

Resisting Corruption

In the Public Sector



Results of a 2005 Worldwide Survey



ICGFM

The International Consortium on
Governmental Financial Management

Grant Thornton 

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Executive Summary



On behalf of the International Consortium of Governmental Financial Managers, Grant Thornton's Global Public Sector group carried out a worldwide survey of government executives on their opinions concerning public sector corruption. In addition, interviewees recommended ways for government institutions to reduce and resist corruption in government operations. Personnel from Grant Thornton International's member firms interviewed 50 officials in ten countries for the survey.

Cultures of Corruption

Survey respondents distinguished between "retail" and high level corruption. Retail corruption is the small-scale, everyday graft, extortion, and bribery involving low-level public sector employees. High-level corruption, which is more harmful to a country, includes payoffs in public works contracts; questionable election laws; fixed election results; influence peddling; and nepotism. In some countries, retail and high level corruption combine to create cultures in which citizens and civil servants alike are indifferent to or accepting of dishonesty in government and politics. One of the chief causes of corruption, according to interviewees, is collusion among political groups, government executives, and the courts, aimed at protecting their members from criminal investigation and prosecution.

Reducing Corruption

Effective anti-corruption initiatives need to be multi-faceted, addressing cultural, political, and social causes of corruption. Interviewees recommend the following actions for governments to take to reduce corruption.

- Attack retail corruption by reducing opportunities for bribes, extortion and graft, such as by promoting the use of electronic payments and credit/debit cards for taxes, fees, or fines.
 - Curtail corruption in revenue collection by centralizing collection, periodic staff rotation, taxing gross rather than net revenue, and using payroll withholding taxes.
 - Cure corruption-prone procurement by centralizing purchases, broadly advertising bid solicitations, and using clear, well-understood procurement procedures.
 - Protect people who report corruption, especially public servants. Ways to do this include passing "whistleblower" laws and introducing telephone hotlines for reporting corruption.
 - Reform civil service laws to reduce nepotism or hiring of cronies. Pay civil servants reasonable wages so that they are not tempted to engage in corrupt activities in order to pay for the necessities of life.
 - Institute independent anti-corruption boards or commissions and support them with adequate funds and a solid framework of anti-corruption laws.
 - Introduce public education campaigns to help build citizen and civil servants' resistance to corruption and support for anti-corruption activities.
 - Strengthen internal controls and audit procedures to detect and help prevent fraud and abuse.
- Finally, anti-corruption activities need to be transparent and their results publicized in the media. This helps build confidence among citizens that corruption is no longer a way of life in their country.

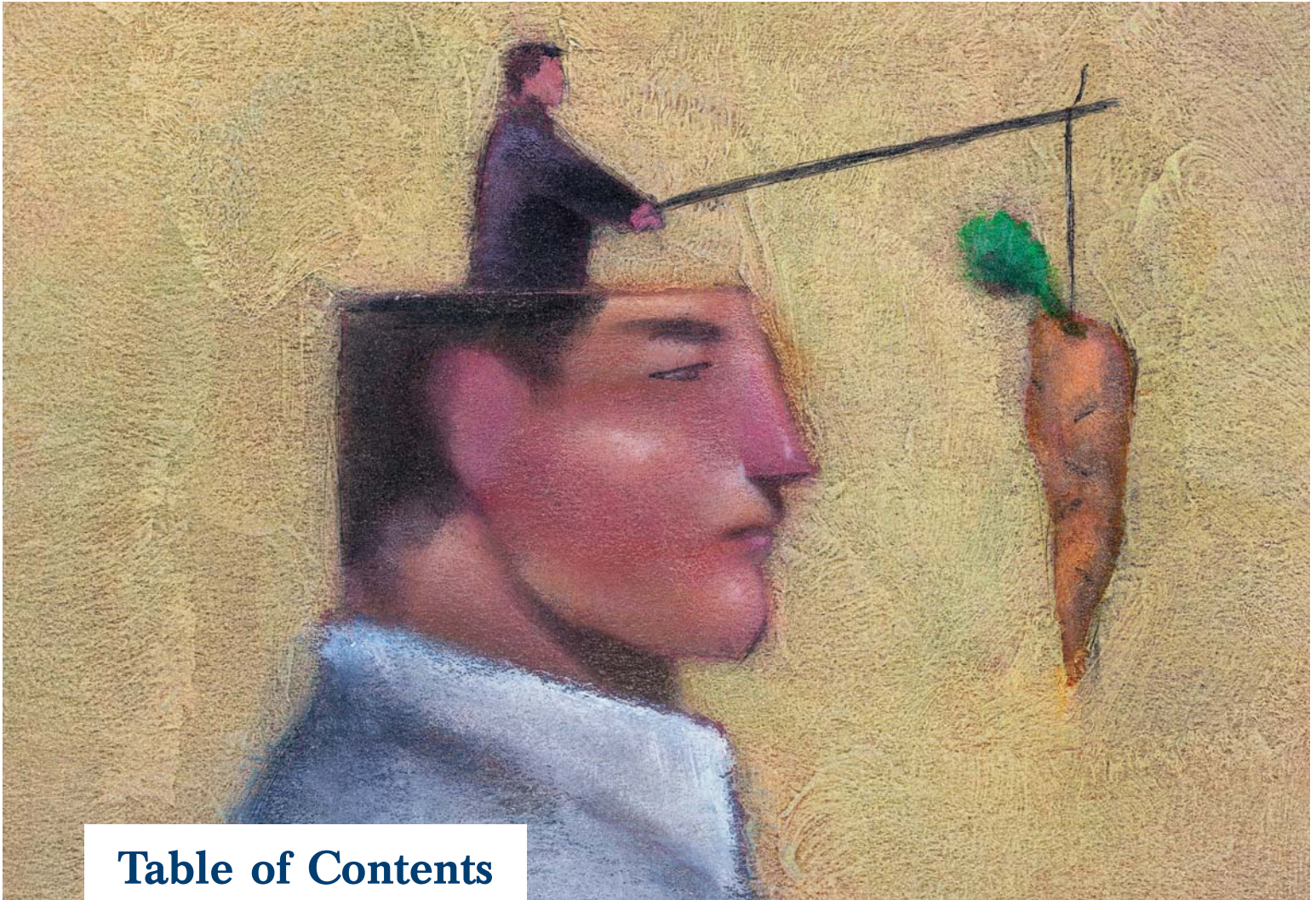


Table of Contents

Executive Summary	1
About the Survey	3
Defining Fraud and Corruption	4
<i>Procurement that Resists Corruption</i>	5
Causes of Corruption	6
<i>Little Things Mean a Lot</i>	7
Recommendations for Combating Corruption	8
Cultural and Social Solutions	8
<i>Showing the Consequences of Corruption</i>	8
Political Solutions	8
<i>Anti-Corruption Boards or Commissions</i>	9
Institutional Solutions	10
<i>Revenue Collection that Works</i>	11
Additional Information and Survey Contributors ...	12

About the Survey

In spring 2004, ICGFM asked Grant Thornton's Global Public Sector group to undertake an international survey of government executives on their opinions concerning public sector corruption. The survey explored the executives' perceptions of the severity, causes, and consequences of public sector corruption. In addition, interviewees recommended ways for government institutions to resist corruption in government operations.

Anonymity

Our survey does not attribute thoughts and quotations to any of the people we interviewed, nor do we name them, their institutions, or their specific countries. These measures were essential to gain the confidence and full cooperation of the officials who participated in the survey.

Scope

Organizations such as Transparency International do a superior job in documenting the extent of corruption in different countries. International donor organizations including the U.S. Agency for International Development, the International Monetary Fund, and the World Bank have written many excellent reports, program manuals, and special studies on how to combat government corruption and fraud. Our survey's scope is somewhat different: to learn what government officials in countries where corruption is an issue think about the causes and consequences of the problem. More important, we wanted their recommendations on how to reduce or eliminate corruption's effect on the public sector and, by extension, on their societies, economies, and culture.

Methodology

With the guidance of ICGFM members, Grant Thornton developed a survey instrument with both closed and open-ended questions covering corruption, fraud, and related issues, and then asked experts in these topics to review the questionnaire. After orientation from Grant Thornton's Global Public Sector, Grant Thornton International member firms based in Africa, Asia, Eastern Europe, Latin America, the Middle East, and the United States interviewed in person government officials and other executives of ten countries who had agreed to take part. Between December and April 2005, 50 interviews were conducted.

Most survey participants were senior officials in ministries of their countries. The mission areas of the interviewees' offices include public health, education, finance, taxation, economic development, customs, international diplomacy, audit, and internal affairs. A few respondents from outside government included officials in a country's institute of chartered accountants and executives from nongovernmental organizations involved in local

development programs.

Grant Thornton member firms sent their survey notes to the Global Public Sector office in Alexandria, Virginia, U.S.A. for analysis by subject matter experts and survey specialists.



Defining Fraud and Corruption

Corruption is the misuse of public power, office or authority for private benefit—through bribery, extortion, influence peddling, nepotism, fraud, speed money or embezzlement.

—United Nations Development Programme, *Fighting Corruption to Improve Governance*, 1999.

What is corruption? Almost all participants in this survey agreed with the above definition by the United Nations Development Programme (UNDP). One interviewee suggested modifying the UNDP definition to recognize the factional nature of political power: “After the words ‘private benefit’ I would add ‘or for the benefit of certain groups or a political party.’”

When asked to list the types of corruption that caused the most problems in their countries, several respondents made a distinction between what some called “retail” and “high-level” corruption. Retail corruption is the small-scale, everyday graft, extortion, and bribery involving low-level public sector employees. Examples respondents gave of retail corruption include bribing police to overlook traffic violations, school officials to enroll students in public schools, or bureaucrats to speed the processing of a permit. High-level corruption includes bribes, payoffs, kickbacks, and graft related to public works contracts; questionable election laws; fixed election results; influence peddling; and nepotism. Of the two types, said respondents to the survey, high-level corruption causes much greater harm to a country than do retail bribery and graft. This is especially true in cases of massive fraud involving the levying and collecting of taxes and customs.

Specific types of corruption mentioned during the interviews include:

- Collusion among political groups, government executives, and the courts, aimed at protecting their members from criminal investigation and prosecution.
- Misuse of public power for personal benefit or for friends and relatives.
- Appointing cronies or family to public office.
- Frequent irregularities in government procurement.
- Bribery through contributions to political parties or candidates.
- Bribery of public officials. According to one respondent, “The bureaucrat does not sign until he or she receives money,” while another said that, “In my country, corruption is the process of buying goods and services from public entities.”
- Regular acceptance by government officials of

forged papers, such as birth certificates, passports, and customs documents.

- Ignoring customs procedures and undervaluing imports in return for bribes.

Consequences of Corruption

Most of the interviewees for this survey said that corruption was a significant problem in their countries, and in some cases a major dilemma, leading to the following consequences:

- In developing countries, said one respondent, “the poor are being destroyed by corruption” because it inflicts disproportionate harm on low-income citizens by slowing economic development. In addition, said another, corruption tends to widen the income gap between the rich and the poor, resulting in further influence peddling and bribery.
- Governments do not collect enough revenues to sustain and improve public services. Causes include laxly enforced or inequitable collection of taxes, customs duties, and fees.
- Administrations are mediocre and ineffective because public officials and employees are appointed based on their agreement to carry out corrupt activities.
- Unfair competition and bribery create a business climate that prevents rather than promotes entrepreneurship and foreign investment.
- Public health is endangered because of poor protection of food, water, the environment, and pharmaceuticals.
- Seeing this corruption, citizens do not trust their governments, and outsiders form a bad image of a country and its people.

Ultimately, said one respondent, dishonesty and fraud in the public service are bad influences on human personality, creating a pernicious and persistent culture of indifference or acceptance of corruption. Indeed, many of the interviewees said that this negative culture was the greatest barrier to progress in combating corruption. Said one respondent, “The general public lives with the contradictions of corruption. The people are against it, but they accept it.” Said another, “In my country, we have to destroy corruption definitively, because it is destroying us.”



Procurement That Resists Corruption

In most governments the cost of procuring goods and services is second only to that of human resources (salaries and benefits for public employees). Survey participants recognized that procurement is an area prone to corruption, which may range from headline-making scandals to smaller, less visible petty graft by frontline public employees. Many of the interviewees said that migrating manual procurement processes to electronic processes has become an important activity in creating a corruption-resistant public sector. Electronic (or e-) procurement takes unneeded discretion out of the process by removing opportunities for face-to-face interaction. In addition, e-procurement creates an excellent audit trail of each transaction.

Officials interviewed for this report suggested the following ingredients of a smooth-functioning, corruption-resistant procurement operation:

- To the extent practicable, centralize procurement to facilitate bulk pricing, gain the benefits of specialized procurement employees, and reduce the opportunities for kickbacks and other corruption.
- Develop results-oriented specifications instead of spelling out the process of producing and delivering products and services.
- Broadly publish bid solicitations and awards, including on the Internet, to make the procurement process more transparent and trustworthy to vendors.
- Ensure that all vendors have full access to the information they need to prepare bids, including special conditions and requirements, the procurement process to be used, and the government's estimated budget range for each procurement.
- For frequently purchased items, use preapproved vendors with negotiated catalog rates.
- Prepare and use clear, well-understood signoff procedures for bid evaluations and purchase transactions.
- For complex acquisitions, engage objective experts to determine specifications and expected pricing, and also to participate in approving deliverables. Use this information to draft pre-proposal specifications and invite comments from potential bidders.
- Provide for prompt and objective bid protests, perhaps by a government-wide procurement board, especially when losing bidders allege arbitrary decisions.
- Have a person or organization not directly associated with a specific purchase monitor its delivery for meeting timeliness, quality, and quantity requirements.
- Routinely evaluate vendors' performance and establish and update a database of their performance "grades."

Causes of Corruption

During the survey, we asked interviewees about the causes of corruption in their countries. Our review of the responses made it clear that any successful initiative to reduce or prevent corruption has to be multifaceted, addressing multiple problems at different levels of society and government. To facilitate analysis of the causes, we divided them into three categories: cultural/social, political, and institutional.

Cultural and Social Causes

“In my country, corruption is in all levels of politics, economics, and institutions. It is a cultural fact,” said one interviewee. Others reported an ingrained acceptance of public sector corruption in a society. Frequently, respondents said that a major cause of corruption was “indifference” or “acceptance” by public sector officials and employees, politicians, and the general public. Reasons for this indifference, said respondents, included that “people know the justice system will not punish people who do corrupt things.” Citizens become resigned to corruption because they see no way to stop it.

Social causes of corruption, according to the interviewees, include wide disparities in wealth, in the centralization of wealth and influence among a few families or groups, and in inadequate investigation or coverage of corruption scandals by the news media. In addition, in some countries there appears to be a societal acceptance that graft and demanding bribes is a right of government employees.

Political Causes

Political causes of corruption relate both to the electoral process and the behavior of elected officials once in office. Said one respondent, “Politicians and senior government officials say that they are against corruption, but in reality are either indifferent or accept it when the time comes to take action.” Another said, “The majority of political leaders live with corruption because they run the risk of losing power if they speak out against it.” Unfortunately, said an interviewee, in his country, “Complete politicization of authorities implementing anti-corruption measures, such as the public prosecutor and anti-corruption commission officials, have rendered these organizations ineffective.” The impact of both political and institutional causes is made worse by collusion among the executive, legislative, and judicial branches of government aimed at engaging

in corrupt activities or protecting their members from prosecution for such crimes.

Illegal campaign contributions and election fraud help bring corrupt parties into power, according to some interviewees, as do election laws that favor the rich and influential. A turnover in parties likely will lead to the replacement of many levels of public servants with party loyalists who have little or no experience but who are willing to join a network of accomplices to fraud and corruption. This inexperience contributes to the mediocrity of public service. Finally, several respondents said that politicians make weak laws concerning corruption, and may keep the consequences of being caught very low.

Institutional Causes

Institutional causes include the structure and operations of the public service. Most interviewees reported at least minor problems with corruption among lower-level public service employees. One respondent summed up the thoughts of many when saying, “Sometimes, the pay of civil servants is below the poverty level, which leads some of them to become corrupt in order to survive.” A few respondents noted that if low salary is a major cause of civil servant corruption, the problem should lessen as one goes up the career ladder—but then pointed out that this is not the case.

Many interviewees mentioned lax enforcement of anti-corruption laws as an institutional cause. They attributed such negligence to the entire justice system, including law enforcement, prosecutors, and judges. Another problem is lack of integration among groups in the justice system, which makes it more difficult to investigate and prosecute crimes of corruption.

Weak or nonexistent administrative laws, rules, and practices are major culprits in the inability to detect and prevent corruption problems. One example reported was that inadequate policies and

procedures cause poor control over public procurement and capital contracts. Several others said that weaknesses in public sector audits and internal controls, especially in revenue collection, mean the loss of key tools for preventing fraud and abuse.

Institutions established to combat corruption have had varying success, said interviewees. For example,

a country's anti-corruption board or commission may educate the public about the problem, but be lax in investigating corruption and providing information to prosecutors. This may be because of ineffective laws or simple apathy in enforcing them.



Little Things Mean a Lot

Daily encounters between the general public and public employees are the most frequent opportunities for corruption—and for reducing a country's "culture of corruption." The actions listed below, suggested by survey participants, may seem small, but each makes a particular transaction between citizen and government less prone to bribery and abuse.

Fines, Fees, and Parking. Require that people pay fines by mail, electronically, or at a reliable collection agency. This includes fines for things like traffic violations, for operating a food store without a health permit, running a business without the proper license, or not having an up-to-date vehicle registration. Also, install parking meters in high-volume parking areas, keep them in good repair, and enforce parking laws consistently. Do not allow private citizens to take over public areas and charge for parking in them.

Electronic Payments. Design financial transactions between citizens or companies and the government to be electronic, which reduces the opportunities for graft and bribery. In addition, electronic payment may encourage the use of credit and debit cards, which provide good transaction histories. Transactions such as driver's license renewals, vehicle registration, and buying license plates are good examples of processes that benefit from electronic payment. For government-owned or -regulated utilities, use tamperproof electric/water/gas meters at businesses and households to reduce pilferage and enable electronic reading of the meters with results compared to expected usage.

Outsourcing. Consider contracting out selected services—contractors tend to pay competitive wages. Services to consider include checking weights and measures (e.g., in gas stations), building inspections, traffic and parking fine collection, and utility meter installation and reading.

Tax Payments. Make it easy for people to determine the amount of income tax they must pay by using simple tax forms and making blank forms and instructions available in public places. Also, have the revenue collection agency provide assistance in filling out the forms.

Queues. Where lines typically form for public sector transactions, such as applying for licenses, use number-dispensing machines that indicate the order in which people will be served. Monitor the queues, for instance through video cameras, to prevent line jumping and selling of numbers.

Courtesy. Even the most honest civil servant gives a negative image of government if he or she is rude, unpleasant, or unable to handle difficulties. For this reason, provide public employees who work with the public training in interpersonal relationships and conflict management. Also, encourage citizens to use comment cards about the quality of services they receive; follow up on responses that report problems.

Recommendations for Combating Corruption

Survey respondents made dozens of recommendations about what governments can do to reduce corruption and its impact on citizens, society, and institutions. ICGFM’s experience is that most countries with severe, endemic corruption will need to develop a comprehensive anti-corruption initiative that takes into account nearly all of these recommendations. Once again, we divide this section into social/cultural, political, and institutional categories.

Cultural and Social Solutions

In the earlier section on cultural and social causes of corruptions, we reported that many interviewees believe that citizens in some countries accept corruption as part of their society and way of life. Overcoming this attitude requires removing its causes, which are largely political and institutional. Regarding actions a government takes, said one interviewee, “It is fundamental to the fight against corruption that it has to happen openly, and that the people need to be involved.”

To encourage public involvement, said several respondents, it is important to educate citizens on the value of a corruption-free society. Some recommended massive, multifaceted public campaigns to educate citizens and public officials on the negative effects of corruption. Another purpose of such campaigns would be to build awareness that the public should be getting services without corruption, said one respondent. Another believes that the campaign “...should be permanent, using all media to educate and encourage discussion among the people about the factors that cause corruption. This would include educational programs in the schools.” As indicated in the box on the *cineminutos*

media campaign (see box below), the federal government of Mexico has instituted a campaign that includes television public service announcements showing vignettes of the causes and consequences of bribery and corruption (we conducted no interviews in Mexico). Simply publicizing the punishment of those guilty of corruption can be a deterrent.

Political Solutions

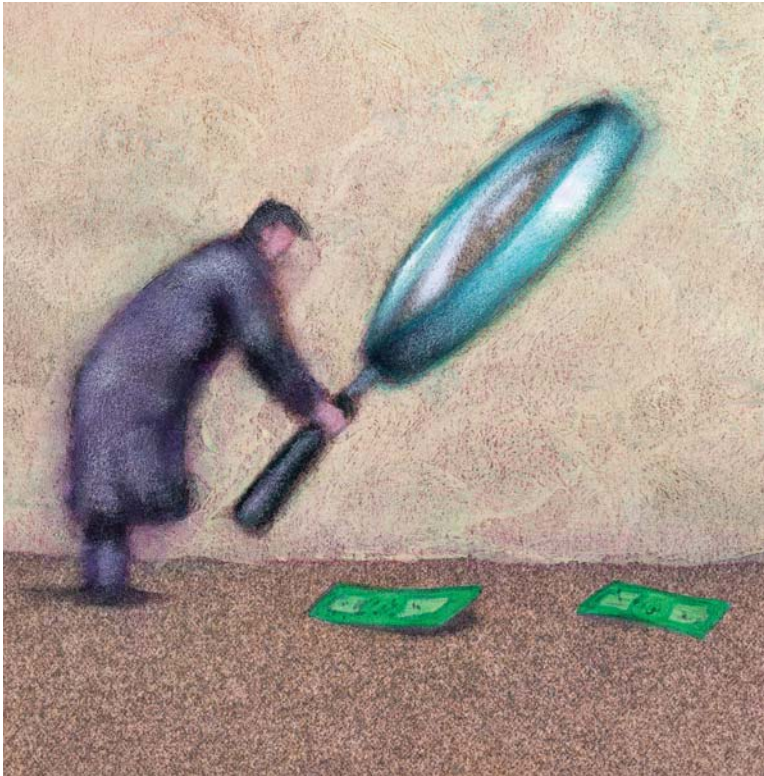
No matter what solutions a country adopts, political reform is absolutely essential. Several respondents said that fighting public service corruption starts with elected officials reviewing existing laws and regulations concerning corruption, strengthening those laws, and monitoring their enforcement. Laws protecting people who report corruption, especially public servants (e.g., “whistleblower” laws) are particularly important. Elected officials need to hold government executives accountable for corruption within their organizations, setting a “tone at the top” that permeates down to frontline employees. Finally, some interviewees said that countries should decentralize authority and functions to regional or local governments, where they can be more closely monitored by citizens.



Mexico’s *Cineminutos* Media Campaign: Showing the Consequences of Corruption

Mexico’s Ministry of Public Administration has helped produce several “movie-moments” depicting the causes and consequences of corruption in daily life. These film vignettes, suitable for television public service announcements or group discussions, use professional actors to portray situations that citizens regularly encounter in real life. One *cineminuto* starts by showing a public school official demanding speed

money from a mother to enroll her child. The mother tells her police officer husband that they need extra money for the bribe, so he extorts money from a garage owner, who in turn takes a bribe to get a car through inspection... The cycle continues, gradually moving to higher and higher levels of government and society.



“(S)pecialized anticorruption agencies appear most effective for attacking specific areas of corruption within an overall environment of stability and effective governance.”

—*U.S. Agency for International Development, Anticorruption Strategy, January 2005, page 17*

Anti-Corruption Boards or Commissions

Some of the countries included in this survey have set up independent boards and commissions responsible for dealing with corruption. Other countries in the survey have organizations with broader charters, but that include anti-corruption activity as a responsibility. Typical responsibilities of these bodies include preventing corruption; supporting government in detecting, investigating, and helping to prosecute incidents of corruption; and educating the public, such as through media campaigns. The interviewees’ opinions of the performance of such boards and commissions ranged from “ineffective” to “highly effective.” The interviewees consider some boards to be political window dressing, but think that others are producing greater success as these anti-corruption bodies gain experience and demonstrate that their mission is serious business.

Characteristics of Effective Anti-Corruption Boards

Survey participants offered the following recommendations to countries contemplating forming or enhancing existing anti-corruption boards. First, an effective board must be truly independent; including it in the executive branch reduces potential effectiveness considerably. Some respondents think a board should be a virtual fourth branch of government (but caution against potential abuses, such as

the chair of the board using it to persecute his or her enemies). In addition, the board should be managed by a single strong leader with assured lengthy tenure, who is not associated with a particular administration or majority party.

Such independence should include the freedom to follow any leads a board determines to be worthy of its use of resources. These resources need to include ample staff and budget, so that board employees can pursue leads without delay. The staff should be paid a fair wage and be well educated in the skills needed for the work. A good working relationship with the public media can be a great resource for an effective anti-corruption board, but independence applies in this area as much as in any other.

Unfortunately, serving on an anti-corruption board or its staff can put people in harm’s way. The more effective the board, the greater the number of enemies it will gain, which may necessitate taking measures for the physical security and safety of board members, staff members, and their families.

Finally, anti-corruption boards or commissions tend to be no better than the laws and regulations a country establishes to combat corruption and the government’s willingness to enforce them. Governance reforms may be needed to create an appropriate framework for defining corruption and prosecuting those who practice it.

Institutional Solutions

Several respondents said that a first and important step in anti-corruption reform is to establish or strengthen an existing independent anti-corruption board or commission. We provide more information on these boards in the box on page nine.

Civil service laws that reduce the post-election wholesale turnover of public employees at all levels will help to prevent the formation of the “network of accomplices” that facilitates fraud and corruption. Likewise, ministers’ hiring, promoting, and transferring of employees may need to stop or be greatly curtailed, replaced by a career civil service. However, personnel in positions that are especially vulnerable to corruption should be periodically

rotated to other assignments, said an interviewee, which will help prevent their concealing illegal transactions. Regular evaluations of anti-corruption policies and procedures will help keep them effective, said another.

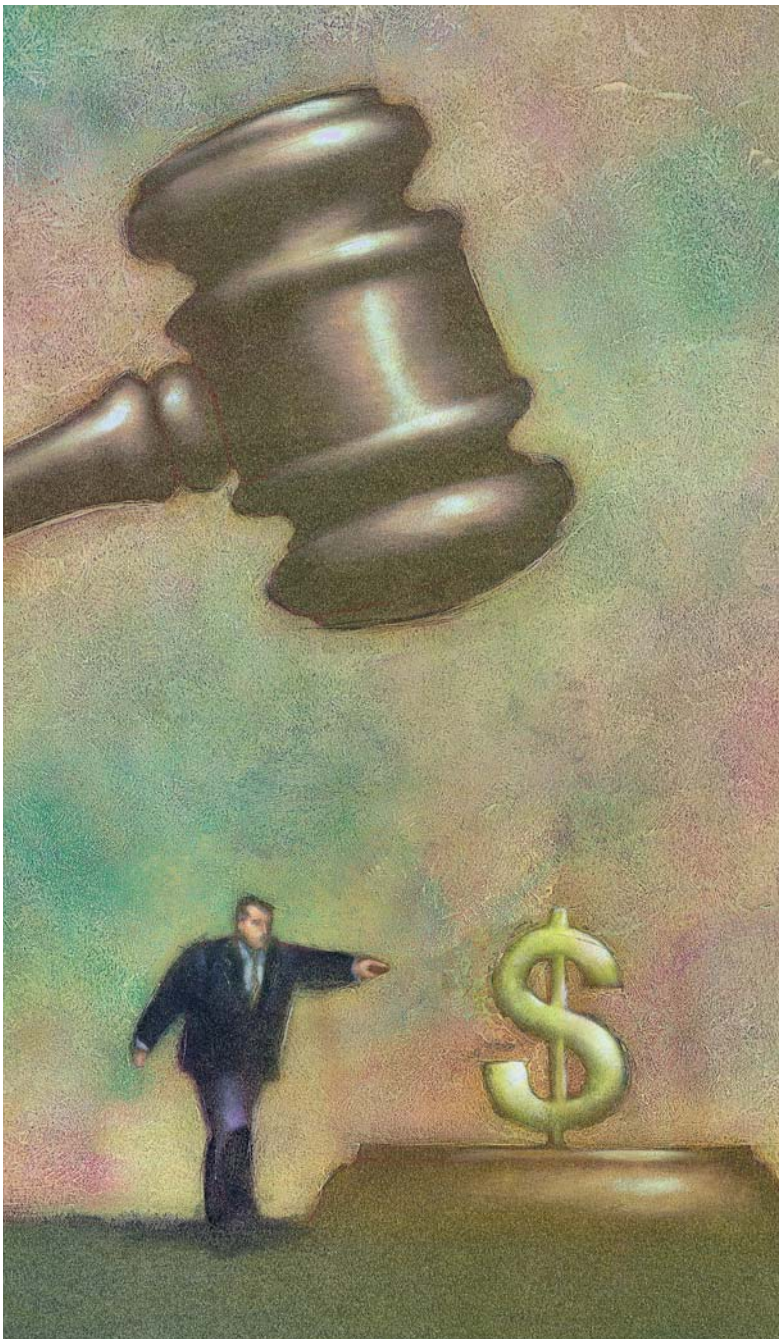
Salaries for civil servants and police should be set at reasonable levels. This helps reduce employees’ temptation to engage in corrupt activities in order to pay for the necessities of life. In return, public employees should receive training on avoiding corrupt activities and in reporting such actions, in addition to being monitored in the effectiveness of their work performance. Effective whistleblowing procedures for civil servants should accompany the related laws mentioned in the political solutions earlier in this report, both to improve reporting and to protect the whistleblowers. Several interviewees said their governments had introduced anti-corruption telephone hotlines because, in the words of one official, “We should be hearing about corruption that way, rather than at the dinner table.”

Of special interest to financial executives is the recommendation by several interviewees to strengthen internal controls at public entities, with particular emphasis on those that prevent fraud and abuse. Priority for internal controls improvement should go to processes involving revenue collections, procurement, and financial transactions. Introducing electronic procurement and payment should greatly enhance internal controls to those processes. Also, financial professionals working for or with the government should receive training to improve the quality of public sector audits. This includes auditors in chartered or independent public accounting firms who are engaged to perform government audits.

Revenue Collection that Works

Many countries with severe development problems have inadequate revenue collection functions, often rife with corruption. In such countries, citizens are rarely motivated to make honest tax payments, because they believe much of the money they pay will line the pockets of corrupt officials. This creates a vicious downward spiral of government resources that in turn generates even more corruption.

No system of revenue collection is entirely free of corruption risk; however, there are actions that can lead to corruption-resistant collection processes. Page 11 is a list of actions suggested by interviewees.



Revenue Collection That Works

<i>Anti-corruption action</i>	<i>Benefits of the action</i>
Combine all major revenue collection activities in one agency (e.g., income tax, customs fees, sales tax, and value-added tax or VAT).	Shows that government is serious about its collection activities. The action also enables the agency to rotate employee assignments, which helps prevent cover-up of corrupt activities.
Make the revenue agency autonomous, reporting directly to the chief of state.	Reduces the number of opportunities for senior officials to interfere with revenue collection and reporting.
Have all departments in the revenue agency report directly to its head.	Minimizes opportunities for collusion between departments, such as between tax assessment and tax collection organizations.
Pay going commercial wages to revenue collectors.	This may create disparity with salaries in other government agencies, but it will reduce revenue collector staff turnover and the need to engage in corrupt activities in order to survive.
Periodically rotate the roles and relationships of revenue collectors.	Reduces the possibility of a revenue collector and an outside party becoming overly familiar over time.
Make sure no single revenue collector or agent is responsible for a single taxpayer. In this scenario, two agents are always assigned to a case or account and meet with taxpayers together.	Having two agents means that corrupt activities will require collusion by the two, which adds the difficulty of carrying out illegal acts.
Run a continuous education program for revenue collectors and agents.	Reduces guess work by agents, keeps them abreast of recent developments in detection and prevention, and adds to their sense of professionalism.
Where realistic, tax gross revenue rather than net income.	Eliminates judgment calls for both parties, because the numbers used for determining taxes are not derived in ways that enable fraud.
Require employers to withhold taxes from employee salaries, with amounts that are determined by formula and reported and paid directly to the revenue agency.	Takes steps out of the tax reporting process and reduces the number of tax audits needed.
For small businesses, calculate tax based on agreed-upon gross revenue category; frequently check the appropriateness of the business' inclusion in that category.	Makes overall process less prone to questionable numbers.
Provide ample direct training to small businesses about how to keep books and how their tax category is selected.	Reduces the "I did not know" factor and demonstrates the fairness of the tax system.
Set priorities: focus effort on largest individual and corporate taxpayers.	The majority of uncollected tax revenues will be found among wealthy individuals and corporations.
Conduct frequent, sophisticated audits for the biggest taxpayers.	Reduces the possibility of accounting fraud going undetected.
Require installment payments of taxes throughout the year.	This "eases the pain" for the taxpayer and reduces the chances of defaulting on a large one-time payment.
Use electronic transactions whenever possible.	Reduces the opportunity for personal contacts that make corrupt activities easier.
Have the revenue agency monitor chartered or independent public accounting firms and impose heavy fines if they help enterprises to cheat on taxes.	Discourages accountants from helping their clients to reduce tax payments illegally.
Lobby for enforcement of laws and prosecution.	Shows that cheaters or those bribing tax collectors will not go free.
Maintain close coordination with justice system agencies (police, investigators, prosecutors).	Enables more effective data and evidence collection needed to successfully prosecute violators of tax and other revenue laws.

Additional Information

If you would like more copies of this survey or an opportunity to hear more about its content and about reducing public sector corruption, please contact ICGFM or Grant Thornton at the addresses below. We will be pleased to discuss providing your organization with a briefing or to present survey results at a conference or seminar.

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Partners and staff of Grant Thornton member firms participated in this survey by interviewing government officials in their regions. Listing their names here might compromise the anonymity of the survey respondents.





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