

# Anti-Corruption Activities of Public Financial Audit Bodies and Digital Economy

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## ABSTRACT

The article studies the way public financial audit bodies exercise their anti-corruption functions (powers) in the context of digital economy. The authors classify the powers on the basis of directions of their objectives direction, the level of their legitimization and the specifics of public financial audit bodies. The authors make an attempt to identify main tendencies in the development of anticorruption activities of the public financial audit bodies in the digital economy context. The first tendency is introduction of innovative information and communication technologies which minimize personal contacts of controlling and controlled subjects and improve the control and oversight functions. The second tendency is extension of their digital inter agencies cooperation in the field of anticorruption fight and the third one is provision of further transparent and available information about their anti-corruption activities.

**Keywords:** *corruption counteraction, public financial audit, powers, digital economy, digital technologies, e-document management*

## 1. INTRODUCTION

Under Federal Law № 273-FZ dated 25 December 2008 "On Corruption Counteraction", the anti-corruption functions are spread over federal public authorities of all levels, civil society institutions, organizations and individuals. The law is a framework federal law and, consequently, it contains a large number of sub rules that causes some problems for legal regulation in anticorruption sphere. Other significant actors in the anti-corruption sphere are institutions (e.g. audit, self-regulatory and financial) that conduct public financial audit in order to realize and uphold public interests.

In the current situation public financial audit is expanding; it is aimed not only to ensure financial efficiency in the state and municipals but also to ensure financial stability of different public monetary funds (funds of state corporations and financial organizations, compensation funds of self-regulatory organizations etc.). Achievement of the aims mentioned is crucial for anticorruption fight on all levels of social administration especially in the spheres which frequently face abuses of official positions (mainly assisting another person to commit an offence [1]): economic-financial resources, control and oversight.

Some researches state that ongoing digitization of all areas of public life and public authorities' activity is able to minimize manifestation and scope of corruption and its mechanisms. There are three major factors affecting the

task accomplishment: first, reduction of personal contacts between public officials and the consumers of public and municipal services – citizens and individuals; second, provision of maximal transparency of public administration activities; third, increase of extensive algorithmization of decision-making processes in typical situations on the data processing basis that can diminish personal participation of specific public officials.

On the contrary, some experts consider digitalization not as a tool of corruption fight but as a risk of relocating corruption to the higher level. Digital technologies allow not only combating corruption, but, at the same time, they can create corruption [2], ease its manifestation by use of anonymity on the Internet [3, p. 159] and the system of alternative payment methods. Thus, digital economy creates conditions and designs instruments, but the way they will be used is defined by the political will on different levels: federal, regional, local, inter agency or inter organizational. It is crucial to take into consideration the fact that innovative regulatory policy of the state has an immense impact on implementing principles of law (e.g. publicity, democracy, and equality) which, in their turn, influence on development and implementation of the above-mentioned policy [4].

Exploring the phenomenon of corruption, many researchers focus on its manifestation in the system of public authorities [5-11] since it is the field where corruption is the most critical for the state. Special

attention in the research is also paid to the problems of developing anti-corruption initiatives in institutions vested with specific competencies in the financial activity of the state [12-15] and the way the above-mentioned institutions use modern methods and technologies [3, 16, 17].

Nevertheless, there are no integrated scientific researches on corruption fight in public financial audit bodies in the digital era. The purpose of the article is to explore the way federal bodies of public financial audit (the Central bank of the Russian Federation, the Accounts Chamber of the Russian Federation and the federal agencies of control and oversight in different spheres of public finances) exercise their anti-corruption functions (powers) in the context of forming digital economy.

## **2. RESULTS**

### ***2.1. Classification of anticorruption powers of public financial audit bodies***

Anti-corruption powers of public financial audit institutions can be classified on various bases.

Firstly, based on the definition of the anti-corruption policy in article 1 of Federal Law № 273-FZ, the analyzed powers can be divided into three groups: prevention, detection (investigation of corruption violations and enforcement of disciplinary and criminal proceedings) and minimization or mitigation of corruption violations consequences.

Secondly, on the basis of specifics of public financial audit institutions, their anti-corruption powers can be differentiated as specific (supra agency) applied towards subjects of control and general (in-house) applied inside the auditing organization. Under the FZ № 273 and its sub regulations, general powers include powers of all public financial audit bodies to combat corruption inside them and their subordinate institutions and organizations. The bodies vested with specific powers must exercise general powers as well. First of all, specific powers are granted to the institutions of external public financial audit: the Accounts Chamber of the Russian Federation and audit and account institutions of the Russian federal subjects and municipalities. In particular, one of the tasks of the Accounts Chamber of the Russian Federation is to provide anti-corruption measures within the limits of their competence (item 9, art. 5, Federal Law № 41-FZ dated 05 April 2013 "On the Accounts Chamber of the Russian Federation"; item 7, article 5 № 273-FZ. The powers of regional and municipal audit and account institutions include participation in anti-corruption activities within the limits of their competence (sub item 11, item 1, article 9, Federal Law № 6-FZ dated 07 February 2011 "On general principles of organization and activity of audit and accounting bodies of subjects of the Russian Federation and municipalities").

Since 2008 federal executive bodies have been exercising their anti-corruption functions according to their agency

corruption counteraction plans which must be regularly upgraded and adjusted to the National plan of corruption counteraction approved by President Decree № 378 dated 29 June 2018 "About National plan of corruption counteraction for 2018-2020 years". The constitutional bodies like the Accounts Chamber of the Russian Federation and the Central bank of the Russian Federation received the same recommendations. To exercises their specific powers, the Strategy of the Accounts Chamber of the Russian Federation development for 2018-2020 years contains a specific aim: "To advance an environment of integrity through improvement of anticorruption measures, along with legislative and institutional conditions to prevent abuse" and the National plan of corruption counteraction for 2018-2020 years" is considered as a tool for the aim achievement.

A peculiar feature of the anti-corruption legal regulation in the field of public financial audit is the fact that some federal executive bodies are vested with the specific powers according to sub regulations. Nevertheless, there is no unified law which establishes a list of such executive bodies and their anticorruption functions. For instance, the Federal Customs Service (FCS) provides support to enforcement agencies in their anti-corruption combat (item 5.45 "The Federal Customs Service: Government Decree № 809 dated 16 September 2013). Under the federal legislation, the Federal Service for Financial Monitoring (Rosfinmonitoring) also plays a role in anti-corruption activities and provides public officials, defined by the RF President, with information about money or property transactions (items 4.1; 17.5; 5 "The Federal Service for Financial Monitoring: the RF President Decree № 808 dated 13 June 2012).

The suggested classification of anti-corruption powers of public financial audit bodies allows the authors to propose a hypothesis that agency plans of such bodies must represent exercising of specific and general powers. Comparison of Federal Law № 273-FZ and the National plan of corruption counteraction demonstrates that, on the one hand, general anti-corruption powers of public financial audit bodies are related to provision of transparency of public authorities' activity and, on the other hand, implementation of public civil service legislation. A catalyst of both directions development was the Concept of administrative reform in the Russian Federation for 2006-2010 years adopted in 2005.

### ***2.2. Anti-corruption activities of Federal public financial audit bodies***

Analysis of the anti-corruption plans of federal financial audit bodies demonstrates that these plans contain no more than four groups of activities from eight sections of the National plan.

They are mainly intended:

- to ensure implementation of prohibitions, limitations, principles of public servants conduct and requirements set

in order to prevent and investigate corruption, especially to regulate conflict of interest;

- to identify and systematize causes and conditions of corruption manifestations in the performance of controlling bodies, to monitor and eliminate risks of corruption. For instance, to prevent corruption violations, the Federal Taxation Service of the Russian Federation (FTS) widely uses online taxpayer experience surveys regarding their satisfaction of service quality and taxation bodies' efficiency;
- to coordinate interaction between institutions of public financial audit and civil society and citizens, to provide an access to the information about these institutions' activities. In particular, FTS bases its anticorruption actions on provision of online interaction between customers and customs service officials;
- to counteract corruption taking into consideration specifics of public financial audit institution. For instance, Rosfinmonitoring monitors performance of non-profit organizations participating in anti-corruption activities and controls if their operations meet the intended objectives. In its turn, FTS enhances information contacts with taxation services of other countries in order to exchange data on foreign accounts and assets of Russian citizens. It has agreements with taxation services in 70 countries in the world.

All agency plans of the bodies in the focus of the research contain activities that represent both specific and general anti-corruption powers; the plans have particular chapters for the last named. Only FTS has a different approach, since activities on exercising specific powers are included in the chapter devoted to the issues of identification, monitoring and elimination corruption risks. Thus, the authors assume the hypothesis was supported by the analysis.

### ***2.3. Digital technologies and the directions of their usage in public financial audit bodies' anti-corruption activities***

What are the most promising trends for digital technologies usage in anti-corruption activities of public financial audit bodies?

1. Adaptation of innovative information and communication technologies and software has a great potential in exercising control and oversight functions; it helps minimize personal contacts of controlled and controlling parties.
  - For instance, the Central bank of Russia in some cases is enabled to perform a controlling action remotely through information and communication technologies (item 5, article 76.5, Federal Law № 86-FZ dated 10 July 2002 "On the Central Bank of the Russian Federation (Bank of Russia)").
  - The most digitalized control and oversight institution is FTS of Russia which has installed technologies like "the internet of things" in the form of online cash registers, goods tagging system, Automatic Value-added Tax (VAT)

Control System. Internet technologies has formed the basis for Big Data, reduced the number of inspections and increased revenue for extra 345 billion rubles in 2018. Advanced analytics techniques permit the service to provide taxation monitoring on the basic of general patterns and exclude onsite tax audit. In this way, the number of onsite tax audit has reduced to 35% during 8 months in 2019.

- Convenient digital services (online services) ensure ongoing expansion of e-services range: citizens can receive a certificate of their tax debt or paid tax, fill in declarations, settle state accounts (refund of overpaid taxes or excess), obtain tax rulings and answers to their questions. In future digital technologies can be also used to provide tax incentives [18]. Since February 2020 sole traders and companies have had an access to the service of unified tax payment and can perform online payments. Similar system for business is applied by FTS of Russia: money is transferred to the unified account and customers can write off prepayment when they take their goods into the customs area. Upon the president's errand, unification of FTS and FCS' electronic systems is going on; as a result, both services have coordinated tax payers' audit by 2019.
- The global course on digitalization of FTS will lead to reduction of administrative workload and increase in voluntary payments on the basis of the suggested algorithm. Firstly, taxing authority studies analytical data processing about a subject of audit and sends them a requirement with an enumeration of tax rulings and a list of questions. Secondly, a subject of audit can see risks and asks for details about their tax liabilities. Thirdly, additional payments are transferred to the state budget and no onsite tax audit is needed.
- Installment of technologies in the places where officials of the above-mentioned federal services interact with the citizens and individuals still has a considerable anti-corruption potential. The tools are included in the agency plans of the Federal Treasury and FTS of Russia to minimize risks of corruption and support results of control and oversight activities. To enhance efficiency of anti-corruption activities in the field of state and municipal procurement, public financial audit institutions have taken some measures which ensure transparency and publicity. In particular, while purchasing goods and services for their needs, the Federal Customs Service encourages e-procurement arrangements which empower suppliers to compete online in real time.
- Every financial audit body ensures stabile functioning of their integral document circulation system, especially electronic document circulation system which helps improve official recordkeeping and control the documents execution. Moreover, the system helps exclude risks of corruption while considering citizens' claims and complaints and performing control and oversight functions. At the same time, FTS pays a great attention to technical protection of incoming information with the help of modern cryptographic standards for information protection and radio electronic security.

2. Cooperation between federal financial audit bodies and law-enforcement agencies by means of information and telecommunication technologies enhances efficiency of public financial audit.

- Notably, the Federal Taxation Service of the Russian Federation is responsible for providing effective inter-agencies electronic cooperation based on inter-agencies agreements in the field of anti-corruption activities. One of the above stated agreements is an agreement between the Office of Public Prosecutor of the Russian Federation and FTS dated February 14 2014 about the cooperation in the field of corruption fight. The agreement assumes data and information sharing between the agencies.

- The Federal Treasury is considering a possibility to design and launch an information system for the Presidential Executive Office. The system should meet security requirement and integrate information from different actors in the field of corruption counteract. Moreover, the federal state information system “Unified information system for the public service human resources management” is used to provide information to federal civil service and improve the human resources performance of federal state bodies.

3. One of tendencies is digital provision of further transparent and available information about their anti-corruption activities.

- In order to ensure transparency and availability of information about their anti-corruption activities, public financial audit institutions must place specifying data on public officials’ incomes, expenditures and assets in the official sites of the institution. This data and information about current activities are located in a specialized section “Corruption counteract”. The analysis demonstrates that the content of the sections meet the requirement of the Decree of the Ministry of Labor and Social Protection of the Russian Federation dated 7 October 2013 № 530N.

- All federal bodies have also ensured functioning of “telephone hotline” on the problems of corruption fight and interaction with citizens online. There are Hotline mailboxes in the corporative portal Intranet of the Bank of the Russian Federation and tax authorities’ web sites.

- At the same time, to further develop and improve mechanisms of inter-agency control for citizens’ claims processing, some practitioners suggest tax authorities creating mobile applications for the interactive service “Taxpayer Personal Office” for operating systems iOS and Android [3, p. 647].

- One more approach to ensure transparency is to dispose of proposed normative acts in the site regulation.gov.ru to provide independent anti-corruption assessment of the acts.

It should be noted that transparency is crucial not only technically – publicity, available information about different activities of public agencies. The matter is that quality digital “reset” of the process involved makes clear the core of these processes, their conception. The system of the state procurement is the vivid example of this. The system seems to be open, but the same time, its global digital transformation will make entire financial flows

transparent, especially when biddings are over and contracts are signed up; it will show where the money comes to and thus, it will reduce corruption rent.

This is the direction where vectors of anti-corruption activities of public financial audit bodies, together with the deep re-engineering of the processes, should be headed to. Otherwise, digitalization and corruption combat are only “tips” in the reports that come to the senior public authorities or are placed in the official web sites.

Unfortunately, heads of the agencies usually do not emphasize such impact of digitalization. The vivid example of the approach was demonstrated by the Chairperson of the Accounts Chamber of the RF in his speech at the Soviet Federation meeting when he defined digitalization as one of the three most important ways of improving the Camber’s performance, but he mentioned only such aspects of the process as algorithmization and reduction labor expenditures for routine work.

Meanwhile, the Accounts Chamber’s work on analysis and assessment of openness of the State Information System (SIS) is really urgent and has a great application potential. In this context, the most considerable key recommendations suggested by the staff of the Chamber are:

- focusing the state policy of openness on the functional transparency of the agencies, mainly quality of collected and published data and availability of the data to the customers;
- making requirements to publicly disclose of the data in the SIS compulsory and making control for meeting such requirements strict;
- revealing SIS data for entire information coordination available for everyone in open data format.

This is the only way to ensure citizens’ right to fair, credible and safe information stated in the Strategy of information society development in the Russian Federation for 2017-2030 years approved by the RF President’s Act dated 9 May 2017 № 2013.

### 3. CONCLUSION

Research of anti-corruption activity of public financial audit bodies allows the authors to make some conclusions.

- Anti-corruption powers of public financial audit bodies can be classified on various bases (their objectives direction, the level of their legitimization and the specifics of public financial audit bodies).

- Specific (supra agency) powers of public financial audit bodies, which applied towards subjects of control or other insubordinate subjects, are stated in the regulations and sub regulations. Exercising of above-mentioned powers along with general (intra agency) powers of public financial audit bodies is represented in agencies’ anti-corruption plans which have special chapters for exercising general powers. It is rational to state a whole list of all public financial audit bodies that are granted with specific concrete powers in anti-corruption sphere in Federal Law № 273-FZ.

- There should be a great demand for minimization of corruption manifestation from controlling and controlled subjects, not only for algorithmization and reduction labor expenditures for routine work in the results of digitalization of public financial audit bodies' activities.
- The main tendencies of development of anti-corruption activities of public financial audit bodies include:
  - improving control and oversight functions through intensive installment of innovative information and communication technologies which help minimize personal contacts of controlling and controlled subjects.
  - expanding inter agencies information interaction between public financial audit bodies for corruption combat by means of innovative information and communication technologies, state automated systems among them.
  - providing further openness and availability of information about the way public financial audit bodies exercise their anti-corruptions functions through online digital technologies enhancement.

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