



# **Anti-Corruption Toolkit for the AFROSAI-E Region**

EXPOSURE DRAFT

DECEMBER 2023



**This Anti-corruption Toolkit aims to help auditors in AFROSAI-E member countries identify corruption and suspicious management of public funds when auditing a government institution or enterprise.**

**Prepared in collaboration with the Financial Services Volunteer Corps (FSVC)**

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## ACRONYMS

ACA	Anti-Corruption Agency
ACFE	Association of Certified Fraud Examiners
AFROSAI-E	African Organisation of Supreme Audit Institutions-English speaking
APRM	African Peer Review Mechanism
AUABC	African Union Advisory Board on Corruption
AUCPCC	African Union Convention on Preventing and Combating Corruption
COSP	Conference of the States Parties
EAC	East African Community
ECOWAS	Economic Community of Western African States
EITI	Extractive Industries Transparency Initiative
ENACT	Enhancing Africa's response to transnational organised crime
FATF	Financial Action Task Force
FSVC	Financial Services Volunteer Corps
GABAC	Action Group against Money Laundering in Central Africa
GGA	Good Governance Africa
GIABA	Inter-Governmental Action Group Against Money Laundering in West Africa
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IFFs	Illicit Financial Flows
IFMIS	Integrated Financial Management Information Systems
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
RBM	Results-Based Management
SADC	Southern African Development Community
SAI	Supreme Audit Institution
UN	United Nations
UNCAC	United Nations Convention against Corruption
UNDP	United Nations Development Programme
UNODC	United Nations Office on Drugs and Crime

## **FOREWORD**

Ongoing efforts are being made globally to raise awareness about corruption, including its nature and damaging effects on economies and people. Since all the pillars of an economy, including social, legal, political, economic, infrastructure, etc., are often interlinked, corruption in any one area affects the others.

Anti-corruption initiatives, including policies, legislation and enforcement measures, are urgently required in Africa at institutional, national and international levels, given the levels of corruption reported on the continent. Identifying corruption and recommending measures to combat it are practical problems that emerge when managing it.

Concerned by the growing expectation gap on Supreme Audit Institutions (SAIs) regarding their audits in responding to corruption and anti-corruption efforts and recognising the negative impact that corruption has on the development of the African continent, AFROSAI-E, in collaboration with Financial Services Volunteer Corps (FSVC) organised an anti-corruption seminar for SAIs and other stakeholders to create awareness and propose actions on how SAIs can contribute to state anti-corruption efforts.

This toolkit provides an inventory of measures SAI auditors can use for assessing and identifying the nature and extent of corruption and reporting on it.

The nature and effects of corruption are unique to each country, and this toolkit provides a general range of options that can enable an AFROSAI-E member to identify and effectively deal with corruption, given the local situation and circumstances of the SAI and its country.

The toolkit will be continuously updated and refined to consider evolving issues in the local and international environment of corruption.

# CHAPTER 1: INTRODUCTION AND CONTEXT

## 1.1 BACKGROUND

While it is noted that several anti-corruption efforts are in place at the state level in various countries, with players at the national level working to fight corruption, the role of SAIs remains opaque, resulting in an audit expectation gap concerning SAI audits in responding to corruption and any anti-corruption efforts.

Concerned by the growing expectation gap on SAIs concerning SAI audits in responding to corruption and anti-corruption efforts and recognising the negative impact that corruption has on the development of the African continent, AFROSAI-E, in collaboration with FSVC, organised an anti-corruption seminar for SAIs and other stakeholders to create awareness and action on how SAIs can contribute to state anti-corruption efforts.

This first seminar was held in Johannesburg from 17-19 April 2023 with support from AFROSAI-E, FSVC, GGA, GIZ, The Global Fund and ACFE. One of the expected outcomes of the seminar was to develop a collective set of resolutions on enhancing SAI’s current efforts, thereby visibly contributing to state anti-corruption efforts. The seminar presented the resolutions in the extract of minutes shown in Box 1 below.

**Box 1: Resolutions of the first SAIs and ACA Meeting on National Anti-corruption Efforts**

<p><b>Institutionalised good governance</b></p> <ol style="list-style-type: none"><li>1. <i>Reaffirms</i> that to contribute effectively to state anti-corruption efforts, SAIs and Anti-Corruption Agencies (ACAs) should exist as institutions that are above board and lead by example regarding corruption issues.</li><li>2. <i>Calls upon</i> SAIs and ACAs to spotlight organisational values and ethos as a basis for individual and organisational performance evaluation. If SAIs and ACAs embed their values and ethos into their performance evaluation systems, they can exist as institutions that are above board and lead by example regarding corruption issues.</li></ol> <p><b>Fraud and Corruption Concepts for SAI responses to fraud and IFFs</b></p> <ol style="list-style-type: none"><li>3. <i>Notes</i> that from a national strategic perspective, there are numerous corruption and other specific Illicit Financial Flows (IFFs) considerations that SAIs and ACAs can incorporate into their short-, medium, and long-term planning to ensure a structured and institutionalised approach in contributing to state anti-corruption efforts.</li><li>4. <i>Commits</i> SAIs and ACAs to contribute to reducing corruption and IFFs by 2030 by developing and implementing their strategic and operational plans in line with SDG 16 and other international conventions on anti-corruption.</li></ol>
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5. *Through* the development of the five-year strategic plans (long-term), which are aligned to the national, continental/regional, and global instruments. These include UN SDG (1.4 NDPs, UN, SADC, IntoSAINT). Cascade these strategic plans into the annual plan, with targets at the operational level- short-term and medium-term and deploy instruments to monitor the implementation.

#### **Financial Action Task Force (FATF) Country grey listing standards**

6. *Underlines* that SAIs and ACAs should be more proactive in their country's current grey listing status according to FATF standards.
7. *Decides* that SAIs and ACAs should collaborate in building capacity to enhance the performance of compliance audits regarding FATF standards.

#### **Policy development on anti-corruption in the region**

8. *Should recognise* that their respective countries ratify several anti-corruption treaties and conventions. Chief among them is the African Union Convention on Preventing and Combating Corruption (AUCPCC).
9. *Reaffirms* that concerning their mandates, SAIs and ACAs should contribute to policy development and implementation concerning anti-corruption treaties and conventions ratified by their respective countries.
10. *Decides* that SAIs have to enhance Performance Audits in competent and supervisory authority/institutions.
11. *Must identify* performance gaps in their mandate and implement corrective action plans.
12. *Decides further* that SAIs and ACAs must undertake implementation assessment of the anti-corruption-related treaties/conventions and submit reports to respective parliaments, relevant national institutions and international bodies.

#### **Continued SAI – ACA collaboration**

13. *Recognises* the resolutions of December 2021, the ninth session of the Conference of the States Parties (COSP) to the United Nations Convention against Corruption (UNCAC), concerning the role of SAIs and ACAs in state anti-corruption efforts.
14. *Commits* to implement the practical guidelines from the UNCAC from the SAIs and ACA's perspective, based on local needs and in response to specific country environments.
15. *Recommends* that AFROSAI-E and its partners guarantee the growth of this SAI to ACA platform for further sustainable and continued collaboration.

*Source: Minutes supplied by AFROSAI-E*

### **Understanding Corruption and Its Common Forms**

Public sector corruption presents a challenge to most countries globally. It weakens democratic institutions, encourages organised crime, and undermines public service provision.

SAIs have a responsibility to take anti-corruption measures seriously in their audit processes. They should develop effective and comprehensive strategies and methodologies for corruption through early

identification/detection and prevention. Such SAI efforts should strengthen the resilience of government and public sector institutions against corruption, including using initiatives to strengthen institutional and legal frameworks, establishing rigorous law enforcement and public education programmes, and instituting mechanisms for the return of assets derived from corrupt activities. This strategy by AFROSAI-E members will encourage countries to employ evidence-based approaches to measure the extent of corruption and provide policymakers with the necessary information to develop anti-corruption policies and furnish them with benchmarks to measure progress. For the fight against corruption to be efficient and effective, efforts by both public and private institutions should be coordinated at national and international levels.

**What is corruption?** The Association of Certified Fraud Examiners (ACFE) identifies three types of fraud, i.e., *asset misappropriation*, *corruption* and *financial statements fraud*. Corruption is, therefore, a type of fraud. Furthermore, corruption is divided into the following:

- bribery
- extortion
- conflict of interest
- illegal gratuities

These are explained as follows:

**Bribery.** Bribery involves giving some form of benefit to unduly influence some action or decision on the part of the recipient or beneficiary. Cases of bribery can be initiated either by a person who seeks or solicits bribes or a person who offers and then actually pays them. Bribery is the most commonly known form of corruption. Once bribery occurs, it can also lead to other forms of corruption. Once an official has accepted a bribe, their further conduct can become open to influence by blackmail or extortion if anyone aware of the bribe threatens to expose it.

**Extortion.** Extortion involves coercive incentives such as the exposure of damaging information to induce cooperation. Like other forms of corruption, the 'victim' is usually the public interest or those individuals adversely affected by a corrupt act or decision. Extortion creates a further 'victim', i.e., the person whose cooperation is coerced.

**Conflict of Interest.** Conflict of interest occurs when an individual finds themselves in situations where they stand to acquire private benefits from decisions they make in their official capacity.



***Illegal Gratuities.*** Illegal gratuities are similar to bribery, except that there is no intention to influence a particular business decision but rather to reward someone for making a favourable decision. An illegal gratuity takes place after the act. Depending on the intention, it gives a public official a gratuity or gift after an official act was performed or not performed.

According to the 2022 ACFE Report to the Nation, Corruption is the most common of the three types of fraud in Sub-Saharan Africa, accounting for 62% of cases, while asset misappropriation and financial statements fraud account for 29% and 9%, respectively.

***Can corruption be comprehensively defined?*** There is no single, comprehensive, universally accepted definition of corruption. Attempts to develop such a definition invariably encounter legal, criminological and, in many countries, political problems. One option is not to define corruption but to list specific types or acts of corruption. Many distinct forms of corruption are clearly defined and understood and subject to numerous legal or academic definitions. Many are also criminal offences, although in some cases, governments consider that regulatory or civil law controls better when dealing with specific forms of corruption.

Corruption can be “Grand” or “Petty”. Grand corruption is corruption that pervades the highest levels of a national government, leading to a broad erosion of confidence in good governance, the rule of law and economic stability. Petty corruption can involve the exchange of minimal amounts of money, granting minor favours by those seeking preferential treatment or the employment of friends and relatives in minor positions.

Public sector corruption thrives when accountability and transparency are absent. Good financial reporting and auditing help to reduce the misrepresentation that hides fraudulent operations and misleads the reader. Auditing provides the desirable assurance that audited financial statements can be trusted to represent the economic activities they are intended to portray. SAIs can make a constructive difference by auditing the financial statements of governments and government agencies and making their audit opinions available to legislatures on time. It is generally easier to prevent corruption and fraud than to detect it. In addition to internal control and internal audit functions, external oversight institutions such as SAIs and parliamentary accounting committees play a significant role in curbing corruption. The external audit of the budget is the stage where corruption should be detected, and misuse/mismanagement of public funding is identified.

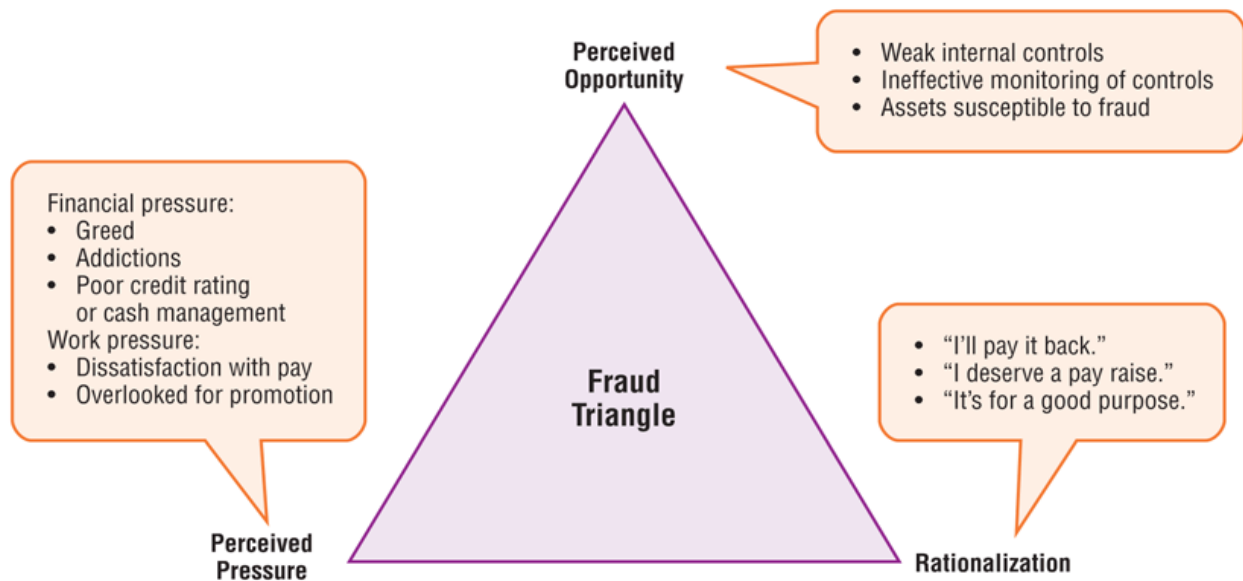
## Causes of Corruption

Corruption occurs in any society, regardless of the political or economic systems in place. The causes of corruption are many and can have different backgrounds, including economic, cultural, historical, lack of ethics, tolerance for corrupt behaviour, etc.

The fraud triangle model identifies three everyday situations that may influence the conduct of a corrupt or fraudulent person:

- **Pressures/Incentive:** This is the need a corrupt person is trying to satisfy by committing an act of corruption.
- **Opportunity:** This is the ability of the corrupt person to act dishonestly due to their position or weakness.
- **Rationalisation:** This is the ability of the corrupt person to justify the corrupt act.

Figure 1: Fraud Triangle Components



Source: Accounting Proficient

In a market economy, corruption may be encouraged by the existing legal and business policies, which may adversely affect the ease of conducting business by imposing restrictions on business transactions. These restrictions may give rise to secret agreements, informal groups and other developments that can affect the existing economic and social systems.

Corruption may develop in situations including when:

- The freedom or ease of doing business is restricted.
- There is excessive discretion with no oversight in decision-making.
- There is little or no accountability by decision-makers.
- There are inefficient control systems.
- There is a lack of transparency or oversight in the activities of institutions using public funds or other resources.

### **Strategies for Creating an Effective Anti-corruption Environment**

Strengthening the anti-corruption environment, including external audit and oversight processes, is instrumental in allowing SAIs to detect corruption and hold corrupt officials accountable. In particular, they can contribute to identifying and publicising corruption risk areas, working more closely with other institutions, such as parliament, and publicising the recommendations of audit reports more widely. The following are important in the process:

**Transparency** is a prerequisite for strengthening external oversight and the role of civil society in the process. However, in many countries, not all audit reports are made public, and citizens do not have access to the auditor's report, which limits opportunities for public scrutiny.

**Effective rule-of-law structures**, including judicial and legislative elements, are needed in the process. A professional, unbiased, independent judiciary is critical for developing and implementing law enforcement and criminal justice measures.

**A professional, politically neutral, and uncorrupted public service** is one of the fundamental objectives of anti-corruption strategies.

**A strong and independent civil society** is a free, clean, and independent media that disseminates important public information and provides constructive criticism and commentary independent of political and public service influences is necessary.

**A risk-based audit approach to corruption.** SAIs are key in proactively identifying and monitoring emerging corruption risks and responding appropriately.

***Collaboration with other national anti-corruption institutions.*** A strong and supportive institutional environment where SAIs collaborate with other anti-corruption institutions is critical in anti-corruption activities, as was recommended in the first SAI-ACA seminar on anti-corruption held in Johannesburg in April 2023.

***SAI institutional reforms.*** SAIs must have the independence, human, technical and financial resources, and capacity to fulfil their anti-corruption mandate effectively.

***INTOSAI guidance.*** INTOSAI issues International Standards and Guides to guide SAIs' work and thus provides an international architecture for reform. GUIDE 5270-*Guideline for the Audit of Corruption Prevention* assists SAIs by explicitly addressing corruption as part of their work.

***Periodic assessment of corruption,*** the effectiveness of anti-corruption strategies, and the flexibility to adjust strategies are considered for assessment results.

The strategies require the support and buy-in of individuals and organisations in the public sector, civil society, and the public. Some elements of national strategies must also be integrated with other countries' strategies or regional or global institutions. This will allow them to deal more effectively and efficiently with transnational forms of corruption and align with international good practices.

## **Corruption in Africa**

Africa is a vast and diverse continent with 54 recognised countries and a combined population of over 1.4 billion people (UN estimates, 2023, i.e., 16.72% of the world population). Consequently, attempting to extrapolate corruption trends from such a diverse group of countries is problematic, and care should be taken to avoid unhelpful generalisations.

What is evident, though, is that many countries in sub-Saharan Africa are making considerable progress towards the vision of a democratic, prosperous and peaceful continent, which was outlined in the African Union's Agenda 2063. However, in many of these countries, such gains are threatened by high levels of corruption that adversely affect social, economic, and political development. Alongside the problem of petty bribery, which is extensive in some countries, the interrelated phenomena of fragility, crony capitalism and poor governance are also common, resulting in different forms of corruption, including state capture.

In response to these challenges, countries have enacted various anti-corruption instruments at regional and national levels. The African Union designated 2018 as the anti-corruption year in Africa to review member states' anti-corruption progress and to chart the way forward. While in some countries, the drivers of corruption are deeply embedded in local political economies, regional organisations, civil society groups and media outlets across the continent are dedicated to tackling corruption.

### **Anti-corruption Frameworks in Sub-Sahara Africa**

- The African Union Convention on Preventing and Combating Corruption (AUCPCC).
- The United Nations Convention against Corruption (UNCAC).
- The Southern African Development Community (SADC) Protocol against Corruption.
- The Economic Community of Western African States (ECOWAS) Protocol on the fight against corruption.
- The East African Community (EAC) Protocol on Preventing and Combating Corruption.

*There are also regional organisations and initiatives working against corruption, including:*

- A high-level panel on Illicit Financial Flows from Africa.
- The United Nations Office on Drugs and Crime (UNODC) regional offices in Africa.
- The African Union Advisory Board on Corruption (AUABC).
- The Extractive Industries Transparency Initiatives (EITI).
- A tool to assess the integrity of Supreme Audit Institutions (INTOSAIN).
- The AFROSAI-E SAI-ACA Anti-Corruption Forum.
- The AFROSAI-E SAI-ACA Collaboration Framework.
- Financial Action Task Force-Style Bodies (FATF) in Africa. There are three main FATF-style bodies in Africa, namely;
  - a) the East and Southern Africa Anti-Money Laundering Group (ESAAMLG),
  - b) the Action Group against Money Laundering in Central Africa (GABAC), and
  - c) the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA).

As corruption is a predicate offence for money laundering, all three bodies deal with the proceeds of corruption, and SAIs can collaborate with these during anti-corruption audits.

ESAAMLG, for instance, recently published a report on corruption in public procurement and associated money laundering in the member states (ESAAMLG 2019). The report contains sections useful for SAIs

when auditing anti-corruption, such as forms of procurement corruption, procurement stages vulnerable to corruption and common red flags or indicators of corruption in the procurement process. The report also provides detailed guidelines for the roles of law enforcement officials, public procurement authorities and financial intelligence units in preventing and countering procurement corruption.

### **Development of Anti-corruption Policies**

Exposure to corruption risk can be mitigated if a government has a set of relevant anti-corruption policies. SAIs should encourage the adoption of anti-corruption policies by the government and assist in developing anti-fraud programmes. SAIs can audit the implementation of the policy. Such a policy might include features such as:

- All losses of money and allegations of offences, illegal acts against the government, and other improprieties must be investigated thoroughly.
- Suspected offences should be reported to the responsible law enforcement agency.
- Departments should ensure that employees are aware of and periodically reminded of their responsibility to report any knowledge of a contravention of government laws or regulations, a contravention of any revenue law, or any fraud against the government.
- Departments should take reasonable measures to protect the identity and reputations of the people reporting offences and improprieties and those against whom allegations are made.
- Departments should establish and ensure that employees are aware of procedures to deal with tips about alleged losses, offences, improprieties, and improper practices, however obtained or received, whether anonymous or otherwise.
- Managers who fail to take appropriate action or directly or indirectly tolerate or condone improper activity should be personally held to account.

SAIs can test compliance with policies such as these to determine whether the government has enabled an appropriate anti-corruption environment to be set up throughout the government that is audited by the SAIs.

### **Public Sector Audits**

Anti-corruption audits carried out by SAIs are conducted in the context of public sector audits.

### **Overview of Public Sector Audits and Their Objectives**

According to INTOSAI, public sector auditing is essential in providing legislative and oversight bodies, those charged with governance and the public, with information and independent and objective assessments on the stewardship and performance of government policies, programmes, or operations.

Public sector audits are important pillars of SAI national democratic systems and governance mechanisms and play an important role in enhancing public sector administration by emphasising the principles of transparency, accountability, governance, and performance.

### **International Standards of Supreme Audit Institutions (ISSAIs)**

International standards and guidelines on auditing are essential for the credibility, quality, and professionalism of public sector auditing. The ISSAIs developed by INTOSAI aim to promote independent and effective auditing by SAIs. Listed below are some of the cross-cutting ISSAIs that are relevant when auditing corruption:

- i. **ISSAI 100** - *Fundamental Principles of Public Sector Auditing* provides an authoritative international frame of reference defining public sector auditing. The ISSAI establishes fundamental principles applicable to all public-sector audit engagements, irrespective of their form or context. The complete set of ISSAIs is based on these principles. The principles provide information on:
  - the purpose and authority of the ISSAIs
  - the framework for public-sector auditing
  - the elements of public-sector auditing
  - the principles to be applied in public sector auditing
- ii. **ISSAI 200** - *Financial Audit Principles*,
- iii. **ISSAI 300** - *Performance Audit Principles* and
- iv. **ISSAI 400** - *Compliance Audit Principles* build on and further develop financial, performance and compliance auditing principles. They should be applied with the principles set out in ISSAI 100.

The principles do not override national laws, regulations or mandates or prevent SAIs from carrying out investigations, reviews, or other engagements that are not specifically covered by the existing ISSAIs.

INTOSAI published **GUIDE 5270** – titled *Guide for the Audit of Corruption Prevention*. This guideline is designed to help SAI auditors prepare and conduct the audit of anti-corruption policies and procedures in

government organisations within the scope of their mandate. It highlights anti-corruption policies, structures and processes in these organisations and can be used as an audit tool by auditors.

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

This guideline does not cover fraud investigations, although some SAIs have investigative units.

### **Purpose of this Toolkit**

This toolkit aims to help SAI auditors in the AFROSAI-E member countries identify corruption when auditing a government institution or enterprise. The toolkit assists SAI auditors by suggesting elements for a comprehensive national anti-corruption strategy, which will also assist governments in developing, integrating, implementing and assessing these elements in sharpening anti-corruption initiatives.



## CHAPTER 2: IMPORTANCE OF STRONG SAIs

### 2.1 THE ROLE OF SAIs IN FIGHTING CORRUPTION

As part of the formal accountability system in a country, SAIs have the mandate to scrutinise government transactions to ensure accountability of public funds, thereby improving Public Financial Management (PFM) accountability and strengthening good governance.

SAIs in many countries face major capacity challenges, such as the introduction of integrated financial management information systems (IFMIS), different types of special audits, and a large number of institutions to be audited, which add to the workload of SAIs that are often already strained by a lack of financial autonomy, human and financial resources and capacity.

Considering that it is much better to prevent than detect corruption, the SAI's fight against corruption should be multifaceted, including but not limited to:

- Incorporating corruption and wrongdoing issues into SAI's routine audit work.
- Enhancing public awareness of corruption and other wrongdoing through timely and public disclosure of SAI's audit findings.
- Improving methods and tools of combating corruption and other types of wrongdoing.
- Providing a means for whistleblowers to report wrongdoing, and
- Cooperating with other institutions in the fight against corruption.

The SAI's effectiveness and efficiency in detecting corruption depends on its strategy. SAIs should, therefore, constantly work systematically to improve their methodology to identify corruption. They should also focus on training their staff, realising that the success of the fight against corruption depends not only on its audit procedures and tools but also on having staff with appropriate skills, knowledge, and abilities to identify and assess corruption in an environment that is becoming increasingly complex.

SAIs should attach great importance to their informational role and enhance public awareness of corruption and other wrongdoing using the timely and public disclosure of their audit findings.

**SAIs are the statutory auditors of governments and play a pivotal role in ensuring transparency, accountability and fighting corruption.** The independence and operating capacity of SAIs are important for providing fiscal oversight through presenting credible and timely audit results to legislatures,

government, civil society, and the general public. The primary purpose of an SAI is to report on the management of public funds and the quality and credibility of governments' reported financial information and, in the process, discourage corruption.

**With the mandate, tools, and trust of the government to take on the fight against corruption, SAIs play a key role in detecting and preventing corruption.** SAIs' audit mandate in many countries is generally broad enough to cover the entire public sector and flexible enough to examine government activities at any level.

**The central role of SAIs in combating corruption is prevention by promoting sound financial management and robust internal control mechanisms in public entities.** Sound financial management, with effective financial reporting and disclosure of any deviations, is an effective deterrent to corrupt activities. SAIs can help public bodies strengthen their corruption prevention framework or build a more comprehensive framework by assessing the efficiency and effectiveness of the framework and recommending the relevant authority to address the shortcomings identified during the audit. SAIs contribute to building public awareness of corruption and financial impropriety through timely and periodic public disclosure of audit findings. SAIs may strengthen other pillars of the national integrity architecture through close collaboration and coordination with other institutions in the public sector.

**SAIs are expected to raise red flags that should deter and detect corruption and assist law enforcement agencies in bringing perpetrators to justice.** Prevention, detection, and response activities are interdependent and mutually reinforcing. Early detection is a powerful prevention method that sends a clear message to potential perpetrators. Early detection is also useful to assess the appropriateness of preventive measures. Surprise and real-time audits that may be conducted for detection act as a good deterrent. Some SAIs have institutionalised the detection function by setting up a designated unit and developing forensic and investigative audit guidelines and manuals.

## **2.2 STRENGTHENING SAI EFFECTIVENESS**

**Detecting corruption requires proper guidance and training for auditors.** It is neither easy nor straightforward since it is fundamentally a crime of deception and deceit with elements of collusion and concealment embedded in planned corruption activities. Training in forensic or fraud audits helps auditors better detect irregularities and collaborate with law enforcement agencies. The more auditors know what

perpetrators are likely to do, the better their chances of finding the red flags associated with potential corruption.

**SAIs must strengthen their relationship with parliaments and ACAs to enhance their effectiveness.**

Strong external relations and partnerships are the key indicators to evaluate the effectiveness of an SAI. In fragile situations, as in many African countries, SAIs face many difficult challenges in building such partnerships.

**In an environment where corruption is widespread, establishing the integrity of SAIs can be a challenge.**

As SAIs move closer to the frontline of fighting corruption, the temptations and risks to the auditors will grow, as will stakeholders' expectations of the SAI's integrity. Top management of SAIs must lead by example in maintaining high integrity and establishing zero tolerance regarding staff violations, failing which they will not be able to administer or propagate an organisational culture of integrity. This is emphasised under Institutionalised Governance in the resolutions of the first SAI-ACA meeting held in April 2023 in Johannesburg.

**Different external audit systems, such as the Westminster, Judicial or Board model, have strengths and weaknesses that may affect their effectiveness in combating corruption.**

These three models can be distinguished in terms of centralisation or decentralisation of authority, susceptibility to political influence, openness and transparency, and ability to enforce audit findings. Ultimately, while the effectiveness of an SAI largely depends on its operational and financial independence, in Africa, given the diversity of SAI models in place from country to country, it is also influenced by the external audit model they follow, the country context, and the associated norms of behaviour.

**SAIs should take appropriate actions to improve their anti-corruption performance, including the following:**

- Facilitating courses and conferences on combating corruption.
- Strengthening their investigative powers.
- Establishing forensic audit units within their structures.
- Developing fraud auditing standards.
- Encouraging the attainment of anti-fraud professional qualifications by their staff.
- Supporting and cooperating with national anti-corruption institutions.
- Encouraging and facilitating ethics and fraud awareness training programmes.

- Encouraging ministries, departments, and agencies to create fraud control plans.
- Encouraging ministries, departments, and agencies to contract out fraud control (hotlines, fraud risk assessment, fraud training, fraud control plans, and fraud investigations) if resources are unavailable in-house.
- Encouraging lawmakers to pass whistleblower legislation to protect people who provide legitimate information.

## CHAPTER 3: TOOLS TO IDENTIFY CORRUPTION

Concealment and collusion contribute to making the audit of corruption difficult. SAI auditors, therefore, need to exercise a high level of professional scepticism as a core tool in identifying corruption.

**The following sections cover the tools to identify corruption:**

- i. Assessment of corruption and institutional capabilities against corruption
- ii. Institution building
- iii. Prevention mechanisms
- iv. Social prevention and public empowerment
- v. Enforcement
- vi. Anti-corruption instruments
- vii. Additional tools

### SECTION 1: ASSESSMENT OF CORRUPTION AND INSTITUTIONAL CAPABILITIES AGAINST CORRUPTION

#### TOOL #1: Assessing the nature and extent of corruption

SAI auditors can use this tool to identify the *nature* and *extent* of corruption throughout the audit cycle. It involves using specific methods, including surveys, interviews, desk reviews, case studies, etc., to gather information about the nature and extent of corruption to support both qualitative and quantitative assessments.

Qualitative assessments focus on the *nature* of corruption, examining individual cases in detail to determine how corruption works, who is involved, who benefits and who is victimised or adversely affected by it.

Quantitative assessments examine the *extent* of corruption generally, nationally and in specific sectors. A quantitative assessment allows for comparisons and establishes a baseline against which future progress on anti-corruption in each area can be assessed.

Such assessments are used to develop and refine specific anti-corruption measures. For example, codes of conduct for certain public servants may be adjusted to take account of the history of a particular corrupt

practice or pressures to engage in corruption specific to the duties performed. They may also be used as the basis for conclusions about the substantive effects of the anti-corruption measures, allowing various strategic elements to be adapted wherever necessary. For example, staff who resist bribery attempts may find themselves confronted with more coercive or threatening advances and may require security and protection.

In dealing with corruption, perception and reality are important, thus requiring qualitative and quantitative assessments to include both objective and subjective assessments by the SAI auditors.

Objective assessments draw together information from diverse sources to remove biases and errors and help to develop an accurate picture of what is occurring. Subjective assessments examine the perceptions of those affected and the wider public to determine the measures' effectiveness.

Country assessments aim to produce a clear and coherent picture of the condition of a country regarding the levels, locations, types and costs of corruption, the causes of corruption and the remedies for corruption.

The levels of corruption at the country level can also be uncovered by assessing secondary indicators such as the extent of the grey sector of an economy, which includes, for example, illegally imported commodities or illicit flow of funds. The link between the grey economy and corruption is important, as corrupt practices usually facilitate the inflow and outflow of resources to and from the affected sector.

## **TOOL #2: Assessment of institutional capacities and responses to corruption**

This tool uses assessment methods similar to tool #1 but focuses on evaluating institutions instead of assessing corruption. Institutional assessment is intended to provide information about the extent to which institutions are affected by corruption, how far they may be utilised in the conduct of anti-corruption activities, and the extent to which their participation in the anti-corruption strategy is needed and at what stage. At the developmental stage, such information can be used to set priorities.

Early efforts will focus on institutions where the problem is particularly serious or where it can be addressed quickly (to establish precedents and produce credibility for the strategy in the early stages) or where early reforms are needed as the basis for reforms in other areas at later stages of anti-corruption strategy implementation.

## **SECTION 2: INSTITUTION BUILDING**

### **TOOL #3 Specialised anti-corruption agencies/commissions**

SAI auditors should assess whether a country has a specialised anti-corruption agency/commission, has adapted existing law enforcement institutions to combat corruption, and uses a combination of the two. The tool looks at issues such as the possible relationship of an anti-corruption agency/commission with other institutions, its political, legal, and public accountability, how efficient such an institution may be and the importance of having public credibility. The advantages of setting up a separate agency/commission, which the SAI auditors should bear in mind in their assessment, include the ‘fresh start’ it will give to anti-corruption efforts, the high degree of specialisation and expertise it can accomplish, as well as the faster and more efficient work that a dedicated agency/commission can achieve.

While a separate specialised agency/commission will send a clear message that the government is serious about anti-corruption, the SAI auditors should also be aware of the possible disadvantages like costs, institutional rivalries, institutional isolation, and the undermining of existing institutions already engaged in anti-corruption activities. SAIs should take these into account when making recommendations in their reports. An option to consider is to have an anti-corruption unit within existing law enforcement agencies, which allows greater coordination of overall efforts.

Where a separate agency/commission is established, the SAI auditors must assess the degree of its autonomy and mandate, which would probably be achieved effectively by statutory enactment or a constitutional provision. Where the agency/commission exists, SAI auditors should understand and appreciate the anti-corruption agency/commission’s functions and work closely with it in areas of common interest. The anti-corruption agency/commission can promote good governance and anti-corruption practices and handle alleged corruption cases. It could also train the business sector and financial institutions in transparency, integrity and other good governance principles. It could also liaise with international institutions in cases of international corruption.

### **TOOL #4 Audit and audit institutions**

This tool includes establishing who audits government entities outside central government and how the auditors are appointed, assessing the type of audits and audit processes for the public sector, the need for independence and transparency and that the auditors’ real power resides in the fact that audit reports

are made public and audit recommendations implemented and not suppressed. The assessment process may include self-assessment.

#### **TOOL #5 Ombudsmen**

SAI auditors should assess the mandates, functions, and effectiveness of the ombudsman (where one exists) in resolving corruption issues. An ombudsman is an official, usually appointed by the government, to investigate complaints (usually lodged by private citizens) against government departments, other public entities, financial institutions, and businesses in general and attempts to resolve the issues by mediation or making recommendations.

#### **TOOL #6 Strength of judicial institutions**

The SAI auditors should assess the strength of judicial institutions on anti-corruption matters and any cooperation with international judicial institutions. An increasing number of countries are establishing a special judicial body, division, or set of judges with a substantial or exclusive focus on corruption-related cases. The SAI auditors need to assess the main objectives, design and effectiveness of these anti-corruption judicial institutions locally and internationally, given the transnational nature of corruption in some cases.

#### **TOOL #7 Civil service reform to strengthen service delivery**

In many countries, civil servants' inadequate supervision and remuneration are among the main causes of corruption and inadequate public service delivery. SAI auditors should assess any integrated, long-term, and sustainable policies needed to help build integrity within the civil service to curb corruption and improve service delivery. Particular focus on the assessment should be given to impartiality in discharging public duties and the requirement that public officials declare interests and assets that might raise conflicts of interest in exercising their duties.

#### **TOOL #8 Codes of Ethics as an integral part of anti-corruption tools**

SAI auditors should check whether the public institution being audited has a code of ethics. A code of ethics is a set of conventional principles binding a person to behave appropriately according to stakeholders' expectations<sup>1</sup>. A code of ethics is a moral guidance to be obeyed by all management and staff to maintain individual and organisational credibility. At the minimum, a code of ethics should set out:

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<sup>1</sup> ISSAI 130 Code of Ethics.



- The core values of an institution cover integrity, independence, objectivity, impartiality, confidentiality, and competence.
- The institution's management and employees must meet the core values.

Every public institution should disseminate the code of ethics as an integral part of corruption prevention. The code of ethics should be explained to new employees upon joining the institution. The public institution should establish an appropriate way to monitor the implementation of its code of ethics and should review the code periodically.

### **TOOL # 9 Human Resources as an integral part of anti-corruption tools**

SAI auditors should know that human resource management is important in preventing corruption in public institutions. The following elements of human resources management are important:

***Merit-based human resources management:*** Merit-based human resources management is a key element in fighting against corruption. To prevent the undue influence of public sector human resources management processes, selection and promotion criteria and procedures need to be fair, predefined, and documented. Appeal structures and mechanisms must also be in place to ensure effective and objective remediation. Effective human resource management can reduce potential risks and control weaknesses by appointing competent staff to implement procedures and controls. This includes the payment of adequate and fair remuneration to all civil servants to reduce the risk of them getting involved in corrupt activities. Employees in areas vulnerable to corruption must be recruited with special diligence. Completing anti-corruption training for executive or management positions should be a prerequisite for appointment, promotion, and succession.

***Training:*** Public institutions should organise training programmes to enhance employees' awareness of the dangers of corruption. The training programmes should enhance the understanding of the danger of corruption, thus enhancing the corruption prevention efforts. Newly hired staff should undergo specific anti-corruption training, which must be documented in their personal file.

***Job rotation:*** Job rotation is a technique that systematically assigns employees to various jobs and departments over time. The objective is to expose employees to different experiences and skills to enhance job satisfaction and cross-train them. In addition to being a learning mechanism, job rotation can also be used to prevent corruption. Instead of having a few employees undertaking activities with a high

risk of corruption, more employees can be trained to undertake those activities. Thus, the risk of corruption may be reduced through internal checks and job rotation allocation of tasks.

#### **TOOL # 10 Internal Audit**

Internal audit is an important tool to detect corrupt practices and can be divided into a) Administrative (operational) audits and b) financial audits<sup>2</sup>. SAI auditors are expected to communicate with the internal auditors as part of their audit procedures on matters concerning fraud in public institutions.

#### **TOOL #11 National integrity and action-planning meetings**

SAI auditors should establish whether there are national integrity and action planning meetings for continuing the fight against corruption. This tool recognises the need to bring together a broad-based group of stakeholders to develop a consensual understanding of the types, levels, locations, causes and remedies for corruption. Such stakeholder consultations should occur in different phases while developing, implementing, and evaluating a national anti-corruption strategy. This ensures that stakeholders are well informed and, if necessary, can mobilise their support for the ongoing process.

#### **TOOL #12 Anti-corruption action plans**

SAI auditors should be aware of anti-corruption action plans where they are prepared and ensure they comply. Anti-corruption action plans set clear goals, timelines, and sequencing for achieving specific goals. Not only do such plans place pressure for action on those expected to contribute to the anti-corruption effort, but they also clarify the various issues involved, making both current and more advanced planning easier. A national plan will likely be an extensive document providing detailed coverage of all segments of government and society. It will contain input from insiders and outsiders, including donors and other foreign governments. Such diversity is important, as are comprehensive consultations, transparency, popular support, and political will. The plans usually contain substantive issues, including awareness-raising, institution-building, corruption prevention, anti-corruption legislation, and enforcement and monitoring.

#### **TOOL #13 Strengthening local governments**

SAI auditors should appreciate that while many elements of anti-corruption strategies are conceived and planned at the national level, their effectiveness depends on being implemented locally; hence, anti-

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<sup>2</sup> ISSAI 200

corruption audit efforts at that level should be enhanced. In many developing countries, decentralisation has increased citizen participation in local decision-making, thus presenting advantages and disadvantages for controlling corruption.

#### **TOOL #14 Parliaments and their efforts against corruption**

SAI auditors should understand ways parliaments can strengthen their role in areas critical to combating corruption, such as transparency and accountability in government, as well as particular areas, such as the formulation and adoption of anti-corruption laws and the independent oversight of anti-corruption bodies. Anti-corruption efforts in parliamentary bodies may be directed at the institutions or individual members. Transparency and accountability can be improved in several ways, such as using committee systems, including establishing a Public Accounts Committee (PAC) with specific anti-corruption mandates. Open access to information and settings, media transmissions of parliamentary proceedings, and modern technological aids, such as websites and publications, are among the transparency tools that can be used.

### **SECTION 3: PREVENTION MECHANISMS**

#### **TOOL #15 Disclosure of assets and liabilities by public officials**

SAI auditors should be aware of ways to increase transparency concerning the assets and liabilities of public officials to deter illicit enrichment from sources such as bribery or investments made with insider knowledge. The obligation to disclose such activities can be established by law or as a contractual condition of employment. Signing a disclosure document should be required upon reaching a certain level of seniority or being promoted into a position with sufficient potential for illicit enrichment. Disclosure includes monitoring relationships with related parties<sup>3</sup>, associates, relatives of officials, etc., as it is common to use related parties or family members as conduits for proceeds of corruption.

#### **TOOL #16 Authority to monitor public sector contracts**

SAI auditors should know where the government has put specialised authority to monitor key contacts and transactions in environments where corruption is widespread or susceptible. SAI auditors should audit the effectiveness of such specialised authority. Such authority should be established within a

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<sup>3</sup> International Accounting Standard 24-Related Party Disclosures. A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity').

country; wherever necessary, it should have international reach, depending on the nature of the contracts. With many development projects failing because of corruption, international organisations have, for several years, been focusing increasing attention on corrupt practices in economic, social, and political development. Depending on the mandate that is in place, SAI auditors should also audit dubious practices within international agencies and non-governmental organisations that may result in detection aid not being optimised.

#### **TOOL #17 Curbing corruption in public procurement processes**

Few activities create greater temptations or offer more opportunities for corruption than public procurement processes. Goods and services are purchased at every level of national and local government and by government-controlled and owned entities, often in large quantities and involving substantial amounts of money. SAI auditors should be aware of and audit the various public procurement methods, which are seen as the most common form of public corruption. The audits should cover all stages of public procurement. Corrupt behaviour on the part of the purchaser and the supplier can work to undermine good procurement practices. Individual SAIs are encouraged to develop their own Public Procurement Audit Manuals (as several SAIs in Africa have done) for use when auditing this high-risk area.

#### **TOOL #18 Integrity pacts**

SAI auditors should be aware of contract integrity packs and where they exist and should ensure that parties to the packs comply with them. An integrity pact is a contract in which the responsible government office and other bidders or interested parties agree to refrain from corrupt practices. The agreement should include clear sanctions and remedies for all parties, including the possible referral of improprieties to law enforcement agencies. Such pacts focus on specific contracts or transactions rather than ongoing institutional arrangements.

#### **TOOL #19 Reducing procedural complexity**

SAI auditors should aim to identify, assess and recommend ways in which excessive administrative complexity and bureaucracy, major causes of corruption, can be reduced. If obtaining a given public service is unjustifiably time-consuming, the bureaucracy in question should be studied, and lack of efficiency, excessive complexity and unpredictability of administrative procedures should be noted to identify and implement administrative reforms. In many cases, elements of complexity are generated by employee initiatives, and subsequently, streamlining reforms are often met with internal resistance.

### **TOOL #20 Reducing and structuring discretion**

SAI auditors should be aware of the possible negative effects of excessive discretion given to officers. The auditors should audit and make appropriate recommendations on structuring discretionary powers to ensure they are limited only to what is necessary for a given administrative function and are not abused. Excessive substantive and procedural discretion in the provision of public services reduces accountability and transparency, thereby creating conditions in which corruption can flourish.

Structuring discretion to account for rules and criteria for decision-making, transparency, and effective review mechanisms will reduce opportunities for corruption. Change management processes will be needed occasionally to manage employee attitudes and remove any vested interests that may lead to opposing reforms.

### **TOOL #21 Results-based management (RBM)**

SAI auditors should be familiar with RBM to increase overall accountability and make it more difficult for corruption to thrive. RBM sets clear goals for achievement and criteria and processes for assessing whether goals have been achieved. Such systems, therefore, function as both management and performance reporting systems.

SAI auditors should also know the conditions required before such a system can be instituted. For example, an RBM will be difficult to implement where performance is difficult to quantify. It should also be appreciated that genuinely effective qualitative criteria, i.e., a realistic benchmark of the quality of the service provided, may not be possible to produce or monitor for some public sector activities.

### **TOOL #22 The use of positive incentives to improve employee culture and motivation**

SAI auditors should know how positive incentives can prevent or combat corruption. For example, adequate wages can prevent the need for an employee to seek 'compensation' from other sources and can be linked to improvements in performance generally and concerning anti-corruption measures. It eliminates or reduces the possibility of rationalisation by employees in the fraud triangle to justify corruption.

Any recommended incentives must be made in the context of other factors, e.g., affordability by the paying institution and the possible downstream consequences, including the number of employees that can be employed. The main challenge in this area will be the availability of financial resources to provide positive incentives for the reforms. Such reforms may, sometimes, be supported by aid donors.

## **SECTION 4: SOCIAL PREVENTION AND PUBLIC EMPOWERMENT**

### **TOOL #23 Access to information**

SAI auditors should be aware that increasing public access to information is a powerful mechanism of accountability, enabling civil society to oversee the state and thus act as an anti-corruption tool. The auditors should be aware of any mechanisms for access to information laws in the country, including the government's requirement to publish an annual statement of its operations and a legally enforceable right to access documented information. The need for confidentiality in certain matters does, however, entitle a government to withhold certain information.

### **TOOL#24 Mobilising civil society through public education and awareness-raising**

The SAI audit team should be aware that empowering the public to oversee the state is an essential aspect of anti-corruption programmes, as is building trust in the individual arms of government, i.e., the executive, the legislature and the judiciary. Public trust can be won and subsequently managed in efforts against systemic corruption. New institutions/systems, anti-corruption commissions, ombudsman offices, 'whistleblowing', and the internet give citizens access to credible means for communicating their grievances on corruption. SAI auditors should assess the effectiveness of these mechanisms where they exist.

### **TOOL #25 Media training and investigative journalism**

Where the SAI auditors have assessed the strength of the credibility, integrity, and capability of the media to provide unbiased and responsible broadcast of corruption cases and anti-corruption initiatives, this can be used as an initial source of information to be further validated before it is used as credible audit evidence.

Some of the critical issues to be assessed in government media sources include autonomy from government interference, the possession of sufficient legal, technical, economic and other expertise to enable management to assess anti-corruption efforts critically, adequate professional standards in place regarding professional competence and objectivity of reporters, access to as much of the population as possible, and building an information network about what government bodies are actively pursuing in the anti-corruption field. Attention must also be given to the risks and responsibilities involved in investigative journalism and ways of controlling the credibility of sources of information discussed.

### **TOOL #26 Social control mechanisms**

Various initiatives can be implemented to drive sustainable, socially driven anti-corruption reforms. Anti-corruption advocacy through creative mechanisms such as community meetings and more formal interventions, such as establishing a network of anti-corruption projects, can empower individuals, communities, and governments by disseminating information and promoting transparency in the public sector. SAI auditors can check the existence and effectiveness of such social control mechanisms external to the public service and provide an additional incentive for public servants to comply with the law and follow government policy. The mechanisms effectively incorporate civil society into government programmes and give it a voice to express its concerns about corruption.

### **TOOL #27 Public complaints mechanisms**

SAI auditors should assess whether country systems allow all persons confronted with corrupt practices or maladministration to have the means to complain about them without suffering personal disadvantage. External mechanisms are possible, such as the office of the ombudsman. Internal reporting procedures are more complicated as there is a need to deal with potential dishonesty and the complicating factors of bureaucracy and personal relationships. Thus, institutions must have well-developed procedures to clarify what constitutes a reportable incident and the correct reporting channels. Citizens must be informed about how and where to report corrupt behaviour.

### **TOOL #28 Citizens' charters**

SAI auditors should establish citizens' charters, check how they operate, and assess their effectiveness. Citizens' charters set down standards regarding quality, timeliness, cost, integrity and coverage of public services as the standard that users can reasonably expect and against which performance should be measured. This contributes to anti-corruption checks and ensures that services provide value for money.

## **SECTION 5: ENFORCEMENT**

### **TOOL #29 Guidelines for successful investigations into corruption**

**INTOSAI: GUIDE 5270**-*Guide for the Audit of Corruption Prevention* is a key tool.

The SAI audit team should know the general guidelines and requirements for investigating corruption. Officials or bodies responsible for investigating corruption must be independent and autonomous.

Sufficient independence must be subject to sufficient oversight and accountability to prevent abuses from creeping into the system. Anti-corruption investigators must interact with other agencies where corruption is rife and complete autonomy is needed.

Adequate resources must also be available for investigators, as well as specific skills and knowledge training.

The SAI auditors should ensure that besides encouraging individuals to report instances of corruption, other methods of bringing it to light can be used, such as requiring public employees to periodically disclose their assets, carrying out internal audits and inspections, or other integrity-testing tactics. Such operations are powerful for deterring corruption and detecting and investigating offenders.

Electronic surveillance, search and seizure and other similar investigative methods are also possibilities to consider in addition to forensic accounting to detect fraud or track illicit proceeds by examining financial records for unusual patterns or amounts.

SAI auditors should recommend adopting systems that prevent and detect corruption early, given that corruption investigations tend to be large, complex, and expensive, thus requiring the efficient use of resources.

### **TOOL #30 Financial investigations and the monitoring of assets**

SAI auditors should be aware of financial investigation processes that can be used as a starting point for further investigations or as back-up evidence for corruption allegations. Such starting point financial investigations aim at targeting indicators of corruption, such as living beyond one's means, require expert use of available resources and careful consideration as to who will be targeted and why to conserve scarce resources. Thus, the likelihood of uncovering corruption should be considered before beginning an investigation, as well as the potential scale. For example, investigators should direct available efforts towards reviewing disclosures by employees whose public duties expose them to a higher monetary value of bribes.

The SAI auditors should be able to evaluate key lifestyle indicators, screen individuals under suspicion and those with strong ties, such as spouses and family members, and discuss alternative sources of information, such as public registers and contracts. If no mutual legal assistance treaty exists, SAI auditors



should also consider the difficulties of obtaining foreign assistance in identifying and recovering stolen assets.

SAI auditors should recommend that national laws require asset registration and identification of their beneficial owners. Anonymity of ownership makes monitoring and investigations into transparency and accountability difficult.

### **TOOL #31 Integrity testing**

SAI auditors should establish whether there is integrity testing of public officials above a set seniority level, a procedure used to determine whether or not a public servant engages in corrupt practices. This manages the perceived risk for corrupt officials. Integrity testing can be targeted or random. It is not effective on a one-off basis; thus, follow-up tests must be done.

### **TOOL #32 Electronic surveillance operations**

SAI auditors should know possible legal challenges associated with electronic surveillance operations. Electronic surveillance encompasses all information gathering through electronic means, both covert activities such as wiretapping, video recording or eavesdropping and consensual recording, where at least one of the parties knows and has consented to the conversation or activity being recorded.

## **SECTION 6: ANTI-CORRUPTION INSTRUMENTS**

### **TOOL #33 International and regional anti-corruption instruments in Africa**

SAI auditors should be aware of the international and regional instruments and initiatives against corruption or anti-corruption provisions that affect Africa or exist in Africa and assess how they are being used and their effectiveness at the country level. They include:

#### International Institutions

- The United Nations Convention against Corruption (UNCAC).
- The African Union Convention on Preventing and Combating Corruption (AUCPCC).
- The African Charter on Democracy, Elections and Governance.
- The African Charter on the Values and Principles of Public Service and Administration.
- The African Charter on the Values and Principles of Decentralisation, Local Governance and Development.

- The Southern Africa Development Community (SADC) Protocol against corruption.
- The draft East African Community (EAC) Protocol on Preventing and Combating corruption.
- The Economic Community of West African States (ECOWAS) Protocol on the Fight against Corruption.

### Regional Organisations And Initiatives

#### *United Nations organisations*

- A high-level panel on Illicit Financial Flows from Africa.
- The United Nations Office on Drugs and Crime (UNODC) regional offices in Africa.

#### *African Union organisations and initiatives*

- The African Union Advisory Board on Corruption (AUABC).
- African Peer Review Mechanism (APRM).
- African Anti-Corruption Year, 2018.
- Other organisations or initiatives.
- Extractive Industries Transparency Initiative (EITI).
- A tool to assess the integrity of Supreme Audit Institutions (INTOSAINTE).
- AFROSAI-E SAI-ACA Anti-Corruption Forum.
- AFROSAI-E SAI-ACA Collaboration Framework.
- The African Organisation of Supreme Audit Institutions (AFROSAI-E).
- The Financial Action Task Force (FATF)-style bodies in Africa.
- Enhancing Africa's ability to Counter Transnational Crime (ENACT).

#### *Other stakeholders*

- Media
- Civil Society

### **TOOL #34 National legal instruments**

SAI auditors should be aware of how national laws sanction corruption and related acts and the difficulties of defining certain behaviours, such as favouritisms, nepotism, conflict of interest and contributions to

political parties, as corruption, thus devising suitable reporting. Corporate entities often commit business and high-level corruption and justify it, usually using professional advisory service providers, such as tax matters and transfer pricing. SAI auditors are responsible for scrutinising the justifications and ensuring that the underlying activities are not corrupt.

Money-laundering statutes contribute significantly to detecting corruption and related offences and the basis for financial investigations. However, identifying the true beneficiary in such cases can be difficult as accounts are often anonymous. Access to information legislation can assist in uncovering corruption, and administrative procedures should give civil society a tool to challenge the abuse of authority.

### **TOOL #35 Dealing with the past: amnesty and other alternatives**

SAI auditors should be aware of amnesty issues to assist them in making appropriate recommendations. Granting amnesty offers a chance to make a fresh start. It helps to ensure compliance with newly created laws by removing the burden of the past and allowing everyone to concentrate on the present and future. Broad amnesty can be declared when a new law takes effect or a new anti-corruption authority is created. Exceptions to broad amnesty should be contemplated in cases where the crime is so offensive as to require investigation and prosecution, regardless of the burdens imposed on a new anti-corruption authority. Amnesty would carry certain responsibilities, such as a public admission of the act, identification of others involved in the offences and restoration of corruptly acquired monies and property into an integrity or similar fund.

### **TOOL #36 Standards to prevent and control the laundering of corruption proceeds**

SAI auditors should be aware that the link between money-laundering and corruption is deep and erodes and undermines financial systems. A comprehensive anti-corruption strategy should contain provisions to prevent and control the laundering of corrupt proceeds using preventive/regulatory and sanction-oriented measures.

The regulatory approach, the “Know Your Customer” rule, aims to prevent financial institutions from doing business with unknown customers. It sets out the implications of the due diligence rules promoted at the international and national levels and urges financial institutions to pay special attention to all complex and/or unusual transactions. Bank personnel acting as whistleblowers should be accorded protection, and non-complying institutions and operators should be identified.

### **TOOL #37 Legal provisions to facilitate the gathering and use of evidence in corruption cases**

Unlike most crimes, corruption offences usually have no obvious or complaining victim. Usually, those involved are beneficiaries and have an interest in preserving secrecy. Elements of concealment and collusion in corruption activities make auditing corruption difficult in many cases, requiring the SAI auditors to use high levels of professional scepticism.

### **TOOL #38 Whistleblowing**

A whistleblowing mechanism is a formal means of communication established by an institution so that public officials and any interested third party may provide information about possible corrupt actions or transgressions that have happened in the past or are currently happening. SAI auditors should have basic knowledge of whistleblowing processes. The main purpose of whistleblower laws (where they exist) is to protect those who, in good faith, report cases of maladministration, corruption and other illicit behaviour within their organisations. Experience shows, however, that a law alone is not enough to instil trust in would-be whistleblowers. The law must provide a mechanism that allows the institution to deal with the content of the message and not the messenger, even if the message of the whistleblower proves false or the whistleblower was breaking the law by breaching confidentiality. The only onus on the whistleblower should be that they acted in good faith and were not making false allegations. Thus, protection and compensation should be accorded if victimisation or retaliation occurs. It should also be clear who to turn to when reporting suspicions or offering evidence. To ensure effective implementation of whistleblower legislation, people or institutions that receive disclosures must be trained in dealing with whistleblowers.

### **TOOL #39 Service delivery surveys**

Service delivery surveys are stakeholder information systems already implemented in several countries. They are designed to build capacity while accumulating accurate, detailed and 'actionable' data rapidly and cheaply. Service delivery systems are a social audit process that allows the government and the governed to collaborate to produce and implement results-oriented development planning.

There are certain challenges to measuring the impact of anti-corruption strategies. A competent institution must analyse data, and monitoring should not be an end in itself but should stimulate swift and effective application of findings into national policies and legislation. They should also be accompanied by targeted assistance programmes as many countries will lack the financial, human and technical resources to implement the agreed national best practices. The data collection makes the public more aware of the

levels, types, causes and remedies of corruption and thus, the state's accountability towards its public is increased.

## **SECTION 7: ADDITIONAL TOOLS**

### **TOOL #40 Cooperation with other institutions involved in fighting against corruption**

Fighting corruption requires establishing institutions with specific capacities to perform actions for preventing and tackling corruption. Cooperation between institutions involved in the fight against corruption, such as SAIs, and agencies/commissions with the mission of corruption prevention, among other entities, is therefore fundamental. In this sense, organisations must strengthen cooperation in common interest areas to enhance their effectiveness.

### **TOOL #41 Cooperation between SAIs**

Corruption is a common phenomenon across countries; regardless of their form of government, fighting against it requires the comprehensive commitment of SAIs at the country level. In that sense, SAIs have an important role to play in the fight against corruption collectively, and the fulfilment of these responsibilities may benefit from the exchange of knowledge and experiences with one another, as stated in the INTOSAI P-1 Lima Declaration. Based on their experience in preventing, detecting and sanctioning corrupt activities within their respective jurisdictions, SAIs may develop common approaches to fight corruption, exchange good practices and conduct joint interventions. To this end, every SAI may, for example, adopt cooperation agreements to detect acts of corruption, for example, in international public procurement through information exchange. In addition, whenever the legal framework allows it, SAIs may perform joint interventions, such as coordinated audits, as led by AFROSAI-E capacity-building initiatives on international matters.

### **TOOL #42 Audit of disaster situations**

Disaster situations in all three stages of a disaster, i.e., pre-disaster, during-disaster and post-disaster, are prone to various forms of fraud, including corruption. This is because controls may be compromised, lifted, or never have existed in the area where corruption occurs. SAI auditors are, therefore, expected to respond appropriately to ensure that integrity is maintained in the circumstances that prevail. SAI auditors should get guidance from the; ***Pocket Guide for Supreme Audit Institutions: Considerations on Responses to Disaster Situations*** published by AFEOSAI-E in 2020.

**TOOL # 42 Use of E-Government**

E-government may be used as a specific anti-corruption tool as it depersonalises and standardises the provision of services, requires that rules and procedures be standardised and made explicit for Information Technology (IT) systems to function effectively, and makes it possible to track decisions and actions. All these serve as deterrents to corruption.

**TOOL # 43 Reaction to corruption**

SAI auditors should establish whether public institutions ensure that corrupt misconduct is subjected to appropriate response or reaction by management. A lack of responses/reactions to corruption cases can incentivise perpetrators to commit more corrupt activities. The measures taken by management include those established by criminal law, disciplinary law, labour law or private law. Corruption cases should be analysed and, where necessary, a reason for further strengthening corruption prevention measures.

# CHAPTER 4: TOOLS FOR IDENTIFYING SUSPICIOUS MANAGEMENT OF PUBLIC FUNDS

## 4.1 INTRODUCTION

This chapter focuses on tools an SAI auditor can utilise to identify suspicious management of public funds.

In most countries, parliaments are mandated to approve the annual budget and oversee government expenditures throughout the budget cycle. In particular, parliaments have a key oversight role, normally through the parliamentary PAC, in scrutinising the final audit report after the budget has been executed and following up on the SAI's audit recommendations. As an elected body, parliament can facilitate public engagement with the budget process through consultations with their constituents.

However, oversight of government finances and operations is generally performed poorly by parliaments in many countries, especially in developing countries, due to lack of resources, capacity and leverage, inadequate time scales and a non-responsive executive. Parliaments are also often unable to ensure that the findings and recommendations of audits are acted on. The lack of enforcement mechanisms and incentives to impose sanctions is a major weakness of the oversight process. All these matters make mismanagement of public funds in government institutions a high-risk area.

### **SAI and parliament tools and approaches in identifying suspicious management of public funds.**

To effectively detect corruption by identifying suspicious management of public funds, SAIs and parliament need to collaborate. The parliament needs appropriate parliamentary powers, resources and procedures, good accounting practices, reporting and transparency, skilled parliamentarians, and support from an independent and vibrant civil society. Initiatives aiming to strengthen the oversight role of parliaments often focus on institutional and technical capacity building, which involves the following:

***Citizens' participation.*** Civil society has an important role in supporting and contributing to audit and oversight work and increasingly shows commitment to the oversight process through the support of SAI audit work and budget monitoring tools. This implies that all budget and audit reports should be made publicly available.

***Strengthening the capacity of public accounts committees (PACs).*** Members of parliament often lack the technical capacity to fully play their oversight role due to the complexity of budget processes. PACs can

meaningfully contribute to budget oversight, given appropriate technical, human and financial resources and adequate powers and independence from the executive.

***Strengthening the relationship between parliament and SAIs*** is important to ensure effective oversight of government financial operations in areas including the exchange of information, access to audit reports and follow-ups on SAI audit recommendations.

***Role of international parliamentary organisations.*** Parliamentarians also collaborate to develop and exchange approaches to strengthen their roles in curbing corruption through platforms like the Southern African Parliamentary Support Trust.

### **Public Expenditure Management Control.**

**Effective expenditure control is an essential pre-condition for good PFM and is an effective anti-corruption tool.** Fiscal rules, medium-term budget plans, and annual budgets are meaningless if expenditure cannot be controlled during execution. A lack of adequate expenditure controls threatens macroeconomic stability and fiscal discipline and can also call into question the integrity of the PFM system and undermine trust in a government's stewardship of public resources. While the institutional arrangements for raising government revenue are centralised mainly in a national revenue authority, the expenditure of those resources involves a wide range of public entities at various levels of government, even in countries with relatively centralised PFM systems.

**Lack of adequate control over government expenditure remains a problem in many countries.** Public Expenditure and Financial Accountability (PEFA) assessments carried out on low-and middle-income countries using the PEFA framework issued by the PEFA Secretariat of the World Bank reveal that:

- More than two-thirds of the countries assessed have relatively weak expenditure control systems.
- Weak expenditure controls are associated with weak budget credibility, which may lead to weak management of public funds and corruption.

**SAI auditors should evaluate the strength of expenditure controls, identify weaknesses, and respond appropriately.** This requires a clear understanding of the key features of an effective expenditure control system and the different approaches to putting them into practice. While expenditure control frameworks differ from country to country, it is nonetheless possible to define them in a general way as:



- The key stages of the budget execution cycle.
- The specific control objectives at each of these stages, and
- The responsibilities of the relevant actors in enforcing these controls.

However, the complexity of the expenditure chain, the precise nature of the controls exercised at each stage, and the degree of centralisation vary considerably across countries and are heavily influenced by their respective administrative arrangements. Therefore, strengthening expenditure control in a particular country can sometimes require difficult decisions about whether to reinforce traditional administrative arrangements or seek to reform and modernise them.

**To assist SAI auditors in identifying suspicious management of public funds, this tool:**

- Explains the key stages of the government expenditure chain.
- Describes the types of controls applied at each stage of the chain, their objectives, and key features the SAI auditor must check.
- Examines the types of expenditure controls that should be exercised and the allocation of responsibility for their application.

## **4.2 KEY STAGES OF THE EXPENDITURE CHAIN**

The SAI auditors should use the expenditure stages below to identify any suspicious management of public funds in public institutions.

**The objective of expenditure control is to ensure that public resources are spent as intended, within authorised limits and following sound financial management principles.** A distinguishing feature of a government’s budget, unlike the budget of a typical business entity, is that it is funded primarily through compulsory taxation of citizens and authorised via an act of parliament. The role of an expenditure control system is to ensure that the level and allocation of government expenditure reflects the will of the legislature as voted for in the budget. Expenditure controls should also reflect sound financial management principles, thus ensuring that public resources are utilised efficiently, incurred obligations are cleared promptly, abuse/misappropriation of public funds is prevented, and private actors compete on a level playing field for government contracts.

**To ensure that the objectives of the expenditure cycle are met, government expenditures go through several stages, from authorisation by the legislature to payment of the final beneficiary.**

These stages are:

**Authorisation of expenditure.** A fundamental principle of public finance is that expenditure and revenue proposals must be legally authorised to ensure accountability. The authorisation for expenditure is usually given through the budget law, which defines the time horizon for, limits on, purpose of, and administrative unit accountable for government expenditure. To deal with unanticipated spending pressures, some flexibility in allocating expenditure between sectors may be allowed, subject to clear rules/criteria (e.g., through budget virements and/or allocation from a contingency reserve).

Budgets are not the only mechanisms providing legal authorisation to incur expenditure. Certain amounts may be spent under permanent rather than annual legislation. For example, there could be standing legislation for entitlement programmes, servicing of debt, or payment of subscriptions to international organisations, which provides permanent legal authority to incur such expenditure, subject to meeting specified parameters or criteria. However, even in such cases and in line with budget comprehensiveness, transparency, and accountability, such expenditures should be included in the budget documentation and subjected to regularity controls, which the SAI auditors must examine.

#### **Box 2: Authorisation for Public Expenditure**

- **Limit the amount of expenditure.** The government's expenditure must be within the amounts that the budget appropriations have established, with some flexibility allowed through virements and contingency reserve mechanisms. The nature of those expenditure limits depends on the accounting basis (cash, commitment, or accrual) used in the budget.
- **Limit the time horizon of expenditure.** The expenditure must occur within the time limits applicable to the expenditure authorisation. Most countries adopt annual budgets authorising spending for one year; however, some countries authorise multi-year limits for certain types of expenditure.
- **Authorised purpose of the expenditure.** The authority for expenditure is given for a specific predefined purpose. The budget classification (which may be organised by programmes, sub-programmes, projects, economic categories, or line items) usually specifies the purpose for which the expenditure can be used.
- **Administrative unit accountable for expenditure.** A unit of government, typically a line ministry, department, or agency, is responsible for ensuring that the appropriated resources are spent as intended within the authorised limits.

**Source: IMF: Expenditure Control: Key Features, Stages and Actors**

1. **Apportionment of authorisation for specific periods and spending units.** The purpose of apportionment is to prevent spending agencies from incurring obligations at a rate requiring the authorisation of additional funds for the fiscal year in progress. Once expenditure authorisation is in place, it is apportioned for specific periods and/or spending units. Apportionment usually follows two steps: (i) *apportionment* by the Ministry of Finance, which consists of releasing the appropriation on a quarterly or monthly basis to the Line Ministries, and (ii) *allotment* by the Line Ministries or main spending units of their apportioned appropriations to their subordinate spending units. This authority to spend is released to the spending units through the issue of warrants/allotments or other mechanisms.

Some form of centralised control during this phase of the expenditure cycle is common in almost all countries and is usually enforced by the budget department of the Ministry of Finance. The apportionment process is critical to ensuring that expenditure totals are respected and that any virements or claims on the contingency reserve are reflected in the revised allocation of appropriations. Each request for apportionment or reapportionment should be accompanied by a financial or cash plan from the relevant ministry or spending agency supporting the request to ensure that apportionment and cash management functions are well integrated.

2. **Reservation.** Once the apportionment of expenditure authorisation is made and the spending authority has been released, some countries' Public Financial Management (PFM) systems include a stage at which funds are reserved for a specific known expense, but no contract has yet been issued. This is known as the legal commitment stage.

At this stage, there is no commitment, but it is known that the expense will be incurred during the budget year, and, therefore, the reserved funds should not be used for other activities. Setting aside an allotment for a future expenditure should not be confused with a commitment, as no specific contract is signed.

3. **Commitment.** The commitment stage is the point at which a potential future obligation to pay is established. A commitment occurs when a formal action, such as placing an order or awarding a contract, is taken that renders the government liable to pay at some time in the future when the order or contract is honoured by its counterpart. A commitment thus entails an obligation to pay when the third party has complied with the contract's provisions. In cases where the expenditure is subject to a previous, ongoing contract (e.g., wages, utilities, rent, debt service) or statutory

obligation (e.g., transfers to subnational governments), an estimate of obligation to pay should be made and treated as a commitment.

Since commitments usually mature as payments, their control is essential to overall expenditure control and prevention of expenditure arrears. A commitment does not mean a payment will be made within the same fiscal year. This is especially true for expenditure on multi-annual investment projects.

4. **Verification (or certification).** At this stage, after goods have been delivered and/or services have been rendered by a supplier, an authorised officer within the spending unit concerned verifies their conformity with the contract or order and that liability and due date of payment are recognised. Assets and liabilities of the government are increased and recorded in the books if an accrual accounting system is established. In cases where the expenditure involves a previous, ongoing contract (e.g., wages, utilities, rent, debt service) or statutory obligation (e.g., transfers to subnational governments, payments of household benefits, etc.), the verification requires confirmation that the obligation has fallen due.

Expenditures at the verification stage are sometimes called accrued expenditures, accounts payable, or actual expenses. The defining characteristic of an expenditure at the verification stage is that a liability has been incurred. Arrears are expenditures at the verification stage that have not been paid by the due date of payment specified in specific contracts, procurement contracts, or assumed under general commercial terms.

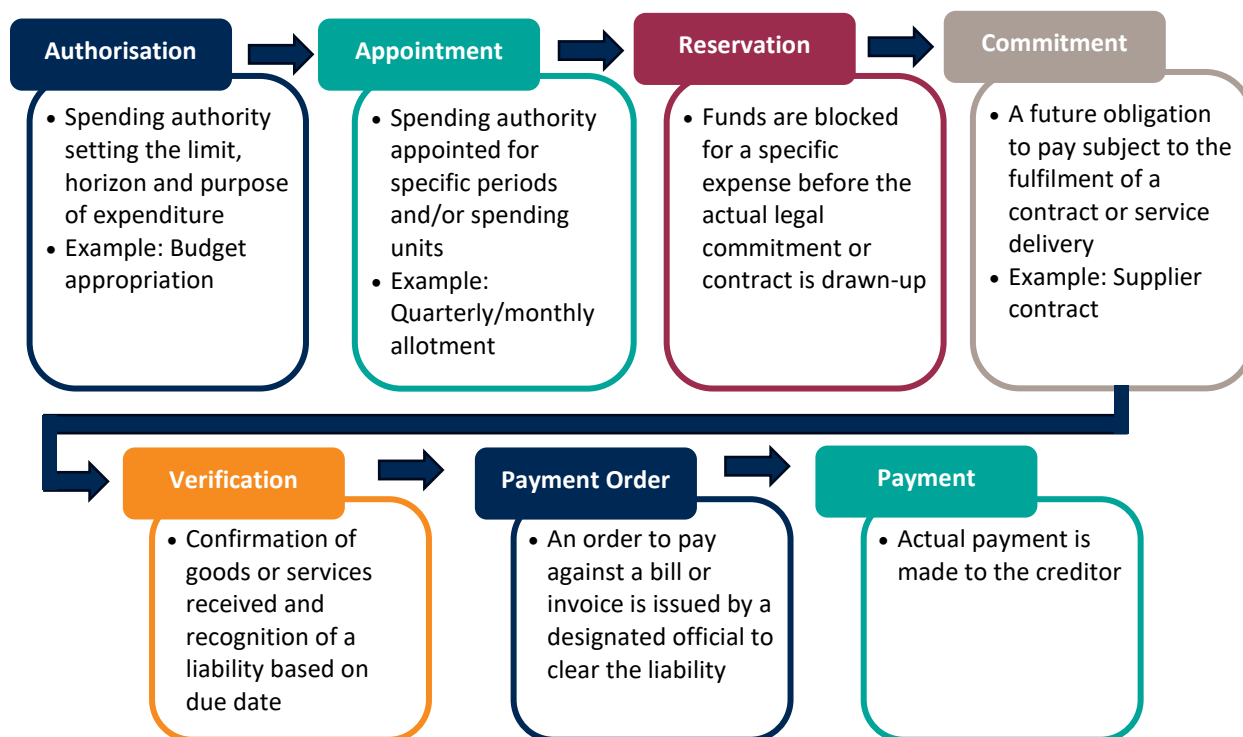
5. **Payment order.** Once checks are made, a payment order is issued to ensure that all previously stipulated controls have been performed and documented. A payment order is an authorisation for payment (usually against a bill or invoice) made by officials of Line Ministries, other spending agencies, or the Ministry of Finance. Before issuing a payment order, the issuing authority will check that sufficient funds are available to make the payment.

A designated official approves the payment and issues a payment order after confirmation that sufficient liquidity is available. In cases where a centralised payment system has been established, the individual spending units may prepare the payment orders electronically and submit them to the central unit/treasury for payment through the payment system.

6. **Payment.** Once a payment order has been issued, payments are made through various instruments, including cheques, electronic fund transfers, cash, etc., in favour of the supplier, service provider, or other recipient to discharge the liability.

Assessing the above stages of the expenditure cycle will assist SAI auditors in identifying any suspicious management of public funds.

**Figure 2: Key Stages of Expenditure Chain**



Source: Adapted from IMF: *Expenditure Control: Key Features, Stages and Actors*

### 4.3 TYPES OF EXPENDITURE CONTROLS AND INSTITUTIONAL ACTORS

The various controls applied during the expenditure cycle can be grouped into categories. These are (i) appropriation control, (ii) commitment control, (iii) aggregate cash control, (iv) control of regularity, (v) accounting control, and (vi) other specific controls. Other specific controls relate to specific types of transactions. They are designed to reinforce macro-fiscal discipline and sustainability (e.g., controls on payroll, pensions, and incurrence or liquidation of liabilities or guarantees) or safeguard the integrity and efficiency of public procurement and payroll systems. Table 1 below summarises the types of control applied during various stages of the expenditure cycle, their key features, and objectives.

<b>Table 1: Types of expenditure controls, their key features, and objectives</b>			
<b>Type of control</b>	<b>Objectives</b>	<b>Main features</b>	<b>Stage(s) at which applied</b>
<b>Appropriation control</b>	Ensures that expenditure is covered in the budget and that the proposed expenditure includes all relevant expenses.	Budget cover (against the relevant appropriation) is checked after deducting all expenditures previously approved. The amount should be correctly calculated, and there should be no hidden expenses.	Apportionment, reservation, commitment, and payment order stages, including virements during budget execution.
<b>Aggregate cash control</b>	This control is a key element of the overall cash management system, which ensures cash is available for the expense.	The release of spending authority is controlled against an annual cash plan that is updated on a rolling basis. Payments by spending units are coordinated with the cash manager to ensure sufficient cash is available.	Apportionment and payment stages.
<b>Commitment control</b>	Ensures that expenditure commitments by spending units align with the expenditure limits and the released spending authority.	Spending units enter commitments only against unencumbered spending authority, and the cash plan covers the expected payment profiles of commitments.	Commitment stage.
<b>Control of regularity</b>	Verifies legal and administrative compliance to ensure that the expenditure operation and related documents/contracts follow the procedure prescribed in the law and/or financial regulations. <sup>4</sup>	The legality of the operation is controlled by verifying that the officials approving a transaction have the authority to do so and that the required supporting documents have been prepared in line with the law/regulations (for audit).	Mainly commitment, verification, payment order and payment stages, but also at other stages.
<b>Accounting control</b>	Ensures that transactions are properly recorded and accounted for to produce timely and reliable fiscal reports and financial statements.	Transactions are recognised, classified, and recorded in the books according to the country's accounting policies/standards and chart of accounts.	Payment and verification (in case of accrual accounting) stages.

Source: Adapted from IMF: *Expenditure Control: Key Features, Stages and Actors*

<sup>4</sup> All uses of public funds should be governed by financial regulations. These regulations, among other things, prescribe the establishment of responsibility for financial decisions, the segregation of duties to ensure appropriate checks and balances, and documentation procedures for maintaining a defined audit trail.

**Some of the controls during the expenditure cycle can be automated and applied through an IFMIS.**

These include appropriation control, commitment control, and accounting control. The introduction of an IFMIS can thus strengthen expenditure controls as the system can replace several key controls that were previously applied manually and systematically track them. However, several controls, such as control of regularity, verification of goods and services, etc., would still require manual intervention.

### **Nature of expenditure limits**

The nature of the expenditure limit enforced at each stage of the expenditure chain depends on the accounting basis used in the budget appropriation framework.

**Cash-based budgeting systems** involve estimating the amounts and timing of cash inflows and outflows over the budget period.

**Commitment-based budgeting systems** impose limits on both expenditure commitments and cash payments. Commitment limits may be multi-year (usually for capital projects) and carried over from one financial year to the next, while cash expenditure limits are usually set for the budget year.

**Accrual-based budgeting systems** entail planning that includes revenues and expenses in the budget year in which the underlying economic events are expected to occur and not necessarily in the year in which the related cash is expected to be received or paid.