Combating Corruption through the Audit System? The Transformation of Auditing in International Organizations

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Agenda

- Introduction
- Aim of the research
- Methods
- Evidences from six case studies
- Three models of auditing
- Discussion and conclusions
Introduction

- Rising importance of International Organizations in the economic and social scenario
  - But also corruption, frauds and mismanagement episodes;
  - Critics on the level of democratic representativeness of the decision making procedures in IOs;
  - Concerns about IOs’ accountability
  - Strong requests of reforms for IOs
  - Scarce attention to IOs’ Audit Systems reforms
Aims of the research

- To analyze the transformation of audit systems in IOs;
- To explore theoretically and empirically the new role of auditing in IOs;
- Speculate on possible outcome for corruption fight.
Methods

- Multiple case studies
  - Extensive analysis of internal documents (manuals, handbooks, reports, commission reports ....)

- Criteria for selecting the case studies:
  - Largest and most visible IOs
  - Different fields of activities
    - Financial monetary institutions (IMF, WB)
    - Economic rulers (WTO)
    - Human right standards setting (UN, CoE)
    - Social problems tackling (Oecd)

- Five criteria for analysis
  - Type of auditors, quantity of audit services, type of audit, composition of external audit body(ies), type of standards
Context of the audit reform

- Audit reforms are part of the general managerial reform (Pollitt – Summa 2002):
  - The tide of Public Management;
- with some peculiarities
  - The Rise of the Pro-Accountability Coalition;
  - Public Scandals about Mismanagement in IOs
Evidences from six case studies

- United Nations
  - In the 50s was audited by 2 external bodies (financial and compliance audit)
  - In the 60s added the Joint Inspection Unit
  - In 1994 the Office of Internal Oversight Services was added (divided in 3 division – evaluation, internal audit and inspection)
  - In 2005 the Independent Audit Advisory Committee was added;
  - Toward a full range of audit services, more bodies, intertwined responsibilities, multiple standards
Evidences from six case studies

○ World Bank
  - In the 70s there were an internal audit office, an external evaluator, an evaluation office;
  - 1992 Inspection Panel was added;
  - 1997 Internal Audit Department Investigation Unit was established;
  - 2007 Independent Advisory Board was required;
  - Toward a full range of audit services, more bodies, intertwined responsibilities, multiple standards
Evidences from six case studies

- International Monetary Fund
  - Began with very limited audit architecture – compliance and financial
  - 1990 started performance audit
  - 2000 an Ethics Office was established
  - 2001 created the Internal Evaluation Office
  - An external audit firm is hired for external audit services
  - 2008 integrity hot line was established
  - 2011 Office of Int. Audit and Inspect. In charge of overseeing the IEO;
  - Multiple auditors, multiple standards, toward the full range of audit services...
Evidences from six case studies

- Council of Europe
  - Began with an external auditor and an internal financial comptroller;
  - 2001 Internal Auditor was established;
  - 2008 Audit Committee was established;
  - 2010 creation of the Directorate of Internal Oversight
  - Multiple bodies, toward the full range of audit services, multiple standards
Evidences from six case studies

- **Organization for Economic Cooperation and Development**
  - Started with the only External Auditor,
  - 2003 Internal audit office in charge of performance audit
  - 2005 Evaluation committee was established;
  - 2006 Internal audit office in charge of evaluation
  - 2008 Audit Committee was established;
  - Multiple audit, toward the full range of audit services, controls of controls...
Evidences from six case studies

- World Trade Organization
  - Started with the only external auditor
  - 2008 internal auditor was added;
  - Extension of audit services (including ethics, performance, inspection...)
  - Only 2 actors, toward the full range of audit services...
# Three models of auditing

<table>
<thead>
<tr>
<th></th>
<th>Single-Audit Model</th>
<th>Dual-Audit Model</th>
<th>Multi-Audit Model</th>
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</thead>
<tbody>
<tr>
<td><strong>Type of auditors</strong></td>
<td>External</td>
<td>Internal + external</td>
<td>Multiple internal oversight bodies + multiple external oversight bodies + private audit companies</td>
</tr>
<tr>
<td><strong>No. of auditors</strong></td>
<td>1 external</td>
<td>1 internal, 1 external</td>
<td>More than one external and internal oversight body</td>
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<tr>
<td><strong>Interaction between audit actors</strong></td>
<td>Not necessary</td>
<td>Limited or no coordination among actors</td>
<td>extended centralized coordination</td>
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<td><strong>Composition of external audit boards</strong></td>
<td>1. One single country rotation system 2. Appointed members from different countries.</td>
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<td>One country contracted or members from different countries</td>
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<tr>
<td><strong>Standards</strong></td>
<td>Internal to the IO</td>
<td>Internal to the IO and international</td>
<td>Internal to the IO and international</td>
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Discussion and conclusions 1/2

Given the clear trend toward the Multi-audit model, how can this be explained? What the possible consequences for corruption fights?

- Isomorphic behaviours (Park 2010, Grigorescu, 2008)
- Response to organisational increasing complexity?
- Power’s “audit explosion”?
  - More audit services;
  - Wider range of audit services;
  - Demand of audit services;
  - Supply side influence;
Discussion and conclusions 2/2

- Audit as legitimizing tool – decoupling

- Limitations and the “to do” list:
  - Not a statistically representative pool
  - Use of interviews for a more in-depth analysis;
  - Role of SAI in influencing the reform;
  - Role of individuals, leadership and member state’s interest in the reform