

Internal Audit as a Preventive Tool Against Corruption in Public Institutions. Albanian Case

© Nevila KIRI, © Pranvera DIBRA
University of Shkodra “Luigj Gurakuqi”, Shkodër, Albania
kiri.nevila@gmail.com, p_dibra@yahoo.com

Corruption is an extended phenomenon in all over the world, especially in the developing countries where the consequences of corruption are harder. The main reason of corruption occurrence is because of the lack of liability and transparency of the public sector. The aim of this study is to show if the internal audit in the public institutions of Albania can prevent corruption. The incentive to handle with this cause is the high level of corruption in public institutions of Albania which has caused the lack of reliability in the public institutions. Also this phenomenon brings reduction of the foreign direct investments and a reduction of economic growth in the country, deviation of public incoming from the target aims, deforms the formulation of public politics and the service supply.

Ineffective internal audit is one of the basic reasons for corruption and lack of efficiency in the public sector. The role of the internal auditor increases transparency, justice, reduces the corruption and adds value in the public procurement. The methodology used for implementing this study is based on usage of primary sources and secondary sources. As primary sources for implementing this study, questionnaire is used and is delivered to public institutions in Albania, from which information about internal audit organizations is gathered. Secondary sources are used for theoretical treatment of corruption and internal audit in public institutions. Generally, it is observed that exists distrust about the objectivity of the audit job, including also internal audit, practically, making internal audit's effectiveness decrease like a preventive tool against corruption. Despite all, we must accept the fact that the existence of an audit increase responsibility for job performing according the objectives and without fraud. As conclusion, we can say that corruption tends to be higher in public institution where Internal Audit is not effective.

Introduction

Corruption in Albania is estimated as a widely extended phenomenon and the battle against it remains one of the continuous requests toward Albanian authorities and one of the challenges in the progress toward European integration of the country. In the publication of the Corruption Perception Index for 2013 from the “Transparency International” organization, Albania is ranked in the 116 place. In this report are ranked 177 countries according to the level of the public sector corruption. Compare to one year ago Albania has lost 3 places.

Also according to the results of the Transparency International Report for the Global Corruption Barometer, published on 9 July 2013, “*In a scale score 1-5, where 1 means not at all corrupt, 5 means extremely corrupt, the more corrupted institutions in Albania are the judiciary and medical and health system (4.3 points), followed by the political parties, education system, parliament/legislature, police, etc.*”.

Regardless of knowing the fact that the level of corruption in governmental departments is high, audit in the public sector hasn't played an effective role to prevent it, except in some developed countries. The corruption cases that are detected rarely are taken seriously into consideration, and that has happened partly for the reason that the community has become gradually more tolerant against corruption. This phenomenon has a demoralizing effect on auditors, who believe that is vain to find out or to report a fraud in a community where the amenability is weak.

Inappropriate audit is one of the causes for corruption and lack of efficiency in the public sector. Kinfu (2006) also says that one of the strongest tools to monitor ethics and ways of governing in the public institutions can be via audit function.

Objectives

The objective of this paper is to show how is organized the internal audit sector in public institutions of Albania and to give information about the effectiveness of internal audit in public institutions. Also it will show if the internal audit contributes or not in reducing corruption in public institution.

Theoretical Background

The causes of corruption

Corruption practices that are found out provide evidence that corruption is not limited only in developing countries. However, the influence of corruption in the community of developing countries is more severe than in developed countries.

According to the neoliberal theory, as corruption derives from the public sector then the reduction of public posts means reduction of corruption. After the entrance of Albania in the market economy that means also increase of privatization it still seems that has an increase of corruption. This ascendancy is not used for the good of the community, but to maximize the earnings and the enrichment of the people that govern the country. The neoliberal theory of anti-corruption has produced the opposite effect of what it predicts.

In the article "*Corruption, as a consequence of privatization*" (2010) Blendi Kajsiiu says that are some reasons that have conduct to corruption. Firstly, the process of privatization increases immensely the points of contact between the public and private sector. Privatization means continuous opening of new markets. But the creation of new markets requests more and not little intervention of the government, because the market should be based in rules and law that are established from the government.

Another reason is the big differentiation of the wages between the public and private sector, where the wages in the private sector are higher than the public sector. As a consequence the civil servant treats the public post as a private property, via this he aims to maximize the personal earnings and not the realization of the general public interest.

Thirdly, the general interest is almost inexistent in policy making, because the last one is developed based on specific interest and not according to general interest. In the moment where the public interest vanishes, the public position in fact can be used only for personal interest.

Corruption is developed also from the fact that is a phenomenon that is not reported massively, Mustafa Nano evaluates that Albania's community lacks the courage to report corruption. "Corruption is reported many times, but doesn't exist the disposition of civil protestation."¹

The influence and the costs of corruption

The high level of corruption brings reduction of foreign investments and economic increasing of a country. The costs of corruption are especially high for the countries that have necessity for the flow of foreign capital. The expansion of corruption causes a poorer environment that doesn't attract foreign investments and those investors that have a chance to give long-term contribution for development. Anyhow corruption attracts those investors that are looking for quick benefits via suspicious activities. In the same manner corruption helps in developing those activities that reduce prosperity and prevent continuous investments.

According to Rizvanolli (2011), "One country that is perceived as corrupted and as criminalized, is unpredictable for doing business. Even if the taxes are low, businesses have in regard that is a dosage of uncertainty that increases the cost of operation. And in a corrupted country the cost of corruption represents a tax that anyway charges business".

Corruption is a added cost in the livelihood of community and businesses, it brings poverty. Public programs as health service and judiciary are denied to the community if the payment of bribe determines the allocation of those services. According to the report published by INSTAT in 2010 is shown that, 71 % of the people that give bribe declare that have paid doctors, 47% declare that have paid nurses and 14% polices.

Corruption bring lost of the incomes from the taxes because they don't go to the decided destination and create high expenses as a result of corruption.

Corruption creates inefficiencies in deliveries of public services, not only in the form of a tax on expenditures, but by shifting public activities toward those sectors in which it is possible for those engaged in corrupt exchanges to benefit.²

As a result of corruption the confidence in public institutions is lost. As the public services are bought, then a disbelieve in public institutions is concluded. And when the people are mistrustful of government, they are also cynical about their own capacities to act on public goods and purposes, and will prefer to attend to narrow domains of self-interest they can control. Corruption in this way diminishes the horizons of collective actions, and in so doing shrinks the domain of democracy.³

¹ "Shqip" Journal, "To cohabit with corruption", October, 2011

² "Political Corruption as Duplicitous Exclusion" Mark E. Warren

³ "Political Corruption as Duplicitous Exclusion" Mark E. Warren

Organization of internal audit in public institutions in Albania

According to the Law Nr. 9720, date 23.04.2007 “For internal audit in public institutions” internal audit in public institutions constitutes of:

1. *Minister of Finance*, which is responsible for the general coordination of internal audit activity.
2. *Internal Audit Committee*, is an advisory organism nearby the Minister of Finance, which proposes and advises for the determinations of the strategies and improvement of internal audit activity in the public sector.
3. *Central Unit of harmonization for internal audit*, which is part of the structure of Ministry of Finance. It harmonizes, coordinates the work, monitors and offers technical assistance for the Units of internal audit of public sector in the Republic of Albania.
4. *Units of internal audit in public subjects*, are created to realize the activity of internal audit in the public sectors.

The activity of internal audit in public institutions can be executed firstly, from the Units of internal audit in public subjects, which constitute of the administrator and the internal auditors, that report directly to the head of the institution. This is the most popular form by which an internal audit is realized in public institutions. Secondly, are the internal auditors of another public subject, based on an arrangement between the heads of respective public institutions.

Thirdly, this function can be realized from subcontracted auditors, in consistency of the standards accepted from the Ministry of Finance and defined in base of the cost, quality and experience. This way of internal audit is used when for the institution the continuous training of internal auditors would be more costly than the cost of subcontracting internal auditors. In any case, when the possibility of recruiting auditors with the adequate experience is not possible are preferred subcontracted auditors.

Methodology

The methodology used for implementing this study is based on usage of primary and secondary sources. As primary sources for implementing this study, questionnaire is used. The paper's findings are based on 50 questionnaires given to fulfill by internal auditors or heads of institutions during June-August 2013 in main public institutions of Albania. Secondary sources are used for theoretical treatment of corruption and internal audit in public institutions. Research limitations/implications – A limitation of our study is the number of questionnaires delivered.

Questionnaires Analysis and Interpretations

In order to perform the research, the sample data was collected by public institutions of Albania. The respondents were informed for the purpose of the paper, which was self-administered. The survey instrument was designed with a wide range of questions to allow to reject or not the hypothesis. The hypothesis is: the corruption tends to be higher in a public institutions where Internal Audit is not effective. Below are the questionnaires results, analyzing each question individually.

1. *“Is Internal Audit Department part of your organizational structure and how is organized Internal Audit Department in your institutions?”* – We have grouped public institutions from which we gathered information, explaining if internal audit is part of their organizational structure. Furthermore, to answer to this question we must consider the way that public institutions are organized, this information is shown below.

Firstly, we are referring public institutions that are organized like Regional Directory or Local ones that are under a General Directorate in Tirana, from this we can mention State Inspection of Labour and Social Services, Regional Office of Social Service, Regional Office of employment, Professional Training Centre, Regional Directorate of Social Insurance Institute, General Directorate of Customs, General Directorate of Taxation, National Food Authority, Local Office of Immovable Property etc. In these institutions department of internal audit is under general directorate and the number of employees in these department varies from 3 to 13 employees.

In local institutions, Shkodra municipality has an internal audit department under Municipal Mayor, Regional Council of Shkodra doesn't have internal audit, Prefecture of Shkodra has internal audit under Prefect, Communes of Region of Shkodra don't have internal audit as part of their organizational structure but are audited from internal audit of Regional Council of Shkodra and Internal Audit Department under Albanian Internal Ministry.

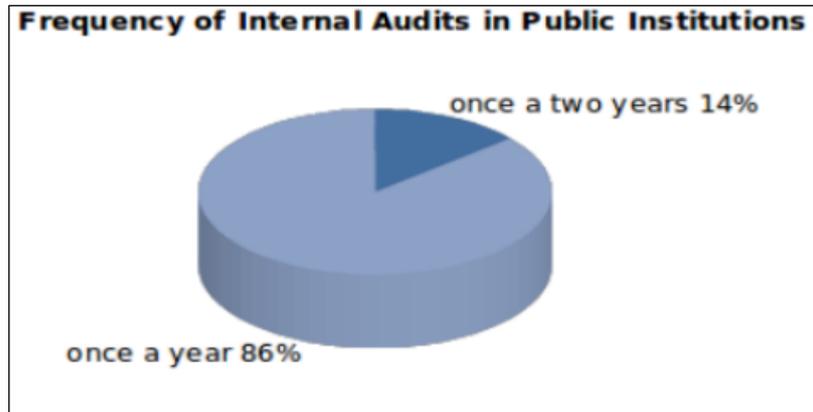
Regional Shkodra Hospital and University of Shkodra has internal audit sector under the mayor of the institutions. Educational Directorate/Offices of Shkodër, Pukë, Malësi e Madhe don't have internal audit as part of their organizational structure, but they are audited from Internal Audit Department under Ministry of Education. District and appeal courts don't have an internal audit department as part of their structure. These institutions are under High Council of Justice and is audit from their internal audit.

Appel and regional Prosecution don't have an internal audit as part of their organizational structure but they are under General Prosecution and are audits from Prosecution Council which analyzes the performance and give suggestions for disciplinary violation done from prosecutors.

From the results above, we can conclude that internal audit department, in general, is organized in top level, and only for some institutions is organized as local level. Exist some public institutions that don't have internal audit as part of their organizational structure but they are audited from public institutions they are under.

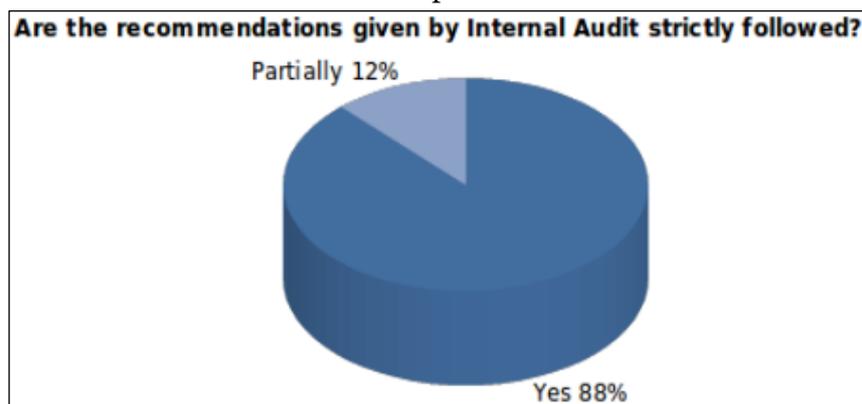
2. *“Are frequent audits that organizes this department in your institutions? How many times a year do you have an Internal Audits?”* – We can refer to the graph 1 and observe that full internal audits in public institutions are organized once a year in 86% of institutions, whereas in 14% of public institutions internal audit is realized once a two years. Internal Audit Department, except realizing general audits, it realizes thematic audits. Thematic audits are done for a special problem and are realized according to the request of mayor of institution. They can be implemented many times a year.

Graph 1



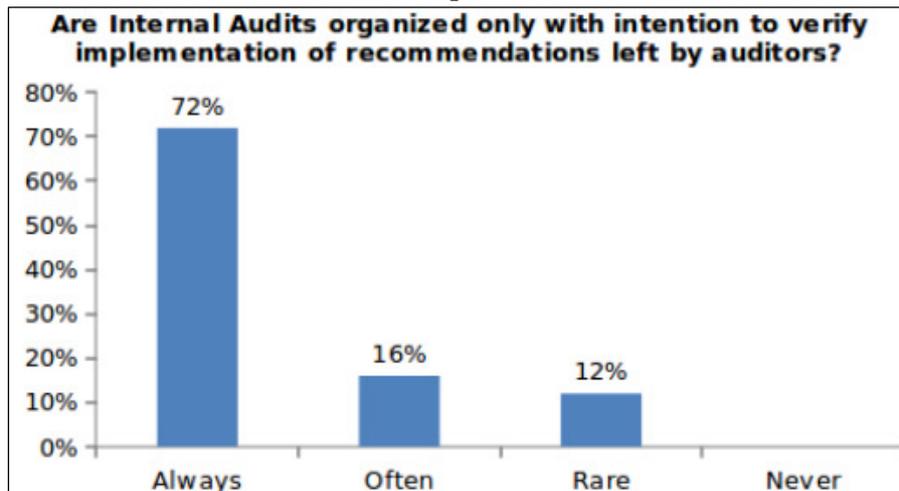
3. "Are the recommendations given by Internal Audit strictly followed?" – Internal Audit Department after realizing the audit give recommendations (instructions) for improving the performance according to the need and from answers taken (refer to the graph 2) results that 88% of public institutions execute strictly recommendations given by internal audit. Whereas 12% of public institutions implement partially the recommendation given by internal audit.

Graph 2



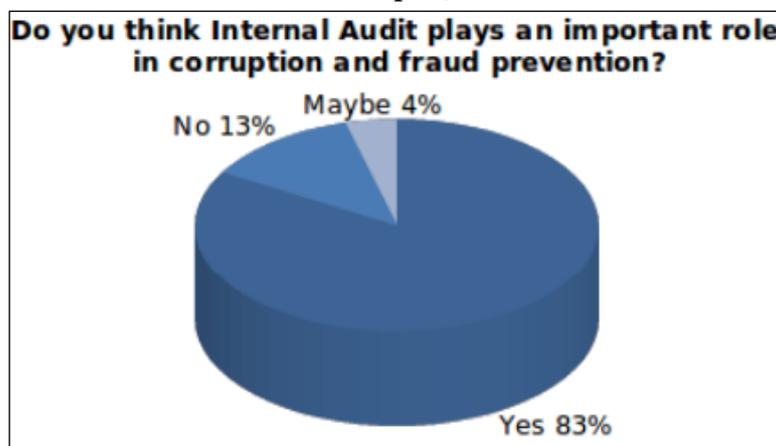
4. "Are internal audit organized only with intention to verify implementation of recommendations left by auditors?" – One of the objectives of internal audit is to control the tasks (recommendations) implementation left from all internal audits done in the institutions. From the answer taken results that in 72% of public institutions, internal audit are organized to verify if the tasks are implemented, in 16% of public institutions internal audit are organized often but not always, and 12% of public institutions internal audits with intentions to verify the implementations of tasks left are rare (refer to the graph 3). Time when internal audit verify recommendations implementation given by audit varies from institutions.

Graph 3



4. “Do you think Internal Audit plays an important role in corruption and fraud prevention?” – From the answers given, it results that major part of institutions, concretely 83% perceive internal audit department like a structure that prevent corruption and fraud from public employees. Whereas 13% think that internal audit doesn't play any role in fraud and corruption prevention and 5% think that maybe internal audit can prevent fraud and corruption, so they aren't sure for relationship between internal audit and corruption (refer to the graph 4).

Graph 4



5. “Do you think that internal audit job has objectivity and professionalism?” – From the answer given 24% think that internal audit staff is not qualified and not objective whereas 76% is qualified but not objective in their job performing.

6. “Internal Audit are realized from:” internal Audits in public institutions are realized from Internal Audit Units under Institution Mayor.

7. “Subcontracting a private company for realizing an internal audit in public institution, would increase the quality of Internal Audit?” – From the answer given 43% think that subcontracting would increase the quality of internal audit while 8% are against this statement, 37% are not sure for the result that could bring subcontracting and 12% don't have any idea.

Conclusions

In general, internal audit department is centrally organized and only for some public institutions it is organized like a local directorate. There exist institutions that do not have internal audits as part of their organizational structure but they are audited from the institutions that is dependent from. The absence of internal audit department is caused from the fact that some public institutions do not have much activity, cover a small area and has low number of employees.

Generally, it results that full internal audits in public institutions are done once a year. Internal audit must be more evident and should be done more often. Generally speaking, internal audit department organizes mostly always an internal audit to verify improvement of tasks left by previous audit, this is a good protective tool against fraud and corruption because it increases responsibility across employees and also authority of internal audit. It has yet, a lot of doubts for objectivity and impartiality, of audit performance in generally, including also internal audit, resulting in effectively decrease of internal audit like a preventive tool against corruption.

It is noticed that the internal audit is realized from the units of internal audit nearby the public institutions, which, as we said, are not very credible. One way to avoid partiality can be the subcontracting of internal auditors, because they can be more objective. However we take into consideration the fact that many subjects of private sectors that have transactions with public sector are corrupted too, and we can not say with certainty that subcontracting is a good solutions, even though one of the cures against corruption is considered privatization.

Except of being part of the organization structure, the internal audit sector should be effective in order to prevent corruption, because it is noticed that in the public institutions the internal audit exist but is not effective, and this justifies the high level of corruption. Corruption is higher in a public institution where the internal audit is not effective.

References

- Ministria e Financave, *Auditimi i Brendshëm në Sektorin Publik*, cikël leksionesh.
INSTAT në bashkëpunim me Zyrën e Kombeve të Bashkuara për Drogat dhe Krimin (2010).
Anketa mbi Përdorimin e Shërbimeve Publike dhe Integritetit Publik.
KAJSIU, Blendi (2010). Korrupsioni, si pasojë e privatizimit. *Panorama*, Nr. 2887, 25, p. 1, 14.
Ligjit nr. 9720, datë 23.04.2007. *Për auditimin e brendshëm në sektorin public*.