HOW AUDITING CAN BE DIRECTED AGAINST CORRUPTION: THE CASE OF BRAZIL'S MUNICIPALITY-FACING AUDITING PROGRAMME

Working Paper

July 2018

Sérgio N Seabra[2]

Blavatnik School of Government

University of Oxford

Abstract

The wrongful exercise of authority over the use of public money is a major issue for public governance in many countries. As a tool of public governance, auditing is often directed against public office-holders' corrupt activities and behaviour. This paper seeks to advance knowledge about applying auditing for this purpose. It clarifies two broad necessities of auditing-against-corruption: (a) preventing and detecting the corrupt activities and behaviour of a target population of public office-holders; and, (b) forestalling political pressure against the audit agency's independence in government and/or the professional discretion of its auditing staff. These twin necessities of auditing-against-corruption do not sit easily together, which poses a challenge for audit agency leadership. The paper shows how these characteristic challenges of auditing-against-corruption can be neutralised, through a case study of a nation-wide auditing programme of Brazil's Controller-General Office, where the target population was top local government office-holders. The case analysis can be used as a design precedent for programme implementation and organisational leadership in other settings where auditing-against-corruption is the part of the audit agency's strategy.

Introduction

Public sector corruption is a recurring and pervasive governance problem that affects all countries.[3] The inability to check corruption is harmful for economies, societies, and, of course, the individual members of each (c.f. Rose-Ackerman and Palifka, 2016; Rothstein, 2011). While the economic and social costs of corruption have been long been established in the literature,[4] the same cannot be said about the best way to fight it (Avis et al, 2016). The seminal work of Becker (1968; Becker and Stigler, 1974) suggests that the risk of being caught is crucial for deterring corrupt behaviour. Considering that auditing programmes are important mechanisms to detect such behaviour, they can play an important role in government efforts to reduce corruption. The impact of auditing in corruption reduction has also been demonstrated by several empirical studies (Avis et al, 2016; Lichand et al, 2016; Bobonis et al, 2016; Zamboni and Litschig, 2015; Ferraz and Finan, 2011; Olken, 2007).

However, the effectiveness of auditing organisations and programmes on reducing corruption depends primarily on how they are organised and how they operate (Gustavson, 2015; Gustavson and Sundström, 2016). Designing and implementing 'auditing-against-corruption' strategies is a challenging task for practitioners leading these audit organisations. Yet there is a lack of research designed with the express purpose of advancing knowledge that could be used by practitioners in solving the problems that come into play when they decide to implement auditing-against-corruption programmes.

This paper seeks to address this gap in the literature by focusing on the characteristic necessities that are essential to auditing-against-corruption strategies, namely: (a) detecting corrupt activities and ensuring that actors of the detected corruption will receive adequate punishment; and (b) protecting the institutional autonomy of the audit organisation (including its decision-making activity) and the professional autonomy of their staff. These two necessities are linked: first, institutional autonomy without deterrence is insufficient to fight corruption, while attempts to fight corruption that sacrifice institutional autonomy will ultimately be unsuccessful.

---

[3] See the Transparency International's Corruption Perception at https://www.transparency.org/news/feature/corruption_perceptions_index_2016 for an indicator of the pervasiveness of corruption across the world. accessed October, 27, 2017

[4] United Nations estimates that corruption costs some US$ 1.26 trillion per year for developing country, an amount that could be used, for instance, to eliminate extreme poverty for at least six years (http://www.un.org/sustainabledevelopment/peace-justice/; accessed October, 27, 2017); See also, for example, Ferraz et al (2012) for estimations of the impact of corruption on educational results in Brazil.

Neither a programme theory nor theory of change of auditing-against-corruption have been formulated. However ideas about deterrence that are well established in fields like criminology (c.f. Becker, 1968; Becker and Stigler, 1974), provide a good starting point for formulating a programme theory of auditing against corruption. Such a programme theory, in turn, points to how at least some of the requirements of auditing-against-corruption can be satisfied.

The theory logic stems from the proposition that corrupt behaviour tends to diminish when the likelihood of apprehension and the severity of penalty are perceived as increased. The implication of deterrence theory for an audit-programme theory is that the auditing activities in their totality must result in a general perception among its targets that corrupt behavior has a high likelihood of detection. Another implication is that there is also the perception that detection will lead to adequate punishment. As the deviant behaviour is detected, cases brought to tribunals will be strong enough to lead to sentences, which provide sanctions in accordance with the full extent of the law.

However, deterrence effects can be weak even when fear of being detected is high. Deterrence requires that detection will lead to adverse consequences. Yet such consequences depend on tribunals being supported by properly obtained evidence; typically the collection of such evidence depends on the exercise of police and prosecutorial powers, which are generally denied the capacity to audit organisations. The implication is that activating deterrence effects will depend on auditing organisations working collaboratively with the institutions that hold and exercise such powers. Because of this interdependence of auditing and investigative activities, an issue for programme theory formulation rests in the initiation and development of inter-organisational collaboration – challenges that are well established in the public management literature (c.f. Bardach, 1998).

The other requirement highlighted above concerns the preservation of institutional autonomy. While institutional autonomy and audit effectiveness go hand-in-hand as complementary elements of a compliance system, they have a more complicated relationship in the realm of institutional politics. The more effective an auditing organisation is in preventing and detecting corruption, the more it will be subject to pressure from those with political power who fear it. Agents who either stand to gain from corrupt practices, or can only lose by refraining from them, have no reason to support the maintenance of auditing programmes or organisations that can jeopardise their rents (c.f. Rothstein, 2011). In short, "when you fight corruption, corruption fights back"[5]

---

[5] This is a quote from a talk and interview of Nuhu Ribadu, a former chairman of Nigeria's Economic and Financial Crimes Commission who received death threats after his intense 'crusade' against high-level

This paper contributes to knowledge about the necessities, challenges, and solutions to the recurring and indeed pervasive scourge of public sector corruption, through an analysis of the delivery of audit programmes and the management of audit organisations. I do so by examining solutions to the challenge of satisfying the twin necessities of preventing corruption, and forestalling political pressure against the audit agency's independence in government and/or the professional discretion of its auditing staff.

I use an analytical framework centred on programme evaluation, to study how actual programmes work to achieve their programme-intent, (Pawson and Tilley, 1997). The paper also utilises the public management perspective, which considers the relationship between an organisation with its institutional and political environment, particularly, to gain support and legitimacy for the functioning of its operation (Moore, 1995). These are different, but complementary, approaches to the examination of the same phenomenon, each with meaning in relation to the task of advancing professional knowledge about audit organisations and audit programmes, considered as means for pursuing goals related to reducing corruption.

In order to do this, I employ a qualitative research design, focusing on how the Controladoria-Geral da União's (hereafter CGU) municipality-facing auditing programme (hereafter MFAP) worked in satisfying the twin necessities which are vital to undertaking auditing-against-corruption, namely: preventing corruption and forestalling political pressure against the audit agency's independence in government and/or the professional discretion of its auditing staff. The need to advance knowledge about reducing corruption in contexts where auditing plays an important role can be easily appreciated for the following reasons: (a) almost all countries have national audit organizations as a mechanism for enhancing public accountability and, consequently, deterring public agents from norm deviation and corrupt behavior; (b) the effectiveness of auditing organizations in generating lower degrees of corruption ultimately depends on how they are organized and operated; and (c) there is a gap in the public administration literature about how to do that.

The structure of the paper is as follows. The next section focuses on research design, where an overview of the perspectives by which the "empirical phenomenon" (Yin, 2014) is examined. It begins with a static (entity) perspective, which provides a clear and comprehensive description of the programme and its relationship with its context. It then turns to a 'temporal' perspective of the empirical phenomenon, which consists of a series of high-level changes in the CGU's value-chain configuration over time, including the

---

corruption. See http://www.tedxberlin.de/nuhu-ribadu-when-you-fight-corruption-it-fights-back and http://www.nytimes.com/2009/06/10/world/africa/10zambia.html. Accessed 26, October 2017

MFAP and other related events. After these descriptions of the empirical phenomenon the paper presents the analysis of the case and a conclusion.[6]

Research Design

The means of investigation is through a case study. As an 'empirical phenomenon' (Yin, 2014), the case selected represents a variant form of auditing programme, where municipal governments are targeted. This programme exists in Brazil, a country with 5,570 municipalities, which together execute much of the Federal budget. The MFAP began in 2003 and is delivered by the federal government's CGU.

The effectiveness of the CGU's MFAP in preventing local government corruption has been demonstrated by several empirical studies. For example, drawing on a dataset of almost 2,000 audit reports published during the operation of the programme, Avis et al (2016) found that the audits reduced future corruption in municipalities by approximately 15 per cent. Similarly, Lichand et al (2016), by measuring the level of corruption before and after the beginning of the programme, demonstrated that the audits "substantially" reduced corruption practices by over half its baseline prevalence. While Zamboni and Litschig (2015) compared groups of municipalities that had been subjected to different likelihoods of being audited by the CGU's MFAP and concluded that public officials reduced rent extraction when they were exposed to higher risk of being audited. Finally, Ferraz and Finan (2011), demonstrated that the MFAP reduced corruption practices of incumbent politicians, most notably in municipalities where mayors could run for reelection.

A key feature of the CGU's MFAP is the mechanism used to accomplish the programme's audit selection function. In form, the mechanism for audit selection is a periodic random draw from the universe of municipalities. Municipalities are selected in public events, with substantial media coverage, using the same structure and procedure of the National Lottery. Just few days after been selected the municipalities received a team of auditors prepped for carrying out in-depth inspection to check the *actual* use of most funds transferred from Federal Government ministries.

---

[6] These perspectives are borrowed from Barzelay *et al.* (forthcoming)

The Municipality-Facing Auditing Programme: Entity and Temporal Perspectives

I evaluate the case using complementary 'entity' and 'temporal' perspective on social reality, beginning with the former. Figure 1 depicts the entity perspective. This perspective is constructed through identifying webs of conditions on differing social scales. The resulting entity perspective construct is stratified into micro-, meso-, and macro-level social orders (Fligstein and McAdam, 2012). From this perspective, the MFAP is a web of conditions located within the micro-level social order. As such, the webs of conditions at higher-levels are contextual in relation to this programme.

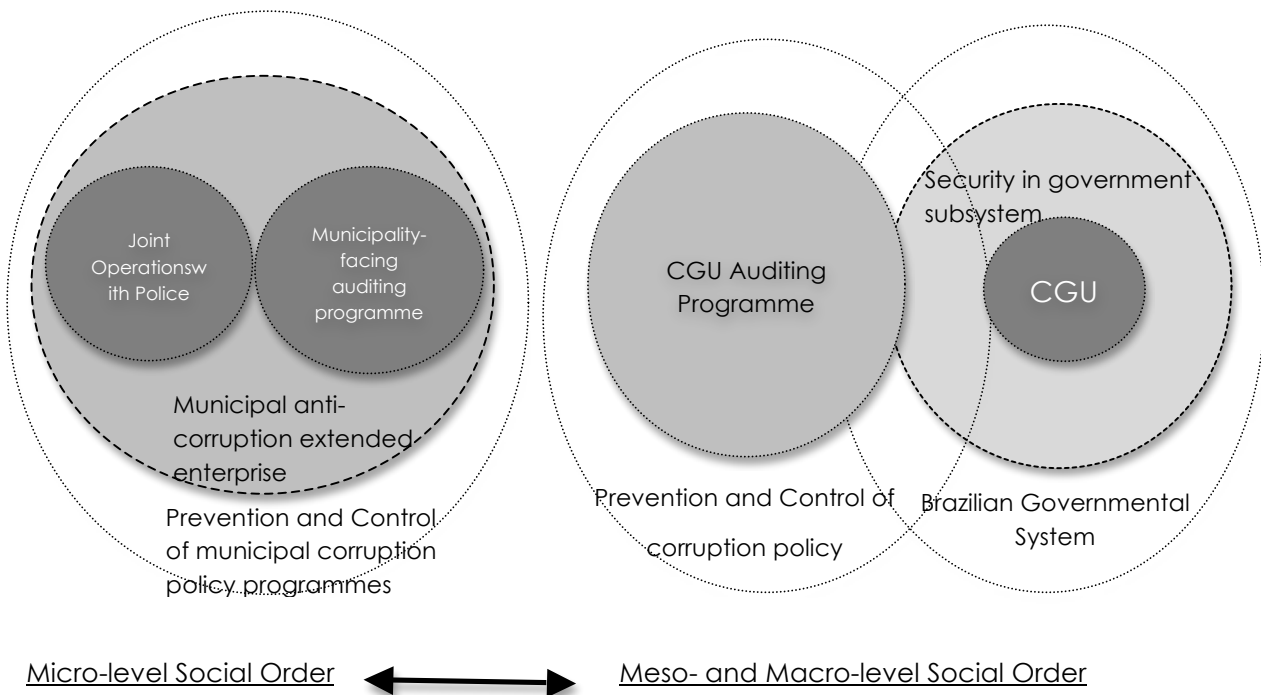The meso-level social order includes the CGU as a formal organisation within

Micro-level Social Order ⟷ Meso- and Macro-level Social Order

**Figure 1. Entity Perspective on the Empirical Phenomenon**

Brazil's public administration as well as its full line of 'review activities' (Barzelay, 1997), including programme and compliance auditing of federal-level entities. The macro-level social order includes Brazil's governmental system as a whole, and within it, an 'ecology of subsystems' (Abbott, 2016, Weaver and Rockman, 1991, Baumgartner and Jones, 1994). This ecology of subsystems includes the 'internal and external control subsystem' (Barzelay, Levy, and Porras, 2011), manifested institutionally not only in the CGU (within the executive branch) but also in the Court of Accounts (the supreme audit institution). The ecology of subsystems also includes the anti-corruption functional domain; its institutional manifestation includes the Federal Police, the Public Ministry (the independent

agency for the prosecution function), and the judicial courts. Finally, the ecology of subsystems includes the centre of government; its institutional manifestation includes the staff units within (a) the institutional presidency (such as the 'Civil House'), (b) the Ministry of Planning, Budgeting, and Management, and (c) the Ministry of Finance.

Returning to the micro-level, the MFAP can be thought of as a value system (c.f. Porter, 1995), which can be disaggregated into two linked value chain configurations. One value chain configuration consists in auditing activities over which the CGU holds authority, the other value chain configuration consists in enforcement activities over which the Federal Police, the Public Ministry, and the judicial courts hold authority. The way in which the two value chains are linked is not represented explicitly in this construct: it is a matter of detail (though this designation has no implications for its importance).

By clarifying the institutional setting in this way, the ideas of operational capacity and institutional support can be particularised (and thereby also illustrated). The operational capacity of Brazil's auditing-against-corruption programme depends on relations among entities within the micro-level: specifically, (a) the programme's auditing value chain and (b) the programme's enforcement value chain. The relationship between these two programme value chains can be seen as functional-technical, as well as 'presentational' (Simons, 2001) or 'dramaturgical' (Goffman, 1959) as indicated by the label of 'joint operations' between the CGU and the Federal Police. In turn, institutional support for the programme depends on the CGU as a formal organisation (located at the meso-level), given that it is the site where allocations of resources under the agency's discretion are decided. Institutional support for the MFAP also depends on the ecology of subsystems 'at macro-level.' In particular, resourcing for MFAP depends on the CGU's funding, and the CGU's funding depends markedly on the 'centre of government subsystem.' In addition, institutional support of collaboration between the CGU members and Federal Police members (at the micro-level) depends on both the CGU as a formal organisation (at the meso-level) and on the anti-corruption functional subsystem (at the macro-level). Finally, institutional support for the MFAP depends on 'ligations' (Abbott, 2016) between the anti-corruption functional subsystem and the internal and external control subsystem (at the macro-level).

Figure 2 presents the empirical phenomenon from a temporal perspective. It describes the MFAP as a slice of history, further divided into two main periods: (a) before the programme began (labeled here as prior events), and (b) once the programme began.

Figure 2. Temporal Perspective on the Empirical Phenomenon
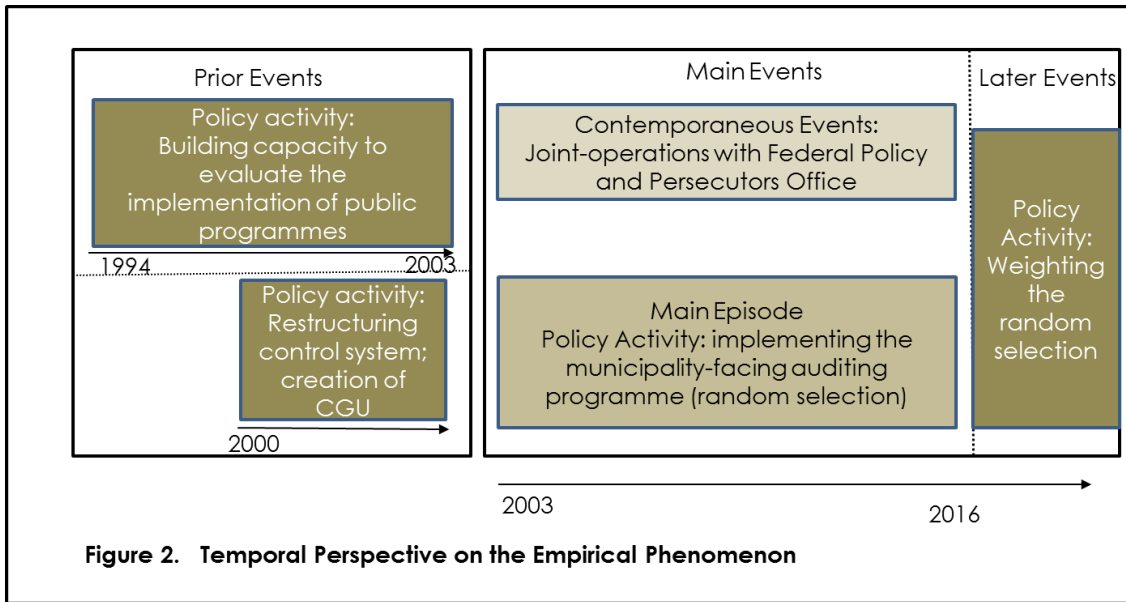
Chronological Background: Prior events and Meso-Level Social Order

Building up the auditing capacity and the creation of the CGU within the Federal Executive Branch

Until 1994 Brazil did not have a specific structure to coordinate the auditing activities of the federal government. By then the general coordination of auditing system (i.e. the elaboration of general norms and guidance) was part of the mandate of the National Treasury Secretariat, an organisational unit within the structure of the Ministry of Finance, which was also responsible for accomplishing the governmental function of financial management and accounting. Auditing activities were carried out by an internal auditing unit inside each ministry – these units were known as the Secretariat of Internal Control (mostly known by the acronym of CISET), (Olivieri, 2010). In this structural arrangement, the head of the CISET and its resources were respectively appointed and defined by the respective Ministers.

The auditing was carried out mostly in Brasilia, where all the ministries were located. When auditing included federal organisations located outside Brasilia, the auditors would travel to the place for carrying out the audits. From an operational perspective, the annual audit activities were designed to evaluate the compliance with norms (e.g. procurement, personnel, finance, budget), but with limited 'depth' in terms of the kind of tests required to enable

auditors to form an opinion about the correct and effective use of public funds. This was an important because, as mentioned above, much of a ministry's budget is transferred to municipalities for the implementation of the programmes. Yet, there were no systematic activities in place to conduct *in loco* inspections to check what happened after the money was transferred to the municipalities. Hence, the auditing system of the executive federal government was not yet able to fulfill what would be considered as one of its more important constitutional mandates: 'evaluating the implementation of the public programmes.'[7]

The establishment of a specific organisation to coordinate the auditing activities within the federal executive branch was only possible with the creation of the Federal Secretariat of Control (hereafter SFC) in April 1994, as part of the organisational structure of the Ministry of Finance. In the same Act[8] that created the SFC, the CISETs were transferred from the organisational structure of the ministries to the organisational structure of the SFC, though they physically remained inside the Ministries' buildings. Another important event was the creation of the regional units of the SFC (called Federal Office of Control – "Delegacia Federal de Controle") in the capital of every state.

With the creation of the SFC, efforts to establish a value-chain configuration of auditing activities aimed at evaluating the implementation of the public programmes started to gain traction. The operation and logistics support afforded by the regional offices paved the way for conducting the *in loco* inspections that were needed to check the actual implementation of the programmes in the municipalities, within a reasonable time and budget. The implementation of this new line of auditing was based on two principles: centralisation of the normative and planning activities of the auditing in the SFC and the CISETS in Brasilia, and de-centralisation of the auditing execution to the regional offices across the country, (Olivieri, 2010). Under this operational regime, the regional offices had no autonomy to define what would be audited and how it would be audited. The definition of the audit programme, its scope, methodology and the specific audit tasks were defined in the CISETs, under SFC guidance and supervision, by auditors teams specialised by government sector. Once the planning of an audit was concluded, the headquarters transmitted a 'service order' to the designated regional office with a detailed description of the specific tasks to be carried out. The audit report drafted by the regional offices was also subject to quality review by the SFC headquarters.

---

[7] Brazil Federal Constitution, Article 74.

[8] Provisory Measure 480, of 27/04/1994. Provisory measures are a kind of law, written and sent to the congress by the President of the Republic, but whose effect starts when the congress received them, and before the congress approval.
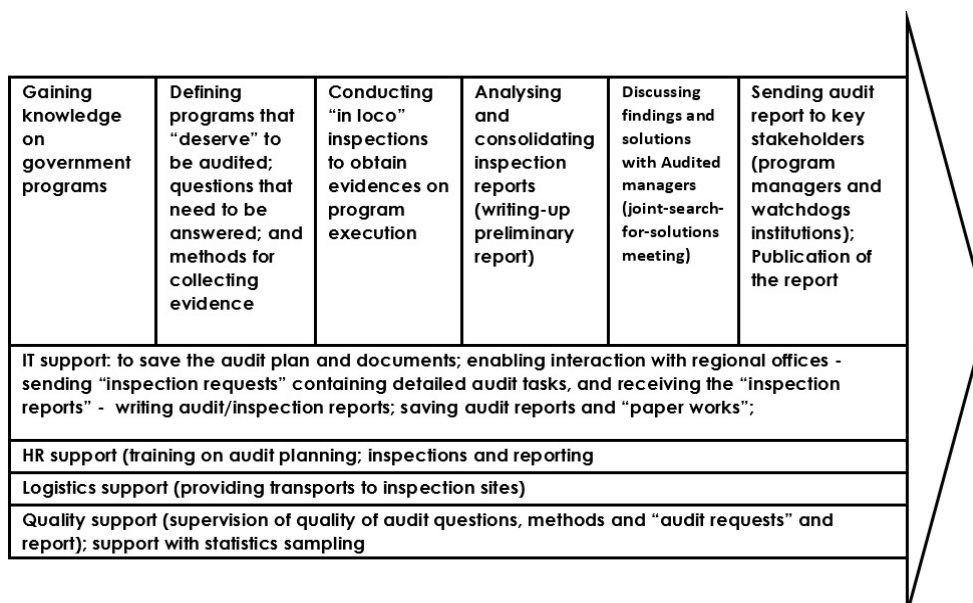
Gaining knowledge on government programs	Defining programs that "deserve" to be audited; questions that need to be answered; and methods for collecting evidence	Conducting "in loco" inspections to obtain evidences on program execution	Analysing and consolidating inspection reports (writing-up preliminary report)	Discussing findings and solutions with Audited managers (joint-search-for-solutions meeting)	Sending audit report to key stakeholders (program managers and watchdogs institutions); Publication of the report
IT support: to save the audit plan and documents; enabling interaction with regional offices - sending "inspection requests" containing detailed audit tasks, and receiving the "inspection reports" - writing audit/inspection reports; saving audit reports and "paper works";					
HR support (training on audit planning; inspections and reporting					
Logistics support (providing transports to inspection sites)					
Quality support (supervision of quality of audit questions, methods and "audit requests" and report); support with statistics sampling					

Figure 3 – Value Chain of the audit aimed at evaluating the implementation of Public Programmes

In 2000 the CISETs were discontinued and its resources and activities were incorporated into the SFC. This change afforded more power and independence to the audit system coordinated by the SFC. The complete value-chain of this activity is presented in Figure 3. Following this methodology, in 2002, more than 16,000 service orders had been executed in more than 2,500 municipalities as part of the process to evaluate approximately 150 public programmes (or aspects of the programmes)[9].

In 2003, the recently elected President Lula took office and implemented a series of changes in the federal executive government administrative apparatus. An important change that affected the policy subsystem was the creation of the CGU and its positioning within the organisational structure of the Presidency of the Republic, with ministerial status.[10] Thus the SFC moved from the Ministry of Finance and became one of the CGU's three core activities – the others being the Administrative Sanctioning Unit and Ombudsman[11].

---

[9] Annual Account of the President of the Republic, referent to the calendar/fiscal year of 2002

[10] Provisional Measure 103, of 01/01/2003

[11] The fourth was the Secretariat of Corruption Prevention and Intelligence, created later on 2005 and transformed into Secretariat of Transparency and Corruption Prevention in 2011.

The Administrative Sanctioning Unit was responsible for implementing the administrative proceedings in order to impose sanctions against federal civil servants and companies that committed illegal actions in their contractual relationship with the government. The Ombudsman Office was mainly responsible for establishing a unique channel of communication between the citizens and the government, and to provide adequate treatment to the complaints and denunciations received from citizens. For most of the cases this meant directing them to the SFC so that their complaints could serve as input to future auditing tasks.

Main Event: The origin and implementation of the CGU's auditing programme on randomly selected municipalities.

The organisational configuration of the then-recently created CGU represented the new government's intention to have an organisation within the federal executive branch with an extended mandate, authority and resources to tackle the diverse facets of corruption.

The first step in this direction was the integration of three previously disconnected governmental activities—auditing, ombudsman and administrative sanctioning—by including them in the same organisation (CGU, 2013). There was a synergy among these activities: ombudsman information were fed into auditing; auditing reports that identified wrongdoing committed by federal employees were sent to the sanctioning unit for administrative proceedings; this in turn, generated more enforcement of the audit's recommendations among federal managers. The authority of the CGU was strengthened by its ministerial status and its re-positioning inside the Presidency of the Republic's organisational structure. The managerial status afforded the CGU the authority to implement its policies without the need of ministerial approval and the head of CGU could easily interact with the other ministers and other organisations of the same policy subsystem (such as the Public Prosecutors Office and the Federal Police).

During the first weeks, the new Minister of the CGU discussed several initiatives (Balbe, 2013). The Minister's intention was to promote transparency, foster public oversight over the use of public funds, and strengthen inter-organisational interaction. He was presented with the SFC's auditing programme which was aimed at evaluating the implementation of public programmes. In particular, he was impressed with the SFC's capacity to carry out *in loco* inspections in interaction with the regional offices (Balbe, 2013). However, the Minister felt that the programme did not get enough attention from the local population, thereby providing little incentive for local managers

to improve their implementation of public programmemes or reduce local corruption. It was under these circumstances that the idea of the MFAP was born (Balbe, 2013).

The MFAP took advantage of the established value-chain configuration of the auditing programme designed to evaluate the implementation of public programmes. However, it represented a significant change in the focus of the audits: from evaluating the public programmes to evaluating the management of the money transferred to municipalities in order to implement these public programmes. A special feature of the programme was the random selection of the municipalities in a public event, conducted by the same organisation, method and place used to draw the numbers of the national lottery. Both the periodic random draw and the publication of the results of the municipalities were highly dramatised, in collaboration with national and local media outlets.

Another important feature of the programme was the frequency, intensity and timeframe of the audits. During the first two years there were 14 rounds of draws that selected (in each round) 60 or fewer municipalities (CGU, 2004). A few days after the selection, the "inspection orders" were transmitted to regional offices, which assembled a group of 10 to 20 auditors to, in a short period, conduct the audit tasks to evaluate the use of the almost all grants transferred by the Federal Government. Petherick (2017) explains how this process was carried out:

> The auditors interview residents about the availability of public goods and services. They measure public toilet blocks to see if these are smaller than described in invoices. Sometimes they even invite themselves into hospitals to verify that individual items of equipment really were purchased. Whatever the auditors uncover appears in an online report, (Petherick, 2017)

The first selection event took place in April 2003, with the participation of high-level authorities (such as the Vice-President of the Republic, the President of Supreme Court, and Ministers, to cite just three) and received massive media coverage. In the second draw, the President of the Republic himself was present. The programme provided much visibility to the recently created CGU and was successful in its goal of mobilising citizen participation, (Oliviere, 2010). Indeed, in several municipalities, the auditors' team was well received by locals, who were eager to present complaints in relation to the public programmes provided by municipalities. To some degree, the MFAP contributed to reduce what Power (1999) called 'the expectation gap' between citizens and governmental auditing.

After being carefully reviewed by teams of auditors at the CGU's headquarters in Brasilia, the inspection reports of many audited municipality were then published online, and sent to some media outlets (in the form of press releases), as well as to other accountability institutions, such as the Federal Prosecutor's Office (Public Ministry), the Federal Court of Accounts, State Court of Accounts, Federal Ministries (responsible for the public programmes), Congress and, in some cases, to the Federal Police. The programme has run smoothly since its inception in 2003, although the quantity of audit rounds per year began to reduce after a couple of years – primarily for reasons of cost. Between 2003 and 2015 however, 40 audit rounds were conducted, encompassing more than 2,200 municipalities.

As expected, the programme faced a backlash from some politicians. Some was explicit, such as the case of some municipalities, and association of municipalities, which initiated legal action against the CGU on two occasions, essentially claiming that the CGU had no jurisdiction to audit them and accused the CGU for having a partisan motivation (Oliviere, 2010). The Federation of the Municipalities of the State of Maranhão and the Union of Municipalities of the State of Bahia also took legal action against the publication of the audit's reports online. By 2007, seven cases reached the Superior Court of Justice, (Tribunal de Contas da União Acórdão , 2007). All cases were rejected by the judges, who confirmed the jurisdiction of the CGU, the unbiased nature of the selection process, and the CGU's right to publish the reports, (Tribunal de Contas da União Acórdão, 2007). The Mayor of the Municipality São Francisco do Conde-Bahia, appealed to the Supreme Court (the highest judicial authority in Brazil) sustaining that the CGU had no jurisdiction to audit the Municipality. Again, however, the CGU's legal authority to carry out audits on federal resources sent to municipalities was confirmed and the issue was settled, (STF Recurso Ordinário em mandado de segurança , 2010).

On the political front, one political party published a negative manifestation against the programme and made a formal request to the Federal Court of Accounts (TCU) – an organisation that supports Congress in its role to oversee the Executive branch – to audit the CGU, on the basis of an alleged bias in the selection of municipalities. After conducting several statistical tests, the TCU reinforced that the draw of municipalities were free of political bias, (Tribunal de Contas da União Acórdão, 2007). Finally, the MFAP was the subject of several speeches by some Members of Parliament against the programme, (Tribunal de Contas da União Acórdão, 2007). Yet the programme managed to run relatively unimpeded over a considerable period of time.

Contemporaneous Related Event: The Special Operations with the Federal Police

By the end 2003, with the new configuration of the CGU and the recently launched MFAP, the CGU's strategic intent to fight corruption was already apparent. It was also clear that the accomplishment of this goal would invariably involve the reduction of the widespread sense of impunity within the society in general and potential offenders in particular – a task to which auditing had very limited instruments and authority to succeed in on its own. The solution was to strengthen partnerships with other organisations with power to advance investigation and prosecution of criminal offenses, notably the Federal Police Department and the Federal Prosecutors Office.

These partnerships went beyond the simple exchange of information. Instead, the organisations (especially the CGU and the Federal Police) started to work together to advance investigations into indications of corruption identified by either the CGU's auditors or the Federal Police. The synergy in this collaboration was evident: on the one hand, the CGU had the know-how about public programmes, procurement, contracts and all sort of regulations, as well as access to several electronic databases of federal programmes. On the other hand, it lacked the legal tools to advance investigations. Meanwhile, the Federal Police did not always have access to these particular skills among police agents, though it did have all the tools, technology and knowledge for advancing criminal investigations. As such, both organisations seized the opportunity to work together to accomplish their shared intention to reduce corruption.

The programme worked as follows: once an indication of fraud or corruption was identified by the CGU's auditing, the auditors presented the case to the Federal Police, which then requested judicial authorisation for sharing information with the CGU. With judicial authorisation, auditors could then participate in the investigation, by conducting audits and inspections, in strict collaboration and interaction with the Police. The CGU's auditors participated in most of the phases of the investigation, including the execution of the operation, when—with judicial warrant—"search and seizure", and/or arrests (both temporary and preventative) were conducted.

The participation of the CGU in the joint-operations with the Federal Police afforded more visibility to the CGU, since its name was in the headlines of the most local, and sometimes national, TV news, radio and newspapers that broadcasted the operation. In general, the media tended to give credit only to the police during the execution of the operations. In order to increase the chances of the CGU receiving more credit for the operations, some simple, but effective, procedures were taken, such as: during the operations the auditors used a vest with the logo of the CGU in the back; a representative of

the CGU (usually the head of the regional offices) always participated in press conferences, together with the Federal Police Delegate and the Prosecutor; and the press releases were usually written together and sent by both organisations, at the same time, to media outlets. The operations were also highlighted on the CGU's webpage.

From 2003 to November 2017 more than 300 joint-operations had been conducted in almost all states and involving many municipalities.[12] The joint-operations (or 'special operations' as they are called by the CGU) have become a permanent audit programme of the CGU, and an organisational structure has been created inside SFC and the regional offices, with dedicated people and resources, to carry out the related activities.

This programme provided the "teeth" that the CGU needed to fulfill its strategic intent to reduce corruption. Despite the debate among auditors, practitioners, and professional associations on whether fighting corruption was the primary (or should be a) role of governmental audit organisations, the CGU auditors were said to be satisfied with the programme, since they could see corruption scheme being disrupted as a result of their work (Olivieri, 2010).

Analysis

Generating a Deterrence Effect: Individual Reasoning and Programme Design

This paper now turns to analyse and understand how the MFAP worked in satisfying the twin necessities of preventing corruption and forestalling political pressure against the audit agency's independence in government and/or the professional discretion of its auditing staff.

Starting with the former, in this section I use an analytical framework consistent with Pawson and Tilley (1997), in which the outcome of a programme is a result of mechanisms acting in context. Schematically, this is represented by the following formula: O = M + C, where "O" stands for Outcome, "M" for mechanisms and "C" for context. A programme mechanism represents the process of how subjects interpret and act upon the programme's intervention stratagem (Pawson and Tilley, 2004).

Consistent with sociological explanations that consider the combination of agency and structure (c.f. Giddens, 1979, Sztompka, 1991), propositions about mechanisms demonstrate how output follows from individual reasoning (i.e. 'what is the desirability of the ideas promoted by a programme?') and

---

[12] See http://www.cgu.gov.br/assuntos/auditoria-e-fiscalizacao/acoes-investigativas/operacoes-especiais, for the list of the operations executed to date. Accessed December 01,2017

programme capacity (i.e. 'does the programme provide the means for subjects to change their minds?') (Pawson and Tilley, 1997:55). By using this notion of social mechanisms we can take a step further to understand what it is about the CGU's MFAP that makes it work in the sense of preventing corruption in municipalities.

We can explain the effect of the CGU's MFAP by the operation of three social mechanisms, which combined explain the choice of those with public authority (e.g. elected mayor, public managers in municipal government) to not engage in illegal actions. This is possible by taking the following two steps: first, identify the individual reasoning that informed the actors' choice/behaviour (*i.e.* the desirability of ideas promoted by the programme). Second, identify the programme design features and contextual factors, which, in combination, afford the programme's capacity to generate this individual reasoning.

Individual Reasoning

Consistent with deterrence theory (Becker, 1968; Becker and Stigler, 1974) the following reasoning would need to be activated if an auditing programme were to have an impact on corruption: (a) Perception that the likelihood of being audited has increased (selection mechanism); (b) Perception that the chance of illegal action being detected has increased (detection mechanism); and (c) Increased perception that detection of corruption could lead to legal action (sanctioning mechanism).

Also consistent with behavioural theory (Cyert and March, 1963), the operation of these mechanisms involves a two-stage link: first, from the individuals to their environment (circumstances) through information processing, through which the three above-mentioned perceptions are generated; and second, from those perceptions to their behaviour (as to not engage in corruption), through decision-making (explained by deterrence theory). Schematically, this two-staged model can be represented as:

(1)   Perception = f(Actor Properties, Circumstances [Situation, Context])

(2)   Behaviour = f(Perception of the Circumstances)

Hence, an individual action – decision to refrain from corrupt practices – can be specified as a function of actor properties (including their institutionally-cued identities and derived aspirations) and the situation. The situation is depicted in terms of a scenario where the risk of being caught and punished is a real threat.

Programme Design

In order to fulfil the function of preventing corruption, governmental auditing must be capable of triggering the reasoning discussed above, activating the mechanisms that, in combination, effectuate the outcome (corruption prevention). By increasing the capacity to detect an illegal act, effective auditing has the potential to affect the situation in which a potential offender is immersed, thereby triggering the reasoning that the chance of the illegal act being detected has increased. The detection capacity of a truly effective auditing, within a responsive, sanctioning institutional environment, can have a deterrence effect.

As predicted by deterrence theory, these three mechanisms - selection, detection and sanctioning - combine to produce a synergistic and systemic effect. A potential offender's perception that there is an increased likelihood of the illegal act being detected (detection mechanism), will have a limited effect on deterrence if it is not followed by an increased perception that this detection will result in an adequate penalty (sanctioning mechanism).

Returning now to CGU's MFAP, I proceed by delineating the mix of the programme design features and contextual factors that activated the mechanisms whose operations elicited the fear of detection among municipalities. The programme design features can be defined as 'an interlocking array of design elements that are crafted by the organisation' to make the programme to achieve its intended outcomes. Contextual factors include both 'durable situational factors within the undertaking' and contextual factors situated outside, which could be broadly considered as 'givens' in the situation (Barzelay, 2007). A simple summary of the mechanisms and their effect on corruption reduction is presented in Table 1. A brief discussion of the operation of these mechanisms is provided below.

Table 1 – Programme design features and context factors that activated deterrence mechanisms

Mechanisms	Programme Design Features	Programme Context Factors
Selection mechanism	- Auditing focus on municipalities - dramatized public events to select municipalities - frequency of selection events	- CGU's constitutional mandate - CGU's Ministerial Status - Widespread free media outlets
Detection mechanism	- CGU's joint-operations programme with Federal Police and Prosecutors Office - formalized network of control agencies in the States - the existing web of accountability institutions - scope and depth of auditing (including in loco physical inspections to check actual implementation of the program) - use of information provided by local citizens to plan the audits	- CGU's ombudsman unit and activities
Sanctioning mechanism	Submission of the audit reports to investigative and prosecutorial agencies	- CGU's joint-operations program with Federal Police and Prosecutors Office - Formalized network of control agencies in the States - The existing web of accountability institutions

Selection mechanism

This mechanism is responsible for the perception among potential offenders that the likelihood of their actions being audited has increased. This perception was evoked by three features of the programme: the auditing focus on municipality; the 'dramatised' public events to select municipalities; and the frequency of the selection events. Although SFC had already been carrying out inspections in municipalities before the beginning of the MFAP, the focus of the audits was on specific public programmes, rather than a municipality. The

audit reports were written in a way to provide an overall evaluation of the implementation of the public programme under analysis, and the performance (or any detected wrongdoing) of a specific municipality was diluted in the report. Hence, it is safe to argue that, before the beginning of the programme, for the vast majority of the municipalities the perception that they could be subject to an overarching audit scrutiny was virtually nil.

The effects of these programme design features were further influenced by three enabling or facilitating contextual factors: 1. the CGU's constitutional mandate, 2. the CGU's ministerial status and, 3. the existence of widespread media outlets. The CGU could invoke its constitutional mandate of overseeing the application of federal funds to claim jurisdiction to audit how well they had being used by municipalities. The CGU's ministerial mandate was a facilitating factor because it reduced significantly the need for clearances to launch and implement the programme, which it would otherwise have had to go through if it was within hierarchical structure of another ministry.

Another contextual factor of paramount importance was the existence of widespread and free media outlets, coupled with the media special interest on the issue of corruption. The particular and sustained interest of the national and local media on the issue of corruption did much to spread information about the programme, thereby augmenting the perception that any municipality had a good chance of being audited at any time.

Detection mechanism

The perception that corrupt acts could be detected was activated by programme design features such as its ability to carry out diverse kinds of tests such as widespread *in loco* inspections (inherited from the audit programme aimed at evaluating the execution of public programmes), and the fact that the scope of the auditing encompassed almost all grants transferred to the municipality. Another important design feature was the use of information provided by citizens, via the CGU's Ombudsman channel, to plan the audits. The amount of information received substantially increased after the announcement of the selected municipalities, which clearly contributed to the programme's capacity to detect.

The detection mechanism was also activated by contextual factors. Unquestionably, an important factor was the working of the CGU's Ombudsman unit, which not only organised the channel of communication between the CGU and citizens, but also fostered citizen participation.

BUILDING
INTEGRITY
PROGRAMME

BLAVATNIK
SCHOOL OF
GOVERNMENT

UNIVERSITY OF
OXFORD

Sanctioning mechanism

A programme design feature that contributed to the activation of this particular mechanism was the submission of the reports to institutions that comprise Brazil's web of accountability, responsible for imposing administrative sanctions (Federal Court of Accounts), as well as conducting inquiries that could lead to criminal or civil sanctions in judicial courts (such as the Federal Prosecutor's Office and Federal Police). Indeed, as Aranha (2017) has demonstrated, the CGU's reports were able to activate the web accountability institutions that hold public officials accountable. She identified, for instance, that from 2003 to 2015 there were 9,666 irregularities reported by the CGU under investigation by the Federal Prosecutor's Office.

However, it is a contextual factor – a contemporaneous related event– that most clearly explains why the auditing could result in an increased perception of punishment if corruption was detected: the CGU's joint operations with Federal Police. The credits that the CGU gained for its participation in the police operations helped to generate a perception that the aftermath of a CGU audit of a municipality with corrupt practices would be a police operation, with all the consequences involved, such as arrests and legal actions (administrative, civil and criminal). The joint-operations programme at the CGU gave auditing its missing 'teeth' with which it could generate a 'fear of detection,' and hence a deterrence effect.

Forestalling Political Backlash

In this section, I address the second core question: why was the CGU able to safeguard its institutional autonomy? To do so, I employ an approach drawn from public management, which considers the relationship of an organisation to its institutional and political environment, to gain support and legitimacy for the functioning of its operation (Moore, 1995). Support for the MFAP took the form of "forbearance" from other power centres that might want to interfere with the organisation's value chain configuration or that of its extended enterprise (*i.e.* joint-operations with Federal Police). At the very least, forbearance requires legitimacy, but also a lot of credibility.

The credibility of the MFAP was the result of a meaningful 'social front' (Goffman, 1959; Hilgartner, 2000). The social front in this case can be conceived of as the idealisation of a set of activities performed by the organisation and the programme, which influenced their observers in such a

way that made them to ascribe credibility to the programme (*c.f* Goffman, 1956).

By using a metaphor of a 'theatre performance,' a 'meaningful social front' is a result of the attributes of the 'show' (e.g. audits' reports, selection events, press conferences, etc.) and the 'backstage" process/context factors (e.g. auditing review procedures, governance arrangements, etc.), functioning in an integrated manner (c.f. Hilgartner, 2000). On the one hand, attributes of the CGU's reports and public events assured outsiders that the auditing process is grounded in procedures that guaranteed expertise, independence and balance. On the other hand, the CGU portrayed itself as an institution staffed by non-partisan auditors, regulated by impersonal procedures and insulated from political interference. Figure 4 provides a summary of the attributes of the activities and products at front- and backstage that fixed a strong, meaningful social front.

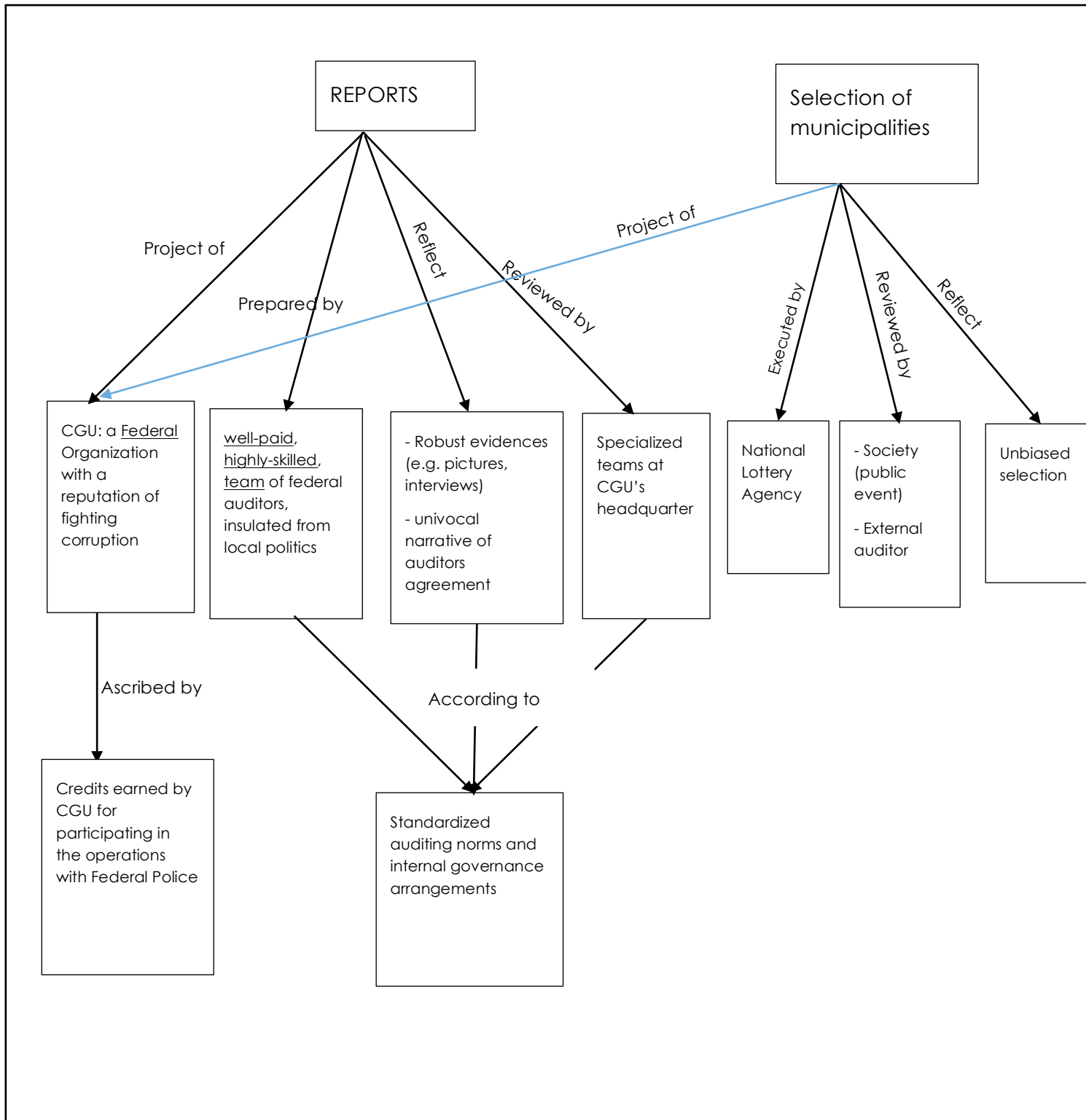**Figure 4 – CGU's "social front"** **(adapted from Hilgartner (2000))**

Figure 4 shows the sources of credibility of the audit reports and the municipality selection process. Both are essential elements to the credibility of the MFAP, as they are in the "front" stage that ultimately influences the observers' perception.

Four attributes of the audits assured credibility to the MFAP. First, it was a project of the CGU, a federal organisation with a public identity of being committed to fight corruption. This public identity was formed partially by the credits that the CGU received from participating in joint operations with the Federal Police. Furthermore, the very fact that the report was made by a 'federal' organisation afforded an additional element of independence, as it represented an "external" audit in relation to municipalities.

Second, three characteristics of the report authors (auditors) demonstrated expertise, impersonality and independence to outsiders: they receive a high salary, they passed through a highly competitive job-selection process to become auditors, and they always worked in groups to write the report (i.e. the report expresses an univocal opinion of a team of auditors, rather than of an individual auditor). Furthermore, in spite of working in regional units of the CGU in the states, the auditors, as 'federal' civil servants, have no administrative dependency on local government. The insulation of CGU local auditors from local politics is also reinforced by a practice and norm of the CGU (backstage process) by which the head of the regional unit should be selected from auditors in other states, for a four year term.

Third, the reports reflected robust evidence, from raw material (as opposed to information provided by those being audited) collected by the use of diverse kind of tests (depth), mainly obtained during physical inspections, such as photos and interviews with beneficiaries. Another important feature is that the reports reflected a univocal narrative of the facts. The auditing team worked by consensus, rather than by divided, expressed opinions in the reports, as is the case for auditing processes carried out by many other auditing organisations. Fourth, the reports elaborated by auditors at CGU's regional offices are always reviewed and released by a team of auditors in the CGU's headquarters in Brasilia.

A further attribute of the selection process was also a formidable defense against allegations of partisan or political bias, thereby rendering credibility to the MFAP. The selection was executed by the same agency that operates the National Lottery (a public bank) and by using the same method. The National Lottery is an institution that enjoys great confidence of the public in Brazil, and this confidence bolstered the credibility of the MFAP.
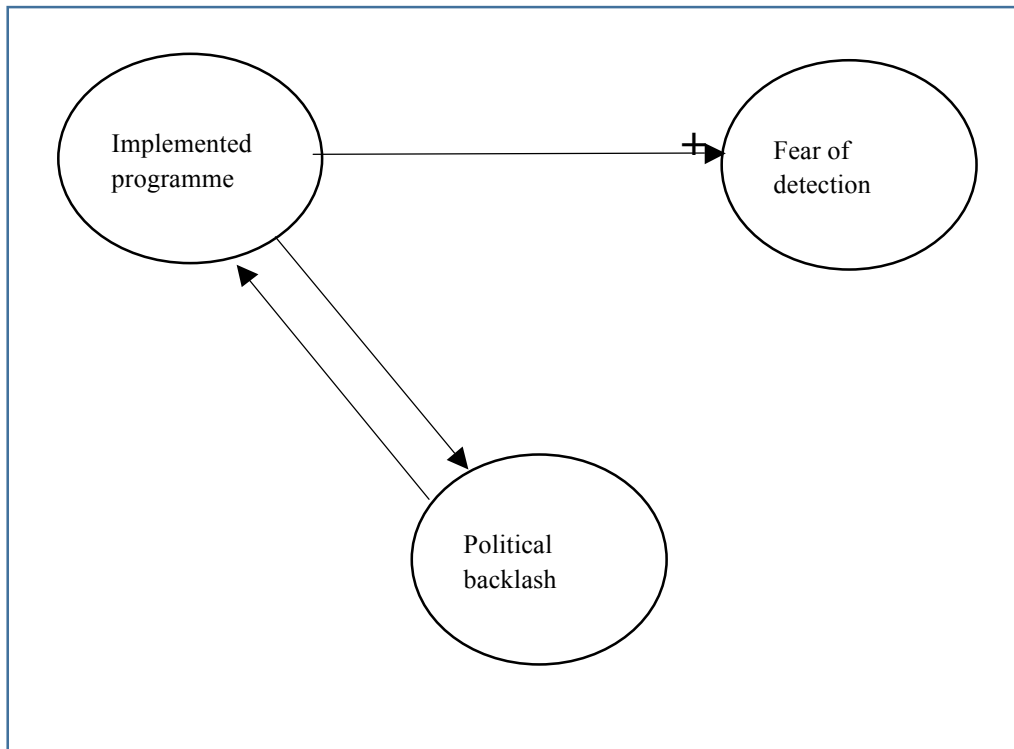
Another attribute of the selection process was the review process. As in the case of the National Lottery municipality selections were also supervised by an independent auditor from a private auditing company. Furthermore, the selection was executed in a public event, with considerable media coverage. As such, it was conducted with full transparency. Finally, and as a consequence of the above-mentioned attributes, the process reflected an unbiased selection of municipalities.

In summary, returning to the main question, this analysis demonstrates that the success of the programme was due to a series of design features, as well as contextual factors which, in combination, neutralised the challenge involved in satisfying the twin necessities that are essential to undertaking auditing-against-corruption, namely generating 'fear of detection' and, at the same time, forestalling political backlash. A schematic description of how the programme worked is presented in Figure 5.

Conclusion

The perverse effect of public sector corruption on society has long been recognised. It is now widely accepted by both national governments and international organisations as a factor that undermines democracy and justice, and precludes social and economic development. It is for this reason that

reducing corruption has recently been included as one of the United Nations Millennium Development Goals. Hence, fighting corruption has now become one of the most striking challenges that leaders of national governments of many countries around the world have to face.

As an established tool of public governance, auditing organisations often design and implement programmes directed against public office-holders' corrupt activities and behaviour. This paper highlights that such a form of undertaking involves satisfying at least two intertwined necessities: (a) preventing and detecting the corrupt activities and behaviour of a target population of public office-holders, and (b) forestalling political pressure against the audit agency's independence in government and/or the professional discretion of its auditing staff. Such an undertaking is challenging because the satisfaction of the former makes it more difficult to satisfy the latter.

This paper examined a case of an auditing-against-corruption programme, carried out by Brazil's Comptroller-General Office, which was considered, by diverse means, to be successful in both preventing corruption and forestall political interference. The analysis demonstrated that results can be attributed to a series of features of the programme and context factors that, in combination, neutralised the challenge involved in satisfying these twin necessities. By providing a detailed account on how the programme features worked to neutralise these inherent necessities, this paper advances professional knowledge on stock solutions to this form of undertaking. As such, it can be drawn on by practitioners for programme implementation and organisational leadership in other settings where auditing-against-corruption is part of a government strategy to fight corruption.

References

Abbott, A. (2016). *Processual Sociology*. Chicago: The University of Chicago Press.

Aranha, A. (2017). "Accountability, Corruption and Local Government: Mapping the control steps". *Brazilian Political Science Review*, 11 (2): 1-31

Avis, E., Ferraz, C. and Finan, F. (2016). "Do government audits reduce corruption?

Estimating the impacts of exposing corrupt politicians." NBER Working Paper 22443

(http://www.nber.org/papers/w22443).

Balbe, R. (2013). *Controle Interno e o Foco nos Resultados*. Belo Horizonte: Fórum.

Bardach, E. (1998). *Getting Agencies to Work Together: The Practice and Theory of Managerial Craftsmanship*. Washington, DC: Brookings Institution.

Barzelay, M. (1997) "Central Audit Institutions and Performance Auditing: A Comparative Analysis of Organizational Strategies in the OECD." *Governance* 10(3): 235-260

Barzelay, M. (2007). "Learning from Second-Hand Experience: Methodology for

Extrapolation-Oriented Case Research." *Governance* 20(3): 521-543.

Barzelay, Michael (2012). "The Study of Public Management: Reference Points for a

Design Science Approach," *in Reforming the Public Sector: How to Achieve Better

Transparency, Service, and Leadership,* Ed. Giovanni Tria and Giovanni Valotti.

Washington, D.C.: Brookings Institution Press.

Barzelay, M. (2017). "Case Study Research on Public Management Programs and Organizations: Lessons v. Design Precedents as Rival Ideals for Learning-and-Transfer". Paper Presented at the 3rd International Conference on Public Policy of the International Public Policy Association, Singapore.

Baumgartner, F. R. and Jones, B. D. (1991) 'Agenda dynamics and policy subsystems', *Journal of Politics*, 53 (4), 1044–73.

Becker, G. (1968). "Crime and Punishment: An Economic Approach". *Journal of Political Economy*, 76.

Becker, G. and Stigler, G. (1974). "Law enforcement, malfeasance, and compensation of enforcers". *The Journal of Legal Studies*, 3(1):1–18

Bobonis, G. J., Camara Fuertes, L. R., and Schwabe, R. (2016). "Monitoring Corruptible Politicians". *American Economic Review*, 106 (8): 2371-2405.

Cyert, M., and March, J (1963) *A behavioral theory of the firm*. Englewood Cliffs, NJ:

Prentice Hall.

Denyer, D., Tranfield, D. and Van Aken, J. (2008). "Developing Design Propositions Through Research Synthesis". *Organization Studies,* 29(3): 393-413.

Eisenhardt, K. (1989) 'Building theories from case study research. *Academy of Management Review*, 14(4):532-550.

Fayol, Henri (1919/1984). *General and Industrial Management*, revised by Irwin Gray. New York: The Institute of Electrical and Electronics Engineers.

Ferraz, C. and Finan, F. (2011). "Electoral accountability and corruption: Evidence from the audits of local governments". *American Economic Review*, 101(4):1274–1311.

Ferraz, C., Finan, F. and Moreira, D. (2012). "Corrupting learning: Evidence from missing federal education funds in Brazil". *Journal of Public Economics*, 96: 712-726.

Fligstein, N., and McAdam, D. (2012). *A Theory of Fields*. Oxford: Oxford University Press.

Giddens, A. (1979). *Central Problems in Social Theory*. London: MacMillan.

Goffman, E. (1959). *The Presentation of Self in Everyday Life*. New York: Anchor

Books.

Gustavson, M. (2015). "Does Good Auditing Generate Quality of Government?". The Quality of Government Institute, University of Gothenburg, Working Paper. http://qog.pol.gu.se/digitalAssets/1538/1538160_2015_15_gustavson.pdf

Gustavson, M. and Sundström, A. (2016). "Organizing the Audit Society: Does Good Auditing Generate Less Public Sector Corruption?". *Administration and Society,* 1-25.

Hilgartner, S. (2000). *Science on Stage: expert advice as public drama*. Stanford, California: Stanford University Press.

Hood, C. (1986). *Administrative Analysis: An introduction to rules, enforcement and organizations*. Sussex: Wheatsheaf Books.

Levy, R., Barzelay, M. and Porras-Gomez, A. (2011) "The Reform of Financial Management in the European Commission: A Public Management Policy Cycle Case Study". *Public Administration* 89 (4): 1546-1567

Lichand, G., Lopes, M., and Medeiros, M. (2016). "Is corruption good for your health?" Working Paper.

Moore, M. (1995). *Creating public value: Strategic management in government*. Cambridge, MA: Harvard University Press.

Olivieri, C. (2010). *A Lógica Política do Controle Interno: O monitoramento das políticas públicas no presidencialismo brasileiro*. São Paulo: Annablume.

Olken, B. A. (2007). "Monitoring Corruption: Evidence from a Field Experiment in Indonesia". *Journal of Political Economy*, 115:200–249.

Pawson, R. and Tilly, N. (1997) *Realistic Evaluation*. London: Sage.

Petherick, A. (2017). "Two sides of transparency: how audits sometimes help, sometimes harm, women's political representation". Blog post at https://building-integrity.org.

Porter, M. (1985). *Competitive Advantage*. New York: Free Press.

Power, M. (1999). *The audit society: Rituals of verification* (2nd ed.). Oxford:

Oxford University Press.

Power, M. (2003). "Evaluating the Audit Explosion". *Law and Policy*, 25(3): 185-202.

Rose-Ackerman, S. and Palifka, B. (2016). *Corruption and Government: Causes, Consequences, and Reform*. Cambridge: Cambridge University Press.

Rothstein, B. (2011). *The Quality of Government: Corruption, Social Trust, and Inequality in International Perspective*. Chicago: University of Chicago Press.

Rothstein, B. and Varraich, A. (2017). *Making Sense of Corruption*. Cambridge: Cambridge University Press.

Simons, H. (2001). *Persuasion in Society*. Thousand Oaks, CA: Sage.

Sztompka, P. (1991). *Society in Action: The Theory of Social Becoming*. Chicago: University of Chicago Press.

Weaver, R. Kent and Rockman, B. (1993). *Do institutions matter? Government capabilities in United States and Abroad*. Washington, DC: The Brookings Institution.

Yin, R. (2014). *Case Study Research: Design and Methods*. 4th ed. Los Angeles, CA: Sage.

Zamboni, Y. and Litschig, S. (2015). "Audit Risk and Rent Extraction: Evidence from a Randomized Evaluation in Brazil". Working Papers 554, Barcelona Graduate School of Economics.