

THE ROLE OF PUBLIC AUDIT AS A MAIN TOOL FOR DECREASING THE CORRUPTION COEFFICIENT IN THE CONTEXT OF ALBANIAN INTEGRATION

Yildeze Sokoli

University of Vlora "Ismail Qemali", Albania

Pranvera Resulaj

University of Vlora "Ismail Qemali", Albania

Abstract

This paper intends to identify the Role of Public Audit on reducing Corruption's Coefficient, It's clearly recognized the fact that a relevant indicator of an ethical leadership refers to the level of social perception of corruption. Considering the Albanian Premises for Integration into European Union, it is worth to analyses some consequences of this process on the evolution of the binome Corruption-Public Integrity.

The aspects presented in this paper represent a brief empirical synthesis about corruption in the context of economic, social and political development in Albania. The globalization processes with direct consequences also on Public Sector determine a high degree of generality for various forms of corruption, on one hand and impose generalization of mechanism and means for the fight against corruption, on the other hand. I emphasize the Role of Public Audit as a main tool in the fight against corruption.

Public Audit Offices are fundamental institutions to supervise government agents. Without accurate information principals would find it hard to make adequate decisions. Since agents face strong incentives to misreport, competent audits of financial information are crucial. This paper is the first attempt to study the relationship between auditor expertise and fiscal performance. More competent auditors are more effective supervisors; they reduce the leeway of agents to misreport and improve fiscal outcomes. The empirical results support this hypothesis. We find that States requiring the auditor to hold a professional degree feature significantly higher credit ratings and lower expenditures and debt.

Key words: audit committee, corruption, internal control, auditor, government

1. NATURE OF CORRUPTION AUDITING

Many people use '*corruption*' and '*fraud*' interchangeably. The present paper asserts that these two terms need to be used distinctly. 'Corruption' takes place in the form of bribery, kickbacks, commissions, or other benefits without leaving any trace in the official records. 'Fraud' consists of deriving undue benefit by bypassing some controls or bending some rules. There remains some evidence in the records to trace the fraud. In the same tone, 'corruption auditing' needs to be distinguished from 'fraud auditing.' There is a considerable volume of literature on the role of auditors in detecting, preventing and investigating fraud. Almost all professional bodies of auditors have published standards and techniques about fraud auditing. There are training courses being offered by a large number of organizations on fraud auditing.

The auditing profession, as it has evolved, has its roots in the private sector where audit against corruption is not a serious concern of the stakeholders. They are more interested in fraud or theft of their assets. Corruption is not their worry, as who would bribe an employee of a private company for getting a service or buying a product?

Corruption in private sector can take place when the top management decides to bribe government functionaries to get some benefits. In such a situation, why would they ask their auditors to report on corruption? The only situation when corruption could be of some concern for the stakeholders of private companies is when, in very large organizations, some of their employees try to receive bribe in procurement of goods and services and recruitment of staff. To control this type of corruption the private sector companies have evolved strong internal controls. Briefly, the methodology and standards of corruption auditing have not developed, since most of the standard setting in the auditing profession has taken place in the private sector and corruption

Corruption is a highly complex phenomenon. The parties involved leave very little telltale in the form of irrefutable hard evidence. Most of the corruption takes place in an informal manner and under the dark cover of isolated contacts. At times it does not even require a spoken word. Mere eye contact can establish a relationship of corruption. The auditors find themselves at cross-purposes with the society. The social expectations are that the auditors should play an effective role in reducing, if not eliminating, corruption. The auditors, whose profession makes them concentrate on documentary or physical evidence, often find it hard to gather such evidence. They feel that they cannot do much about corruption. In such a situation, what precisely is the role of the auditors? The paper aims to define the role of auditors in fighting corruption.

2. A BRIEF OUTLOOK ON ALBANIAN CORRUPTION ENVOIREMENT

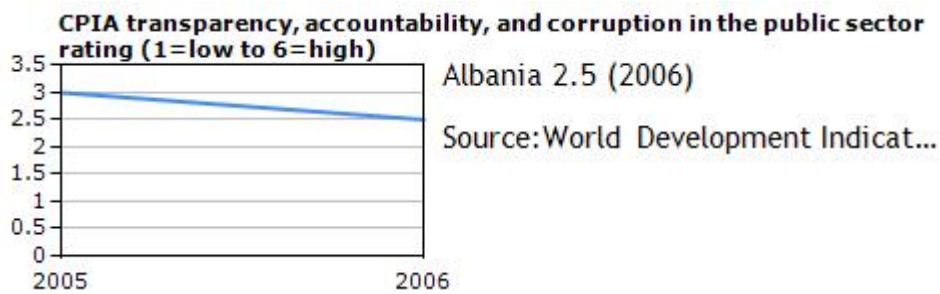
Widespread corruption remains a serious concern for continued democratic development in Albania. While some efforts to combat low and mid-level corruption have been successful, high-level corruption remains largely unaddressed. Weak institutions and a lack of political will have prevented the fight against corruption from yielding substantial results. Growing political interference in institutions, legal immunity offered to a wide range of officials, lack of transparency and access to information, and the absence of self-regulating mechanisms all complicated efforts to improve the situation in 2011. Transparency International lowered Albania's standing from 87th to 95th place out of 183 countries included in its Corruption Perceptions Index for 2011.

High-profile corruption cases face a number of legal barriers, including parliamentary immunity. They are also subject to pressure from other institutions and the ruling majority. In accordance with the 2008 constitutional changes, the president of the republic—who chairs the HCJ and proposes appointments to the High Court—will be elected in June 2012 by a simple majority voting instead of a qualified majority one, which will further politicize this institution and distort the system of checks and balances between the legislative and judicial branches. Only constitutional changes can restore this balance, which especially affects the appointments of judges of the High Court and Constitutional Court, and open the way for substantive results in the fight against political corruption.

One of the main factors obstructing and discouraging investigation of corruption cases in the judiciary is the full immunity also enjoyed by judges. While the minister of justice has the power to propose the lifting of immunity, the HCJ is the body responsible for executing these orders and for taking disciplinary action.

Several corruption cases brought by the prosecution to the HCJ¹ against judges have resulted in the removal of immunity, but none of these cases has been finalized with indictments by the prosecution office. The failure on the part of the prosecution to try judges accused of corruption hampers the image of HCJ as an institution, which has in the past lifted judges' immunities with no sound evidence of wrongdoing.

¹ High Court and Constitutional Court



Proactive investigations based on effective use of intelligence and risk assessments are still lacking in Albania. Few corruption cases end in convictions. A convincing track record of investigation, prosecution and convictions in corruption cases at all levels, including senior officials, has not yet been established. Criminal statistics and statistics on conflict of interest cases need to be strengthened. Corruption in the judiciary remains a particularly serious problem. Corruption also remains a particularly serious problem in the tax, education and health sectors.

The watchdog organisation "Corruption Perception Index" saw Albania plunge in its rankings from from 95th place out of 176 countries in 2011 to 113th position in 2012.

“The results for 2012 show that Albanians continue to pay dearly for the cost of corruption,” Transparency International Albania said in a statement. “Albania and Kosovo have the worst performance in the region and in Europe,” it added. Kosovo went up from 112th place in 2011 to 105th place in 2012. Other countries in the region saw also their corruption perception rankings worsen, with Montenegro in 75th place and Macedonia in 74th place, down from 66st and 69th places in 2011. Meanwhile Croatia's ranking went up, from 66th in 2011 to 62nd place in 2012, as did Serbia and Bosnia, which went up from 86th and 91st to 80th and 72nd positions.

The CPI ranks countries based on how corrupt a country’s public sector is perceived to be. It is a composite index, a combination of surveys and assessments of corruption, collected by a variety of institutions.

The 2012 index published by the Berlin-based watchdog shows that corruption continues to ravage societies around the world.

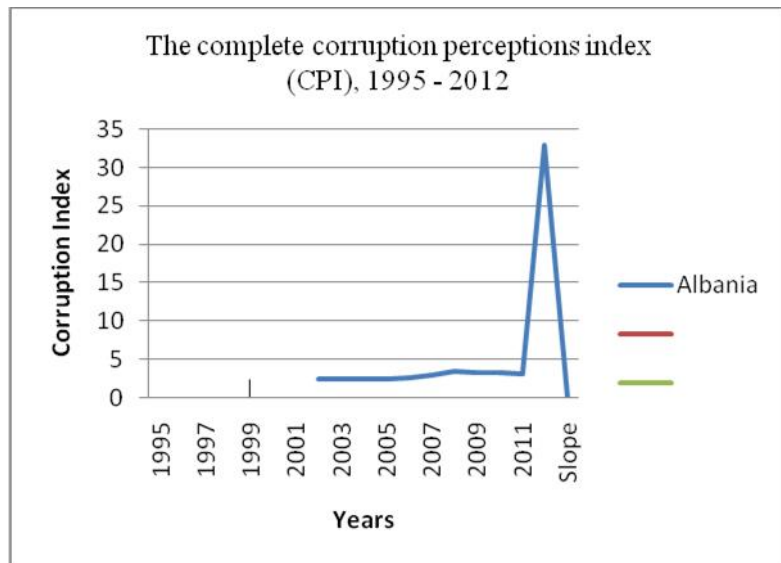
Two-thirds of the 176 countries ranked in the 2012 index scored below 50, on a scale from 0 (perceived to be highly corrupt) to 100 (perceived to be very clean), showing that public institutions need to be more transparent, and powerful officials more accountable.

Denmark, Finland and New Zealand tie in first place with scores of 90, helped by strong access to information systems and rules governing the behaviour of those in public posts. Afghanistan, North Korea and Somalia once again are at the bottom of the index.

The complete corruption perceptions index ¹(CPI), 1995 - 2012

Country Albania

Years	Corruption Perception Index
1995	-
1996	-
1997	-
1998	-
1999	-
2000	-
2001	-
2002	-
2003	-
2004	-
2005	2.5
2006	2.5
2007	2.5
2008	2.5
2009	2.5
2010	2.5
2011	1.5
2012 ²	1.5
Slope ³	1.5



Sources: [Transparency International](#).

Types of Corruption

Corruption is one of the biggest problems in Albania. It takes up many different forms from bribing public officials, abuse of tenders, faulty privatization, rewarding of public contracts, formation of monopolies on basic goods, discriminatory application of laws and taxes, illegal funding of political parties, to outright theft of state property and revenue. Corruption is also closely interlinked with organized crime with many of the senior state officials being involved in smuggling, contrabands, tax evasions and land grabbing. In the two consecutive SELDI surveys (2001, 2002), respondents reported the highest level of pressure on citizens from public officials soliciting corrupt compensation, tolerance in principle of corruption, involvement in corrupt practices, and pessimism over their country's ability to deal with corruption.

¹ *Corruption Perceptions Index ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. The country with the lowest score is the one where corruption is perceived to be greatest.*

² *In 2012, the Index changed from a scale of 0 to 10 (0 highest perceived corruption, 10 highest perceived probity), to a scale of 0 to 100.*

³ *Slope of the linear regression line. This coefficient provides an insight of the trend, either positive or negative. A high negative value reveals a serious deterioration of the perceived probity in the country, and vice-versa.*

Every second citizen has admitted to paying a bribe to a public official since 1999, as reported by the World Bank. This is not restrained to private individuals. Research shows around 7% of business revenue being allocated for bribes. According to the survey done by the Institute for Development Research and Alternatives (2009), corruption is prevalent in all official sectors, with custom officers, taxofficials, ministers and parliamentarians perceived as most corrupted.

Data shows that the overall public experience with corruption has declined since 2005, however significant improvements still need to be made.

Fight Against Corruption

In response to the increasing public awareness and dissatisfaction of corruption, over the years the government has made some steps to fight it. After the public uprising in 1997, the government made the first survey of corruption and in 1999 the Governmental Commission of the fight against corruption was established. In 2000 national anti-corruption strategy was drafted followed by the establishment of the Department of Internal Auditing and High State Audit. Even though this highlights positive progress, most of the institutions are still highly politicized and often used as a tool for fighting opposition leaders rather than actual corruption. Furthermore they have limited powers and can only advise the government and judicial authorities. Over the years Albania has managed to establish a strong legal base, which as recognized by the GRECO evaluation of 20083, meets the requirements of the Criminal Law Convention on Corruption. The Albanian Criminal Code covers all types of corrupt behavior (promising, offering or giving and requesting, receiving or accepting) and after the amendments made in 2004, which established a completely new system of corruption offences, meets the international standards. GRECO evaluation also noted the will of the authorities to comply and make further necessary changes.

Nevertheless corruption continues being a big problem in Albania. The lack of separation of the legislative and executive branches of the government in particular has held back the fight against corruption. Furthermore the two leading political parties are not policy oriented, but stuck in a struggle to capture state power. Whoever wins the elections, which are usually subject to fraud, has then the power to change the whole state structure. For example a new minister can appoint officials in all prominent positions. The implementation of legislation has been hampered by frequent legal amendments, which have established a complicated and incoherent system, and, the absence of legal definitions of key terms used in Group of States against corruption. (2009). Evaluation Report on Albania on Incriminations (ETS 173 and 191, GPC). Strasbourg: Directorate General of Human Rights and Legal Affairs Directorate of Monitoring the Criminal Code. All of these have significantly held back

the development of democracy as well as the creation, implementation, and enforcement of proper policies.

2.2 Corruption and Audit Evidence

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

Corruption control and Audit in Albania

Supreme Audit Institutions

Supreme Audit Institutions are not only important for holding accountable, but also in the sense of achieving better fiscal governance. Through examination of tax revenues, public expenditures and public debt, SIAs contribute to good governance in general because they promote ethical behaviour, efficiency and cost effectiveness.

To be able to perform its role, SIAs should have:

- A clear mandate
- Indipendence
- Adequate funding and staff
- knowledge and experience

If these conditions are met, SAIs can significantly contribute to increased government accountability as well as good governance in general. SAISs have devopled from static to more active and involved actor, which is descrbed as “moving from a role of observer to a more pro-active role as an improver”.

Audit for Anti-Corruption in Albania

Little attention has been given to corruption audit in the literature about corruption control. Same as in the literature, audit in practive it's not a strong tool in the fight against corruption for more of the developing countries like Albania.

CONCLUSIONS

In conclusion, we shall attempt to answer to the questions 1. Are the causes of corruption found in the literature equally present and equally important in the Albanian public sector? Do empirics provide further causes not taken into account by the literature?

Some of the causes of corruption provided by the literature seem to be present and relevant in Albanian public administrations. This is true for:

Poor human resources management and low public sector pay.

The absence of basic market institutions

Insufficient transparency in the budget and procurement process

A weak judiciary unable to provide punishment to corrupt cases

The radical distribution of wealth from the state to the private sector.

A distorted policy environment while low civil service pay is recognized as the most concerning source of corruption in the Albanian public administrations, other causes equally important in the literature, are not recognized as relevant in the country such as:

Anti-corruption measures adopted by the Albanian government concern:

Changes in the legal framework

The creation of specialized structures

Civil service reform

Management of public finances and audit mechanisms

Public awareness

An anti-corruption strategy in Albania must focus on enhancing state capacity to improve the provision of basic public goods. Priorities should be building the capacity of public administration, developing instruments for financial management, encouraging civil society development. The strategy must be tailored to the particular contours of the country. Political will to combat corruption is most likely to be driven by external pressures, especially international donors, which can play a decisive role in undertaking the right anti-corruption measures and in building a coalition within a country. The role Public Audit in the fight against corruption is determinant.

Literature

Gray, Cheryl, and Daniel Kaufmann. 1998. "Corruption and Development." *Finance & Development*, March 1998,

Kaufmann, Daniel. 1997. "Corruption: The Facts." *Foreign Policy*, No. 107 (Summer).

Sanjay Pradhan, and Randi Ryterman. 1998. "New Frontiers in Diagnosing and Combating Corruption." *PREM Notes*, Public Sector, No. 7 (October). World Bank.

Klitgaard, Robert. 1998. "International Cooperation Against Corruption." *Finance & Development*, March 1998.

Manning, Nick, and J. D. Galligan. 1999. "Using an Ombudsman to Oversee Public Officials." *PREM Notes*, Public Sector, No. 19 (April). World Bank.

Mauro, Paolo. 1998. "Corruption: Causes, Consequences, and Agenda for Further Research." *Finance & Development*, March 1998

Myers, Ronald. 1999. "Guatemala's Financial Management Project." (draft) World Bank. Washington, D.C.

Tanzi, Vito. 1998. "Corruption Around the World." *Staff Papers*, International Monetary Fund, Vol 45 (December).

World Bank. 1997. *World Development Report 1997*. New York, Oxford University Press.

1997 Helping Countries Combat Corruption: The Role of the World Bank. Poverty Reduction and Economic Management Network. Washington, D.C.

Feldman R.A., Watson C.M. 2000. "Central Europe: from transition to EU membership." in *Finance and development*, IMF, 37/3, September. Fischer

Fischer S., Gelb A. 1991. "The Process of Socialist Economic Transformation." in the *Journal of Economic Perspectives*, 5/4

ACER (Albanian Centre for Economic Research), The World Bank, 1998a.

Links

Transparency International 2012 <http://www.transparency.org>

Freedom House Link www.freedomhouse.org

www.klsh.org

Albania, <http://www1.oecd.org/daf/SPAIcom/pdf/AlbEmp.pdf>