

20TH OSCE ECONOMIC AND ENVIRONMENTAL FORUM
CONCLUDING MEETING
Prague, 12-14 September 2012
Session 1
Mr. Zbyslaw Dobrowolski, Poland

SESSION I: Multi-stakeholder co-operation in AML/CFT

Planned intervention by: *Mr. Zbyslaw Dobrowolski*, Economic Advisor, Supreme Audit Office, Poland

Abstract: The activity of Polish Supreme Audit Office as an example of interagency co-operation in the fight against corruption, money laundering and other types of wrongdoing

Distinguished participants,

Ladies and Gentlemen,

Good governance is a precondition for sustainable development of societies and regions. Good governance implies competent management of a country's resources and public tasks in a manner that is right, transparent, accountable, equitable and responsive to people's needs. The implementation of good governance requires an environment that does not favor or enable corruption, money laundering and other types of wrongdoing.

Although the negative economic effects of money laundering on economic development are difficult to quantify, it is clear that such activity damages the financial-sector institutions that are critical to economic growth. Money laundering impairs the development of financial institutions for two reasons. First, money laundering erodes financial institutions themselves. Within these institutions, there is often a correlation between money laundering and fraudulent activities undertaken by employees. Second, money laundering erodes customer trust in financial institutions not only in developing countries but worldwide. Customer trust is fundamental to the growth and stability of sound financial institutions, and the perceived risk to depositors and investors from institutional fraud and corruption is an obstacle to such trust. Aside from money laundering's negative effect on economic growth through its erosion of countries' financial sectors, money

laundering has a more direct negative effect on economic growth in the real sector by diverting resources to less-productive activity, and by facilitating domestic corruption and crime, which in turn depresses economic growth [1].

Corruption, which facilitates money laundering and vice versa, also generates some categories of costs: (1) costs caused by the loss of revenues from taxes, customs duties, privatization, and costs generated by corruption in public procurement; (2) reduced productivity of investments and economic growth, including through abuse of regulatory powers; (3) burden for the society, including through excessive taxation, low quality of services; and (4) loss of trust for public institutions, which may undermine the respect for public order and security, and even the idea of the State [2].

Taking into consideration this fact, the efficient fight against money laundering, financing of terrorism and corruption requires interagency co-operation in this fight. The advantage of such cooperation among agencies involved in this fight is that it contributes to a more efficient and effective achievement of individual organizations' goals and development in this important area. Through the cooperative process knowledge is shared, information is jointly used, the competencies of individual managerial staff and employees, and of entire organizations are increased [3].

Although governments have a major responsibility for creating an environment that does not favor or enable corruption, money laundering and other types of wrongdoing, governance issues vary from country to country, and solutions to governance problems must be tailored individually. Each supreme audit office (SAI) has a key role to play as an advocate of good governance and interagency co-operation in the fight against different types of wrongdoing, including corruption or money laundering. The important role SAIs play in promoting good governance typically results from their special position in relation to the government. For example, in many countries, the SAI is the supreme body of state audit, and is independent in relation to the executive and judicial branches of government and is subordinate to legislative branch. Having broad audit authorities, SAIs evaluate the functioning of whole government system of combating wrongdoing, including money laundering. From such a broad perspective they can advise how to strengthen public institutions.

The Polish SAI is called – The Supreme Audit Office (SAO) [4] and its fight against corruption and other types of wrongdoing is incorporated in its overall mission to promote economic efficiency and effectiveness in the public service to the benefit of the Republic of Poland. The SAO realizes its mission by establishing audit priorities and conducting its work based on periodic work plans.

The SAO has created a comprehensive strategy of combating corruption, money laundering, and other types of wrongdoing [5]. One of the most important elements of the SAO program of combating wrongdoing is the work it does in strengthening public institutions, which are the elements of the national integrity system. Each public institution, within its statutory powers, supports this national integrity system like pillars that support the

roof of the building. Sound governance in such a system is based on integrity, transparency and accountability.

SAO's fight against corruption, money laundering and other types of wrongdoing is multifaceted. It includes, but is not limited to: (1) incorporating wrongdoing issues in our routine audit work; (2) heightening public awareness of wrongdoing through timely and public disclosure of our audit findings; (3) improving methods and tools of combating corruption and other types of wrongdoing; (4) providing a means for whistleblowers to report instances of wrongdoing; and (5) cooperating with other national and international intuitions in the fight against corruption, money laundering, and financing terrorism.

The SAO analyzes the corruption phenomena (its occurrence, causes, areas and mechanisms) during each audit. By carrying out this comprehensive strategy aimed at combating corruption and other types of wrongdoing, the SAO helps to strengthen the financial management systems of public institutions, knowing that ongoing accountability within the government will create a preventive environment that does not favor corruption and other types of wrongdoing [6]. Simultaneously the SAO evaluates auditees' internal controls (the important line of defense in preventing wrongdoing) and makes recommendations to strengthen any weaknesses identified. The SAO strives to enhance the quality of public service, making sure that taxpayer money is spent economically and effectively on established objectives.

SAO plays an important role as stakeholder in efforts aimed at combating money laundering and the financing of terrorism. Specifically, SAO conducts evaluations of the activities the Polish Financial Intelligence Unit (FIU) operating within the Ministry of Finance. SAO evaluations examine issues such as how obligated institutions and cooperating units inform the Polish FIU about suspicious transactions or suspicious activity, and how the Polish FIU verifies the reported suspected cases of money laundering and financing of terrorism and collects the evidence and informs the law enforcement authorities. SAO work related to money laundering and the financing of terrorism includes reviews and evaluations of cooperating units such as central administration and local government authorities and other state organizational units, the National Bank of Poland, and the Commission for Banking Supervision. The overall objective of such reviews and evaluations is to determine if the cooperating organizations are adequately prepared to combat money laundering and other types of wrongdoing.

The SAO attaches great importance to the quality of legislation. In conducting audits in specific subject areas, SAO frequently identifies loopholes in regulations, lack of administrative rules, and unclear regulations that contribute to irregularities. The effects of these observations are *de lege ferenda* conclusions, for which the SAO recommends the rectification (reformation) of legislative shortcomings. The SAO continuously follows up the implementation of anticorruption recommendations.

The SAO attaches great importance to its informational role. It believes that through timely and public disclosure of its audit findings, the SAO heightens public awareness of

corruption and other wrongdoing, and that increased public awareness of public threat helps to foster accountability.

The results of the SAO audits are presented in post-audit statements sent to auditees, and pronouncements concerning the audit results, which are submitted to the Parliament, and other authorized state organs. The results of SAO audits are also presented in annual reports on the operations of SAO and cross-sectional studies entitled: “The Corruption Hazard in the Light of SAO Audits” presented to the Parliament (Sejm) and public opinion. The first such study was presented in March 2000. Additionally, the SAO has conducted in-depth analytical work to identify national areas of significance that are threatened by corruption. The results of the first such cross-sectional study were presented to the Parliament (Sejm) in November 2002. The study was entitled: “The Functioning of the Act on Public Procurement in the Aspect of Combating Corruption”. The second study entitled: “The Corruption Hazard in the Health Care System in Years 1998-2002” was completed in April 2003. SAO also informs public opinion about corruption and other types of threat using its webpage.

The SAO’s effectiveness in the area of wrongdoing detection is the result of its strategic planning process. The SAO constantly works in a systematic manner to improve its methodology to identify and combat wrongdoing. The SAO has also increasingly turned its focus on the training of its staff, knowing that the success of the fight against corruption depends not only on its audit procedures and tools, but also on having staff with appropriate skills, knowledge, and abilities to identify and assess the potential wrongdoing.

The SAO strives to create a commitment to individual integrity not only in and through its own staff. The SAO is an institution to which whistleblowers from other institutions can provide information about suspected or actual wrongdoing in the workplace. Individuals can submit allegations of corruption, fraud, waste, abuse, or mismanagement of public funds and other types of wrongdoing by sending written information to the SAO, contacting representatives of the SAO in person, or making contact through the SAO’s ComplaintNET. All information gathered by the SAO’s ComplaintNET is transmitted over a secure connection, and the SAO safeguards all information provided by whistleblowers against unauthorized disclosure.

Complaints obtained by the SAO are a valuable source of information on the socio-economic situation of the country and can be used to review and evaluate the activity of auditees. Each year the SAO receives more complaints than in the previous year [7]. The number of complaints received from the citizens can be considered as an indicator of the degree of public trust in the SAO.

Being aware that the effectiveness of SAO’s fight against corruption and other types of wrongdoing depends on the activity of other elements of the national integrity system, the SAO closely cooperates with other state institutions. The SAO reached agreements with Ministry of Finance, Regional Audit Chambers, the Office of Public Procurement, Ombudsman and others that facilitate pursuing an effective and efficient anticorruption strategy.

It is well known that an organization's ability to effectively cooperate implies that it possesses a combination of features that are essential to the achievement of its organizational goals and its overall success. One of the important components related to cooperation is having mutual understanding of the objectives and methods of operation among organizations that work together. Therefore the SAO has also taken steps to improve the quality of audits performed by different agencies. In recognition of the need to develop standard terms for conducting various types of audits that would clarify each element of the national integrity system, in 2004 the SAO initiated and played a key role in the process of developing standard terminology in public administration. In July 2005 the first edition of the publication entitled: "Glossary of Terms Related to Audit in Public Administration" was issued by the SAO [8]. In addition, the SAO helps other institutions by organizing training for their staff. The SAO believes that such training is helpful in providing the staff at these institutions with the knowledge, skills, and ability to recognize and understand the elements and indicators of potential corruption and other types of wrongdoing and ultimately to take steps to address corruption and other types of wrongdoing.

SAO efforts to fight corruption, money laundering, and other wrongdoing extend beyond our borders. SAO has worked to facilitate the exchange of information and strengthen cooperation between SAIs. For example, at the request of International Organization of Supreme Audit Institutions (INTOSAI) [9] Development Initiative, an SAO representative was involved as Subject Matter Expert during the Long Term Regional Training Program organized in Bulgaria in 2004 for auditors from European Non-UE Countries and from Asia. At the request of Albanian SAI, SAO organized a workshop for Albanian auditors whose main goal was to share our experiences in auditing of spheres that are particularly vulnerable to corruption. Following up on these activities, SAO organized in its training centre another workshop for other SAIs.

There are numerous examples in which SAO's experiences in the fight against corruption and other wrongdoing have been shared with other supreme audit institutions. Some examples are:

- SAO's anti-corruption activities were presented, among others, for the National Audit Offices of China, Brazil and Iraq.
- The SAO achievements in the sphere of anti-corruption were also presented at the conference OLACEFS-EUROSAI in Peru, where the President of SAO gave a presentation on the Polish system of disclosure of personal assets by government executives and managers involved in the decision making process [10].
- SAO took part in the program (AGIS), the European Commission-Directorate General Justice, Freedom, Security, whose goal was to assist the police, the judiciary from the member states and candidate countries to the EU and third countries, developing programs to combat organized crime, including corruption. The program examines the legal and control mechanisms used in the partner countries.

The SAO is an active member of INTOSAI Working Group Fighting Against Corruption and Money Laundering. As a member of this group, which includes representatives of various SAIs, SAO has helped to develop INTOSAI guidelines related to fight against corruption, fraud, money laundering and financing terrorism. These guidelines, after approval by INTOSAI, will be applied in different countries in which SAIs belong to the INTOSAI.

SAO also participates in a regional project, which is made up of SAIs from the Visegrad Group and Slovenia. The goal of this project is to strengthen SAI's cooperation in the field of tackling corruption, fraud, money laundering, through common workshops and comparative publication about the situation in the region and methods of preventing and detecting these public threats.

It is worth mentioning some of the international audits in which the SAO has participated and the importance of such audits. Almost 40 international audits have been carried out by the SAO within the last fifteen years. An international audit (also referred to as a cooperative audit) is a joint undertaking of several SAIs. The audit team in such audits is made of auditors appointed by the participating SAIs. A joint audit report is generated that allows looking at the audited issues from a broad international perspective. Together with supreme audit institutions of other countries, the SAI has scrutinized the application of tax allowances and tax exemptions, the system for protection against animal infectious diseases and the effectiveness of fight against global warming, to mention just a few.

International audits provide a great opportunity to exchange experience and to identify good practices. They allow SAIs to learn from one another and they bring mutual benefits. Joint audits are becoming more and more popular. In 2007, the Polish SAO and the Netherlands Court of Audit elaborated the publication entitled: "Cooperation Between Supreme Audit Institutions. Tips and Examples for Cooperative Audits". It presents practical advice on implementation of subsequent stages of international audits, illustrated with examples from experience of 29 SAIs.

Dear Colleagues, the SAO combats corruption and other types of wrongdoing in current public activity. However, simultaneously SAO analyzes areas that are at high risk of wrongdoing in the future. For example, the Internet has become a major factor in our life, and e-government has become a reality. At the same time identity theft has become an important problem. We have to be aware that a professional thief can assume not only individuals' identities but also government institutions' identities in just a few hours, but it can take months or even years to restore government's credibility. The SAO considers fraud scams as a serious hazard.

Dear Participants, the fight against corruption, money laundering and financing terrorism requires an interagency co-operation that goes beyond national borders. The supreme audit institutions have a key role to play as a facilitator of such co-operation. Having broad audit authorities and being independent of the executive branch they evaluate the functioning of government system of combating wrongdoing, including among others money

laundering. Through SAI audits, comments and recommendations, they advise how to strengthen public institutions. They try to influence the laws and regulations so that they themselves would not encourage corruption and other types of wrongdoing. It is worth noting however, that when irregularities are identified in an audit, SAIs recommends corrective measures, although they have no executive powers and in many countries they do not issue legal verdicts.

The fight against corruption, money laundering and financing terrorism is an important goal of International Organization of Supreme Audit Institutions. Therefore, taking into consideration all these facts, the SAIs should be considered as important stakeholders of interagency co-operation in the fight against wrongdoing. The cooperation between SAIs and other government organizations should be developed and deepened. From the SAI perspective it is one of INTOSAI's goals. It should also be the goal of government organizations.

Distinguished Participants, let me finish my presentation in this way. We are all aware of the fact that there should be zero tolerance for corruption, money laundering and other types of wrongdoing. Although the level of wrongdoing will never be zero, we should strive to get this level in the public sector as close to this zero as possible. In Poland, we are approaching this zero, and in our fight against corruption and other types of wrongdoing the Polish Supreme Audit Office play an important role.

Thank you for your attention.

Dr Zbyslaw Dobrowolski