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**RECENT ACTIVITIES IN COMBATTING FRAUD
AND CORRUPTION IN GOVERNMENT**

**V Conference on New Developments in Governmental Financial Management
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Price Waterhouse



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I. Introduction

The strengthening of democracy in developing countries has recently become the focus of much effort by the U.S. Agency for International Development (A.I.D.). As part of this effort, A.I.D.'s Democracy Initiative emphasizes the important role of accountability—particularly financial accountability—in reducing the public sector corruption and inefficiency that threaten political, economic and social stability by undermining citizens' faith in democracy and democratic processes. Public sector corruption and inefficiency also pose a major constraint to development by misdirecting resources away from their intended purposes.

A major step was taken in framing and defining the issue of fraud and corruption in government at the LAC/RFMIP sponsored *I Inter-American Conference on the Problems of Fraud and Corruption in Government*, which was held December 4-6, 1989 in Miami, Florida. The conference participants emphasized the link between honesty and integrity in government and sound financial management, concluding that:

The protection of the public from corruption lies in the democratic system. The avoidance of corruption is implicit in the proper functioning of the democratic process, a proper division of power among all branches of government, a constructive opposition in a multiparty political system and a free press.

The impetus for this conference was a recommendation made by participants at the December 1988 Latin American Workshop on Improving the Management of Public Resources. The conference was cosponsored by an impressive group of 15 organizations interested in improving public sector financial management and attended by 140 participants from 29 countries in the Latin American and Caribbean region. It also sparked a new dialogue on a vital topic and has led to the organization of other initiatives, seminars and conferences.

This publication is a brief overview of some of the activities that have resulted from the Democracy Initiative and the *I Inter-American Conference on the Problems of Fraud and Corruption in Government*. It is presented by the Regional Financial Management Improvement Project of the Latin America and Caribbean Bureau of A.I.D. for the use of participants at the *V Conference on New Developments in Governmental Financial Management*, held April 8-10, 1991 in Miami, Florida.

Section II of this publication presents the *Accountability Initiative*, which was conceived at the conference and later developed to spearhead the goals of the Democracy Initiative in the area of government financial management. It recognizes that the legitimacy of democratic regimes depends heavily on their being perceived as reasonably honest and accountable in the delivery of essential services. Section III outlines the objectives of a

series of seminars focusing on the issue of fraud and corruption in government which was conducted in several LAC countries as part of the Accountability Initiative. The seminars served to sensitize host country officials to the issue of corruption and to launch a discussion of how it can be addressed within particular agencies of the government.

Section IV presents a strategy conceived by Dr. Robert Klitgaard for applying Accountability Initiative objectives within supreme audit institutions of host countries. It also provides further insight into the approach taken by Dr. Klitgaard in conducting the seminars mentioned above. Section V then presents the recommendations of the working groups organized at the Panamanian Comptroller General's Office as an example of this process.

It is important to recognize that the dialogue on the topic of reducing fraud and corruption in government is ongoing. The ideas and approaches presented here will be refined and developed further through future conferences, some of which are listed in Section VI. In addition, the LAC/RFMIP publication *Accountability* will serve as a forum for disseminating new ideas and upcoming events related to improved government financial management throughout the Latin American and Caribbean region.

II. The Accountability Initiative of the Agency for International Development

Addressing the Issue of Fraud and Corruption in Government

Growing interest and concern is developing throughout the Americas about the problem of fraud and corruption in government. It is seen as threatening political, economic and social stability. It also constitutes a major constraint to development itself by inhibiting serious reform and modernization. In the past, corruption has been a difficult problem to address due to a lack of information and concern about its incidence and the generally "taboo" nature of the topic. But now there is growing recognition that efforts to reduce corruption should become an *integral* part of the development process. The *Accountability Initiative* (AI) is a strategy that has developed out of this new outlook to assist governments in assessing their respective corruption constraints and in planning and implementing projects to overcome them.

In 1989, on the recommendation of Latin American financial management experts, A.I.D.'s Latin American and Caribbean Regional Financial Management Improvement Project (LAC/RFMIP) cosponsored a conference focusing on fraud and corruption in government. A number of recommendations were made by the working groups at this *Inter-American Conference on Fraud and Corruption in Government* which may be summarized as supporting the need for aggressive action by governments to combat those two problems. The recommendations were well received by the A.I.D. LAC Bureau, and subsequently Price Waterhouse was requested to prepare a concept paper that became known as the Accountability Initiative.

Impact of Corruption on Stability and Development

Official and private corruption constitutes a critical constraint on political, social and economic stability and development. It inhibits serious reform and modernization. It increases costs of doing business and reduces productivity. It discourages local and foreign investment, reduces the benefits and impact of external assistance and otherwise impedes growth. Most seriously, it erodes public respect and confidence in government, whether democratic or authoritarian. Where it pervades democratic societies, it provides a ready excuse for military intervention in the name of "ousting corrupt leadership". As learned from the war on drugs, official corruption can destabilize democratic governments and seriously disturb public order. Above all, it constitutes a regressive tax on society which impacts disproportionately on both poor and small businesses.

In his classic study of LDC corruption entitled *Controlling Corruption*, Dr. Robert Klitgaard cites several crucial costs of corruption (*Op-Cit.* Pg. 46):

- It affects *efficiency* by wasting or misdirecting resources, creates "public bads" and distorts policy.

- It impacts on *distribution* by reallocating resources to the rich and powerful, those with military or police power or monopoly power.
- It affects *incentives* by diverting energies of officials and citizens toward the socially unproductive seeking of corrupt "rents"; it creates risks, induces unproductive preventive measures and diverts investments away from areas with high corruption.
- It affects *politics* by breeding popular alienation and cynicism, all of which create regime instability.

Occasionally, official corruption is used beneficially as a convenient tool for defusing and lubricating internal conflicts (e.g. Mexico, in reducing the power of the regional "caudillos" during the 1920-36 civil wars), facilitating industrial development (e.g. Venezuela in the 1950s to attract foreign investment) and for stimulating the economy (e.g. Paraguay under Stroessner).

Dr. Klitgaard provides a thoughtful analysis of the tradeoffs between costs and benefits in fighting corruption:

In most cases, the minimum cost solution overall will not have corruption equal to zero or anti-corruption efforts equal to a maximum amount. "Corruption is not the only thing we care about. We also care about the costs of reducing corruption, which may be both direct (in terms of expenditures and staff) and indirect (in terms of hampering the organization's other objectives). Reducing corruption is only one of many objectives that a public official, politician or legislator will or should have. For example, a tax commissioner cares about the effective collection of taxes. Energy and resources devoted to reducing corruption may lead to a more efficient tax collection agency... At some point even if corruption is reduced by ever greater efforts, the direct costs of such efforts may be large and the tax agency's performance could suffer enormously. Therefore, the design of anti-corruption policies must be quite clear about how much various kinds of corrupt and illicit activities hurt the organization and society. (Op. cit. pg. 27)

Goals and Objectives of the Accountability Initiative

The overall goal of the AI is to *increase the accountability of public officials in LAC countries to reduce the impact of corruption on stability and development*. Within this goal are the following objectives:

- To test the hypothesis that a strategic approach to accountability enhancement, involving a judicious combination of policy, program, legal and administrative reforms can, over time, reduce the incidence of corruption.
- To sensitize host country/A.I.D. project designers on the importance of addressing corruption constraints and to ensure that they design appropriate accountability considerations into assistance projects; and

- To reduce opportunities for fraud, theft, waste or misuse of A.I.D. and donor agency assistance.

Fighting official corruption anywhere involves changing a wide range of attitudes, behavior, policies and management procedures. Most important, it requires a *strategic* focus involving a coordinated and sequenced series of activities in a range of substantive areas. What is needed is a systematic approach to identifying "vulnerability" in official functions and taking appropriate action to remove them. For example, it makes little sense to install internal financial controls in an agency if when a corrupt official is identified through such controls, an ineffective judicial system does not mete out swift justice. *It is a basic premise of this initiative that accountability enhancement requires a strategic or comprehensive approach in reducing vulnerabilities in substantive areas in a sequenced, coordinated manner, rather than a single agency, single function or other piecemeal approaches.*

The Accountability Initiative strategy

The Accountability Initiative strategy makes several assumptions. For one, it views the changed international environment regarding corruption as making it possible to discuss openly and analyze the corruption constraints in selected countries and undertake cooperative assistance programs to deal with them. Priority areas of vulnerability would be defined and country-specific assistance activities would be designed. Those activities would result in benefits to stability, governmental functioning and economic development. Below a list is presented of several key substantive areas that should be taken into account in developing an LAC anti-corruption campaign strategy:

Democratic Development

Corruption is a disease of a country's political system. While democratic as well as authoritarian governments suffer from official corruption, democratic governments with multi-party politics, a vigilant opposition and a free press are better able to deal with the corruption constraint.

Reform of Laws and Regulations

Many LAC countries still operate with a variety of laws and regulations which are archaic and do not reflect present day realities. For example, many countries still consider tax evasion a civil rather than a criminal offense with the result that very few tax evaders ever go to jail. They just make a deal with their tax collector—a set up for corruption. In some LAC countries, a problem exists in training public sector auditors in modern auditing methods since when they return to their jobs, they have to carry out audits as legally prescribed in ancient laws and regulations. The strategy must take into account the current applicability of laws and regulations relating to an official agency or a broad function under study (e.g., financial or personnel management).

Judicial Reforms

Judicial reform is a critical factor in reducing official corruption. In many countries, judicial reform is needed to ensure that corrupt officials are identified, tried, convicted and sentenced and that there is a predictability of tough law enforcement for "white collar" crime and certainty of swift justice. Within the Accountability Initiative, major attention should be given countries to assess needs and to provide assistance in the area of judicial reform.

Structural Adjustment—Policy and Administrative Reforms

During the policy dialogue phase with LAC governments, careful attention should be given to the importance of structural adjustment in the economy as a key element for reducing corruption. The point is to reduce the degree of government control and supervision over the private sector and of citizen's daily lives. A major portion of official corruption comes from low-paid bureaucrats "on the take" to supplement their meager salaries by soliciting bribes for performing some routine approval or service or issuing a permit. Another major area of opportunity for corruption is the broad area of administrative discretion given to public officials who have a monopoly control over key decisions in areas such as approving a foreign investment application or a procurement contract. Dr. Klitgaard defines *official corruption as a combination of monopoly power plus discretion minus accountability.*

To deal with this source of corruption, macroeconomic policy reforms can serve both economic objectives as well as fighting corruption. For example, freeing up foreign exchange controls or import licensing systems as part of a World Bank-supported structural adjustment program, could very quickly eliminate the jobs of significant elements of the bureaucracy, with a resultant fiscal saving and reduction of opportunity for corruption. A number of LAC countries have eliminated their foreign exchange and import control systems substituting tariffs for import controls. Many LAC countries are experimenting with "one-stop" approval centers for processing foreign trade and investment applications, replacing old procedures where the applicant had to make the rounds of numerous agencies for this purpose. Such a one-stop center for routine processing of identity cards, driver licenses, and other permits could centralize the approval process and, properly controlled, could reduce opportunities for corruption.

Likewise, the possibility of narrowing a public official's broad discretionary powers in areas where he enjoys monopolistic control to grant or not to grant approval of, for example a foreign investment or tax preference should be studied. Substituting published approval criteria for certain types of business requests should help reduce opportunities for corruption. The key point here is that designers of structural adjustment programs in LAC countries should take advantage of policy dialogues to introduce accountability procedures to reduce corruption as well as obtaining desired economic/financial impacts.

Financial Management Improvement and Government Procurement

The integration of sound internal control structures and practices as a part of all administrative and financial systems is of major importance. This includes the internal audit function mentioned below. Operating officials should be required to certify as to the adequacy of internal controls. Developing automated *Integrated Financial Management Systems* (IFMS's) with appropriate accounting, auditing, budgeting, internal controls, cash and debt management subsystems and training qualified people to run them should go a long way toward generating reliable financial data needed for reducing official corruption. Likewise, reforming government's procurement system to expand, refine and simplify the competitive bidding process and providing transparency in granting of awards are important areas for reducing corruption.

Auditing

Many Supreme Audit Institutions (SAI) are weak and incapable of professionally detecting and dealing with official fraud and corruption. A principal objective of the LAC/RFMIP is precisely to strengthen, empower, modernize and improve the professionalism of SAIs as well as the internal audit units of the ministries and agencies. Properly structured and professionally staffed, the SAIs could also serve as headquarters command for a government's anti-corruption campaign. Internal auditors could support them and handle much detailed work so as to avoid establishing large and unmanageable SAIs. In addition, there is a clear need in many LAC countries to establish intelligence and criminal investigation units in the SAIs to provide a Legislative Branch repository for information and evidence on corruption. Finally, there is a need to expand the role of the independent auditor general vis-à-vis the Legislature's oversight staffs. Such a function could also be an invaluable tool in carrying out legislature oversight duties.

Strengthening Public Service—Problems of Personnel, Pay and Patronage

Reducing official corruption in any country must focus on improving the quality of the public administration and strengthening the career service. Much has been said of the inflated bureaucracies and low pay of public officials and their vulnerability to individual or systematic/institutional corruption. Given the critical fiscal deficits facing most LAC countries, it may be unrealistic to expect any broad scale salary increases. It is also uncertain whether, say a 20% increase in salaries across the board, could translate into a corresponding reduction in official corruption. Most experts believe that only by the introduction of a system of rewards and punishments based on a rigorous performance evaluation system will the civil service become less vulnerable to systematic corruption. Specifically, a merit award program for outstanding performance will help identify competent and honest career employees. Several of the case studies described in Klitgaard's book support this concept. Patronage opportunities in respect to certain key financial management positions in the government should be limited. This could be done by reserving these positions for outstanding professionals meeting pre-established qualifications, long term appointments and providing them with special salary supplements to reduce any incentives for corrupt conduct. Finally, the formulation of a

Code of Ethics covering all government employees, civilian and military, should be helpful in clarifying what is acceptable and non-acceptable behavior. It is also useful in defining conflict of interest rules which in many LAC countries are currently complex and confusing.

Role of the Private Sector

So far, major emphasis has been placed in this paper on the corrupt public official. However, there is also a need to focus on the payor of bribes and accomplice in corrupt activity— the private businessman or citizen. The Accountability Initiative should focus attention on promoting self-policing programs for private business and professionals designed to reduce private sector willingness to play the corruption game. Since official corruption increases the costs of doing business and therefore affects competitiveness and discourages both local and foreign investments, it is clearly in the private sector's interest to join with public sector efforts to reduce corruption, working through private sector business and professional organizations. Private sector cooperation in the anti-corruption campaign is crucial to its success.

Public Information/Education

The success of any anti-corruption campaign depends importantly on the public's willingness to cooperate with the authorities in (a) refusing to pay bribes to public officials and (b) reporting solicitation of bribes, extortion or other corrupt activities to competent authorities. The case studies prepared by Dr. Klitgaard as well as the discussion at the December 1989 LAC/RFMIP conference on corruption stress the importance of the public's cooperation as a critical component in the anti-corruption effort. Whistle-blower hotlines, providing guarantees of anonymity and protection, as well as rewards for exposing corrupt officials have proven successful.

The basic concept for the Accountability Initiative was developed by Leonard J. Horwitz, a senior manager with Price Waterhouse.

III. Fraud and Corruption Seminars in Panama, Nicaragua and Haiti

Four seminars focusing on the issue of controlling fraud and corruption have been organized last year in Latin America and the Caribbean, led by Dr. Robert Klitgaard, a noted author on the issue of controlling corruption. Two seminars were conducted in Panama for the Training Center of the Comptroller General's Office of the Republic of Panama on April 9-17, 1990 and November 5-9, 1990.

The Panamanian seminars were attended by 200 participants, representing the Comptroller General's Office and other government agencies such as: the National Bank of Panama; the Ministries of Finance and Treasury, Government and Justice, Planning and Economic Policy, and Commerce and Industry; and Offices of Immigration and Transit.

The First Congress on Inefficiency and Administrative Corruption was held in Nicaragua November 16-17, 1990, sponsored by the Institute of Public Accountants. It was attended by 100 people, including representatives of the Comptroller General's Office and other government agencies. At the conference, Dr. Klitgaard made use of the objectives and methodology used at the Panama seminars in encouraging discussions about how to control corruption in Nicaraguan government agencies.

Dr. Klitgaard was also involved in informal discussions on controlling fraud and corruption in government while making an introductory assessment visit to Haiti during March 25-28, 1991. The visit paved the road for conducting a follow-up seminar in the country on that issue at a later date.

Seminar objectives

The main objective of the seminars, according to the terms of reference established in advance by A.I.D., was to analyze the vulnerability of the Comptroller General's Office to internal corruption.

The tools used by Dr. Klitgaard to develop the theme of the seminar were case studies on the Philippines Internal Revenue Service, the Hong Kong Independent Commission Against Corruption, Singapore's Customs and Excise Department and U.S. Army procurement activities in Korea. Seminar participants made practice evaluations of the government financial management problems in these cases, and the methodology learned in the process was then applied to the Panamanian and Nicaraguan situations. The seminar participants began by discussing corruption in their own countries and then began suggesting measures to reduce specific types of corrupt activities.

IV. *Brainstorming on a Strategy for Supreme Audit Institutions in Developing Countries* **by Dr. Robert Klitgaard**

Many developing countries are now embarked on the road to a new era of democracy and free markets. The first stage often involves coping with an economic emergency. During emergencies, institutional reforms are difficult. But now, after surviving the transition, many countries must face up to a series of institutional obstacles to reform. In this second stage of structural adjustment, it is time to rethink institutional strategies—in particular, how to control corruption and promote responsibility and efficiency in government.¹

In this effort, a country's supreme audit institution (SAI) may be asked to take a leading role. How might an SAI begin to rethink its strategy as part of a national campaign to promote efficiency and responsibility in government?

In my experience, three important aspects are sometimes overlooked and deserve special consideration:

- Breaking the culture of corruption and irresponsibility, which means frying "big fish."
- Strengthening systems to prevent corruption and inefficiency, which means information and incentives.
- Involving the public and civic organizations in the campaign for responsibility and efficiency in government.

The Principle of the "Big Fish"

A culture of corruption and irresponsibility can be said to exist when years of abuse make people expect corruption and perceive corruption even sometimes when it does not exist. A pervasive cynicism develops about a government (and big business). Indeed, a characteristic of underdevelopment is the defeatist attitude that nothing can be done about such problems.

Fortunately, we know from experience in many poor countries that corruption can be reduced (if never eliminated). An important lesson from such experience is this: One has to break the culture of corruption by frying big fish in public.

¹Other institutional reforms are also needed in the public sector, and private sector institutions also require structural change. I describe some of them in *Adjusting to Reality: On the Roles of Government in Economic Development* (San Francisco: ICS Press and International Center for Economic Growth, forthcoming).

A cynical population does not believe mere words. It asks for actions. And it does not place stock in actions against the little guy, say a low-level bureaucrat or a minor tax evader. For the public to believe that a effective campaign for responsible government is truly underway, big fish must be fried. An example is Carlos Salinas' actions against La Quina in Mexico, or Hong Kong's move against the commissioner of police.

The big fish can be major tax evaders, preferably from the party or parties in power, as in Bolivia. (If only opposition figures are attacked, the culture of corruption will not be cracked.) Or the big fish can be high-level bureaucrats and officials in public enterprises, as in the Philippines and Singapore. The big fish may be people in government who are clearly living beyond their public salaries, even if it cannot be proved that they achieved their wealth corruptly. (In Singapore and Hong Kong, where the burden of proof has been shifted and rich officials must prove, if asked, that their wealth was achieved legally).

Big fish need not be strictly speaking "corrupt." They may be the friends or family of leading officials who themselves have been appointed to high office. The perception of nepotism is the enemy of change. It is worthwhile considering ways to change that perception by replacing appointments perceived to be nepotistic while simultaneously passing new rules that forbid the hiring of close relatives without strict meritocratic checks.

"Frying big fish" may mean conviction in court, but it does not have to. It may be enough that publicity is generated against the big fish—that their names become ruined—to send a powerful signal to the populace that the rules of the game have changed. For example, in the Philippines the tax commissioner knew it would take two years to convict corrupt officials. He went ahead with that legal process, but he also let the press have lots of information about the people and their offenses. The resulting torrent of investigative reporting led to shame (and three heart attacks), which both deterred corruption and helped to change the popular belief that the big boys are exempt.

These thoughts raise several questions for brainstorming. How can an organization like the SAI crack down on big fish inside the organization or elsewhere in government? How can the government overcome the perception that big tax evaders and bribe-givers go unpunished, that nepotism is still allowed? What kinds of "frying" might there be, aside from the inevitably slow process of the law?

Preventing Corruption

A charismatic leader and heroic times can produce extraordinary results. Moreover, we all know of public servants who achieve great success despite poor incentives, weak information systems, useless controls, and few resources. But these are exceptions. In the long run, success depends on systems and institutions, not heroes. And I think

experience shows that systematic reforms mean two things above all: information and incentives.

Sooner or later we must recognize that our public officials now face perverse incentives. Working harder or better is not necessarily rewarded. Saving the government money—cutting costs, raising quality, discovering and rooting out corruption, teaching students more—does not result in a higher salary or better benefits. Given low pay and no incentives, it is no surprise that government doesn't work well. We need not invent additional explanations such as lack of training or resources, or something about the political culture.

The issue of incentives I am stressing is not the old issue of the level of government salaries. Rather, it is the linkage between pay and achievement that is at issue.

Changing incentives involves several steps. One must begin to redefine the organization's objectives. Then one must specify measurable results and collect information on their achievement. Finally, some part of pay and other benefits, such as promotions or training or travel or office size, must be linked to the results. Successful efforts to fight corruption often involve these same steps.²

So for brainstorming purposes, several questions arise for the SAI. What can be done to involve employees in the creation of a new system of performance evaluation? What information can be obtained on the achievement of concrete results? What rewards can be linked to results—if not pay, then bonuses, training, promotion, travel, better offices, praise and recognition, and so forth?

At the level of the entire government, one might pose bolder questions. How might one initiate experiments with public-sector incentives? It is advisable not to begin with the whole government at once, and remember the issue is not a simple raise in pay. Instead, one might start in key areas where incentive experiments could be self-financing—for example, taxes, public works, customs, public enterprises, detecting fraud and corruption, and so forth. Can part of the money saved through greater efficiency be promised to employees if and only if they are successful?

Extraordinary increases in public sector efficiency can be invoked by charismatic leaders, heroic public servants, and extraordinary times. But if we wish these gains to last, we need to structure in efficiency and responsibility. This entails defining objectives and measures of success with the help of employees. It means designing information systems

²Robert Klitgaard, *Controlling Corruption* (Berkeley and Los Angeles: University of California Press, 1988), especially chapters 2 and 3. A Spanish version entitled *Controlando la Corrupción* has been published this year by the Fundación Quipus of La Paz, Bolivia, with distribution by the Inter-American Accounting Association and the Hanns Seidel Foundation.

and mechanisms to measure success and failure. And it involves incentives—positive and negative—that reward success and penalize corruption.

Involving the Public

The greatest enemy of corruption is the people. This is why almost every new government—elected or not—justifies itself by promising to combat the corruption of the previous regime. It knows that the people despise corruption and understand the corrosion of incentives that it entails.

Successful campaigns against corruption involve the people. For example, take Hong Kong's Independent Commission Against Corruption. The ICAC had three components. One concerned prosecution and went after big fish. Another stressed prevention and worked with government agencies to make systematic reforms.

The third component involved the people. Six citizen oversight bodies acted like boards of directors over various of the ICAC's activities. The ICAC also set up local offices. These office joined together:

- employees of the ICAC;
- members of the barrio council or local government; and
- citizens, including housewives, business people, and importantly, representative of civic associations.

Notice the components: central government, local government, and citizens and their associations.

The civic associations brought both competence and credibility. Take auditors' and accountants' associations, for example. They know a lot about detecting corruption. They also have a strong reputation for honesty and, because they are not of the government, for independence as well.

In societies where irresponsibility and inefficiency have been widespread, credibility is of central importance. The citizenry may have arrived at the sad point of simply not believing or trusting the government—any government. Here the involvement of the people is especially crucial for several reasons. First, the people can be an invaluable source of information about where corruption and inefficiency occur. They can be tapped for reports of isolated cases as well as chronic problems; they know where government is working and where it is not. This does not mean, of course, that every anonymous accusation of corruption is to be believed. In fact, most are false. But a trustworthy body with technical competence to investigate corruption can sift through the reports it receives from the people, looking for patterns and for cases that are important

and systematic. This is what the Independent Commission Against Corruption did in Hong Kong—with the people's involvement.

I have just mentioned the second and third reasons why the involvement of the people is important: trustworthiness and competence. Government may have too little of either, at least in the short run, to make much of a difference.

Now brainstorm. Can one imagine a campaign against corruption that involved civic associations like Junior Chamber of Commerce and Rotary, professional organizations of accountants and lawyers, local councils and labor unions? Imagine information could be diffused to them, for example, about planned public works in each location. Imagine they could in turn relay information back to a central location that had the power and capability to carry out a preliminary investigation—information about irresponsibility or inefficiency. Could such an effort work in a developing country? How might it be structured as an experiment? Could foreign aid funds be used to support it? What parts of the central government would participate and how? Might the SAI play a leading role?

Similar questions arise at the level of the internal management of government agencies. In seminars, people asked me, "What can we do if our bosses are corrupt? How can we report it? We will lose our jobs." There is a need for a credible, competent, central location within the organization (perhaps within the government as a whole) where complaints can be made and abuses reported without fear of reprisals.

Experience in other countries shows that such mechanisms can be effective. For example, in the successful effort to clean up the Bureau of Internal Revenue in the Philippines, the new director created such an internal body. He talked with many employees, who were not willing to name the corrupt but would readily say that Mr. X and Mrs. Y were honest and good. He selected six of the honest heroes and brought in six young CPA's to work with them. This team carried out special studies for the director, investigated cases at random, and served as the place where employees could report irresponsibility and inefficiency. In time, a public hotline was installed, where the people could also complain. Again, many reports of corruption are inaccurate or self-serving, perhaps most; but the open line of communication for people within and outside the organization was crucial to the reduction of corruption.

What about the case of SAI? Would it make sense to create a similar body, where complaints of corruption could be received? Could such a body be formed at other levels of the government, with citizen participation?

Concluding Remarks

Many developing countries are facing up to the problems of corruption and inefficiency in government as never before. Supreme audit institutions can play a key role in this second stage of the move toward democracy and free markets. To stimulate brainstorming about the appropriate strategies for promoting responsibility and efficiency in government. I have proposed three clusters of questions:

- ▶ What can the SAI—and the government as a whole—do to break the culture of corruption by "frying big fish"?
- ▶ What can the SAI—and the government as a whole—do to prevent corruption and promote efficiency by redefining objectives, collecting information, and linking rewards to performance?
- ▶ How can the public be involved in the campaign for responsibility and efficiency in government? How can a new office or offices be set up (inside the SAI, inside ministries, and/or at the government-wide level), perhaps as an experiment, which has the credibility and power to investigate reports of corruption? How can civic associations and professional organizations be involved?

V. Summary of Recommendations Made by the Working Groups of the Panamanian Comptroller General's Office

As mentioned in Section II, one of the results of the Panama seminar was the formation of CGO employee working groups to apply the analysis and comments learned in the seminar to their own institution. The working groups developed solutions specific to their own functional areas, but in many cases suggested courses of action that could be generally applied to their agency. The following is an example of the operational improvements suggested by the working groups of the Panamanian Comptroller General's Office.

Internal auditing

- Strengthen the Internal Audit Department of the CGO and give it the independence that a control department should have.
- Improve the process of selecting personnel for the CGO. This can be accomplished through conducting professional examinations and demanding proven expertise.
- Offer continuing education coursework for staff members:
 - Establish a specialized library with audit manuals and books for reference and study.
 - Carry out an ongoing professional development program for audit staff through courses on elementary, intermediate and advanced auditing emphasizing practical applications.
- Offer incentives to staff members:
 - Award scholarships for local and international training.
 - Upgrade salary scales to the same level as other public sector officials with similar responsibilities.
- Review personnel structures so that job responsibilities are defined at all levels and are carried out properly by the staff members in those positions.
- Integrate and coordinate the different divisions of the Comptroller General's Office.
- The CGO should be independent, technically skilled and apolitical; patronage and nepotism should be eliminated.
- Evaluate and strengthen controls by strengthening internal auditing as a tool.

- **More support should be provided by the Legal Division of the CGO:**
 - **Seminars should be offered to auditors to teach them basic legal issues that are involved in their work;**
 - **Highly technical and sophisticated legal jargon should be avoided in the division's support capacity so that information can be understood and used by auditors at any level;**
 - **Audit reports should be revised by the Prosecutor's Office to eliminate any legal weaknesses and sharpen the focus of the reports;**
 - **Auditors required to testify in court should be provided with legal counsel to alleviate the pressure put on those auditors and reduce the number of cases that are allowed to be dismissed after only routine questioning.**
- **Internal regulations should be revised so that they reflect existing CGO functions.**

External auditing

- **Improve the process of selecting personnel in the CGO by basing it on professional examinations, past experience and proven expertise.**
- **Maintain ongoing training programs for audit personnel that improve professional standards through the use of courses, seminars, practical workshops, etc.**
- **Provide incentives to staff members by setting up local and international scholarships and by raising salary levels at least to the level of other public officials with similar job responsibilities.**
- **Review personnel structures so that job responsibilities are defined at all levels and are carried out properly by the staff members in those positions.**
- **Conduct a preliminary analysis of the different types of audits in the central government and decentralized agencies, organizing the number of audits and professional qualifications of personnel according to the needs of each agency.**
- **Rotate audit staff according to the amount of time they have worked at the CGO and the need for particular types of work to be performed in specific areas.**
- **Support the justified decisions of auditors made in the exercise of their responsibilities.**
- **Maintain strong coordination between the different divisions of the CGO.**
- **Make the CGO a completely independent agency.**

- Evaluate and strengthen controls as required to make sure they are applied.
- The Legal Division should provide guidance to the Audit Division in order to reduce the probability of errors and omissions in reports that are to be presented to the courts.
- Provide better supervision of the different offices of the Audit Division both inside and outside the CGO.
- The different audit offices within the Audit Division should have their own meetings in order to better apply CGO controls by coordinating them with the "hands on" experience.
- Completely integrate the programs and activities developed by the different regional offices of the Audit Division.
- Appoint auditors who have the expertise required for managing automated data processing systems or train them in these skills.
- Punish officials who commit acts of fraud as provided for by existing laws.
- Create a management information system for the public sector that incorporates existing control manuals, complements existing systems used for expenditures, maintains a preset budget, and reports the balance between revenues and expenditures.
- Make use of data processing to maximize the use of time and resources in the offices of the Audit Division where records are still kept manually.
- Separate the responsibilities of pre- and post-control in order to obtain a greater degree of independence at each step of the external audit process.
- The Comptroller General should issue a resolution that reinforces the rules, procedures, controls and recommendations of the CGO.
- Create a department to carry out administrative audits in order to increase the efficiency, effectiveness and economic viability of government programs.
- Consider creating a group that would conduct sample audits. The results of these sample audits would indicate where more detailed examinations should be conducted.

- Develop a complete set of internal regulations which includes a classification of staff positions and job responsibilities independent of titles or experience. The list could serve as a tool for developing training courses.
- Extend the probation period for new staff members.

Cash and debt management

- Improve the procedures for hiring personnel for the Comptroller General's Office:
 - Select personnel with proven expertise in their jobs through professional examinations;
 - Extend the probation period for new staff members.
- Provide ongoing training courses for staff members and establish a specialized library with reference books and manuals.
- Personnel incentives:
 - Award scholarships for local and international study;
 - Revise salaries to bring them up to market level;
 - Salvage the project to reclassify staff positions and implement it as soon as possible.
- Review personnel structures so that job responsibilities are defined at all levels and are carried out properly by the staff members in those positions.
 - Assign an adequate number of workers for each work area;
 - Assign workers with the best qualifications and expertise.
- Develop greater integration and coordination between the different divisions of the CGO.
- The CGO should be independent, technically skilled and apolitical.
- Evaluate and strengthen controls on fiscal revenues in the areas of:
 - Budget registry;
 - Payment collections (taxes, interest, consular payments, etc.);
 - Public enterprise revenues (IRHE, IDAAN, INTEL, etc.).
- More support should be provided by the Legal Division.
- Revise and implement internal regulations and work schedules so that they address present needs.
- Punish officials who commit acts of fraud as provided for by existing laws.

- Create a management information system for the public sector which develops and implements control manuals, complements existing systems used for expenditures, and maintains a preset budget and the balance between revenues and expenditures.
- Encourage the use of automated data processing in areas that still use manual registries, making use of existing information and resources.
- Reinforce the control responsibilities assigned by the CGO's Consular Division to the different customs houses.
- Employ statistical, mathematical and econometric methods to evaluating levels of expected income and the effectiveness of its collection.
- Study options for renegotiating public debt taking into account the experiences of other countries.

Contract administration

- Improve the procedure for hiring personnel at the CGO:
 - Through the use of professional examinations, select candidates with the greatest experience and expertise required for a particular position;
 - Revise the requirements for personnel working in this area in terms of experience, studies, etc.
- Personnel incentives:
 - Non-monetary:
 - Award scholarships for local and international study;
 - Establish a specialized library with reference books and manuals.
 - Monetary:
 - Revise salaries, putting them on par with other public sector officials;
 - Salvage the project to reclassify staff positions and implement it as soon as possible. The staff of the CGO should be reclassified according to existing evaluations and remunerated according to experience, academic background, job responsibilities and relevant evaluations.
- There should be a greater degree of integration and coordination between the different divisions of the CGO.
- The CGO should be independent, technically skilled and apolitical; patronage and nepotism should be eliminated.

- **Develop automated data processing systems in offices that continue to keep books manually, such as Personnel and Payroll, and Accounts and Credit.**
- **Hold working group meetings by area to institute more effective controls and oversight in these areas (e.g., Education, Health, etc.).**
- **Review the work schedules in regional offices in order to upgrade the level of training, provide more support and maintain tighter supervision of these offices.**
- **Review and implement internal regulations so that they are in line with existing needs.**
- **More support should be provided by the Legal Division.**
- **Strengthen controls and conduct efficiency evaluations.**
- **Evaluate the efficiency of investment plans.**
- **Make controls systematic and reinforce compliance with them.**
- **Improve the nature of controls in both their financial and technical aspects.**

Government accounting

Among the actions that should be taken to facilitate the efficient functioning of government accounting are the following:

- **There should be greater coordination and integration between the different divisions of the CGO so that they function more effectively.**
- **Existing controls should be evaluated and strengthened.**
- **The Legal Division should lend more support when issues arise in its area of expertise.**
- **Punish officials who commit acts of fraud as provided for by internal regulations and existing law.**
- **Institute the Integrated Government Accounting System throughout the public sector to provide information to different levels of government. The reports issued by this system would be helpful to agencies in making more timely and informed decisions.**

- **The Administrative and Finance Divisions of different government agencies should comply with their obligations and exercise more control over the structure of their accounting systems when they are being formulated.**
- **As supervisory body for the programming and formulation of the different stages of the budget, the Ministry of Planning and Economic Policy should prepare the budgets for programs and activities. These should be adjusted to allow for comparisons with historical costs and between actual and expected costs.**
- **Create a sense of awareness among executives of government agencies by having them maintain integrated accounting systems. This would provide more control and allow for a more rational allocation of financial, physical and human resources to development programs managed by those executives.**
- **Auditors should understand the importance of accounting systems in providing audit trails and maximizing the efficiency of their work.**
- **Promote a greater acceptance for using teleprocessing in conjunction with a data base, which would facilitate the implementation of integrated government accounting. This acceptance should be based on a better understanding of the capabilities of teleprocessing and the fundamental role that each staff member plays in making use of this tool.**
- **Develop training programs at all levels in order to raise the level of training for all personnel involved in the new accounting system.**
- **In all administrative personnel policies for government agencies a system of selection, recruitment and evaluation of personnel assigned to this project should be established to guarantee the efficient performance of duties.**
- **An analysis should be conducted of the program structures of all government agencies that depend on or are involved in the government budget. Currently, there is confusion in different ministries over distinguishing between funds allocated to administrative operating budgets and funds allocated to program execution.**
- **In order to make sure government agencies follow the procedures developed in the Integrated Government Accounting manuals, it is important that a resolution be issued by the Comptroller General to lend legal force to Law 32 of November 1984.**

Computer systems

- **Improve procedures for selecting personnel for the CGO by requiring professional examinations to assure adequate expertise and experience.**
- **Offer ongoing training programs for staff members:**
 - **Establish a specialized library of information systems reference books and manuals;**
 - **Establish continuing professional development through specialized courses in information science.**
- **Offer personnel incentives:**
 - **Award scholarships for local and international study;**
 - **Review salaries and put them on par with other public sector officials.**
- **Review personnel structures so that job responsibilities are defined at all levels and are carried out properly by the staff members in those positions.**
- **Reinforce particular areas within computer centers throughout the public sector:**
 - **In some, assign more staff;**
 - **In others, assign more professionally qualified staff.**
- **Promote greater integration and coordination between different divisions of the CGO.**
- **The CGO should be independent, technically skilled and apolitical.**
- **Controls should be evaluated and strengthened in the following ways:**
 - **Strengthen the different computer centers to make sure they work together and keep pace with technological advances.**
 - **Establish more and better controls for computer-managed systems by strengthening the programs that help the Audit Division exercise its oversight function efficiently, both internally and externally.**
 - **Establish internal guidelines within agencies to standardize microcomputer software packages in use, taking into consideration the advice and experience of users.**
- **More support should be provided by the Legal Division, particularly in the contracting of computer hardware and software for internal and external use in government agencies.**
- **Review and implement internal regulations in such a way that they remain consistent with existing activities.**

- **Appoint qualified auditors and train them in automated data processing skills so that they can work in agency computer centers in a special capacity. All the staff members of the different divisions should be trained in the use of computers for completing their work.**
- **Punish officials who commit misdeeds in accordance with internal regulations and existing laws.**
- **Encourage commitment to automating agency activities that are currently done manually.**
- **Create a management information system in the public sector to assist in decision making at the managerial level. Control manuals should be developed and implemented for offices that lack them (such as Revenues) with the objective of keeping track of the budget, the balance between revenues and expenditures, inventories, etc.**
- **Establish a special agency dedicated to information systems to determine specific guidelines for all of the government computer centers.**
- **Establish methods for quantifying the needs of the computer centers as soon as possible. This will assist auditors in approving expenditures and also benefit the computer center.**

VI. Upcoming Seminars on Combatting Fraud and Corruption in Government

A number of upcoming conferences will serve to further expand the dialogue on the issue of fraud and corruption in government. These conferences are listed below. For the most up-to-date information on dates, speakers and registration, consult the most current issue of the LAC/RFMIP publication *Accountability*.

April 11-12, 1991

XXIV Inter-American Accounting Association (IAA) Course on Combatting Economic Crime, Radisson Mart Plaza Hotel, Miami, Florida, USA (in Spanish)

May 30-June 1, 1991

Inter-American Accounting Association Regional Seminar on *Combatting Fraud and Corruption in Business and Government*, Asunción, Paraguay (in Spanish)

August 1991 (tentative – date to be determined)

Inter-American Accounting Association Regional Seminar on *Combatting Fraud and Corruption in Business and Government*, La Paz, Bolivia (in Spanish)

October 4-5, 1991

III Inter-American Conference of Internal Auditors, Buenos Aires, Argentina

November 1991 (exact date to be determined)

Inter-American Accounting Association Regional Seminar on *Combatting Fraud and Corruption in Government*, Santo Domingo, Dominican Republic (in Spanish)

November 28-30, 1991

Inter-American Accounting Association Regional Seminar on *Combatting Fraud and Corruption in Government*, Quito, Ecuador (in Spanish)