

CULTURAL REFORMS AND CONTROL OF PUBLIC FINANCE: TWO INSEPARABLE KEYS

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ABSTRACT:

This article shows on the basis of professional experiences in the field of public finance control and research project, that the challenges of reforms at the management level public finances are leading to good financial governance. Eventually, an unethical organizational culture leads to corruption. Public finance reforms often involve strengthening the internal controls. In Madagascar, Financial Control Department is in charge of public expenditure control only. Tax collecting must be controlled too by an independent audit committee. Taxes contribute to realize public investment in order to serve general interest. Corruption may appear in tax collecting system. Tax recovery system is a complex process that requires transparency and accountability. Fraud must be detected in ordered to assure good governance. However, reforms are done for people by people, so the useful of culture in the control of public finance is important. To achieve reforms, it is necessary to apply an effective methodology based on anti- fraud culture. This methodology can be inspired by the concept of good governance. Cultural reforms in the process of tax collection and public expenditure must lead two important reforms, first they contribute in the development of citizen's education about their fiscal obligations and second they change manager's public finance behavior in their duties of growth and efficiency. What are the principles of good governance such as culture of transparency and accountability and the relationship between cultural reforms and public finance control process? Why it's useful in the fight against corruption?

Keywords: *Culture of transparency, accountability, corruption, reform, tax collection process, good financial governance*

1. GOOD FINANCIAL GOVERNANCE IN PUBLIC FINANCE MANAGEMENT

Good financial governance is very important in public Finance: “Good financial governance contributes to legitimate use of power and authority in the management of a country's resources, is integral to development, economic growth and poverty reduction.” [1] One of the principles of good financial governance is the transparency of financial information. To speak about good financial governance means to evoke the need of transparency of financial information. This transparency requires making citizens aware of correct allocation of financial resources about public expenditure and the provision of the method of tax due calculating. Currently the sources of information are in different forms, we use new information and communication technologies such as internet and social networks to communicate information without forgetting traditional forms such as television, press and radio. The choice of the source of information may depend on several criteria, but to achieve the objective of transparency, it must meet the criteria of accessibility, updating, relevance and

[1] AfdB, « une bonne gouvernance financière est un révélateur de la démocratie, affirme le Président de la BAD Donald Kaberuka, disponible sur www.afdb.org, mai 2012.

reliability. These last two criteria are essential in the context of the expected transparency. However, the dissemination of any information depends on the persons who use them. In front of problem about the tax due, it becomes necessary to determine the impact of this on the tax collection process. Why is data transparency required in the tax collection process?

1.1 Transparency in Public Financial management

Transparency in the management of public finance limits the risks of corruption. Corruption and lack of transparency represent an obstacle to the effective mobilization and allocation of resources. In our opinion, it is linked to the principle of leader's accountability. Indeed, if the method of calculating the tax due is not available to the public, the taxpayer cannot know whether the amount he has to pay is appropriate or not. He thinks paying too much more than another someone else in similar situation. The absence of reliable information leads to enhance fraud risk. People are tempted to pay less and to be engaged in bribery, if they know there's no control carried out on the tax collection process. Lack of information increases the risk of corruption and the risk of fraud. Consequently, citizens must have information they need in order to pay their tax properly. Frauds risk may appear at the level of taxpayers and taxing agents. Tax fraud means to get out of tax obligations. Tax evasion and tax avoidance are volunteer actions. It means that anti-fraud culture must be instilled to all people. Tax transparency helps limit the risk of corruption and fraud in the tax collection system. Taxpayers and tax agents have a significant role in tax transparency. Technology helps to set up transparency. The role that technology has been is playing in improving transparency and communication but it helps to assess accountability, one of the principles of good financial governance.

1.2 Accountability

However, it turns out that several factors influence the transparency of information on the management of public finance, especially in times of crisis, the period of covid19 propagation can be taken as an example. The use of budgetary aid and funds may be asked by citizens. The increased needs for social benefits and the funds allocated to stop the pandemic require reforms in the management of public finance. The challenge for those who have to decide on the allocation of public resources is to be aware of this and to have a capacity for enormous adaptation and change. For good financial governance, it is important to carry out reforms based on the culture accountability in the whole process which appears at two levels: at the level of citizens who demand to be taken care of them and to be protected from the pandemic. Same request for taxpayers who want to know the use of taxes they paid. Accountability is the capacity of government to explain the use of public resources.

Public budget is essential to manage public funds efficiently. Budget is an economic policy instrument. A budget is transparent if it's open to public engagement and shared by citizens because citizens would consider information from governments to be important. Citizens have right to know how the government has spent people money. And they need this information to be given to them in comprehensive manner, reliable, accurate, and accessible formats. If people are getting an awful lot of benefit tax from government, they are motivated paying tax. If people understand the amount of tax paid, they are not tempted to corrupt fiscal agent.

2. IMPORTANCE OF CULTURAL REFORM IN THE FIGHT AGAINST CORRUPTION

Preventive measures against corruption are illustrations of the need for a culture of accountability in society. This term by its definition refers to the need to control the use and allocation of public funds through audit and internal control. Accountability ensues. This culture complements and goes hand in hand with the culture of transparency since leaders have an obligation to communicate to the public through accessible media using public funds. This accountability framework encompasses regulations, policies, processes and procedures to ensure the execution of a pre-defined strategic plan. This implies a coordination of the programs of all competent authorities of public bodies achieved through the use of artificial intelligence tools. These tools are needed for tracing illicit transactions. Technology is absolutely instrumental in being able to help citizens have access to information they need. If information about tax process is putting on the web in machine readable formats and downloadable formats, data visualization and in comprehend and understand formats, it is helping for taking decisions that they want to make and those types of thinking that we were talking fiscal transparency is helping citizens. The use of technology concerns use of digital forensics too.

2.1 The use of Digital forensics

National public financial management (PFM) systems in government agencies should ensure optimal use of resources and minimize the risks of fraud and corruption. The prevention and fight against corruption is an essential element in establishing a culture of transparency and accountability within organizations. Raising public awareness of corruption-related threats is insufficient if PFM's IT system is unreliable. The data is recorded by men; they must be endowed with the above cultures to achieve the desired goal. The importance of using computer software in bringing about PFM reforms depends on whom leading and accepting reforms. As software can cite software that simplifies the control and management of data logically, it helps promote data transparency, software that provides rapid, large-scale analysis on large and dispersed data sets by facilitating exploration. Complex data. In short, it is about finding the right IT tools that promote collective intelligence. Computer networks offer new avenues of cooperation and access to knowledge. In fraud investigation, digital forensics is used by investigator to detect fraud but this process depends on the ethic of fraud examiner.

2.1 Fraud risk management and cultural reform

No system of internal controls can fully eliminate the risk of fraud, but the ethics and values of officials can deter the average fraudster by reducing the opportunity to commit fraud and increasing the perception of detection. *"Human and cultural factors are important in the evaluation of management risk"*^[2]. The first thing to do is to require a Code of Ethical Conduct signature for all officials. Implement a Code of Ethical Conduct in public financial management for ethical guidance enables individuals to have a better understanding of what is expected of them. Developing ethics program is the cultural reform required by fraud risk management. *"Ethics are the collection of a person's beliefs and morals that they use to make judgments about right or wrong."*^[3]. A written ethics policy is a method by which management can develop a successful ethics program but ethics training is too necessary. Developing an effective corporate compliance and ethics program contribute to prevent and detect criminal conduct. The most important element in public financial management is accountability which an official must have in conducting public affairs.

3. RELATION BETWEEN ANTI-FRAUD CULTURE AND INTERNAL CONTROL:

Internal control is essential for guarding public funds from misuse, fraud, and waste. *"The internal auditor should identify fraud indicator, assess fraud risks, evaluate anti-fraud control and recommend actions to mitigate risks."*^[4] Culture of accountability and culture of transparency ensure that public resources are used efficiently; incurred obligations are cleared in a timely manner. These cultures are needed to prevent abuse or misappropriation of public money. The combination of cultural and structural reforms in order to fight corruption because anti-fraud culture is a powerful way to detect fraud by using transaction monitoring and data analytics for identifying unusual transaction that occur through error, control weakness or fraud.

3.1 Anti-fraud culture

Management must establish an anti-fraud culture within the organization. Fraud risks must be controlled, five principles of fraud risk management according to COSO and the ACFE's Fraud Risk Management Guide : *"fraud risk governance, fraud risk assessment, fraud control activities, fraud investigation and corrective action, fraud risk management monitoring action"*^[5]. A lack of internal control in an organization increases all these risks. Conflicts of interest, illegal gratuities, economic extortion are corruption types which affect badly finance public management. That's why cultural reform must be present in all public fields. In public affairs, if Political leaders have culture of accountability, they want fighting against fraud in order to increase public resources. They try to improve anti-fraud culture by introducing numerous reforms, including performance measurement. Transparency depends on the owner's information ethics. If this person chose keeping information

^[2] ISO 31000:2018's, Risk Management Guidelines, third principle for an effective and efficient risk management program on <https://www.iso.org/standard/65694.html>, view on 22/12/2020

^[3] ACFE , "CFE Exam Review Course: Workbook", p.324

^[4] 26 th Annual ACFE Fraud Conference and Exhibition -2015- p.12

^[5] ACFE's Fraud Risk Management Guide

for him in order to manipulate it for his account, the risk of fraud and corruption is increased. Management should focus on employee's morale and should empower employees to change behavior by making the right decision. To change behavior, culture must be changed. Key morale begins by honest communication, if information are clear and complete, financial public control is easier. Control must be effective in public financial management.

3.2 Internal Control in management fraud-related responsibilities

All managers in Government team are responsible for prevention and detection of fraud. COSO (Committee of Sponsoring Organizations of the Treadway Commission) is responsible for issuing the Internal Control – Integrated Framework. *“Promoting anti-corruption reform for developing an optimal internal control environment based on integrity and transparency could be explored to ensure that ethical values are applied coherently across organizational processes and procedures.”*^[6]. Internal control has structural and behavioral aspects. Ethical values and competence of employees are crucial elements of an adequate control environment. The internal control environment consists of both formal structural and soft behavioral aspects. Management's rule is to assure that the internal control is in place to prevent and detect fraud. Management is responsible for monitoring and remediating internal controls to ensure fraud prevention and detection. In order to prevent fraud, Senior state officials may implement internal control by promoting a culture of integrity, more informal, like values, and attitudes need also to be taken into consideration. Code of Ethics must be applied for better results.

CONCLUSION

Cultural and structural reforms are used for fighting against corruption and fraud at all the level of public finance management. Citizens have right to know whether the taxes they pay are reinvested in public investments or public expenditures for increasing general interest actions. The availability of information contributes to citizen's decision-making. If the information is easily understood by citizens, they will be less tempted to practice corruption. If the benefits from taxes paid to government are not seen by citizens, the risk of tax evasion increases. The proposed methodology is a combination of cultural and structural reforms in public finance control. Transparency in the method of calculating the tax due, transparency of budget information and transparency in the preparation of finance law contribute to reduce bribery and corruption. Anti-fraud culture usually used in internal control is an important tool for implementing a strong ethics in the organization. Culture of accountability permits to conduct anti-fraud investigation. The combination of cultural reforms and internal control is used in the fight against corruption for successful actions.

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[⁶] OECD, « Ensuring a sound internal control and risk management framework in Peru”, OECD integrity review of Peru , “Enhancing public sector integrity for inclusive growth @OECD 2017”p.118