

**2009 APEC Anti-Corruption & Transparency Experts' Task Force Workshop
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NATIONAL CORPORATE GOVERNANCE AND CORRUPTION PREVENTION

INTRODUCTION

A curious little girl in a school once asked: "Teacher, in a circle, where does the line begin?" The teacher then asked the class for their answers. There was silence. Then another little girl said: "At the top."

This, in essence, is where the fight against corruption starts. This is also where the buck ultimately stops.

I will share with you some thoughts on dealing with corruption from a national perspective with focus on the contributory role of national audit institutions.

That we are here today in deep discussion on this subject shows that corruption continues to be a serious challenge in most, if not all, countries. Corruption, a fact of life, has no respect for borders. It lurks even in countries considered corruption free. It causes the diversion of public funds away from the social and economic objectives intended by parliament when it approves the funds. It erodes public and investor trust in government institutions. Ultimately, the citizens suffer.

NATIONAL FRAMEWORK

Corruption exists regardless of the state of an economy. When an economy is booming and public services are unable to cope with demand, or when public officers are given greater discretionary authority in the name of better service, there is an increase risk of

corruption. So too when bigger public sector projects are being contracted out, and procurement transactions become more complicated.

Many countries are successful to varying degrees in keeping corruption in check as they achieve higher levels of socio-economic development. This, I believe, is due to a strong national governance structure based on accountability and transparency, a framework which has the effect of minimizing motivation and opportunity for corruption, and facilitating its detection. Such framework is founded on a number of key pillars.

TONE AT THE TOP

The first and most important pillar is “Tone at the Top”, where the circle begins. This refers to political will and a strong commitment to fight corruption. It is manifested by the top leadership driving the translation of policy into action, walking the talk and pushing for results. Equally important is the role of the parliament (the legislature), serving with the mandate of the people, having an oversight on the programs and action of the government, and calling on it to account for its performance.

Down the line, public institutions need to be headed by people who are not only competent in their roles, but also epitomize the desired values of an effective public service. (In Singapore, key appointments such as Commissioner of Police, Director CPIB by the Government require the endorsement of the President.)

The other “pillars” in the governance structure are:

- Government administration
- Watchdog agencies
- Media

GOVERNMENT ADMINISTRATION

The risk of corruption is smaller when the government body exercising authority is well managed such that motivation and opportunity for corruption is minimised. This requires transparency and accountability in the handling of financial transactions at all levels,

augmented by a system of checks and balance. The administrative measures include separation of duties, staff rotation, and internal and external audits.

There should also be structured procedures for project management which emphasizes value-for-money, proper risk management and post-implementation review.

To reduce motivation for corruption, it is desirable that public officers are paid competitive salaries pegged to performance. This also has the effect of encouraging the best officers to remain in service.

It is also helpful to have a code of conduct for public officer based on values such as integrity, honesty, impartiality and quality service. It is not unusual for some countries to require civil servants to regularly declare their financial interests such as ownership of property.

Also desirable is a culture of open communication in the public service. This encourages officers to give feedback should they observe areas of weaknesses or abnormalities in work processes and operations.

PUBLIC-PRIVATE SECTOR INTERFACE

The risk of corruption exists at the interface between public and private sector. Traditionally, interactions between public officers and private sector parties tended to be limited to contractual dealings. In today's context, there is private sector involvement in many areas of government functions. For example, private sector people are consulted for feedback on policies, or appointed to the boards of government bodies to tap their expertise and management perspectives. They are also appointed to advisory panels and even regulatory bodies (where there are no conflicts of interests). All this creates an environment which keeps government functions efficient and sensitive to private sector needs. Indirectly it contributes to reducing motivation for corruption.

WATCHDOG AGENCIES

The role of watchdog agencies cannot be over-emphasized. These include the auditor-general's office and the anti-corruption agency. They respectively provide the bark in the system of accountability, and the bite by way of anti-corruption enforcement.

In this regard, I have observed that in a number of countries, the anti-corruption enforcement and national audit function come under one agency. Although this occurs mostly in small countries, it shows the close link between auditing and corruption prevention and investigation.

NATIONAL AUDIT INSTITUTIONS

It is easier to prevent corruption than to detect it. National audit institutions contribute by fostering a preventive environment. Firstly, by evaluating the adequacy of internal controls and identifying weaknesses, audits help to strengthen financial management systems. Secondly, in financial statements audits, if the auditor comes across any sign of possible fraud or corruption while examining financial records, he is duty bound to bring this to the attention of the management.

The International Organisation of Supreme Audit Institutions (INTOSAI), the world federation of national audit institutions recognizes the important contributory role of national audit institutions in the fight against corruption. It devoted its 16th International Congress (INCOSAI) held in Montevideo in 1998 to preventing and detecting corruption as well as fraud.

NATIONAL AUDITS

The aim of national audits has evolved beyond ensuring compliance with financial and administrative laws and regulations. The responsibilities of national audit institutions now typically include "performance auditing". A performance audit seeks to evaluate the quality of the use and management of public resources with regard to economy, efficiency and effectiveness. The evaluation is based on comparison of an organization's performance against norms and predetermined criteria.

The areas covered in such audits typically include administration of procurement contracts, use and management of resources, and performance management. Performance auditing thus requires more than accounting knowledge; it requires familiarity with management and administrative processes, procurement and contracts, privatization and project management. Familiarity with specific industry sectors is also beneficial.

For these reasons, performance audits often take a multi-disciplinary approach. The audit team would comprise auditors with diverse academic qualifications and work experience, e.g. quantity surveying, engineering, project management and management consultancy. Where necessary, industry experts are appointed as technical advisors.

Because the areas subject to performance audits are also risk areas for corruption, forensic instinct is also a desired skill set for the auditors as corruption involves collusion and the transaction occurs “outside the books”.

IMPROVING CORPORATE GOVERNANCE

Performance audits also involve checks on the state of corporate governance in an organization. These are carried out against an accepted code of corporate governance. They evaluate the adequacy of processes and procedures in such areas as internal control, risk management and conflict of interests.

A well performed audit therefore serves as an essential instrument for the development, and promotion of good governance by improving public sector management. They assist parliament in holding the government accountable for its stewardship of public funds and other resources. Progressively, national audit institutions have been moving from a passive reporting role towards more involvement in enhancing accountability and improving operations of government. Some examples are making recommendations for improvements, encouraging the setting up of internal auditing functions and raising awareness amongst public officers on corporate governance and accountability issues.

EFFECTIVENESS OF A NATIONAL AUDIT INSTITUTION

For a national audit institution to be effective, it needs not only competent staff, but three requirements are absolutely fundamental, viz.

- (i) legal mandate from parliament,
- (ii) independence, and
- (iii) unrestricted access to information.

Independence is a basic feature of national audit institutions. They are empowered by law to choose what to audit, and to report directly to parliament without interference from any party.

However, independence is meaningless without unrestricted access to information and records. Unrestricted access ensures enough information for auditors to establish evidence of the proper use and management of public funds and other resources, and to identify inefficiencies, wastages and losses whether due to bad administration or suspected corruption or fraud.

MEXICO DECLARATION ON INDEPENDENCE OF SUPREME AUDIT INSTITUTIONS

The Mexico declaration of INTOSAI (International Organisation of Supreme Audit Institutions) establishes guidelines on the independence of national audit institutions. These include such requirements as an effective legal framework, security of tenure and legal immunity, sufficiently broad mandate and full discretion in the discharge of duties, unrestricted access to information, right to report on findings, and financial and administrative autonomy.

INTER-AGENCY CO-OPERATION

Corruption involves collusion. Fighting it must involve collaboration.

There is a strong case for national audit institutions and anti-corruption agencies to work collaboratively, for example in information sharing and cross referral of cases. If

necessary, laws can be enacted to facilitate the use of shared information. Another area of cooperation is the sharing of training, e.g. interpretation of financial statements.

MEDIA

The media also has a contributory role in creating a preventive environment. Parliament is expected to follow up on the auditor-general's report and raise questions in parliament sessions. In this regard, parliamentarians are likely to pay more attention if an audit finding is highlighted in a media report.

But beyond simply reporting on audit findings, the media can also provide commentaries, for example, on their broader, and what they might say of the management of the responsible public sector agencies. This is an area that is generally lacking in media reporting.

Also important is the role of the media in educating the public on corruption so as to raise awareness of its effects on society. This would encourage the public to play its part in reporting on suspected corruption.

CONCLUSION

Controlling corruption is an on-going effort. It requires a national approach involving the government, parliament, administrative policies, watch-dog agencies, the judiciary and media. Effective administrative policies based on accountability transparency and performance will help enhance the integrity and quality of public service, thereby minimizing the motivation and opportunity for corruption. Watch-dog agencies need to work collaboratively to produce maximum effect from their work.

Most important of all, however, is "Tone at the Top". I cannot over-emphasize this. Some of my colleagues overseas have thrown up their hands in despair, saying: "We have a parliamentary system, we have an anti-corruption agency, we have an auditor-general who reports his findings, we have systems and procedures. Yet corruption is everywhere." It is fundamentally important that the top leadership in government steers

and drives the efforts to curb corruption, and that they do so in a purposeful and public manner.

The journey is unending. But is there a point when one can say that corruption is in check? The answer, thankfully, is yes. This is when the community as a whole no longer tolerates corruption. It is when a person convicted of corruption not only suffers the penalty under the law, but also pays the price of a social stigma.

For our own sake, and for the sake of our children, we must all do our best to reach that tipping point.
