

Challenging Corruption: Role of the Accountancy Profession

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Abstract

Corruption, a common malaise in most developing countries, thrives in an environment of absolute power, discretion and lack of accountability, and also when the perpetrators, even when detected, enjoy a virtual impunity. Economic and social costs of corruption are immense. It raises uncertainty in the economy leads to inefficient economic outcomes, impedes long term local and foreign investment, destroys societal priorities and technology choices, pushes firms underground, reduces the state's ability to provide essential public goods, and thwart economic growth. Combating corruption is a difficult task, in which all segments of the society need to actively cooperate. The Accountancy profession is an important component of the civil society but it cannot fight the battle alone. However, in so far as it has the knowledge, skill and talent to dig out reliable and meaningful information about all sectors of the economy, it can play a prominent role in helping to stamp out corrupt activities.

Section One : Introduction

Corruption and bribery are some of the oldest white-collar crimes known to mankind. The tradition of the 'paying off' public officials or company insiders for preferential treatment roots itself from the crudest business system developed. In today's society, many turn to the realm of politics thinking of corruption and bribery, but bribery corruption is not by any stretch of imagination limited to the

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political realm. In the world of business, kickbacks, bribes, and other forms of corruption are all prevalent when situations of potential contacts or arrangements are concerned.

The problem of corruption in the government and public life has been universally recognised as a major concern in the public management. The general demand of the public is that governments must ensure highest standards of integrity in their public services. The United Nations (1989) seminar on Corruption identified that various forms of corruption ranges from acceptance of money or other rewards for awarding contracts; violation of procedures to advance personal interests, including kickbacks from development programs or multinational corporations; payoffs for legislative support; and diversion of public resources for private use, together with the overlooking of illegal activities or the intervening of the justice process. Forms of corruption also include nepotism, common theft, overpricing, establishing non-existing projects, payroll padding, tax collection and tax assessment frauds.

Corruption in government is pervasive at all levels of public management. In some countries, the deliberate mismanagement of national economies for personal gain, as well as the creation of special privileges for pursuing the particular interests of the ruling group are secured through government apparatus. There is widespread belief that systematic impunity is the underlying element of the various forms of corruption.

Because of weak public management systems, corruption is pervasive and apparently expanding. The problem is even more serious at high political level than in the bureaucracy. Corruption has become systematic and a way of life in many countries. Once it persists at the political level, it is difficult to control at the bureaucratic level. International dimension of corruption has opened up through the narcotics trade of Multinational Corporation that has transnationalised corruption. The continuing phenomenon of capital flight, particularly from highly indebted developing countries, has compounded the problem of corruption. Corruption is rampant in both rich and poor nations but its cost is very high for the latter group of countries. Corruption retard economics growth, and this is why fighting corruption is now a days given priority by governments and civil society in developing countries.

A successful drive against corruption will require concerted action by all segment of the society, the people in government, leaders in business and industry, intellectuals belonging to different professions whether as individuals or as

groups such as lawyers, engineers, accountants, auditors, community leaders and so on. The objective of this paper is however, very modest. Its main purpose is to highlight the role of the Accountancy profession in curbing corruption. In order to put the issue in its proper perspective, sections 2 and 3 discuss the causes of corruption, and the cost of corruption on socio-economic aspects of our society including the impact of corruption on trade and investment. Section 4 discusses the strategies for challenging corruption, and Section 5 discusses the role of Accountancy Profession in curbing corruption. Concluding remarks are made in section 6.

Section Two: Causes of Corruption

While there is no universally accepted definition of corruption, there is a central core element to its meaning which is decried by most cultures, for example, most instances of bribery, fraud, extortion, embezzlement, and significant misuse or appropriation of public or organisational funds for private, personal use. Corruption is an undercover activity, which generates secrecy and usually fear. Even major exposure of corruption reveals only a part of it. It is reliant upon secrecy, collusion and a degree of certainty that the behaviour will not be disclosed to the relevant authorities (Alatas 1980).

Corruption is pervasive throughout all social institutions, from the political system to the administrative structures and into the private sphere. Huntington (1989) sees corruption as one measure of absence of effective political institutionalisation, which is prevalent during the most intense phase of modernisation. Huntington (1989) goes a step further stating quite clearly that in societies, which are undergoing periods of rapid normative change, there are bound to be increasing rates of perceived corruption.

According to Alatas, corruption involves the subordination of public interest to private aims involving a violation of the norms of duty and welfare, and is always accompanied by secrecy and callous disregard for any consequences suffered by the public. From this he derives nine characteristics of corruption. *First:* corruption involves more than one person; *second:* corruption involves secrecy, *third:* corruption involves elements of mutual benefit; *fourth:* those who are involved in corruption normally camouflage their activities; *fifth:* it involves people who want definite decision and those who are able to influence these decisions; *sixth:* it involves deception usually by a public body; *seventh:* any form of corruption is betrayal of trust; *eighth:* any form of corruption involves a contradictory dual function of those who are committing the act; *ninth:* a corrupt act violates the norms of duty and responsibility.

Klitgaard (1998) considers corruption as a system by stating two analytical points. First, corruption may be represented by a formula: $C=M+D-A$. Corruption equals monopoly plus discretion minus accountability. Whether the activity is public, private, or non-profit, and whether it is carried on in Ouadougou or Washington, one will tend to find corruption when an organisation or person has monopoly power over goods and services, has discretion to decide who will receive it and how much that person will get, and is not accountable. Second, corruption is a crime of calculation, not passion. True, there are both saints who resist all temptations and honest officials who resist most. But when bribes are large, the chance of being caught small, and penalties if caught meager, many officials will succumb. Gray and Kaufmann (1998) introduced general definition of corruption by noting that corruption is the use of public office for private gain. This includes bribery and extortion, which necessarily involves at least two parties, and other types of misfeasance that a public official can carry out alone, including fraud and embezzlement. Appropriation of public assets for private use and embezzlement of public funds by politicians and high level officials have such clear and direct adverse impacts on country's economic development that their costs do not warrant sophisticated discussion. Mauro (1998) identified a number of reasons why corruption has come under close scrutiny by academics and policy makers. Corruption scandals have toppled a number of governments in the recent times. For example, president Mobutu of Zaire (1997), President Suharto of Indonesia (1998), Conservative party in England lost in the election of 1997, ruling party in Bangladesh lost their power for the charge of corruption during 1982, 1990 and 1996. The Congress party of India lost the election in 1996 and 1997, and Peoples Party (1997) and Muslim League (1999) in Pakistan lost power for charge of corruption. Mauro (1998) continues saying that economists know quite a bit about the causes and consequence of corruption. An important body of knowledge was acquired through the theoretical research done in the 1970s by Jagdish Bhagwati, Anne Kruger, and Susan Rose- Ackerman, among others (Mauro, 1996).

A key principle is that corruption can occur where rents exist-typically, as a result of government regulation-and public officials have discretion in allocating them. The classic example of government restriction resulting in rents and rent-seeking behaviour is that of an import quota and the associated licences that civil servants give to those entrepreneurs willing to pay bribes. In addition, corruption is likely to occur where restrictions and government interventions lead to a situation of earning excessive profit. Examples include trade restrictions (tariffs and import quotas), favouritist industrial policies (such as subsidies and tax deductions), price controls, multiple exchange rate practices, foreign exchange allocation schemes,

and government controlled provision of credit. Some rent may rise, as in the case of natural resources, such as oil, whose supply is limited by nature and extraction cost is far lower than its market price and for earning abnormal profit, government officials are offered bribe.

Section Three: Cost of Corruption

The body of theoretical and empirical research that objectively addresses the economic impact of corruption has grown significantly in the recent years and arrived at five conclusions. *First*, bribery is widespread but there are significant variations across and within regions. *Second*, bribery raises transaction costs and uncertainty in an economy. *Third*, bribery usually leads to inefficient economic outcomes. It impedes long-term foreign and domestic investment, mis-allocates talent to rent-seeking activities, distorts sectorial priorities and technology choices. It pushes firms underground, undercuts the state's ability to raise revenues and leads to ever-higher tax rates levied on fewer and fewer tax payers. As a result, it reduces the state's ability to provide essential public goods. A vicious circle of increasing corruption and underground economic activity can result because of this aspect. *Fourth*, bribery unfairly imposes a regressive tax that falls heavily on trade and service activities undertaken by small enterprises. *Fifth*, corruption undermines the state's legitimacy.

It is argued that bribery can have positive effects, under certain circumstances, by giving firms and individuals a means of avoiding burdensome regulations and ineffective legal systems. But this argument ignores the enormous discretion that many politicians and bureaucrats have over the creation of interpretation on counterproductive regulations. Instead of corruption being 'grease' that lubricates the 'squeaky wheels' of a rigid administration, it fuels the growth of excessive and discretionary regulation. The argument that bribery can enhance efficiency by cutting down on the time needed to process permits is also questionable. The possibility of bribery may be what causes the process to slow down in the first place. In practice, corrupt officials can exercise monopoly power by determining the quantity of services provided. Like a private monopolist, officials may set the supply of services below the officially sanctioned level to increase economic rents. Conversely, the corrupt officials may increase the supply of services if government has set the supply below the monopoly level. In other situations the service is not scarce but is, like a passport, driver's license, or pension, available to everyone who qualifies for it. However, corrupt officials may have sufficient monopoly power to create scarcity either by delaying approvals or by withholding them unless bribes are paid (Paul 1995).

The incidence of corruption varies enormously among different societies ranging from rare to widespread to systemic. If it is rare, it may be relatively easy to detect, punish, and isolate. Once it becomes systemic, however, the likelihood of detection and punishment decreases, and incentives are created for corruption to increase further.

Entrenched corruption has an effect on people's perception of social equity and on long-term efficiency. Official corruption affects future efficiency through its effect on the average citizen's perception of social equity (Buscaglia 1997). Homans (1974) showed the effect of official systemic corruption on human behaviour within a dynamic efficiency framework. Members of the society who are not able to or willing to pay bribes are excluded from the provision of any public good that corruption transforms into a private good subject to an uncertain price. Corruption may remove red tape for those who pay the bribe, but the provision of public services is inequitable for those who do not. This inequity bears a long-term effect on social interaction and economic efficiency: a perceived inequitable allocation of resources discourages non-corrupt people from generating wealth (Buscaglia 1997).

Colin Leys (1965) an expert on corruption noted, "it is natural but wrong to assume that the results of corruption are always bad and important." Indeed some of the scholars argue that corruption is broadly beneficial, bringing economic gains by facilitating economic activity. Nonetheless, the costs of corruption usually outweigh its benefits and are paid by those who can least afford them.

In analysing costs, it is important to make distinctions between tangible and intangible costs. Intangible costs- loss of trust in democracy, in leaders, in institutions, are usually the more serious. Tangible or direct costs relate to the impact on trade and investment, administrative efficiency, good governance, equality of citizens, and so forth.

Loss of Trust

The greatest dangers of corruption are that it weakens trust in government and in each other. It undermines the legitimacy of political leaders and their institutions. Revelation of misdeeds have led people to believe that public officials wish only to get rich at the peoples' expense, that the country's resources are being wasted and stolen, and that bribery is the quickest way to get things done. These attitudes have led to serious crises of confidence in both public officials and public institutions.

Impact on Democratic Institutions

Corruption adversely affects democratic processes. Illegal practices result in a lack of transparency in decision-making since decisions are motivated more by private interest than the public concern. Nepotism in the civil service, violation in competitive bidding, corruption among law enforcement officers, public money disappearing from the treasury are the indications of the disastrous costs of corruption to democratic institutions. Furthermore, people in general believe there is no equality before the law and that the benefits of society are reserved for the 'haves' at the expenses of the 'have nots'.

Lack of Good Governance

'Governance' as is used here, means the use of political authority and the exercise of control to manage resources for social and economic development. Poor record of good governance results in economic mismanagement and widespread poverty. Poor governance records are attributed to the personalised nature of rule, the failure of the state to advance and protect human rights, the tendency of honest, decent individuals to withdraw from politics, and the extreme centralisation of power in the hands of a few. Consequently, the government's control of the economy has meant that the only way to get rich is through political office, intensifying the problem of corruption and inducing leaders to stay in power. This is disastrous for the country's economy.

Administrative Inefficiency

Corruption is a serious obstacle to administrative efficiency. Decisions are made not to serve the public interest but to promote the interests of the individuals involved in secret and immoral agreements. Productivity is low because patronage and nepotism tend to lead to the recruitment of inept and incompetent individuals. Small bribes are routine to expedite normal administrative procedures such as obtaining a driver's license or passport. These kind of activities result in an inefficient bureaucracy where professionally competent civil servants are frustrated, intimidated, and subdued into silence. As corruption becomes more widespread, the decisions of the corrupt public servants, which are made in defiance of official regulations and state priorities, irrevocably undermine the efficient management of public affairs. Moreover, as corruption spreads, it steadily eats away at the integrity and dedication of the people who make up the civil service. Public office is seen less and less as a way to serve one's country and contribute to the public good, and more and more as a means to acquire wealth and privilege.

Public Sector Governance

Governments in the developing countries are facing the challenge of delivering a wide range of services essential for development—from infrastructure and social service to functioning of legal system and enforcement of property rights—all of which pose the challenge of how to get governance right. States have responded with varying degrees of success. At one end of the spectrum are the failed states, where governments barely exist, and where they do, provide hardly any services. At the other extreme are handfuls of countries where governments and their leaders are doing well by most development measures. In between are weak or predatory states that “consume the surplus they extract, encourage private sector to shift from productive activities to unproductive rent seeking, and fail to provide collective goods.

Impact on Trade and Investment

Trade cannot thrive where the entire administrative mechanism does not allow free market competition. Kickbacks have propelled investment, especially in some sectors, primarily because of those investors who can make huge profits. It contributes to the economic stagnation and results in the concentration of power and wealth in the hands of a few. Huge amounts of tax revenue go uncollected because of the widespread tax evasion and irregularities in assessment and collection. The kickbacks and commissions demanded by the public officials—elected and un-elected—who negotiate and award government contracts have drained money from more productive uses and distorted public priorities and decision-making. Too often, the end consequence of dubious contract awarding in such areas as transportation and communications has resulted in shoddy works that soon required repair and further government investments.

A flurry of recent studies has shown that corruption, as measured by indices published by corruption fighting groups, is closely connected to economic malpractice. Pioneering study by Mauro (1995) showed that countries with a lot of corruption have less of GDP going into investment, and lower growth rates. His later work has suggested that corrupt countries invest less in education, which pays big economic dividends but small bribes, than clean countries do. One specific channel through which corruption may harm economic performance is by distorting the composition of government expenditure. Corrupt politicians might therefore be more inclined to spend on fighter aircraft and large-scale investment projects than on textbooks and teachers' salaries even though the latter may promote economic growth to a greater extent than the former.

Empirical evidence based on cross-country comparison does indeed suggest that corruption has large, adverse effects on private investment and economic growth. Regression analysis shows that a country that improves its standing on the corruption index from, say, 6 to 8 (0 being most corrupt, 10 being least) will experience 4 percentage point increase in its investment rate and a 0.5 percentage point increase in its annual per capita GDP growth rate (Mauro, 1996). Regression analysis also shows that a country that improves its standing on corruption index from 6 to 8 will typically raise its spending on education by half of 1 percent of GDP, a considerable impact. This result is a matter of concern, because there is increasing evidence that educational attainment fosters economic growth. The most important channel through which corruption reduces economic growth is by lowering private investment, which accounts for at least one-third of corruption's overall negative impacts. At the same time, the remaining two thirds of the overall negative impacts of corruption on economic growth must be felt through other channels, including those mentioned here.

Shang-Jin Wei, a Harvard economist, argues that corruption acts as a tax on foreign direct investment: "An increase in the corruption level from that of Singapore to that of Mexico is equivalent to rising the tax rate by over 20 percentage points". Corruption takes a giant toll on business activities. Transparency International Bangladesh (TIB) prepared a report (November 2000) on Evidence of Corruption in various sectors of Bangladesh economy for submission to the United Kingdom House of Commons International Committee Hearing on Corruption & Development. The report reveals a rough estimate of 10% reduction in Power Development Board (PBDB) would yield Taka 3 billion (USD 0.06 b) in savings that is adequate to take on a 200 MW of simple cycle gas turbine generation every year. A 5% reduction of inefficiency of spending the Taka 15 billion (USD 0.28 b) annual development budget of GoB in power sector could yield Taka 750 million (USD 13.88 m), which is sufficient to add another 50 MW to the system, increasing an additional generation capacity by 250 MW in one year. TIB estimated 300,000 illegal connections in addition to theft by tapping distribution lines, bypassing meter, fixing meter, and misusing free electricity supply for PDB employees.

Corruption in Banking Sector in Bangladesh has increased the volume of classified loans of the banking system as a whole. TIB report (2000) reveal cumulative losses through fraud and forgeries of Tk 1 billion (Nov 1998) at 0.2% of bank deposits.

The Nationalised Commercial Banks (NCBs) and many domestic private banks are facing capital deficiency resulting from principal and interest losses from poor

quality of assets. In the communication sector the practice of paying bribe to the Road and Highway Departmental employees has been found well established and known to all relevant parties. Consultants in Bangladesh are to pay 12-15% of their fees as bribe at the time of commissioning on the contract. The money is divided between ministry officials, and the members of the RHD's technical evaluation committee.

Political Instability

Corruption in mass politics and policy formulation, including bribery, extortion, election, fraud, abusive patronage, and official intimidation of opposition groups feature the domination of politics by a monopolistic organisation or fraction, in part through, and reaping rewards from, corruption. This contributes to the political instability and increased ethnic tension. Creating disturbances, the godfathers take control of the political parties; establish lawlessness and anarchy within the country. This has a devastating impact on the effectiveness of nearly every form of government by sabotaging economic development and subverting the rule of law.

Political Corruption

Politicians dominate public sector corruption by involving the bureaucrats who are mostly seeking pecuniary gain whereas the politicians are considered to have both pecuniary and political interests. Politicians have no second thoughts about buying votes, corrupting the electoral system, or harassing opponents to secure political advantage.

Social Cost

Kaufmann et al (2000), in their survey of 173 countries suggested that a reduction in corruption from the very high level prevalent in Indonesia to the lower level in Korea leads to a two and fourfold increase in per capita income, a decline in infant mortality of similar magnitude, and improvement of 15-25 percentage points in literacy level. This survey evidence vividly illustrated the social cost of corruption. Results from Bolivia and Equador show that the poor are often discriminated against in the provision of public services and the cost of bribery falls disproportionately on poorer households and smaller enterprises. In Georgia, 77 percent of firms report that they would be willing to pay an average of 11 additional percentage points of their gross revenues in taxes if corruption were eliminated. This shows clearly that corruption is very costly for national treasuries as well as for households and firms.

Section Four: Challenging Corruption

Strategy to combat corruption should ideally help to strengthen a wide array of institutions and mechanisms that constrain arbitrary action and promote transparency in society. Illustrated below are some aspects of the overall political and economic systems that can lead to a stronger accountability and help in the reduction of administrative corruption and state capture. *First:* the structure of government can provide institutional restraints that limit the arbitrary exercise of state power. *Second:* political institutions can promote contestability, transparency, and accountability in the political system. *Third:* a vibrant civil society can contribute to government decision-making and oversight through voice and participation. *Fourth:* competition can constrain monopoly power in the private sector and reduce incentives and opportunities for the state capture. *Finally:* effective public sector management can promote strong policy making and efficient public sector delivery. Although countries will differ in the relative emphasis they give to various dimensions of overall system of accountability, it is important for the leaders to consider a multi-pronged approach if they are to reach the roots of corruption and take effective actions to combat it.

Initiatives for Challenging corruption

In combating corruption, different techniques can be applied by preventive and curative instruments. The preventive instruments consist of upstream legal rules and norms of good behaviours conducive to the establishment of a corruption free environment. The curative instruments, consisting of proper anti-corruption laws, seek essentially to provide appropriate remedies to sanction acts or corruption that have occurred, while preventive instruments operating on the ex anti-corruption laws seek to deal with corruption on an ex-post basis. The preventive instruments of corruption are subdivided into direct and indirect techniques. Financial management, campaign financing, and procurement laws can be cited as three prime examples of preventive instruments of corruption based on positive law source, which rely almost exclusively on the direct method of combating corruption. Examples of more indirect methods are code of conduct, affirmation of national commitment, and leadership codes, as well as many other provisions relating to declaration of assets and freedom of information and media. The curative instruments deal, successively, with the process of investigation of corruption and judicial processes, using examples of best practices from several jurisdictions, reviewing contents of corruption legislation, including applicable sanction and penalties, the evolving definition of money laundering, and last but not the least, the special rules of evidence applied from time to time to challenge

some of the myths associated with the universally recognized presumption of innocence and thus facilitate the process of investigation and prosecution of corruption charges. Measures taken to combat corruption in different countries should be studied and initiatives should be taken by international agencies before reviewing and framing the national strategy

Section Five: The Role of Accountancy Profession

The fight against corruption is expected to be carried out by and all levels of society. It requires a solid framework of laws and disciplinary measures. The laws need to protect those who fulfil their moral and perhaps legal obligations to take position against corruption that may include *blowing the whistle* by reporting the corrupt acts. The accountancy profession cannot fight this battle alone but, as an integral part of the society and a major player in the business world, it must be ready to play its part. Accountants have been characterised for high integrity and objectivity as well as for their service to the public interest.

Accountancy profession has long been characterised by a strong consensus as to certain universal and timeless values essential to ethical life. These can be summarized by: *Honesty, Integrity, Promise-Keeping, Fidelity, Fairness, Caring for others, Respect for others, Responsible citizenship, Pursuit of excellence, and Accountability*. They hold key internal positions in organisations both in the private and the public sector, as well as responsibilities as external auditors or advisors. Their responsibilities cannot be expected to be primarily that of watchdogs against corruption of law enforcement officers. But their strategic positions in the enterprise, coupled with their integrity, objectivity and vocation to protect the public interest, make them essential players in the efforts of society to reduce corruption.

Historically, accountants are seen as a professional group having a substantial moral commitment to the welfare of their customers or clients. This altruistic concern for their clients and a self-imposed duty of beneficence towards them is the central and a necessary feature of the concept of profession. If accountants comply with requirements of professional ethics, this ultimately helps in combating corruption. On the other side, there is a vulnerable and a very different interpretation of the social role and function of the profession according to which members are seen essentially as self-serving seekers of wealth, power, status and exclusivity, whose declaration of concern for their clients are mere means to their self-seeking ends. According to George Bernard Shaw, in his *Doctor's Dilemma*, "All professions are conspiracies against the laity ."

Over the years there have been a number of developments that impinge on the demands for accounting skills and the availability of talent. At times when a country embarks upon a program of nationalisation and denationalisation of ownership, capital, management and control, services of the Chartered Accountants are required as employees, auditors, valuers, management consultants and reporting accountants for prospectus. Companies Act, Securities Exchange Commission, Securities and Exchange Rules, Banking Companies Act, Financial Institutions Act, Insurance Act, Foreign Exchange Regulation Act, and statutes creating various Corporate bodies by the Act of Parliament empower Chartered Accountants to monopolise auditing services. The Chartered Accountants are also often appointed to serve on many probes of personal assets and on corporate investigation of ill-gotten gains because of his/her ability to unravel complicated financial arrangements. The claim of accountancy to a professional status had long gone unchallenged all over the world by those who see it as a professional group as having a substantial moral commitment to the welfare of their customers or clients.

The developments that have taken place in the direction of planned or market economy have enabled the Accountants to have a more challenging role in the development activities, which have been found to be very crucial to the investors while borrowing from the lending institutions. As the government officials and bankers do not have access to the inside information about business dealings, greater reliance is placed on the information provided by the accounting statements in making judgements regarding creditworthiness, efficiency etc. of various undertakings.

The cultural demands of the developing countries require the youngsters to venerate the older people. Thus, this obligation to respect the elders makes it difficult for a young Chartered Accountant to confront an older, less educated manager. Some times it is even impolite for a young chartered accountant carrying out an audit assignment to ask a question to an older or more senior chartered accountant employed by the client company, in case the latter should be embarrassed or offended. This cultural need to avoid being impolite to others, specially older persons and members of the same district or tribe, affects the professional conduct and performance of chartered accountants of developing countries, in particular, Bangladesh.

If the chartered accountants are to perform professional functions regardless of cultural demands for group loyalty, they need stronger support from the respective Institute of Chartered Accountants, especially in situations where a publicly

traded company or a government agency wishes to misrepresent its financial situation. This help will only be forthcoming if the Institute is sure of itself and is not also dependent on other organisations for financial survival and institutional legitimacy.

Further problems for chartered accountants stem from the fact that a lot of employees perceive their employers as providers of secure incomes, status, authority and power rather than as suppliers of goods and services for profit. An unusually large proportion of employees work for corrupt organisations not because they genuinely seek the success and stability of the organisations, but because of the primary desire to enrich themselves through fraudulent conversion of the organisation's assets. This kind of behavior affects accountability.

Reports in newspapers, electronic media, etc. frequently disclose the sad evidence of widespread corruption in the developing countries. This cancer continues to spread despite the threat of punishment enshrined. Decrees designed to counter corrupt people and to oblige public officers to declare their assets prior to and after holding public office have had no effect in combating the disease. Corrupt officers can escape punishment by using ill-gotten gains to acquire assets and the names of relatives and friends. Even if wives, husbands, children and other close relatives of the declarant were asked to make declarations, there would still be a gaping loophole in the law, given the extensive network of the family system.

There are grounds for believing that the internal and/or external auditors can do little to correct this practice without risking the loss of their lives. The concept of an internal control system is often redundant in a corrupt country where bribery is widespread and it is now the practice to refer to this and other forms of corruption generically as the country specific factor in the official circle. The chartered accountants, in employment or practice, has an important role to play in helping to stamp out such activities, but will make progress only if support is received from ordinary people and top officials who are determined to have a disciplined and well-run economy.

The Institute of Chartered Accountants of Nigeria (ICAN) in a self-appraisal summarised the problems in the following words:

“ICANs role in responding to the Nigerian environment is rather passive. Members of ICAN still believe that accountants must be seen and not heard; not even in a situation where in the society people's rights are abused, and the economy is plundered with utter recklessness. Accountants have been so quiet that people wonder whether they exist and even where the existence is acknowledged, people do not know what they do. There is need, therefore, for

the ICAN to look into corporate image, its relationship with government, financial community and public in general. People want to know what the ICAN stands for, what its members do and its achievements over the years.”

The situation has not dramatically improved over the years, rather deteriorated in Africa, Latin America, East Asia and South Asian countries, in particular, Bangladesh, Pakistan, India and Myanmar.

Wallace (1992) provides reasons for accountants wanting to keep low profiles because of fear as well as lack of safety. The study reveals that some auditors in Nigeria assassinated after they had unearthed massive frauds in their client companies. For example, in 1984 a Nigerian were partner of Arthur Young Osindero and Moret was murdered while returning from an audit assignment, which led to the revelation of a gigantic fraud. In 1989, two auditors, one accountant and the other a secretary of a finance director, were involved in uncovering fraud in Guinness (Nigeria) Limited or were at least aware of the details of the fraud, so were murdered in quick succession. Therefore, one fears for the future of the Nigerian accounting profession, with its members increasingly afraid to speak the truth. Moreover, some accountants have resorted to the unfortunate maxim “If you can not beat, join them”. A former president of ICAN expressed dissatisfaction with the present state of affairs and preparedness of many Nigerian auditors to connive with clients provided they are given a fair share of the loot. Similar situation exists in other corrupt countries like Bangladesh, Pakistan, India and Myanmar.

The environment of auditing in Nigeria raises interesting questions concerning the role of auditing in different societies. A society of extreme corruption might, for example, be contrasted with one that has extreme honesty. In a Shaker society, for example, auditing may not be required because people are honest and their words and records are invariably authentic and inviolate (Faircloth, 1988). In a highly corrupt society, such as Nigeria, Bangladesh, Pakistan and India, on the other hand, auditing may not be allowed to thrive because people are dishonest, suspicious of each other and violent. In short, auditing seems to thrive in a society, which lies between the two extremes. This is the society in which fraud and corruption exist but which allows such malpractice to be detected, reported upon and culprits to be punished.

No doubt, both the developing countries and the international community have been searching for long-term solutions to the problems of corruption and inadequate accountability in the developing countries. It is evident, however, that achievement of efficiency, accountability and reduction of corruption does not lie

in elaborately written constitutions, substitution of one group of politicians for another set or for soldiers, or indefinite reliance on foreign aid and technical assistance. Emphasis should be on designing systems, methods, and procedures to improve government policy, planning, operations, and accountability through reorganisation and the establishment of appropriate and efficient economic measures (McKinney and Howard, 1982).

Design of such systems, methods, and procedures is the area in which accountants have greatest responsibility, potential, and expertise to contribute a long-run solution to the problems of corruption and to develop effective accountability and stewardship. Professional, Practising and researcher Accountants have greater roles to play in combating corruption and development of corruption free businesses and political processes (Gerboth 1973). The accounting profession has the necessary knowledge, skill and talent to influence the production and dissemination of reliable and meaningful data for all sectors of the economy.

The call for establishing accountability and combating of corruption by the politicians and public officials in the developing countries has the blessing of their general mass and the international community. Accountability is an almost unassailable concept, need is clear, but the danger exists that rhetoric will rule over reason and passion will prevail over logic (Cohen, 1980).

Efficient Accounting System

The current deficiencies in the accounting system in the developing countries, including Bangladesh, include inadequate, unreliable, and untimely information systems; ineffective system of internal controls and internal checks; a dearth of qualified accountants and dedicated management personnel; poor and inefficient management; and professional incompetence. Thus, financial statements and reports that are expected to be the main indicators of economic and financial conditions of entities fail to disclose material information. This provides inadequate safeguards against fraud, corruption, and other malpractice. Once the accountants come up with reliable, timely and effective information for the decision support of the management, and provide adequate disclosure by furnishing basic indicators of economic and financial data, some kind of barrier against corruption can be created.

Simplify the Procedures and reduce Government Monopoly

Power and decision-making are extremely centralised in the most developing countries and also public sector responsibilities have become unmanageably

large. This expansion of public sector has generally been accompanied by a proliferation of confusing networks of regulations and bureaucracy. These networks delay action and prompt individuals and powerful business groups to compete through corrupt means for access to goods, employment, and services in such areas as licensing, import and export permits, bank loans, government contracts and other favours. The accountant community can play a vital role in simplifying the procedures and suggest ways and means to bring transparency in these areas and reduce government monopoly, thereby reducing corrupt practices.

Ensure Transparent Information

In the developing countries, governments control the economy, the press and the media. A high degree of cronyism is frequently practised with public appointments. This increases the probability of entrusting people of questionable records with responsible positions. For example, in Bangladesh, with the changes in the government, mostly proven corrupt and questionable people are appointed in the top position of educational institutions, banks and financial institutions, including central bank's board, and in the decision making board of huge nationalised sectors. In addition, there is limited freedom of expression and discussion of public issues. The so-called secrecy grants government and public officers opportunities that are highly repugnant to the effective accountability. The government and public officers are able to cover up mistakes, conceal misbehaviour, make policies without consultation, undermine rationality of the government decision, and allow politicians and military to escape accountability for their actions until they are overthrown from power. The accountancy professionals can play a crucial role in disclosing these activities in their report that would be instrumental in forming public opinion against corrupt practices.

Disclose Conflicts in Perspective and Inadequate Institutional Linkage

As a result of the high level of bureaucratic secrecy and autocracy in the public sector management, review and evaluation of public programs are frequently difficult. In many cases, it is difficult to determine who is accountable for various aspects of the programs and the results the programs were intended to achieve. Information links between what was intended and what was accomplished are normally not provided. Added to the problem of inadequate institutional linkage is that of the constrained professional independence. To be effective, an evaluator being a professional accountant must perform with due professional skill and independence by issuing an independent opinion or report, which may be

construed as an affront to authority, despite the pressure, loss of job, and other unpleasant consequences.

Develop Appropriate Technology and Adequate Surveillance System

Effective surveillance system for establishing accountability and combating corruption requires the availability of technical personnel, expenditure of resources and development of criteria for assessment. The required human resources are frequently neither available nor adequate. The accounting professionals can train such manpower through proper training and employ them in combating corruption.

Compliance to the code of ethics

Most national organisations of accountants as well as the International Federation of Accountants should try to develop a variety of standards that are designed to combat corruption. Ethics codes, which apply to all accountants, be they in public practice, business, industry or government, require them to follow the highest standards of objectivity and professional care, thus helping in the combating of corruption. Auditing standards alert practitioners to the possibility of fraud and require them to document such possibility in planning audits and report their findings to management. Codes of corporate governance and appropriate financial and other internal controls should ensure that these accountants in business or in government are aware of their responsibilities to report corruption in a similar manner.

Throughout the world, consideration should be given to the fact that accountants should report acts of corruption to External authorities such as regulators, public prosecutors, and the police. Perhaps this would be an unreasonable burden to the accountants without the requisite legal infrastructure being enacted. But by enacting similar and equivalent obligations placed on the other business professionals and institutions this may be supportive in reduction of corruption.

IFAC therefore wishes to contribute to the global and national debates which it believes should be developed in order to ensure that the fight against corruption progressed with the members of the accountancy profession playing their full part as set out above. The following are among the IFAC's proposals sent to 143 member bodies in 104 countries for raising awareness on the issue.

- Develop programs that build **collaborative relationships with legislative and regulatory authorities**, the legal profession and other groups

interested in strengthening the framework for good governance, transparency and accountability, as well as the legal framework, so as to minimize corrupt practices, propose solutions based on model legislation and regulations introduced in other countries and point out where swift action may be required;

- Work with government to ensure that the requisite definition of corruption is in place, the legislation prescribing corrupt acts is prepared and appropriate means of protection are developed for those who may “blow the whistle”;
- Initiate education programs for accountants and the public to create awareness of the detrimental effects of corruption, thereby motivating public action toward its elimination, through press articles, seminars, continuing professional education courses and speeches by leaders of the profession;
- Encourage the national media to make corruption a public issue by devoting attention to the types and hazards of corrupt activities, publication of studies of the harm caused by corruption and the various steps that can be taken to prevent or expose such harm;
- Provide assistance including technical support to national and international organisations fighting corruption by publicising their activities, offering assistance in their research and promoting their proposals;
- Encourage audit committees expressly to consider whether appropriate policies are in place to prohibit corrupt acts and to require that any such act be reported to them; and
- Promote a tax system which is efficient and equitable so as to discourage the disparity and burden that leads to corruption and which does not allow corrupt payments to be deductible from income for tax purpose;
- It will use its influence with organisations such as the World Bank, the IMF, the OECD and the United Nations to encourage the development of proper legislation in all member states; and
- It will establish and maintain links with organisations such as Transparency International and Financial Action Task Force to ensure that the profession is represented in their governing councils and periodic conferences as a means to increase its profile in the fight against corruption.

Ultimately, it is the individual accountant who must carry out his/her responsibility in the anticorruption campaign. Professional scepticism is necessary when establishing business relationships and in the review of transactions between related parties, especially when they appear to have questionable business sense. Corrupt entities and individuals must realise the accountants constitute a barrier against corruption. Above all, each individual accountant must ensure that his/her own behaviour should reflect an unswerving commitment to truth and honesty in financial reporting.

Section Six : Concluding Remarks

The corruption control techniques discussed in this paper may be applied at the level of the individual engagement, accompanied by initiatives at various levels of government, including the highest. Government auditors, utilizing modern technology, are poised to play a crucial and winning role in the war on corruption.

This paper tried to present the causes of corruption, and how it damages democratic institutions good governance, affects administrative efficiency, misguides talents, trade and investment and destroys political stability. It also identified the key players involved in corruption; those normally holding discretionary and monopoly power without accountability. History provides evidence that individuals and nations paid enormously for corruption. Social forces, international donors, BRAC, Grameen Bank and other local NGOs in Bangladesh, should come forward to reduce corruption, thereby, ultimately leading to poverty reduction. But their voice is very low in this regard. The accounting professionals should also raise their voices against corruption and chalk out mechanisms to help curb corruption by disclosing corrupt practices wherever encountered. We should remember to leave a descent country for our future generation.

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