7-9

As a general rule of thumb, an organization scoring 70% or above on COT is a green pasture for corruption and immediate action is required to streamline its systems by changing laws, regulations and management practices, including replacement of key personnel. An organization scoring between 40%-70% requires attention and some of its environment needs attention. The auditors should identify the areas where reform is required. When an organization scores less than 40% on the COT, there is time to wait and see. It means the systems and procedures are in place and merely enforcement action is required to prevent corruption.

Corruption Opportunity Test Exercise

The auditors should plan COT application as a distinct exercise as part of the audit planning process. The exercise would involve the following:

- (a) Interview the senior management and operational management to enlist perceptions of the senior and operational management about areas prone to corruption.
- (b) Interview the staff and selected users of various goods and services being delivered by the auditee department or organization.
- (c) Interview some other staff of the organization at the lower level.
- (d) Refer back to the initial assessment relating to the state of internal controls in mitigating the risk of corruption

For the purpose of COT application, the auditors would need to develop an interview questionnaire. A specimen of this questionnaire for interview of senior management is given at Figure 2 below⁶.

⁶ It is interesting to note that Samuel Paul has also suggested a similar approach for incorporating citizens' feedback into performance audits. See Paul, Samuel, *Auditing for Social Change: Learning from Civil Society*, pp.13. Paper presented to the 6th Global Forum on Reinventing Government towards Participatory and Transparent Governance, 24-27 May 2005, Seoul, Republic of Korea. [www.unpan.org.]

Figure 2

Corruption Opportunity Test Interview Questionnaire For Senior Management

Objective of Interview

Give background information to the interviewee about the purpose of interview stating that the primary purpose of the discussion is to:

- Identify key goals and objectives in his or her area of responsibility.
- Gain an understanding of the key business processes in his or her area.
- Identify any opportunities of corruption that may potentially exist in the organization

Specific Questions

1. What is your main business? How do you perform your functions? What are your key business processes?
2. Have you taken any initiative in the recent past to improve your operations? If so, please give us a brief summary of the initiative and the achievement so far?
3. Do you think your organization has opportunities for corruption? If so, what are those and how can corrupt persons avail of them?
4. What is the probability that someone will actually avail of the opportunity of corruption and the system will not signal it?
5. Without naming any person, could you indicate the operations where corruption does exist within the organization? If so, what do you think is the quantum of such corruption?
6. What are the key controls in your organization to ensure that you achieve your objectives both qualitatively as well as quantitatively?
7. What do you think are the possible remedial measures to minimize or control corruption within the organization?
8. What sort of resistance can you expect if the corruption control measures suggested by you are actually implemented?

Similar questionnaires would need to be developed for interviews with general employees at lower level regarding their perceptions about corruption in the organization and for interviews with users of the goods and services being delivered by the department or organization under audit.

The auditors should tailor the COT exercise according to the external environment in which the audit is taking place. For example, if the audit involves assessment of corruption risk in a major disaster relief operation like Southeast Asian tsunami of December 2004 or Pakistan earthquake of October 2005, the COT exercise must consider the quantum and form of the aid flowing in. Also, they should remember that the disruption of normal administrative channels can create more opportunities for corruption. Similarly, if the audit is taking place in a war-torn country like Afghanistan or Iraq, the risks of corruption would be higher and diverse than if, for

example, the audit is taking place in government department of a stable country. The interview questionnaire would be tailored according to the situation.

While conducting COT exercise, the auditors need to be alert to some situations that are more prone to corruption as compared to others. For example, the likelihood of corruption increases if

- the operations of an organization are being conducted as an emergency to meet a disaster, and excessive aid is flowing from various directions.
- the accountability of funds is rudimentary and auditing arrangements are not well-entrenched.
- the administrative infrastructure at the local level is missing.
- there are no local markets for the purchase of goods and services needed.

While applying the COT, the auditors need to remain vigilant to the following:

- (a) Corruption could be sporadic, occurring in isolated intervals without any apparent order.
- (b) Corruption could be systemic, arising from institutional attributes.
- (c) Corruption could be petty or grand. In the former case, it may take the form of government functionaries indulging in petty bribes to extend small favors to speed up certain procedures. The grand corruption can take the form of award of large contracts, grant of exemptions and refunds in taxes and can involve large sums.
- (d) Corruption could take place in one department or agency or it may have linkages in other departments or agencies.
- (e) Corruption beneficiary could be a single person in an organization or it could be an organized mafia, sharing the booty in a systematic manner.

Analysis of these factors would help the auditors in assigning scores while applying the COT.

Executing Corruption Audit

Audit Program

The audit execution phase starts with the end of planning phase and the beginning of the field work. The first task that the auditors have to perform is to write an audit program tailored to the objectives of the corruption audit. They would follow the standard procedure for developing an audit program. For the purpose of focusing on possibilities of corruption they would embed the audit program with two types of issues:

- General issues relating to common functions in most of the organization
- Specific issues relating to the specialized operations of the organization

General Issues

For focusing audit on detecting opportunities of corruption, the auditors should build into the audit program following general issues:

- Transparency
- Good Governance
- Economy
- Efficiency
- Effectiveness

The general issues would pertain to such common functions as general administration, procurement and human resource management of the organization or department being audited.

Specific Issues

The specific issues would relate to the technical or specialized operations of the department or agency being audited. For example, these issues would relate to review of specific laws and rules relating to the technical work of the department such as Income Tax Law, or Customs Law and rules and procedures framed subordinate to these laws.

Confirming the Understanding

With the inventory of corruption opportunities developed at the planning stage, and short-listed by applying COT, the auditors should commence the field work for confirming or verifying their understanding of the short-listed opportunities for corruption through larger, systematically drawn unbiased samples. It would routinely require discussions with the relevant staff and interviews with concerned officials. The auditors would verify if the controls claimed to be in place were in fact operational in the organization and have been so throughout the period under audit. The field work may unravel areas of general consensus and also areas of disagreement. The auditors should carefully analyze these two types of areas. Generally, the areas where exists a consensus among the management and staff about the possibility of corruption should be picked up by the auditors as of their primary concern. This would provide the auditors with a list of confirmed opportunities for corruption in the organization, although they would not have evidence that the corruption has taken place and who is involved. This is the area of investigation and falls short of the responsibility of the auditors. .

Client or Public Surveys

The nature of corruption audit requires the auditors to break away from their traditional mould and to adopt innovative techniques. The traditional view that the auditors should remain restricted to the internal records and should not venture to collect outside information does not fit well with the concept of corruption auditing. The present paper suggests that the auditors should collect information from general public, users of government facilities and client organization, if necessary.

One of the steps in the fieldwork of audit could be survey of clients or general public and survey of opinions of the employees. The auditors would undertake this work in the light of their planning decisions. Generally, a decision to conduct public survey should consider if the organization is providing any service to the general public. A survey of the general public or users of the service would unravel corrupt practices if they are in vogue as many people would like to raise their voice if they are not satisfied.

Surveys are part of the auditors' field work. At this stage, the auditors should develop necessary questionnaires for the survey, decide on the sample size, and select the areas to be covered and method to be adopted. The auditors can consider launching a survey of the main clients or general public of the department regarding their perceptions about the existence of corruption in the department. This would be particularly rewarding where the nature of corruption does not involve collusion of the citizens with the organization's employees. In such situations, the general public or clients of the department tend to be more vocal and focused if they perceive that corruption is rampant.

Employee Surveys

Still another option at this stage of field work is to conduct a survey of organization's employees. Such a survey would be appropriate if the size of the organization is large and is spread out at different locations. The design of this survey should keep in view that employees have a built-in tendency not to speak out against corrupt colleagues and management. Therefore, the questionnaire should be couched in such a language that people have the opportunity of making hints about corruption without coaxing them to name anyone. There could be questions which cross-check on earlier replies to weed out spurious replies by the employees. The survey of employees could be web-based, providing e-mail links to all of them.

Designing Client or Public Surveys

The auditors may decide to conduct a survey of the clients or general public for assessing the economy, efficiency and effectiveness of service delivery by public agencies. They should use the plan of service delivery as their benchmark and then collect data on the following indicators (Figure 3 below) for comparing the extent of achievement of results with the plan.

These guidelines are for small scale surveys about services being delivered by an organization in a specific area. For large scale surveys, spread over vast areas of the entire country, survey would require higher technical skills for designing questionnaires, collecting and analyzing data. The present guidelines would remain relevant but have to be modified considerably according to the size of the program. The auditors can use the indicators given in Figure 3 below as a guide for designing the survey questionnaire:



Figure 3

**Designing User Satisfaction Survey Questionnaire
Indicators to be Included**

1. Awareness of the respondents about

- Objectives
- Coverage
- Scope and expected benefits and cost of service being delivered by the public agency
- Inputs, costs and resources used

2. Quantities being delivered (outputs)

3. Quality of the service

4. Waiting time to get the service started

5. Appropriateness of service delivery with respect to

- Reliability
- Periodicity
- Timing
- Regularity
- Need of the respondents

6. Overall satisfaction of the users with service delivery

7. Response time in case of break-down of service

8. Politeness in the behavior of the service providing staff

9. Perception of the users about corruption in the department or agency

10. Bribes paid for getting the service

11. Tips paid and necessary to get the maintenance

Reporting Results of Corruption Audit

The reporting results of corruption audit would follow the usual audit report format. However, the focus of the report would be recommendations to plug-in holes in the organizations' operations, systems, procedures, rules and regulations that can provide opportunities for corruption. The audit report should not and cannot point finger to any particular person with charges of corruption. The role of corruption audit report is mostly to prevent corruption or to suggest steps for minimizing opportunities for corruption.

C. Using Performance Audit as a Tool of Corruption Auditing

It is generally understood that performance auditing can help detect corruption⁷. A properly planned and executed performance audit would highlight areas of diseconomy, inefficiency and failure to achieve results and impact. The argument is that if a project or program has been planned properly, it should be possible to implement it with due regard for economy and efficiency and it should achieve its results. If it exceeds its planned costs significantly or takes much longer than envisaged or does not achieve what was intended, then there is a possibility that the people involved in its management may have indulged in corruption.

Although the above argument is plausible, yet the existence of diseconomy, inefficiency or ineffectiveness is not a conclusive proof of corruption. There could be genuine reasons of human failings, or complex and difficult environmental factors which inhibited the achievement of objectives. There could, simply, be a case of unintentional human negligence, not taking into account all the risks and costs. Thus performance auditing carried out in a routine manner may not indicate a concrete evidence of corruption.

Indicators of Corruption Highlighted by Performance Auditing

Performance auditing can, however, provide some clue to corruption if it exists. For this purpose, the performance auditors need to go a step deeper into the issues identified during the audit planning stage.

Generally, if the findings of the performance audit are of the following nature, the suspicion that corruption had taken place in these projects or programs would be quite high:

Corruption Indicated by Lack of Economy

- Cost overruns have taken place as a result of subsequent increase in the scope of work which has not been approved by the competent authority.
- The accountability mechanism for exceeding the budget is weak. It means, if a program manager exceeds his or her budget, he or she can get away with it, without much accountability.
- The unit cost of some components of the total procurement is exorbitant, while the overall bid price is the lowest. The components with higher prices are subject of repeat orders.
- Bids for competitive procurement may be cancelled frequently to help a specific vendor get the award of the contract.
- After competitive bidding, the prices are increased by adding some small segments of goods and services not originally conceived.

⁷ For example: Dye, Kenneth M., & Rick Stapenhurst, *Pillars of Integrity: The Supreme Audit Institutions in Curbing Corruption*, Washington: EDI, The World Bank, 1998, 25pp.

- Procurement is rushed at the year-end to consume the budget.
- In case of privatization, the friends, relations or front men of persons making the decision of privatization purchase the public asset. An obvious conflict of interest exists.
- The options analysis for justifying the project or program was based on fake data or false assumptions.
- Based on bogus assumptions, the decision to provide in-house services as compared to outsourcing through competitive bidding may be with the intention of having access to a greater chunk of the budget and thus creating opportunity for the staff to indulge in corruption and misappropriation.
- Large known dealers in certain line of products systematically avoid participating in the open bidding process of the organization. Usually, they do not like to get into the ‘hassle’ of getting their invoices paid in a corrupt environment.

Corruption Indicated by Lack of Efficiency

- Huge idle capacity is created or unnecessary equipment purchased without significant possibilities of use even over time.⁸
- Expenditure on maintenance is disproportionately high soon after the completion of the project.
- Regular maintenance is neglected and infrastructure is allowed to deteriorate while new projects are being planned. [The intention of neglecting routine maintenance is to divert funds toward new projects.]
- Poor quality of construction, shoddy materials, choked gutters, clogged drains, piling of waste material and rubbish around construction sites are indicators of corruption.
- Abnormal time-over run (over and above a reasonable figure adopted as audit criteria) accepted and regularized by the management as ‘beyond control’.
- Repeated extensions are given to the contractors.
- Repeated change orders are issued leading to changes in the scope of work and prices to be paid or changes made in the quality of the goods and services to be delivered.

⁸ Rose-Ackerman has reported an interesting case. “In Nigeria in 1975, the military government ordered cement that totaled two-thirds of the estimated needs of all of Africa and which exceeded the productive capacity of Western Europe and the Soviet Union. The price exceeded the international market price by a wide margin, presumably to make room for kickbacks, and freight companies collected compensation for having to wait in the clogged Lagos harbor. The cost to Nigeria was \$ 2 billion or one-fourth of 1975 oil revenues.” [*Corruption and Government: Causes, Consequences, and Reform*”, Cambridge: Cambridge University Press, 1999, pp.30-31].

- Repeated transfers of the project staff are made to ensure complete absence of institutional memory or continuity of oversight within the organization.
- Liquidated damages clause in the contract defined in such a manner that it does not have a bite⁹.
- An over-load of controls, or existence of complicated procedures leading to delay in delivery of service and inducing the clients to offer bribes.
- Absence of any service delivery benchmarks and excessive time taken for issuing licenses and permits, encouraging payment of speed money.

Corruption Indicated by Lack of Effectiveness

- Well-articulated, measurable or quantified performance indicators do not exist.
- Actual internal rate of return (IRR) is significantly lower than anticipated.
- A survey of clients' perceptions reveals a high level of dissatisfaction with the delivery of services. Outputs and services are not delivered as planned or quality is seriously undermined.
- There are barriers to reach the senior management for protesting against poor quality of service and there is no other complaint handling mechanism to address the complaints of the unsatisfied users of services.

Preventive Role of Performance Auditing

The performance auditing can help minimize corruption by creating deterrent. Following could be a good practice:

(a) The top management or governing body should encourage performance auditing over routine compliance auditing.

(b) The top management should inform all program managers that their performance would be audited. All programs and projects should be subjected to performance audit periodically.

(c) The top management should support the performance auditors in developing mutually acceptable performance audit criteria and all managers should be aware of the criteria.

(d) The top management should also prescribe in detail the mechanism for accumulating data and other information on performance of the program at the levels of individual manager, unit or section. The performance auditors should take these data as assertions of the management about their performance and verify these assertions during their audit work.

⁹ In one interesting example, the present writer noticed that a project of \$135 million, which had taken three times the original time, had a liquidated damages clause which, if implemented, would penalize the contractor by about \$5000 only.

(e) The top management should invite the performance auditors to hold short workshops and orientation sessions for the program managers and sectional heads on performance auditing.

(f) The management should adopt a policy of widely circulating the results of performance auditing, giving credit to those whose performance have been up to the mark in the light of the criteria adopted. This would encourage the managers to adopt the culture of performance auditing.

(g) It should be part of standard management policy to undertake independent investigations where the results of performance audit indicate a possibility of corruption.

(h) The performance audit recommendations agreed to by the program managers should be implemented in all earnest.

D. Strengthening Supreme Audit Institutions (SAIs)

Fighting corruption requires a multi-pronged attack. It requires reforms, *inter alia*, in public administration, judiciary, public information, and cultural values of the society. The individual auditor or even an internal audit department of a government or public sector organization cannot propose actions beyond what cannot be implemented by their respective auditees. There are actions which have to be taken by the government or which require political will of the state. For such actions, only an institution like SAI can take the initiative. For this purpose, the SAI itself needs to be strong and well-resourced. The present part of the paper endeavors to suggest a mechanism to strengthen the SAI and the action that the SAI can take in turn to prevent or minimize corruption. The action on this score is important because until the SAI is strong enough and is able to play the leadership role, the individual auditors or even lower level audit departments cannot make much of a difference in the fight against corruption.

Although there is a general agreement that the SAI should play an effective role in promoting transparency, governance and accountability, yet most of the SAIs in the developing world still lack adequate independence and resources to play this role.

Current State of the SAIs

The International Organization of Supreme Audit Institutions (INTOSAI) adopted The *Lima Declaration of Guidelines on Auditing Percepts* at its Ninth International Conference in Peru in 1977. The declaration sets out the international standards for the SAIs, such as independence, powers, scope, and relationship with the executive and legislative branches. However, in 2001, after about a quarter of century, an INTOSAI survey of the SAIs independence by its Task Force revealed that a large number of SAIs still did not have a desired level of independence. For example, the Task force reported:

- SAIs of 73 countries felt that there was significant room for improvement in financial autonomy.
- SAIs of 63 countries felt that there was significant room for improvement in their managerial and administrative autonomy.
- SAIs of 42 countries felt there was significant room for improvement in their constitutional autonomy.

- SAI of 33 countries felt that there was significant room for improvement in their freedom to report findings.¹⁰

The International Budget Project (IBP), a non-profit organization that works with organizations around the world to assess impact of budgets on the poor, conducted a survey of 36 countries (drawn largely from Africa, Eastern Europe, Asia, and Latin America) to assess transparency in national budgetary processes.¹¹ The survey showed that out of the 36 countries surveyed:

- In 12 countries, citizens did not have access to the auditors' reports *even though the reports were produced in 11 of these countries*. (Emphasis in original).
- Only 6 countries produced its attestation report within six months of the year-end.
- In 15 countries the final audited accounts of the national departments are either not completed within two years after the end of fiscal year or are not released to the public
- In 8 countries, the final audit accounts are released more than a year after the fiscal year closes.
- In 19 countries, the SAI either does not release to the public reports of audits of extra-budgetary funds or it does not audit such funds.
- In 23 countries neither the SAI nor the legislature releases to the public a report that tracks action taken by the executive on audit recommendations.

Recommendations for Strengthening the SAIs

In view of the situation actually prevailing in a large number of SAIs, the present paper recommends several actions for strengthening the SAIs. The following recommendations deal with, mostly, strengthening the SAI so that it can play its role in the fight against corruption effectively.

Independence of SAI

(a) The government should enforce a law that guarantees independence of the head of the SAI, allows wide publication of its reports and ensures implementation of its recommendation. Of significance is the independence of the SAI from the ministry of finance and ministry of establishment, responsible for hiring and firing of staff and creation of posts in the government. The SAI should also be independent to decide what to audit and how to audit. The head of SAI should have a secure tenure with requirements for accountability and performance assessment by the parliament or some such body to safeguard against abuse of power and corruption.

(b) The audit law should allow or even require the SAI to report separately or at least distinctly, on opportunities of corruption that it noticed during its audit examination

¹⁰ Independence of SAI Project; Final Task Force Report, INTOSAI, March 2001.
[Http://www.intosai.org](http://www.intosai.org)

¹¹ Ramkumar, V. & Krafchik, W. *The Role of Civil Society Organizations in Auditing and Public Finance Management*, n.d., 26 pp. www.cbpp.org

Powers of the SAI

(c) The SAI should have the power to audit the accounts of individual tax payers, where an audit of tax administration suggests a possible collusion between the tax payer and the tax staff. The SAI should have the power to audit those organizations which get some grant or subsidy from the government. In case of large public works, the SAI should have the right to audit the payments received by the contractors from the government.

(d) The law should provide the SAI with power to have access to all records in a timely manner, power to interview government employees and other relevant persons, and duty of all public sector organizations and their staff to cooperate with the SAI. The law should provide sanctions against those staffs and organizations that fail to comply with the requirement or willfully delay the provision of information to the SAI.

(e) The SAI should have the authority to engage experts or consultants, should the technical nature of a department or agency so require.

(f) The scope of SAI's work should be comprehensive and the parliament should ensure its coverage to all such organizations where public funds are involved. One of the avenues of corruption is that some departments resist audit by the SAI on the plea that the information being handled by them is of sensitive nature and cannot be made public. Such departments are often prone to corruption. The mandate of the SAI should cover audit of such departments as well. However, special safeguards can be provided against leakage of information. For example, it can be provided that auditors below a certain level are not entrusted this type of work or the audit report is submitted to a very senior level only or the auditors of such assignments are first cleared by security agencies, etc.

(g) The audit law should also make it obligatory for the non-governmental organizations receiving grant from the government to maintain their accounts in a transparent manner and such accounts should be within the power to the SAI to audit to the extent of funding by the government.

Participatory Auditing

(h) The SAI should develop a mechanism to engage the general public while planning its annual work. One possibility could be to provide a link on the SAI web-site inviting general public to indicate areas requiring SAI's attention. This information could be called for in a structured manner. It would be real breakthrough in democratizing the SAIs¹².

(i) The SAI's website should have an e-mail address and a form for communication with the office relating to corruption and fraud. People in general should be widely informed through media about this facility. The SAI

¹² It is interesting to note the Korean SAI, BAI, has introduced a system of "Citizen Audit Request System" since July 2001, whereby if an audit is requested by 300 or more persons and if it meets certain requirements, the BAI conducts the audit and reports back the results to citizens who requested the audit. See Pyun, Ho Bum, *Audit and Civil Society*, 2005, pp.7. Paper presented to the 6th Global Forum on Reinventing Government towards Participatory and Transparent Governance, 24-27 May 2005, Seoul, Republic of Korea. [www.unpan.org.]

should have a system of receiving information on possible avenues of corruption and develop suitable recommendations to get the corrupt systems replaced by honest systems.

(j) The SAI should plead with the government that in planning for development projects for the welfare of the people, especially, in areas of education, health, water supply, sanitation, etc the local population should be involved in the project design. The needs of the local people should be reflected in deciding the location, size and service delivery management. Similarly, local committees can be formed to monitor the project execution and project performance.

Implementation of Audit Recommendations

(k) The SAI should try to create, with the help of government, an institutional mechanism to feed the results of audit in future economic planning. It means, before a development project or program is finally approved, there should be a system of clearance from an independent body that the current project or program plan does not commit the same mistakes which the past audit reports had pointed out. Unfortunately, this important step in the cycle of good governance is badly missing in most of the developing countries. The auditors keep on reporting same or similar irregularities or examples of mismanagement and embezzlement year after year and the executive hardly takes note of that. Future projects and programs commit the same mistakes. It is far more effective and economical to prevent the mistakes (intentional as well as unintentional) than to detect them and take corrective action.

Review of Procedures and Training of Auditors

(l) The SAI should play a leading role in persuading the government to set up an independent standing commission responsible for reviewing various law, rules, regulations and procedures in the entire government with a view to determining their adequacy for preventing corruption. The commission should work on a continuous basis to cover all public sector ministries, departments and agencies over a cycle of, say, three years. The objective of the commission should be to develop alternatives procedures and regulations, in consultation with the concerned organizations, for minimizing opportunities of corruption.

(m) The SAI should set up a core group in its office, which should review and analyze government-wide rules, regulations and laws with a view to indicating areas that provide opportunities for corruption. The objective of this group should be to develop standard audit criteria for corruption auditing in various departments and agencies. The group should also prepare master trainers to train other auditors in corruption auditing. The group should work closely with the above mentioned commission and provide necessary input from the SAI's point of view. The group should work for developing necessary proposals to be taken up with the government for changes in the systems and procedures.

(n) The SAI should obtain in its budget resources for the training of its own staff as well for training the staff of the executive departments and agencies in creating awareness about corruption and preparing them to combat corruption.

Code of Ethics

(o) The SAI should, first of all, be seen above reproach. It should develop its own code of ethics. The code should not be a mere piece of paper. The head of the SAI should put in place a monitoring system to ensure that the auditors observe the code of ethics in letter and spirit.

(p) The SAI should also persuade the government to develop and enforce code of ethics for all government employees.

Performance of the SAI

(q) The SAI should develop a comprehensive cost accounting system for its own office. All audits should accrue time and money spent on it. This will set an example for other organizations, indicating that the SAI has the highest standards of economy, efficiency and effectiveness. The budget of the SAI should be in terms of money as well as person-days. The annual evaluation of the office should disclose the extent to which various targets were achieved within the allocated budget.

(r) The SAI should be an office with highest degree of transparency and accountability. A firm of chartered accountants should audit accounts of the SAI. The SAI should offer its own organization for evaluation in the broader scope of performance auditing by an independent firm of accountants. The SAI should provide access to the basis of various decisions taken during the year.

Cooperation and Coordination

(s) The SAI should develop a networking relationship with other enforcement agencies for sharing information and training of personnel on a reciprocal basis.

(t) Fighting corruption requires cooperation and commitment at all levels, from global to local, and by government and non-governmental organizations. The SAI should make concerted efforts to be part of the global network engaged in fighting corruption.

(u) The SAI, public authorities, civil society, and the private sector should join hands in the fight against corruption through sharing of information and active coordination for division of labor. There should be open and frank discussion within these organizations about opportunities for corruption and about methods for minimizing it.

(v) The SAIs of different countries should sign Memorandums of Understanding to cooperate with one another in promoting and developing measure to prevent and fight against corruption through international programs and projects, including sharing training facilities on corruption auditing.

Preparing the Auditors for Fight against Corruption

Auditing against corruption is a specialized field and not much has been done by the profession to develop the skills of the auditors. It would require concerted efforts by the international community to build capacity among the auditors for fighting corruption through incisive auditing. It would require development of an appropriate training material on corruption auditing. The training program for auditors should

contain, besides refresher course on general auditing techniques, such subjects as stated below:

- (a) Effective measures to prevent, detect, investigate, punish, and control corruption, including the use of evidence-gathering and investigative methods
- (b) Building capacity in the development and planning of strategic anti-corruption policy
- (c) A broad understanding of the operations of such public functions as procurement, land revenue, income tax, customs, police, public works, utilities, etc, where corruption is rampant
- (d) An understanding of the fund transfer mechanism and money laundering techniques used by corrupt persons
- (e) Understanding of the laws relating to whistle-blowing, protection of witnesses, experts and victims, if any, in the country
- (f) Audit criteria on corruption auditing for different departments and functions

Exposing the auditors to this type of training could be expected to equip them with some tools for auditing against corruption, as it would enhance their understanding of the corrupt practices and the way they flourish and get protected.

It would be preferable if professional bodies of auditors join hands in developing a generic set of core material on corruption auditing to be used globally, leaving the country-specific material to be developed by each country itself.

It would also be desirable that the INTOSAI and its regional affiliated bodies organize seminars and conferences on corruption auditing, creating awareness and imparting skills among auditors against this menace. The developed countries can volunteer to provide technical and financial assistance to developing countries for training the auditors in this field.

E. Concluding Remarks

Corruption auditing is yet a new concept. As compared to fraud auditing, which has now a well-developed tool-kit, corruption auditing practice poses a greater challenge as the auditors are supposed to venture into an area in which no documented evidence is available. The auditors cannot play a role in *detecting* corruption. However, they can help in *preventing* corruption by pointing out areas where opportunities for corruption exist. The paper introduces the methodology of corruption auditing, using the normal auditing practice. However it pleads some innovative approaches in the following areas:

- (a) The auditors will need to come out of the cocoon of ‘internal documentary evidence’. They would need to collect information from outside sources such as users of a public facility, client organizations, or even general public. A distinctive feature of the methodology for corruption audit is surveys of general public as well as surveys of the users of a service. In compliance auditing, for example, surveys are a rare exercise. However, in corruption auditing, this would be one of the primary techniques.

- (b) The SAIs should have power to audit the accounts of individual tax payers if there is a reasonable basis to believe that corruption has taken place due to collusion of tax employees with the individual tax payer, causing significant losses to the public exchequer.
- (c) The governments should consider setting up standing commissions for reviewing all operational procedures, rules and regulations and even laws with a view to modifying these procedures and rules to minimize opportunities for corruption. The SAIs needs to work with this commission as a close partner.
- (d) The SAIs should open their doors to public interaction. They should devise some mechanism to involve general public or concerned citizens in planning the audit work. The focus should be on inviting suggestions about the audit of those areas which the people think have greater opportunities for corruption.
- (e) The SAIs should publish the audit reports in easy-to-understand language for the general public and disseminate them widely. It would encourage general public to take interest in the affairs of the state and demand accountability from the executive government.
- (f) There has been a lot of lip-service to the implementation of audit recommendations. However, there is no institutional arrangement in the developing world that ensures that the future development plans take into account past audit recommendations. This needs to be done in the interest of economy, efficiency and effectiveness of SAIs and to plug in unethical holes in governance.
- (g) The international community should join hands in developing training material on corruption auditing and in training the master trainers in developing countries. They should provide financial and technical help to the developing countries for strengthening of the SAIs.

BIBLIOGRAPHY

1. _____, *Anti-Corruption Policy*, Manila: Asian Development Bank, 1998, 38pp.
2. _____, *Assessment of Internal Controls in the United Nations Secretariat Procurement Operations*, Deloitte Development LLC, USA, 2005, 77pp.
3. _____, *Avoiding Corruption in Privatization*, Eschborn, Germany: GTZ, 2004, 45pp.
4. _____, “Best Practice for Fraud Control – Fraud Control Policy of the Commonwealth Incorporating an Interim Ministerial Decision on Fraud Control,” *Commonwealth Law Enforcement Board*, AGPS, Canberra, 1994.
5. _____, *Combating Corruption in Asian and Pacific Economies: Papers Presented at the Joint ADB-OECD Workshop on Combating Corruption in Asian and Pacific Economies*, Manila: Asian Development Bank, 1999, 271pp.
6. _____, *Country Papers of Sub-theme 4 of XVI Conference of Commonwealth Auditors General*, Islamabad: Department of the Auditor General of Pakistan, 1996, 140 pp.
7. _____, *Curbing Corruption in Tsunami Relief Operations: Proceedings of the Jakarta Expert Meeting*, Manila: Asian Development Bank, 2005, 126pp.
8. _____, *Fighting Corruption to Improve Governance*, UNDP, July 1998. [http://www.undp.org/governance/docsaccount/fighting_corruption_to_improve_governance.Pdf]
9. _____, *Fighting Corruption and Promoting Integrity in Public Procurement*, Paris: OECD, 2005, 302pp.
10. _____, *Fraud Control Guidelines 2002*, Canberra: Attorney General’s Department, Commonwealth of Australia, 2002, 34 pp.
11. _____, *Fraud Control in Australian Government Agencies: Better Practice Guide*, Canberra: Australian National Audit Office, 2004, 70 pp.
12. _____, *Fraud Examiners Manual, 3-Vols.* Austin, TX: Association of Certified Fraud Examiners, 1998.
13. _____, *Getting Value for Money From Procurement*, London: National Audit Office, n.d., pp.74. [<http://www.nao.gov.uk>]
14. _____, *Purchasing Professional Services*, London: National Audit Office, 2001, pp. 49. [<http://www.nao.gov.uk>]
15. _____, “Global Forum on Fighting Corruption and Safeguarding Integrity II”, *International Journal of Government Auditing*, Washington, (29:1), January 2002, pp. 24.
16. _____, *Good Practice in Tackling External Fraud*, London: National Audit Office, n.d., pp.75. [<http://www.nao.gov.uk>]

17. _____, *Government Governance: Corporate Governance in the Public Sector, Why and How?* The Netherlands: Ministry of Finance, 2000, 23 pp.
18. _____, *Helping Countries Combat Corruption: The Role of World Bank*, Washington: The World Bank, 1997, 70 pp.
19. _____, *INCOSAI XVI Draft Accords*, INTOSAI, 1999. [www.intosai.org]
20. _____, *Key Elements of Antifraud Programs and Controls: A White Paper*, PricewaterhouseCoopers, 2003, 29 pp.
21. _____ *Managing the Risk of Fraud: A Guide for Managers*, London: HM Treasury, 2003, 42 pp.
22. _____, *National Integrity Systems: The TI Source Book*, Transparency International. [www.transparency.de/sourcebook/index.html]
23. _____, *Public Expenditure Management Handbook*, Washington: The World Bank, 1998, 177pp.
24. _____, *Public Sector Governance: Better Practice Guide*, Canberra: Australian National Audit Office, 2 volumes, 2003.
25. _____, *United Nations Manual on Anti-Corruption Policy*, Vienna: United Nations Office on Drugs and Crime Prevention, 2001, 108pp.
26. _____, *UN Anti-Corruption Tool Kit*, Vienna: United Nations Office on Drugs and Crime Prevention, 2004, 592 pp.
27. _____ *United Nations Convention against Corruption*, December 2003, 43 pp.
28. _____, *United Nations Procurement Manual*, New York: Department of Management, 2004, 151++pp.
29. Alatas, Syed Hussein, *Corruption: Its Nature, Causes and Functions*, Kuala Lumpur: S. Abdul Majeed Co., 1991, 220 pp.
30. Armstrong, Elia, *Integrity, Transparency and Accountability in Public Administration: Recent Trends, Regional and International Developments and Emerging Issues*, UNDESA, New York, August 2005, 5 pp. [www.unpan.org]
31. Barth, James R. Thomas Hall, Joel Kurtzman, Shang-Jin Wei, & Glenn Yago, *The Opacity Index*, PriceWaterhouseCoopers, [www.Opacityindex.com], 58 pp.
32. Brune, Christina, "Hostile to Fraud", *Internal Auditor, (IIA, USA)*, (25:5), September-October 2003, pp.1-6.
33. Bologna, Jack, *Handbook on Corporate Fraud: Prevention, Detection and Investigation*, Boston: Butterworth-Heinemann, 1993.
34. Chu, Ke-young and others, *Unproductive Public Expenditures: A Pragmatic Approach to Policy Analysis*, Washington: IMF, 1995, 44 pp.
35. Corkery, Joan, *Governance: Concepts and Applications*, Brussels (Belgium) International Institute of Administrative Sciences, 1999, 386 pp.
36. Dininio, Phyllis & Kpundeh, S.R., *A Handbook on Fighting Corruption*, Washington: USAID, 1999, 31 pp.

37. Dye, Kenneth M., & Rick Stapenhurst, *Pillars of Integrity: The Supreme Audit Institutions in Curbing Corruption*, Washington: EDI, The World Bank, 1998, 25 pp.
38. Eberlei, Walter & Fuhrmann, Bettina, *Fighting Poverty and Corruption*, Eschborn, Germany: GTZ, 2004, 74 pp.
39. Edling, Herbert, *Preventing Corruption in Public Finance Management*, Eschborn, Germany: GTZ, 2005, 41 pp.
40. Funkhouser, Mark, "Funkhouser on Auditing", *National Association of Local Government Auditors*, September 2005, 3 pp. [www.nalga.org]
41. Gurgur, Tugrul & Shah, Anwar, *Localization and Corruption: Panacea or Pandora's Box*, Washington: The World Bank Institute, January 2005, 34 pp.
42. Johnson, Simon, Daniel Kaufmann, & Pablo Zoido-Lobaon, *Corruption, Public Finance, and the Unofficial Economy*, Washington: The World Bank Institute, 1999, 50 pp.
43. Jones, Peter, *Combating Fraud and Corruption in the Public Sector*, London: Chapman & Hall, 1993, 219 pp.
44. Kaufmann, Daniel, "Back to Basics -10 Myths About Governance and Corruption", *Finance and Development*, Washington, (42:3), September 2005, 6 pp.
45. Klitgaard, R., *Controlling Corruption*, California: University of California Press, 1988, 230 pp.
46. Klitgaard, R., Maclean-Abaroa, R., & Parris, H.L., *Corrupt Cities: A Practical Guide to Cure and Prevention*, Washington: World Bank Institute, 2000, 163 pp.
47. Langseth, Petter, *Involving the Public in Curbing Corruption: The Use of Surveys to Empower Citizens to Monitor State Performance*, Vienna: UN Office for Drug Control and Crime Prevention, 1999, 15 pp.
48. Mauro, Paolo, *Why Worry About Corruption?* Washington: International Monetary Fund, (Economic Series No.6), 1997, 14 pp.
49. Ochse, Katharina L., *Preventing Corruption in the Education System: A Practical Guide, Eschborn (Germany): GTZ, 2004, 42 pp.*
50. Pech, Birgit, *Mainstreaming Anti-Corruption*, Eschborn, Germany: GTZ, 2004, 14 pp.
51. Paul, Samuel, *Auditing for Social Change: Learning from Civil Society*, 15 pp. Paper presented to the 6th Global Forum on Reinventing Government Towards Participatory and Transparent Governance, 24-27 May 2005, Seoul, Republic of Korea. [www.unpan.org.]
52. Pech, Birgit, *Preventing Corruption in Public Administration and at the National and Local Level*, Eschborn, Germany: GTZ, 2005, 38 pp.
53. Pyun, Ho Bum, *Audit and Civil Society*, 9 pp. Paper presented to the 6th Global Forum on Reinventing Government towards Participatory and Transparent Governance, 24-27 May 2005, Seoul, Republic of Korea. [www.unpan.org.]

54. Ramkumar, V. & Krafchik, W., *The Role of Civil Society Organizations in Auditing and Public Finance Management*, n.d., 26 pp. [www.cbpp.org]
55. Rose-Ackerman, Susan, *Corruption and Government: Causes, Consequences, and Reform*”, Cambridge: Cambridge University Press, 1999, 266 pp.
56. Siame, Fred M., “Contributions and Challenges in the Fight against Corruption – An Auditor General’s Perspective”, *International Journal of Government Auditing*, Washington, (29:4), October 2002, pp.7-9.
57. Singh, Naunihal, *The World of Bribery and Corruption From Ancient Times to Modern Age*, New Delhi, 1998, Pp. 546++
58. Sparberg, Detlev, “Fighting Corruption and Fraud”, *International Journal of Government Auditing*, Washington: (27:3), July 2000, pp.10-12.
59. Staphenurst, Rick, “ Pillars of Integrity: Supreme Audit Institutions”, in *Combating Corruption in Asian and Pacific Economies: Papers Presented at the Joint ADB-OECD Workshop on Combating Corruption in Asian and Pacific Economies*, Manila: Asian Development Bank, 1999, pp.125-160.
60. Staphenurst, Rick & Sahr J. Kpundeh, *Curbing Corruption: Toward a Model For Building National Integrity*, Washington: EDI of the World Bank, 1999, 254 pp.
61. Stern, Esther, *Auditing for Social Change in he Context of the Millennium Development Goals, 2005*, 13 pp. Paper presented to the 6th Global Forum on Reinventing Government Towards Participatory and Transparent Governance, 24-27 May 2005, Seoul, Republic of Korea. [www.unpan.org.]
62. Tanzi, Vito & Hamid Davoodi, *Roads to Nowhere: How Corruption in Public Investment Hurts Growth?* Washington, IMF Economic Issues Paper no.12, 1998, 11 pp.
63. Wei, Shang-Jin, *Corruption in Economic Development: Beneficial Grease, Minor Annoyance, or Major Obstacle?* Washington, World Bank Discussion paper, 1999, 28 pp.
64. Wolf, Thomas & Emine Gurgen, *Improving Governance and Fighting Corruption in the Baltic and CIS Countries: The Role of IMF*, Washington: International Monetary Fund (Economic Issues Series No.21), 2000, 17 pp.

