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Practitioner manual on processing and analysing income and asset declarations of public officials

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FOREWORD

The transitional period which came about as a result of the dissolution of the former Soviet Union has no doubt led to a spike in the worldwide number of countries introducing income and asset declarations systems.[1] More than twenty years since the fall of the Soviet Union, the experiences that various countries have had with declaration systems are now summarised in numerous comprehensive handbooks, among which are in particular the OECD handbook in 2011 and the World Bank's report in 2012.[2]

One of the key issues for practitioners in charge of handling asset declarations is the **verification** of financial information. So far, international publications seem to provide only rather broad guidance on this issue.[3] Then again, national institutions in charge of verifying declarations seem to have either no detailed written **methodology**, or do not go beyond the broader guidance of international handbooks.[4]

This Manual intends to fill this void. It shows a model procedure and toolkit on:

- Registering declarations.
- Verifying their submission.
- Financial methodology for reviewing the plausibility and truthfulness of data.
- Cooperating with other state agencies.

The Manual could prove to be a starting point for an international discussion that can hopefully lead to further development and refinement of the processing and verification methodology.

The idea for this Manual emerged in the course of implementing this Project, with several national institutions of the Eastern Partnership region asking for methodological guidance on verifying asset declarations. The Project had carried out two risk assessments on financial declarations in Armenia and Ukraine. As a result, a previous version of this Manual was tailored to the needs of the Ethics Commission for High-Ranking Officials of Armenia. This regional manual is an updated version intended to universally apply to all declaration systems in the EaP-region and beyond.

Of course, the general character of this Manual means that it cannot be applied literarily to all systems. There is too great a variety of asset declaration systems. Certain assumptions were used in the drafting.

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[1] World Bank, Public Office, Private Interests: Accountability Through Income and Asset Disclosure (2012), 150 pages, page 8, http://www1.worldbank.org/finance/star_site/documents/PublicPrivateInterests/Public-Office-Private-Interests.pdf.

[2] OECD, Asset Declarations for Public Officials – A Tool To Prevent Corruption (2011), 148 pages, www.oecd.org/dataoecd/40/6/47489446.pdf; World Bank (note 1).

[3] OECD (note 2): pages 71-77; World Bank (note 1): pages 60-69.

[4] See for example Albania: High Inspectorate of Declaration and Audit of Assets, “Administrative Investigation and Treatment of Criminal Cases in the Field of Declaration of Private Interests [Manual Hetimi Administrativ Dhe Trajtimi I Rasteve Të Veprave Penale Në Fushën E Deklarimit Të Interesave Private]” (March 2010), 113 pages, only available in Albanian, ISBN 978-99956-14-56-0; pages 75-84 “Verification of the Declaration of Interests”.

One assumption is that there is a central oversight body, which handles declarations. This is the case in most but not in all of the countries of the region (in some countries the superior officials of various state bodies handle them). It is also assumed that these declarations and the oversight body are different from ordinary tax declarations and tax authorities. Where tax declarations are used for the disclosure of officials' income and assets, the handling of the declarations differs somewhat because they have to serve also tax-collection purposes. Finally, it is assumed that the declarations provide at least the most essential information needed to get a realistic view on the officials' economic situation. In reality, it is not always the case, for example, in some systems the oversight bodies would have no access to information about relatives of the officials. Then a meaningful audit can be next to impossible if the economic life of an official is closely intertwined with his/her family members. By design, some declarations can fail to cover some major types of assets or other important data. Nevertheless the approach of this Manual principally can be employed in the majority of countries, which use asset declarations for public officials.

1 PAPER AND ONLINE SUBMISSION

In some countries, public officials submit declarations only on paper (for example Ukraine), whereas in some countries they can declare their finances solely online (Georgia).

The advantage of electronic submissions is already obvious from a formal point of view:

- The quota of declarations with formal mistakes is rather high at least in countries with paper-based systems. Online systems can prevent many formal mistakes by guiding the user to all required entries and by alerting the user to erroneous entries.
- At the same time, even if the entered data is factually right, different officials might use different terms for one and the same fact ("real estate", "property", "land", "immovable", "plot", "realty", etc.). Such a confusion and mixture of terms makes it difficult in practice to verify the declarations; for example, a key word search for "real estate" would not produce all relevant declarations. Online or electronic submission of declarations can be designed in a way that allows for the standardisation of a wide range of information declared through drop-down menus.

Even more important is electronic availability of the financial data for the verification procedure:

- One can easily check whether all officials have submitted their declaration.
- Software can automatically calculate and flag numerical misbalances (or even unusual and potentially suspicious patterns).
- The oversight body can electronically tally the declared data with other state databases.
- Statistical information and overall analysis from all declarations are easily available.
- Sharing of declared data with other state agencies (prosecution services, Financial Intelligence Units, etc.) can be done electronically.
- Publishing of the declarations is much easier and interested parties such as investigative journalists can search the electronically readable data.

Unless under extreme hardship, nowadays no country should stockpile declarations just in paper format even if paper-based submission is allowed. Paper stockpiles are too impractical to handle and such system would be inevitably inefficient.

2 REGISTERING

Paper-based submission
Each declaration is stamped upon receipt with the date and, within a certain deadline (for example, three days), listed in the electronic register. This is also true for declarations that are obviously incomplete, such as (almost) blank declaration forms. The electronic register is either maintained as a spreadsheet (Excel-file), or – better and safer – a database system tailored to the needs of the oversight body.

Electronic submission
Whenever officials submit their declarations online directly to the database, the registering is done automatically by the system.

3 PUBLISHING

Declarations submitted online are published in real time. Even the ones submitted in paper form are published online as scanned copies once the data is entered into the database (within a few days). The oversight body sets an internal deadline for the maximum time allowed between the registration and the entering of data in the database. The oversight body's website contains an equivalent explanation so it is clear to the public that part of the published declarations have not yet been analysed.

The register of all declarations is also available online as a chart (Excel or alike) and updated weekly, displaying at least:

- Name of official;
- Name(s) of relatives (if relatives are required to submit their own declarations; otherwise they could be shown in the contents of the declaration of the official);
- Date of receipt of the declaration.

All information is put online as electronically searchable files (text or spreadsheet application); picture files in which text cannot be searched should be avoided (unless it is not possible otherwise, as for example with the initial scans of paper declarations).

4 ELECTRONIC DATABASE

The electronic database is the source of all information. If the database is designed as a spreadsheet (Excel-file), its first columns are dedicated to the basic information necessary for registering a declaration, whereas the following columns will contain information on the income and expenses, etc. Such an all-inclusive database is necessary for allowing automated searching and filtering of information.

Whenever officials cannot yet submit their declarations online directly to the database, the financial and descriptive data will need to be entered manually from the paper version into the database. This step will require a fair amount of manual labour. At least two people should be involved in order to avoid possible errors in the data.

The register contains one line for each public official who is obliged to submit a declaration. A drop-down list of all of the official's declarations could be embedded under each official. For each category of data, the register contains a separate column. In addition, the register contains a comment field. The oversight body uses the comment field to indicate specific cases such as where an official has not submitted certain data (in violation of the rules), etc.

If required to submit declarations of their own, family members are linked as sub-lines to the respective official in the database, for example as sub-lines to the official if the database is designed as a spreadsheet (Excel-file). Otherwise relatives can be entered in designated columns similarly to the other categories of information.

5 SUBMISSION COMPLIANCE CHECK

5.1 Purpose

The purpose of this check is to verify whether all public officials and their family members who are obliged to submit declarations have done so within the deadline.

5.2 Sample

This check needs to be done for the declarations of all public officials and their family members.

5.3 Steps of analysis

5.3.1 Roster of public officials

The oversight body needs to establish, maintain and monitor a roster within the database of all the officials who are obliged to declare their finances.

To that extent, the oversight body maintains a list of all categories of public officials that are obliged to declare their finances.

The oversight body itself monitors and updates the names of officials whose election or appointment and dismissal are officially published.

For the rest of the officials, the oversight body identifies a corresponding public agency responsible for providing a list with the names of all public officials who are covered by the duty to file declarations. Agencies with consolidated data (such as the Civil Service Council, Council of Justice, the unit responsible for payroll accounting, etc.) are probably a more practical option rather than contacting a myriad of individual state bodies (each agency employing civil servants, each court, etc.).

The oversight body requests all such agencies to provide (electronically) a full list of officials falling into the respective category at the beginning of each year until a certain deadline. The request needs to be clear to ensure that officials who have started or ceased working during the year are included. Alternatively (and preferably), the appointment and dismissal of covered officials could be followed by a legally mandatory routine notification to the oversight body.

The completeness of these lists could need verification for two reasons:

- An official could escape his duty of declaration by managing to avoid insertion in the list or be taken off the list;
- Public perception could be negative if the lists were incorrect and there was no mechanism at all at the oversight body's disposal for verifying a sample of the lists.

However, where the list of officials provided by other bodies is clear and reliable, no such verification would be needed.

If the verification appears to be necessary, it could be done on a sample of the lists (for example, lists covering about a third of all the officials each year) by using *inter alia* the following sources:

- Matching numbers with the number of official positions provided for in legal acts;
- Matching numbers as reported on a state body's website with the total of officials reported;
- Matching names as reported on a state body's website with the names provided in the list;
- Matching lists of previous years with the list of the current year;
- Any other information (press reports etc.).

If there are deviations, there should be a compelling (and possibly corroborated) explanation for this.

Fictitious example:
The Council of Judges provides a list with a total number of 643 judges employed in 2012. However, the website reports a total of 650 judges in 2012. Possible explanations could be: the website is outdated; seven judges being included in the total of 650 are only seconded from their current occupation as prosecutors (this would need verification that they are listed on the prosecutors' list); or seven judges retiring during 2012 have mistakenly been omitted from the list.

5.3.2 Adding family members

As for the number and names of family members, the oversight body should not rely merely on the data as provided by the official. Especially where family members submit their own declarations, it would be theoretically possible to supplement the roster with all relevant family members of the public officials.

One way to create such a supplementary roster would be to access to the residence database and also civil registers (marriage, birth, etc.).

However, this endeavour could prove to be too complicated:

- First, one would need to establish a list of all the officials following the end of the year;
- Second, one would need to request a list of all relevant family members from the civil registry.

It is unlikely that this would be possible until the annual deadline for submission of declarations concerning the preceding year. This is true all the more, if the civil registry is not fully computerised.

Another option would be the following procedure:

- Each family member as declared by him/herself or by the public officials is entered into the register;
- The oversight body requests a list of all relevant family members for half of all public officials contained in the roster (the same sample as for the plausibility check, see below at 7.2; in practice this check of family members could be carried out together with the plausibility check). Each year, a different half of all public officials is targeted. This way, every two years, the vast majority of public officials are covered (leaving staff turnover aside);

- The roster of family members is set up, once the information is available (which might be well after the annual deadline). Thereafter it would only have to be renewed annually.

In addition, the oversight body can check the completeness of the roster of family members by comparing rosters of different years. Normally with family members, there can be changes over the years only by birth of children, death, marriages and divorces.

In any case, full verification will never be possible: the obligation to declare does often include household members (as for example in Armenia and in Ukraine). The definition of household members does not depend on the *de iure* residence, but on the *de facto* sharing of a household. There is practically no way for the oversight body to assess who lives where. Therefore, the oversight body will have to rely on the pressure which the public transparency of the register puts on officials; an official, who would “hide” a relevant family member would risk being denounced by some alert third party. Once a non-declared but cohabitating family member is detected, it is possible for the oversight body to prove his/her sharing of household with the official. Similar is done using *inter alia* witness testimony for determining and verifying the *de facto* residence for tax purposes.

5.3.3 Verification

Public officials:
After the submitted declarations are listed in the database (i.e. three days following the submission deadline), the oversight body draws a list of all non-compliant officials from the updated register. The list of all non-compliant officials is put online. Hence, the public will see who has submitted his/her declaration in time and who has not. The publication provides an incentive for officials to be compliant. A disclaimer may be needed explaining that there can be legitimate reasons for non-submission such as illness or death of the official.

Family members:
If family members are required to submit declarations of their own, based on the information that is available, the oversight body draws a list of all non-compliant family members of whom it knows. The list of all (known) non-compliant family members is put online. Hence, the public will see who has not submitted his/her declaration in time. The publication provides a possible incentive for family members to be compliant.

Compliance:
Only declaration forms that contain data in the income field and which are signed/electronically authorised should qualify for submission within the deadline. An annual declaration form with merely the name of the official but with no information on at least income is, by lack of substance, equal to non-submission. Even an official on unpaid leave would have to put – if applicable – a “zero” in the income field. For a declaration form for entering office, it is theoretically possible that almost all fields are empty. At least in principle, the official might have lived alone and have nothing prior to assuming office. However, he or she must have lived off of something, even if it was social aid or subsistence by a family member. Of course, the obligation to declare certain types of income and other data depends also on the rules and form of declaration adopted in the particular country.

5.4 Follow-up and sanctions

For non-submission of declarations, direct sanctions should be available such as an administrative or disciplinary fine, or in flagrant cases (e.g. refusal to submit despite a reminder), the dismissal of the official or even criminal sanctions. The oversight body should inform the official's superior of any infraction so that the latter can open a disciplinary proceeding on that official (provided that he/she is a public servant). The oversight body should request the superior official to inform the oversight body on the outcome of the disciplinary proceeding so that the oversight body can report on it in its annual statistical report (see below chapter 13). Whenever an official should have no superior in a hierarchical sense (such as lawmakers), an ethics commission or the public at large (through voting) will have to sanction the official.

The hearing of the non-compliant official may be a matter of the respective head of agency or other superiors as defined by law. It may also be the competency of the oversight body itself to hand down sanctions; in this case, the oversight body would have to contact the public official directly about the sanction.

In addition, yet another option of reacting to the non-submission of a declaration can be (and normally should be) a full audit of the respective public official and his/her family, which – in absence of a declaration – will collect information on all income and wealth of the official, and put both in relation. The oversight body publishes the results in a form equivalent to the declaration itself, indicating that the data is based on an audit and not on the information submitted by the official himself/herself.

6 FORMAL CHECK

6.1 Purpose

The formal check ensures that all relevant fields of the declaration form are filled in with the appropriate category of data. In practice, it might coincide with the entry of declaration data into the database (as long as data is submitted on paper).

6.2 Sample

This check needs to be done for the declarations of all public officials and their family members if they are required to submit declarations of their own. It concerns all annual and all entry/exit-declarations.

6.3 Steps of analysis

The declaration forms are reviewed with regard to the following:

- Does it appear that all relevant fields are filled out?
- Does each relevant field contain all necessary data?

  For example, when the registration or serial number needs to be included for a vehicle; or, the registration number needs to have a certain number of digits.

- Does the data fit the respective field?

  For example: no descriptive data for numeric fields and vice versa (otherwise it would be irrelevant data).

With a system of electronic submission of data, the input mask could automatically alert the user if the data is not fit for the respective field, or could outright refuse acceptance of the incorrect data.

The basic content check does not look into any question of substance, such as whether stated financial amounts seem to be obviously overstated or understated, even if this could be the consequence of a mere slip of a pen.

6.4 Follow-up

6.4.1 Cooperation with public official

Missing, incomplete or irrelevant data: the oversight body contacts the public official and the head of his/her agency and sets a deadline for submitting the necessary data (unless determined by the law, the oversight body should take an internal decision as to what shall be the deadlines afforded in such cases). If the deadline is not met, the head of agency is notified again. As with the non-submission, an audit is performed on the non-cooperative official.

Obvious and clear misspellings or confused entries: the oversight body corrects the spelling mistake and informs the official in cases when it is obvious what the correct information should be.

All corrections, which are made to the declared data, are to be reflected in the (published) form (old data, corrected data and the date of correction); this should be at least the case as long as it seems necessary to create an incentive for filling out the forms correctly.

6.4.2 Sanctions

For repeated cases of missing, incomplete or irrelevant data direct sanctions should be available such as an administrative or disciplinary fine, or in repeated flagrant cases, the dismissal of the official or criminal sanctions. Should the official not submit the necessary data upon request, the oversight body should inform the head of the state body of the official so the head can begin a disciplinary proceeding against the official (or any other disciplinary body as defined by law). The oversight body should request that the state body informs the oversight body on the outcome of the disciplinary proceeding so that the oversight body can report on it in its annual statistical report (see below chapter 13).

7 PLAUSIBILITY CHECK

7.1 Purpose

The plausibility check focuses on the substance of the declaration by using, as sources, the current declaration, previous ones, family member declarations, and other readily available data (basically any data accessible by a quick internet check or equivalent). The aim is to identify indicators for hidden illegal income.

7.2 Sample

This check needs to be done for a certain percentage of the declarations of all public officials and of all family members concerned (of course, the ratio between the number of covered officials and the employees of the oversight body can affect the size of the achievable sample). The sample could theoretically be based on a risk analysis giving priority to officials in sectors or in positions with experienced high occurrence of corruption. However, such a selection might permanently exclude scrutiny of certain categories of officials. Regardless of the particular choice, almost all high-ranking public officials are exposed to some corruption risks and hence they must be covered at least once every other year. The selection might also be misled by incorrect perceptions about the occurrence of corruption. In addition, any selection not based on a **random** lottery, and not reaching all officials over the course of many years, will most likely seem arbitrary or unfair in the eyes of the public. It is therefore recommended to select a random sample and to ensure that each year a different sample is chosen. This way, over the course of time, practically **all public officials** are covered (leaving staff turnover aside).

7.3 Proper financial terminology

In the majority of international literature, financial declarations of public officials are called "**income** and **asset** declarations", or, simply "asset declarations". Correspondingly, practitioners often state that it is the purpose of financial declarations to compare the income (often the relatively modest civil-servant salary) with the assets (big house, expensive car in case of a corrupt official, etc.). However, this terminology is not correct, and is, in fact, misleading: "Income and asset declarations" look at the incoming and the outgoing **cash and asset flows** of officials.

As for the **incoming** cash flow, the declarations are not about income, as cash flow from taken loans is not income, but simply a debt:

- Income: incoming cash flow which also increases a person's wealth (e.g. salary: "money which I can keep");
- Incoming cash flow: increases a person's liquidity without necessarily increasing the person's wealth (e.g. received loan: "money which I cannot keep").

Incoming		
Source	Income	Cash flow
Salary	Yes	Yes
Service fees	Yes	Yes
Rent	Yes	Yes
Royalties	Yes	Yes
Gifts	Yes	Yes
Inheritance	Yes	Yes
Loan received	**No**	Yes

Economically, gifts and inheritances are income, as they increase a person's wealth ("money I can keep"). However, it should be noted that for taxation purposes, the perspective might be different; there, in many countries, gifts and inheritances would not count as income (as they are not received in exchange for work or services), but would be subject to a separate tax system. For asset declarations, though, the economic perspective is the decisive one, according to which gifts and inheritances are income no matter how they are treated in tax law.

On the **outgoing** side, the main focus should not be so much on assets as such, but rather on all major ways in which the official's money is spent. Thus non-asset transactions are also often included (such as luxury vacations) and they can represent major expenses. On the other hand, there are assets which are not expenses, for example money put in a savings account is an asset, but is not expenses. Thus, the most appropriate, sufficiently broad expression is simply "outgoing cash flow":

- Assets: increase in wealth that is received in return for an expense or outgoing cash flow, or as an accumulation of income;
- Expense/outgoing cash flow: decreases a person's liquidity without necessarily any corresponding return in the form of substantial accumulating assets.

Outgoing		
Purpose	Asset	Cash flow
Purchased assets	Yes	Yes
Savings	Yes	Yes
Loan disbursed	Yes	Yes
Gifts given by official	No	Yes
Vacation	No	Yes
Taxes or alimony for children paid	No	Yes

Strictly speaking, **savings** would not be an **outgoing** cash flow, as it remains with the official, most certainly when it is kept in cash. It is however a decision by the official on how to "invest" his/her incoming cash flow, and is therefore counted under outgoing cash flow.

Similarly, **in-kind** income or expenses of the official are strictly speaking not **cash** flow, but "asset" flow; therefore, one should speak in full precision of "incoming and outgoing cash and asset flow" that is monitored by financial declarations. The following text will, for simplification, mostly speak of cash flow.

7.4 Types of declarations

Probably the most frequent system of declarations (see for example Armenia,[5] Azerbaijan,[6] Belarus,[7] Georgia,[8] Latvia,[9] Moldova[10] and Ukraine[11] – each with slight

[5] Council of Europe Technical Paper "Country Risk assessment – Armenia, Financial Supervision of Public Officials" by Tilman Hoppe and Valts Kalniņš for EaP-Project, March 2013, www.coe.int/eap-corruption.

[6] Art. 5 Law of the Republic of Azerbaijan on Combating Corruption of 2004, https://agidata.org/pam/Legislation.axd/Azerbaijan(2004)Law_Anti-corruption.pdf.

[7] OECD (note 2) page 34.

[8] Art. 14 Law of Georgia on the Conflict of Interests and Corruption in Public Service, http://csb.gov.ge/uploads/Law_of__Georgia_on_Conflict_of_Interest_and_Corruption.pdf.

variations,[12] e.g. sometimes with post-employment declarations) is a combination of the following three:

- **Annual** declarations: these declarations allow monitoring the wealth during office.
- **Entry**-declarations (upon entry of office): these declarations establish the baseline for assessing any increase of wealth during office.
- **Exit**-declarations (upon or after leaving office).

In the above system, an alternative to annual declarations can be

- **Increase**-declarations: in such systems, public officials usually only declare upon entry and leaving office; for the time in between, instead of annual declarations, public officials only have to submit a declaration if there is a substantial change in their income or asset status. Usually, only an increase in income or assets will trigger the obligation to declare (see for example Macedonia).[13]

Both above systems are sometimes complemented by

- **Exceptional** declarations: in Albania or Kosovo[*] for example,[14] the oversight body can request an exceptional declaration from a public official, if there are grounds for doing so (for example, one public official claims having received a large loan from another public official, which raises questions as to where the second public official got the means for lending such large sums of money).

How to check the plausibility of each of the declarations is explained in the following sub-chapters 7.5-7.9.

7.5 Annual declaration: Steps of analysis

The plausibility check looks at the declaration from the following three angles:

1. Verifying the amount of incoming cash flow.
2. Verifying the amount of outgoing cash flow.
3. Verifying the relation of the incoming and outgoing cash flow.

The aim of this exercise is to juxtapose the total incoming cash flow – as declared – with the total outgoing cash flow – but only cash flows during that year.

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[9] Art.23 Law of the Republic of Latvia on Prevention of Conflict of Interest in Activities of Public Officials. http://www.knab.gov.lv/uploads/eng/on_prevention_of_conflict_of_interest_in_activities_of_public_officials.pdf.

[10] Centre for the Analysis and Prevention of Corruption/Corneliu Gurin, Lilia Ionita, Cristina Cojocaru, Study „Declaration of assets and income of state dignitaries, judges, prosecutors, public servants and persons holding managerial positions: challenges and solutions for Moldova", Chisinau, March 2009, pages 15 f., www.crjm.org/files/reports/capc.declar.venit.2009.eng.pdf.

[11] Council of Europe Technical Paper "Country Risk assessment – Ukraine, Financial Supervision of Public Officials, by Tilman Hoppe and Valts Kalniņš for EaP-Project, December 2012, www.coe.int/eap-corruption.

[12] In Azerbaijan, as for example, officials will only have to submit annual declarations under the future declaration regime.

[13] ReSPA (see Annex III) page 97.

[*] This designation is without prejudice to positions on status, and it is in line with the UNSCR and the ICJ Opinion on the Kosovo Declaration on Independence.

[14] ReSPA (see Annex III) pages 20 and 89.

Fiscal year 2012 (T€)	
Incoming cash flow - Salary - Lottery win 2011, paid in 2012	 19 1
Outgoing cash flow - Gold watch - ~~Verhicle (paid for in 2011)~~	 5 ~~10~~
Surplus incoming cash flow	15

The lottery win was in 2011, but the cash flow to the public official was only in 2012; hence it needs to be included in the equation. On the other hand, an asset might be still in possession of an official in 2012, but if the outgoing cash flow was in 2011 (i.e. the asset was bought in 2011), it is not part of the equation for the fiscal year 2012.

If, roughly speaking, in the equation the legal incoming cash flow does not match the outgoing cash flow, a first suspicion of illegal income is established:

Fiscal year 2012 (T€)	
Incoming cash flow	20
Outgoing cash flow	50
Unexplained outgoing cash flow	30

In the above example, a "smart" official would try to level the unexplained outgoing cash flow to zero balance by another transaction. This could be for example a **withdrawal** of cash of 30 T€ during the year in order to increase the incoming cash flow through eroding of "savings". It would be the aim of the plausibility check and especially of the full audit to detect patterns when there is a suspicion that the savings could be just moved to a hidden place in reality, for example, if they were withdrawn at a time that does not fit naturally the time of expense. For a successful audit in this case, data from banks or, if above certain thresholds, from Financial Intelligence Units, would be needed. A "smart" official, though, would have avoided the entrance of the undeclared cash into the banking system altogether.

If in addition or alternatively only the incoming or outgoing side seems implausible (for example, a middle-income person spends half of his/her annual income for a gold watch), this also raises a first suspicion of illegal income, and needs to be followed-up by a full audit.

The aim of this exercise is not, and cannot be, a comparison of a person's total annual legal incoming cash flow with the **total** outgoing cash flow, because on the outgoing side, only **partial** information on the purchase of assets is available, and only for transactions above declaration thresholds. Thus, the analysis looks only at the relation between the person's total annual legal incoming cash flow and the person's biggest outgoing transactions, such as asset acquisitions; the daily expense ("bottle of milk") is obviously not accounted for in the declaration. As a result, the whole declaration system aims solely on detecting the officials with "**outstanding**" levels of inexplicable wealth, but not on those with a small percentage of illegal income. An example of a "not-outstanding" case would be the following:

Fiscal year 2012 (T€)	
Incoming cash flow	20
Outgoing cash flow (e.g. large purchases)	20
Unexplained (**declared**) expense	0
Presumable expenses below declaration thresholds	*10*
Real unexplained expense	10

Obviously, the following steps depend to a certain extent on the details that need to be declared in a certain country – Will public officials have to declare all assets each year, or only when they acquire new assets? Does the selling of assets count as declarable income, and if so, under what conditions? Therefore, the following steps will most likely have to be adapted a bit to the concrete legal framework defining declaration obligations.

7.5.1 Step 1: Incoming cash flow

The total incoming cash flow generated during the fiscal year is calculated by adding up all positions that have to be declared on the incoming side (technical income such as salaries, fees, rent, and royalties; income in an economic sense – but not necessarily in a tax sense – such as received gifts, wins, insurance payments, compensation for material or immaterial damage; as no income in any sense, but only incoming cash flow - received loans).

Given the above calculation of "unexplained expense" or outgoing cash flow, a corrupt official has an interest in artificially **inflating** his/her legal incoming cash flow to account for the large expenses and for explaining his/her lifestyle. The verification of the incoming side, therefore, should generally question whether the positions declared as (legal) incoming cash flow do actually exist, and whether their value is stated correctly.

There is a second group of "corrupt" officials though, who do own or profit from legal (or even illegal) business without being permitted to do so under civil service regulations. Such officials would tend to **hide** part of their **incoming cash flow**.

Recognising the correct number is not always easy:

7.5.1.1 Taxes

Should declarers be allowed to deduct taxes from the income? Declarations are about the actual cash flows – the actual incoming cash flow the declarer can dispose of for outgoing cash flow. Thus, any taxor social security-deductions from the salary are also deducted in the declaration. For example, salaries should always be declared as net amounts (after income taxes and after any possible social insurance deductions). Similarly, any income from rent or service contracts should be declared without VAT. However, any VAT refund from the Treasury counts as income. Alternatively, if gross salaries are indicated, tax payments should appear on the outgoing side.

It shall be kept in mind that the applicable laws and regulations may determine the correct filling of the declarations differently in various countries.

7.5.1.2 Related expenses or depreciation

Example: Should declarers be allowed to deduct the related annual depreciation of the rental object and other costs from the rent? Again, asset declarations are about cash flows. The declarer can fully dispose of the rent notwithstanding any depreciation of the rental object. However, any major actual expense on the rental object should in principle be added to the outgoing cash flow.

7.5.1.3 Loans

As for **loans**, there are two constellations of incoming cash:

Declarer is	Loans as incoming cash flow
Creditor	Loan paid back
Debtor	Loan received

As stated earlier, loans are technically speaking not income, but merely a cash flow to the official. However, it makes complete sense to require declaration of loans, as they are often used as an "excuse" for covering up incoming cash flow from undeclared sources:

Fiscal year 2012 (T€)	
(Illegal undeclared income)	(20)
Allegedly received loan as cover-up	*20*
Increase in assets from illegal income	20
Unexplained expense (as declared)	0
Unexplained expense (in reality)	*20*

Wherever an honest official has indeed received a loan, the balancing sheet would look as follows:

Fiscal year 2012 (T€)	
Received loan	20
Increase in savings (or other expenses)	20
Unexplained expense	0

The incoming cash flow from the loan is reflected equivalently on the "asset" side of the balancing sheet by a respective increase in cash (savings), assets or other expenses. Note that, in the course of the plausibility check, it will probably be impossible to check whether a declared received loan is real or a cover-up.

The cash flow perspective makes it clear that, for loans, it is not the time/year of contracting the loan that is relevant, but rather the time of disbursing the loan, i.e. the actual cash flow.

7.5.1.4 Transformation of assets from previous years

A transformation of assets is any of the following examples:

- A plot of land is sold for cash;
- Savings are transformed into securities;
- A limousine is exchanged for pick-up truck.

A transformation of assets is a transaction of incoming and outgoing cash flows: If a public official has bought a car in 2010 (from legal income) and sells it in 2012 for 10 T€, this will reflect on the incoming and outgoing side as follows:

Incoming 2012 (T€)		**Outgoing 2012 (T€)**	
Proceeds from the sale of the car	10	Cash (new savings)	10

If the public official would exchange the car for a motorbike worth 8 T€, this reflects on the incoming and outgoing side as follows:

Incoming 2012 (T€)		**Outgoing 2012 (T€)**	
Disposal of the car	8	Acquiring of the motorbike	8

It does not matter whether the public official had purchased the asset, or whether he/she received it for free (gift or inheritance): selling the car received during a previous fiscal year generates incoming cash flow in the current fiscal year. Similarly, it does not matter, whether the public official sells the asset for a higher (or lower) price: the real selling price is the income generated (for the asset side of such deals see also below at 7.5.2.5).

The same applies for saved cash, which is also an asset. Any cash generated during years before the current fiscal year (including the time before office) can be used as income any time later on. For example, most officials will bring in cash (including deposits and savings) into their time in office. The positive balance of savings at the start of the declaration period forms a part of the incoming cash flow, which can be used for expenses during the following (first) year in office, e.g. for buying a vehicle. In other words, the positive starting balance as incoming cash flow explains how an official is able to make certain expenses. Therefore, any cash brought in from the previous year can be counted as (additional) ingoing cash flow in any of the following years if it is still available. For example, a public official taking office on 1 January 2009 could have had 40 T€ in cash on the 31 December 2008; in 2009 he made 20 T€ as declared income, and had 50 T€ of declared expenses (40 T€ for a car and 10 T€ for other expenses) by end of 2009. This would result in the following picture:

Fiscal year 2009 (T€)	
Incoming cash flow (generated in 2009)	20
+ Cash as of 31 December 2008	40
Outgoing cash flow (car and other)	50
Surplus	10

Thus, the public official has spent 10 T€ on undeclared expenses, which – if his declaration is truthful – would normally be daily expenses such as food, rent, clothing etc. that do not need to be declared. If one would leave out the cash from the previous year, it would wrongfully appear as if the public official had unexplained income:

Fiscal year 2009 (T€)	
Incoming cash flow (generated in 2009)	20
Outgoing cash flow (car and other)	50
Deficit (unexplained expense)	30

In one case before the Romanian Integrity Agency,[15] a cash-position from the previous year was incorrectly not accounted for as incoming cash flow for the following year. The Commission of Wealth Assessment (adjunct to the Court of Appeal), which reviewed the case of the Integrity Agency, therefore rejected the Agency's finding of unexplained income:

Fiscal years 2008-211 (T€)	
Incoming cash flow	459
Outgoing cash flow	590
Unexplained expense	131

The public official in question (a Senator) could prove by banking statements that he had withdrawn 138 T€ in cash just before taking office in 2008. This cash served as incoming cash flow for justifying all expenses:

Fiscal years 2008-211 (T€)	
Incoming cash flow	459
+ cash from prior to taking office	138
Outgoing cash flow	590
Unexplained expense	-7

7.5.1.5 Exemplary questions on plausibility

For incoming positions, the following – non-exhaustive – list of questions can be used for verifying the plausibility of the position:

- Does the amount seem generally plausible?

  Salaries as an example: for public officials, salaries are defined by legislation. For other work, general experience can be of guidance.

[15] See - Council of Europe Technical Paper, Processing and verifying financial declarations – A Manual for the Ethics Commission for High-Ranking Officials of Armenia (2013), by Tilman Hoppe and Valts Kalniņš for the EaP-Project, Annex II, case 2, page 39 (see below Annex II).

- Is there any indication that the legal ground or economic activity for the income does not exist?

  For example, the descriptive information related to the rented-out property, copyrights, or entrepreneurial activity has corroboration in reality (website, address, etc.).

- Does the data align with market conditions?

  For example: a personal loan by a bank allegedly has an outstandingly low interest rate (0.5%). Copyrights with questionable value have been sold for a *prima facie* inflated price.

- Is there any indication that the source of the income could not have provided the income, for economic or other reasons?

  The alleged creditor only provides loans to commercial clients.

- Is the calculation behind the incoming cash flow plausible?

  For example, the instalments of a loan do not add up to the amount borrowed during the duration of the loan.

- Does certain information contradict with previous declarations?

  The annual declaration shows in-payments from a loan that is not declared in the entry-declaration.

- Is it plausible that the official received an asset as gift as he/she alleges?

  For example: a public official claims having received a luxury car as gift from "a friend".

Any considerable inconsistency does not lead to a correction of the data, but to a full audit (see below chapter 8.2.1).

This is also true for a seemingly simple slip of pen. Sometimes the data appears to be inflated by an inadvertent mistake:

The declaration form shows an insurance compensation of "10,000,000" but the official does not seem to have owned anything of such value.

This would look like an obvious slip of the pen. However, it could also be an attempt to intentionally inflate the incoming cash flow. Therefore, the oversight body should not immediately contact the official, but instead initiate a full audit.

7.5.2 Step 2: Outgoing cash flow

The (declared) outgoing cash and asset flow can be calculated simply by listing all the ways where money could have flown in a declarable way during the fiscal year (or other relevant period): purchase of assets, handed out loans, and accumulation of financial means.

Fiscal year (T€)	
Real estate	50
Movables	0
Securities	10

Loans (given/paid back by official)	0
Other estate	0
Savings	10
Subtotal	70

Note: in the above example, for the calculation of the outgoing cash flow, only assets that have been acquired or savings that have been accumulated during the fiscal period are covered by the declaration count. The calculation uses values as provided for by the declarer or presumed values, if the declared values are implausible and better values are already available at this plausibility stage.
Contrary to incoming cash flow, a corrupt official usually has an interest in artificially **deflating** the value of his/her outgoing cash flow to bring it in relation to his/her legal incoming cash flow:

Fiscal year 2012 (T€)	
Incoming cash flow	20
Outgoing cash flow	50
Unexplained expense	30

7.5.2.1 Loans

Obviously, this is also true for **loans**. Loans given indicate a wealthy position of the official if they are of a certain volume. Thus, a corrupt official would tend to deflate or hide given loans in order to avoid questions as to where the money for the loans came from.

Fiscal year 2012 (T€)	
(Illegal undeclared income)	(20)
(Given loan, undeclared)	(20)
Unexplained expense (as declared)	0

7.5.2.2 Cash

Cash includes paper money as well as savings and deposits in banks. If public officials have to declare their total cash balance each year, the cash put aside during the fiscal year is simply calculated as follows:

Fiscal year 2009 (T€)	
Cash as of 31 December 2009	40
- Cash as of 31 December 2008	25
Cash put aside during 2009	15

One should keep in mind in this context, that any cash unused during a current year, can be used as incoming cash flow in following years (see above at 7.5.1.4).

7.5.2.3 Gifts, inheritances, windfalls

Any asset received for free appears on both sides of the equation: as income when received and – if kept and put aside (like a saving) – also reflected on the outgoing side, as part of the end-of-year balance. Money "spent" on savings or a gift kept as an asset is not exactly "outgoing", because it does not leave the official's sphere; however, they go "out" in a sense as they appear in a positive balance at the end of period. For example:

Incoming cash flow 2012 (T€)	
Salary	20
Gift (received vehicle – "income")	*5*
Total income	25

Outgoing cash flow 2012 (T€)	
Savings	10
Gift (received vehicle – "asset")	*5*
Total expenses *(accumulation of wealth)*	15

If the no-cost vehicle was reflected only on the income side, this would distort the image. Furthermore, if the vehicle would be sold for money in 2013, the money would then also count as income and thus be considered double – in 2012 as a gift and in 2013 as revenue from the sale.

7.5.2.4 Determining correct values

Balance sheets have the function to mirror the exact asset situation of a person or enterprise at any given moment. The function of asset declarations is different: they are about cash flow (see above 7.3) – what money does a person have at his/her disposal, and how was it spent? So for any commodity purchased, not the market value, but the (real) **price paid** is the decisive value.

In March 2012, a public official with a declared income of 12 T€ spends 20 T€ on shares. By the end of the year, once he has to declare, the value of the shares has dropped to 10 T€. If one would base the calculation on the value by the end of year, this would give the distorted image of a balanced income and spending, whereas in fact the official is in need of explaining where he/she got the extra 8 T€ from to purchase 20 T€ in shares (cash flow perspective).

However, the market value is always important for checking the plausibility of a purchase price:

A public official declares the purchase of a (new) car for 10 T€. The catalogue price of the car is 25 T€. At first sight, this raises the suspicion as if the official tries to deflate his expenses in order to cover up that he/she has (illegal?) income for paying another 15 T€ to reach the regular 25 T€.

For any commodity received for free (**gift, inheritance, windfall**), market values apply. As long as a public official receives an asset for free, it does not matter, what value is used –

as the no-cost asset appears on both sides of the equation (see above 7.5.2.3). No matter what the value of the gift, the difference between income and expenses will always be 10 T€ in the above example of a car received as gift. Therefore, the oversight body can determine the **market value** by estimation, by copying the market value used by the tax authorities, by referring to market overviews available for certain commodities (vehicles, real estate, shares), or by simply accepting the value as declared (if it is not obviously wrong). Anyway the official cannot try to explain any expense with the help of a gift that he has not yet sold. The **reference date** for the market value is always the fiscal year of receiving the commodity. There is no sense in putting in a new value into the declaration each year; in fact, such a volatile declaration could give a distorted image of a public official's cash flow situation (see above example of volatile share values).

However, once the commodity is given away in **exchange** for **money** (which means income – see above 7.5.1.4), it is important to determine the correct value of the asset. In this case, the **current value** at the time of transforming the asset is decisive.

7.5.2.5 Transformation of assets within same year

A transformation of assets acquired in previous years always counts as incoming cash flow (see above at 7.5.1.4). If the asset is purchased and transformed within the same fiscal year, this transaction of transformation does not count as incoming/outgoing cash flow as long as the asset is sold for the same price as it was purchased; in this case, only the value of the product of the transformation appears in the summing up of outgoing cash flow. However, if the original asset is sold for more than it was purchased, this counts as incoming cash flow (see above at 7.5.1.4).

7.5.2.6 Exemplary questions on plausibility

The following – non-exhaustive – list of questions can be used for verifying the plausibility of each declared (and undeclared) asset position:

- Does the stated value seem generally plausible?

  Real estate: would the value seem appropriate for the location and size of the property?

- Is there an outstanding absence of certain assets?

  For example, a public official of median income living in a remote part of the country does not appear to own a vehicle.

- Does the data align with market conditions?

  For example: a security is listed on an official trading market.

- Does the official appear able to maintain the asset?

  For example: an official owns a yacht and four cars which were acquired before assuming the office, but has no income in addition to his/her salary.

- Does certain information contradict with previous declarations?

  An asset from a previous declaration does not re-appear in a subsequent declaration, without any explanation, in particular there is no income indicated for the selling of the asset.

Any considerable inconsistency does not lead to a correction of the data, but to a full audit (see below chapter 8.2.1).

This is also true for a seemingly accidental slip of the pen. Sometimes the data appears to be deflated by an inadvertent mistake:

The declaration form shows a real estate with the value of “100 T€”.

This would look like an obvious slip of the pen. However, it could also be an attempt to intentionally deflate the value of assets. Therefore, the oversight body should not immediately contact the official, but initiate a full audit.

7.5.3 Step 3: Relation of income and expenses

Step 3 is the ultimate plausibility check. It aims at identifying unexplained income or expenses by calculating a gap between the declared income and the lifestyle of the official, measured by his acquisition of assets, handed out loans, other expenses, and accumulated financial means:

Fiscal year 2012 (T€)	
Incoming cash flow	20
Outgoing cash flow	50
Unexplained expense	30

The above calculation does not take into account expenses necessary for **daily subsistence**, such as rent, food, clothing, transportation, etc. Including this position increases the gap between income and assets:

Incoming cash flow	20
Outgoing cash flow	50
Minimum subsistence expense	3
Unexplained expense	33

An electronic submission system could do the above calculation automatically and use for each category of officials a fixed minimum amount for daily subsistence.

The minimum daily subsistence is also important in the following constellation, which at first sight would appear balanced:

Fiscal year 2012 (T€)	
Incoming cash flow	20
Outgoing cash flow	20
Unexplained expense	0

The declaration is still implausible: one has to keep in mind that on the side of expenses only expenses above declaration thresholds are counted, but not expenses for daily subsistence. The oversight body should identify certain **standard amounts** (possibly from statistical or social agencies) to be added to the above calculation:

Fiscal year 2012 (T€)	
Incoming cash flow	20
Outgoing cash flow	20
*One year minimum subsistence**	*10*
Unexplained expense	10

* for the official and parties financially dependent

But even if there is no suspected hidden income by the end of the fiscal year, there could still be obvious cases requiring further auditing, for example:

A valuable asset is purchased at the **beginning** of the year, but the income generated at this time of the year plus available financial means would not cover this purchase; the income is only generated by **end** of the year. In this case, it would make sense to verify that the payment for the purchase was made only after the official disposed of the necessary financial means.

7.5.4 Relation to declarations of family members

The reason for obliging family members to submit declarations is the danger of hiding income or expenses under their name. Therefore, whenever family members of an official submit declarations, all above steps (steps 1 to 3) need to also look at the interdependence of all declarations: a dishonest official with undeclared income would try to shift the income as well as the expenses resulting from it to his/her family members. Whenever family members do have considerable income or expenses, this would regularly raise a red flag and should be subject to closer scrutiny.

7.6 Entry-declarations

For entry declarations, limited means of verification exist. A public official may own a big car or house from any income generated prior to taking office. Unless earlier tax declarations have been audited, an official may have never been required to explain this income situation for all the years prior to taking office:

The main objective of an entry declaration is:

- to establish a **baseline** and comparison point for declarations later during office (the possibility to declare non-existent assets, i.e. cash savings or false debtors is a common weak point of such declarations). Depending on the system of declarations, the baseline may be established for the moment of appointment or for the start of the fiscal year when the appointment took place.;
- thus, to avoid the possibility that the official is later **allocating** expenses made during office to the time before taking office (because this would contradict his declaration for the year before taking office).

For the first regular declaration after entry, one has to keep in mind the following particularity: any cash reserve of the official (cash money, deposit, saving) at the time of assuming office has to be added to his/her first income during office; it reflects what “comes into” the disposal of the official with the entry into office. The income is hence calculated as follows:

Entry to office on 1 July 2008	
Declared cash upon entry	40
Declared incoming flow between 1 July and 31 December 2008	200
Total	240

The total of 240 is the incoming cash flow to be compared with assets/expenses in the covered period of 2008. For the subsequent years, though, only the respective annual income will be relevant. Any use of cash from the previous year will lead to a respective decrease in the asset position “cash” in the current year, and is thus already accounted for.

If the baseline reflected the start of the fiscal year when the appointment took place, the calculation would look as follows.

Entry to office on 1 July 2008	
Declared cash as of 1 January 2008	40
Declared incoming flow in 2008	300
Total	340

7.7 Exit-declarations

With exit declarations, it is much easier than with entry declarations. Normally, at the time of exit, there is information from several **previous declarations** of the official that can each be verified like an annual declaration (see above 7.5): the income of each year can be juxtaposed with the assets/expenses of the respective year. In addition, one can juxtapose the overall balance of assets upon leaving office with the overall income for the whole tenure:

Exit from office on 31 December 2012	
Outgoing cash flow balance end of 2012	450

From this balance, one has to take out the (non-cash) assets which the official already had in possession when assuming office (on 1 January 2009), because they were not acquired with income generated during office:

Exit from office on 31 December 2012 (outgoing)	
~~Vehicle acquired in 2008~~	~~50~~
Real estate acquired in 2009	200
Securities acquired in 2010	34
Gold watch acquired in 2011	20

Cash put aside 2009-2012	130
Minimum daily subsistence 2009-2012	16
Total	**400**

This total of assets could be explained by the total (and each annual) **incoming** cash flow since assuming office:

Exit from office on 31 December 2012 (incoming)	
Use of cash from before taking office *	40
Declared incoming cash flow 2009	90
Declared incoming cash flow 2010	90
Declared incoming cash flow 2011	90
Declared incoming cash flow 2012	90
Total	**400**

* The official can use cash (including deposits and savings) available by end of 2008 as incoming cash flow anytime later (see above at 7.5.1.4).

7.8 Increase-declarations

Increase-declarations follow more or less the same logic as annual declarations. The only difference is the time period covered by the declaration: the annual declaration usually covers one fiscal year, whereas the increase-declaration covers any period between the last declaration and the increase-declaration. This can be theoretically up to several years or even decades. The total incoming cash flow generated during the increase period is calculated by adding up all relevant positions on the incoming side and accumulating it for the years since the last declaration. Similar is done for the outgoing side. Note that the official and the oversight body may face practical (and even legal) difficulties to identify and verify all of the data for a pronged period in the past.

If, for example, the last declaration was done for the fiscal year 2008, and an increase in assets is reported in June 2012, the following calculation needs to be made:

Increase reported in June 2012	
Accumulated incoming flow 2009 until July 2012	50
Increase in outgoing flow as of July 2012	30
Difference (=no unexplained expense)	20

7.9 Exceptional declarations

Exceptional declarations follow a similar logic as increase declarations: both declarations cover an irregular period of time, i.e. the time since the last (regular) declaration. They only differ insofar the increase-declaration is submitted upon initiative of the public official, whereas the exceptional declaration is submitted upon initiative of the oversight body (e.g. because of a complaint).

If, for example, the last declaration was done for the fiscal year 2008, and the exceptional declaration is submitted in June 2012, the following calculation needs to be made:

Increase reported in June 2012	
Declared accumulated income 2009 until July 2012	50
Declared accumulat. expenses 2009 until July 2012	30
Difference (=no unexplained expense)	20

7.10 Conclusion: plausibility formula

The above Steps 1-3 result in the below formula – for a system with annual declarations, the relevant "period" is the fiscal year in question; for any other form of declaration (increase, exit, exceptional declaration), the relevant period is between the declaration at the beginning of the period (normally the entry declaration) and the latest declaration:

Incoming cash flow during period	Outgoing cash flow during period
Cash (incl. savings, deposits) at the start of the period	Cash (incl. savings, deposits) at the end of period
Salary	
+ Rental income	+ New real estate
+ Fees for services	+ New movables
+ Interest, royalties	+ New securities
+ Loans received/debts repaid to the official	+ Loans (given/paid back by official)
+ Other income	+ Other high expenses (travel, jewellery, etc.)
+ Gifts, inheritances, windfalls	Gifts received, which remain with the official at the end of the period
+ Assets transformed (sold) during period (excl. savings)	+ Minimum daily subsistence for period
= Subtotal incoming	= Subtotal outgoing

If incoming subtotal < outgoing subtotal → suspicion of undeclared income

7.11 Follow-up

7.11.1 Cooperation with public official

In general, cooperation with the public official should be an option used with caution. Any mistake in the declaration form might not necessarily be an inadvertent mistake, but could be an indicator of financial irregularities lying behind it. It would warn the official and might give opportunity to tamper with the evidence if he/she is aware that an irregularity has been detected.

Any irregularity of *prima facie* importance should be cause for a full audit. This way possible further irregularities can be established leading to a possible criminal investigation, before the official can know about it.

Anyhow, it is in the nature of a plausibility check to only use the data of the declaration itself, possibly supported by readily available sources (quick internet searches providing prices for new or used cars, etc.). Requesting information from the official would tend to go beyond this method.

7.11.2 Sanctions

For intentionally wrong statements a direct sanction should be available such as a criminal, administrative or disciplinary fine. The oversight body should inform the head of the state body of the official so the head can begin a disciplinary proceeding against an official (or any other disciplinary body as defined by law). The oversight body should request that the state body informs the oversight body on the outcome of the disciplinary proceeding so that the oversight body can report on it in its annual statistical report (see below chapter 13).

8 AUDIT

8.1 Purpose

A full audit aims to use all possible means beyond the declaration itself to detect any financial irregularity of an official related to his/her declaration. Thus, the ultimate object of the audit is not the declaration itself, but the declaring official and any party involved in his/her transactions. The aim of the audit is to gain assurance that the official benefits from legal income only. Note that, during audit, it is especially important to focus also on the household members of the official a far as legislation permits. Households typically pool income and expenses together. They often function as the real economic unit more than the official as a separate individual.

8.2 Trigger

8.2.1 Irregularities in previous steps

Should the official not cooperate sufficiently with the submission of the declaration (see above chapter 5.4); fail to fill it out properly (see above chapter 6.4.1); or should the declaration fail to be sufficiently plausible (see above chapter 7.11.1), this should normally lead to a full audit of the declaration/official.

8.2.2 Red flags

Officials with illegally acquired wealth often use the following patterns of transactions to legalise the unlawful part of their finances:

Incoming cash flow:

- Unusual/excessive loans;
- Sham loan or gift contracts, not certified in front of a notary, and only with handwritten receipts.

- Declarations signed and certified in front of a notary in the present to prove fictitious loans/donations received in the past.
- Major gifts in cash at family events (wedding/christening), which are corroborated by fake testimony.
- Highly profitable businesses with little or no registration and/or auditing (farming, etc.);
- Considerable profits made from the sale of assets (especially if the alienation of assets is considerably above acquisition price or the stated worth of the assets seems otherwise dubious);
- Windfalls (any income without quid pro quo: casino or gamble wins, gifts, inheritances, etc.);
- Considerable income of family members, especially if from business without or with little means of verification;
- Asset deals with family members;
- Considerable increase in income from one declaration to another (which is not due to a promotion in the official's position).

Outgoing cash flow:

- Family members owning considerable assets, especially if there are major fluctuations;
- Assets acquired below market conditions;
- Asset deals with family members (possibly only as sham);
- Major loans extended when the act of lending is hard to verify;
- A considerable increase in assets from one declaration to another;
- Major savings in cash (especially in countries where the banking system is generally regarded as safe);
- Unusually large donations provided by the official.

Other:

- Hardly explicable high number of empty fields under the formal check;
- Lack of plausibility under the plausibility check;
- Major foreign transactions, especially involving offshore financial centres;
- A divorce should be followed by an audit if there is any indication that the divorce is purely for formal reasons to avoid declaration obligations, for example, when the spouse refused to declare or to provide further information in the past, etc.;
- Implausible balance of income and expenditures: more or less all income is spent on declarable expenses, leaving no room for necessary daily expenses (minimum subsistence);
- Repeated cash deposits and withdrawals, which are difficult to follow over the years, with insignificant balance at the time of submission of the financial declaration, but significant cash flows in between declarations; hence, the balance

on the banking account appears to be low, whereas the amount of undeclared and possibly undetected income and expenses is high;

- Serious violations of corrupt or economic nature found in the official's area of responsibility, e.g. by the State Audit Institution;
- Special software detects unusual patterns in the official's declarations compared with other officials of similar level.

Any of the above circumstances should normally give cause for a full audit.

8.2.3 Open and anonymous complaints

Any open complaint (i.e. the complainant revealing his/her identity) that is not obviously arbitrary or abusive should trigger a full audit.

Anonymous complaints generally carry the risk of being abused for intentionally harming people, for example, competitors at the workplace. However, unlike a criminal investigation, an audit into a financial declaration is nothing an honest official has to be afraid of. In addition, an audit might take place without the official or his/her environment getting notice of it; thus, there is little if any disadvantage to the official from a full audit.

From the perspective of law enforcement though, anonymous complaints are often the most useful and successful resource for uncovering irregularities. Therefore, international standards on whistleblowers recommend the "availability of anonymous reporting".[16] As a consequence, anonymous complaints that are not obviously arbitrary or abusive should be included as trigger for a full audit.

8.2.4 Media reports

There are three kinds of media reports which are relevant to declarations:

- Reports which "only" rely on the declaration and, as such, present it as implausible or "hard-to-believe";
- Reports which rely on additional data including informants;
- Lifestyle publications where the official's spending is seen.

It is obvious that the second kind of reports should regularly be a trigger for a full audit.

But even reports which only construe declarations as being hard-to-believe should normally trigger a full audit: it supports the perceived credibility of the oversight body if it looks into cases of heightened public interest.

8.2.5 Information from other authorities

The oversight body should ensure that law enforcement or tax (if other than the oversight body) authorities inform it about investigations into an official (through a memorandum of understanding or a respective legal provision). Normally, a law enforcement authority should request declarations of a suspect anyway as a possible means of evidence.

[16] G20/OECD, Compendium on Protection of Whistleblowers, 2011, Recommendation 3, p. 31, www.oecd.org/dataoecd/42/43/48972967.pdf.

8.2.6 Other irregularities

Any other irregularity not listed above should be considered to trigger an audit.

8.2.7 Random sample

The oversight body should not only rely on certain irregularities to trigger a full audit, but also audit a certain randomly selected sample of declaration, such as for example in Belarus.[17] This is important to deter officials from submitting more or less skilfully faked "plausible" and "crystal-clear" declarations that give no cause for suspicion, but could be wrong anyhow. The random selection should ensure that each year a different sample is chosen.

In systems, where there are no annual declarations, it is especially important to randomly select a number of officials for an audit: otherwise, public officials could not declare any changes for decades, and could try to erase all traces of hidden wealth over the years.

8.3 Methodology

8.3.1 Steps of analysis

The full audit looks at the declaration from the same three angles as does the plausibility check:

1. Verifying the amount of incoming cash flow.
2. Verifying the amount of outgoing cash flow.
3. Verifying the relation of the incoming and outgoing cash flow.

Hence, the full audit fully builds on the calculations as explained in the chapter "Plausibility check" (Chapter 7). It only differs by the intensity of scrutiny and the use of tools for verifying each step.

8.3.2 Investigative strategy

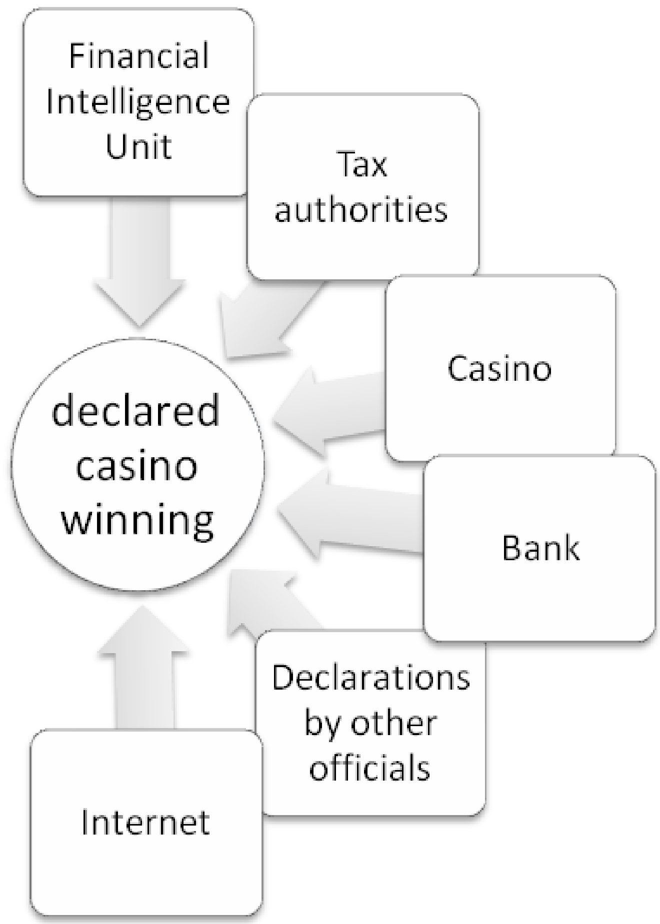
The audit starts with the standard procedure of collecting information from **databases** available to the oversight body (public registries etc., see below at 8.4).

The following three strategic questions provide the next steps:

- Which are the possible **weak**/suspicious points in the declaration to start with?
- Where does the declared data leave **traces**? Are there legal requirements for documentation? Or are there typical patterns of voluntary providing information (e.g. a business normally publishing key data on the internet)?
- What information could possibly substantiate or **contradict** the declared data, and where does it leave traces?

As a first step, it is helpful to draw a chart of stakeholders and evidence possibly involved for any financial position identified. For example:

[17] OECD (note 2) page 72.



In a second step, for each stakeholder, a list of possible leads/questions is drawn up:

- Casino
    - Is there written documentation of the winnings being handed out?
    - Is the casino known to have been involved in illegal activity?
- Financial Intelligence Unit
    - Was the payment to the official declared by the casino?
    - Are there any declarations about the official purchasing large amounts of casino chips prior to the winning?
    - Is there a report by the official's bank for depositing the winning?
    - Do other reports on cashed out winnings show that the casino disburses almost all its prizes exclusively to public officials? Such a pattern would be suspicious as it would be unlikely that a casino is only frequented by public officials or that only public officials enjoy a lucky streak in this casino. More probable would be a systematic collusion between the casino and public officials for money laundering.
- Tax authorities
    - Is the winning declared by the official?
    - Has the casino listed the winning in its financial statement?

- Does the financial statement show that the casino disburses almost all its prizes exclusively to public officials?

- Declarations by other officials
  - Do other public officials also receive "winnings" from this casino (which would point towards the casino collaborating on legalising illicit income)?
- Internet
  - Was the casino actually open on the declared day?
  - Does the casino publish disbursed winnings?
- Etc.

The perspective of an audit is hence that of a financial investigator, money laundering analyst, tax inspector, or an external auditor.

8.3.3 Typology of hiding wealth

The international community has not yet developed or published a typology of hiding wealth specifically related to financial declarations. However, any hiding of income in a financial declaration will almost always mean that the income is illegal. And almost any use and transfer of illegal income will constitute the criminal offence of money laundering and/or tax evasion. But in the realm of money laundering, there exists a vast range of comprehensive and up to date typology studies on how money is laundered:

- Real estate[18] (through deals that help generate ostensibly legal income or hide expenses);
- Casino winnings;[19]
- Insurance payments;[20]
- Income from companies and trusts,[21] especially such that are established in offshore financial centres;
- Transactions related to intangible assets and services, e.g. copyrights or consultancies;

[18] FATF, Money Laundering & Terrorist Financing Through The Real Estate Sector, July 2007, www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20through%20the%20Real%20Estate%20Sector.pdf.

[19] FATF, Vulnerabilities of Casinos and Gaming Sector, March 2009, www.fatf-gafi.org/media/fatf/documents/reports/Vulnerabilities%20of%20Casinos%20and%20Gaming%20Sector.pdf.

[20] FATF, Money Laundering and Terrorist Financing in the Securities Sector, October 2009, www.fatf-gafi.org/media/fatf/documents/reports/ML%20and%20TF%20in%20the%20Securities%20Sector.pdf.

[21] FATF, The Misuse of Corporate Vehicles, Including Trust and Company Service Providers, October 2006, http://www.fatf-gafi.org/media/fatf/documents/reports/Misuse%20of%20Corporate%20Vehicles%20including%20Trusts%20and%20Company%20Services%20Providers.pdf; FATF, Money Laundering Using Trust and Company Service Providers, October 2010, http://www.fatf-gafi.org/media/fatf/documents/reports/Money%20Laundering%20Using%20Trust%20and%20Company%20Service%20Providers..pdf.

- etc.[22]

Whenever a financial transaction in a declaration is suspicious, further instruction on how this transaction could be a pretence for hiding illegal income can be found in the many studies available on money laundering.

8.4 Sources of information

The full audit uses, in particular, the following sources of information:

8.4.1 Electronic and written data

8.4.1.1 Databases

One needs to cross-check the following databases to verify data provided (or not) in the declaration form:

- Tax authority.
- Motor vehicles registry.
- Land registry.
- Civil registry.
- Business registry.
- Register of bank accounts.
- Patents and licenses registry.
- Financial Intelligence Unit.
- Party finance databases.
- Foreign public databases.

Information from the **tax authorities** (if other than the oversight body) can not only be used to juxtapose and compare the annual income as declared for tax purposes with the income as declared in the financial declaration. In particular the plausibility of entry declarations, for example, doubts about declared non-existent assets (see above chapter 7.5.) can be reviewed by looking into past tax declarations. Since the entry declaration contains only limited data (for the moment or for year of entry, in some systems also the year preceding the entry), tax declarations might provide valuable additional data. If there is no income in the years preceding entry but nonetheless an inexplicable acquisition of assets, this should give cause for intense scrutiny. Tax declarations are also useful when checking the plausibility of gifts and other cash flow from third parties: do their tax declarations support sufficient means for transferring the alleged amount of money to the public officials? In such situations, data from the officials' asset declarations could also serve as triggers for tax audits.

Information from the **civil registry** is used for verifying the members of a household, as well as determining family members of the official not living with him/her. Information on such family members might be useful whenever a transaction with third parties might not

[22] Further information is available at:
www.eurasiangroup.org/ru/ (Russian); www.fatf-gafi.org; www.egmontgroup.org; www.coe.int/t/dghl/cooperation/economiccrime/moneylaundering/default_en.asp (English).

be suspicious, but if done with family members would be, or the other way around. Furthermore, information on other family members is also interesting for determining possible hide-outs for illegal income/wealth.

In some jurisdictions there exists a central register for all **bank accounts**, or banks have to each keep a register to which a supervisory authority, like the central bank, has automated access. The register contains only the account number, and the name and birthday of its holder.[23] It thus allows public welfare agencies or tax authorities to verify whether citizens have bank accounts on which they did not provide information.

Patents and licenses are not only assets, but can be an indicator for business, and consequently for income, which the official might not have properly declared. In Serbia for example, data from the Authors Agency revealed that a public official working in the health sector received undeclared income from several copyright agreements with pharmaceutical companies.[24]

Financial Intelligence Units usually observe two kinds of financial patterns in order to detect cases of money laundering:

- Transactions with suspicious specifics, as for example regular money transfers to a tax haven.
- Transactions above a certain threshold, for example 10,000 €.

All financial institutions (and certain non-financial businesses and professions) in the country have to report any of the two types of transactions to the FIU. The FIU records and analyses the Suspicious Transaction Reports (STR) and Cash Transaction Reports (CTR) for possible further investigation. Those reports are an invaluable source for verifying financial declarations by public officials. Any STR or CTR on a public official could easily not be aligned with his/her declaration. For example, such reports could show cash transactions beyond the means declared, or transactions to foreign destinations which do not appear in the declaration. Conversely, a lack of a CTR should raise questions, if the official has purchased a valuable asset and has apparently done so with large amounts of cash. Equally, the official might claim that he/she has received a loan from a friend, but there is no CTR reflecting the alleged bank transfer. Another standard question for the FIU is whether there are any cross-border transactions related to the public official.

It should be kept in mind though, that under international standards FIUs can only forward any obtained data to a law enforcement type oversight body and only if the data is used for anti-money laundering purposes. However, even if the oversight body has no law enforcement competencies, the whole verification and subsequent investigation could profit from the far-reaching possibilities of collecting data which the FIU – and not other law enforcement agency – has: the oversight could at least notify the FIU or General Prosecutor for further following up on the money laundering suspicion (which regularly is given whenever a public official seems to be hiding income or assets).

[23] See § 24c Gesetz über das Kreditwesen (KWG) – German Banking Act, English version available at http://www.bundesbank.de/Redaktion/EN/Downloads/Core_business_areas/Banking_supervision/PDF/banking_act.pdf?__blob=publicationFile.

[24] ReSPA (see Annex III) page 179.

Party finance database: a comparison of data could reveal whether a public official made any donation higher than the declaration threshold for expenses or higher than is plausible with his/her income.

Foreign public databases: See below at 8.4.5

8.4.1.2 Public files

Not all relevant data is contained in databases. For example, information on the partition of the estate is contained in the files of the probate court or equivalent authority. Such files can be relevant to verify the income from inheritances.

8.4.1.3 Internet search

An internet search might provide information or pictures on the public official. For example, a Russian patriarch was photographed in 2012 wearing a luxury watch worth 30,000 USD. The picture triggered a public outcry.[25]

Besides information on the official, there are also several marketplaces on cars, real estate and other valuables, which can provide information on the plausibility of declared values. If a declared value is not plausible, an expert or witness could provide further clarification.

In addition, social platforms on the internet provide plenty of information on the private life and expenses (such as foreign trips) of many people.

8.4.1.4 Commercial databases

Some commercial databases provide financial information on legal and natural persons (debts, businesses, etc.). The databases vary from country to country.[26]

8.4.1.5 Trash runs

Law enforcement agencies often search the suspect's discarded trash for evidence. This technique can be an effective way of obtaining leads where assets are maintained, as well as helping develop probable cause for more coercive measures and evidence for use at trial. Suspects frequently discard evidence, including financial records and correspondence, that may be valuable to a financial investigation.[27]

8.4.1.6 Banking transactions

In many countries, bank secrecy stands in the way of reviewing financial declarations in light of transactions in bank accounts. However, there are countries, where the oversight body can access banking data for the purpose of verifying asset declarations (for example

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[25] BBC, 5 April 2012, Russia's Patriarch Kirill in furore over luxury watch, http://www.bbc.co.uk/news/world-europe-17622820.

[26] For the United States see for example http://www.lexisnexis.com/risk/financial-services.aspx.

[27] FATF Report, Financial Investigations Guidance, June 2012, www.fatf-gafi.org/media/fatf/documents/reports/Operational%20Issues_Financial%20investigations%20Guidance.pdf.

Kosovo* and Serbia).[28] The oversight body could however include an option for public officials to consent upfront to the provision of detailed accounting information (for example, for transactions above a certain threshold) by their banks (as for example in Albania and Macedonia).[29] The oversight body could then request this information from the bank based on the official's consent.

In addition, tax authorities have more far-reaching options to look into banking data once a tax investigation is opened. The oversight body could therefore decide to immediately submit evidence collected to the tax authorities. This would allow the tax authority to begin a tax investigation promptly and access these with greater powers (see below chapter 9).

8.4.1.7 Other declarations

For a full audit, all past and current declarations of one official or family member should be compared with each other, especially whether they bridge from one year to the next or there are inexplicable jumps in income or assets. Previous declarations might be archived at other agencies previously competent under past legislation.

In addition, declarations by other public officials might reveal parallel patterns. For example, if several public officials made substantial winnings in the same casino, this would point to a possible collusion between the casino and the officials.

8.4.2 On-site observations

8.4.2.1 Lifestyle check

Lifestyle checks are an investigation strategy developed by anti-corruption institutions in the Philippines to determine the existence of ill-gotten wealth of public officials.[30] A lifestyle check starts with a visit to the house of the official and possibly his family members. Among the things to look out for are fancy vehicles (boats, cars, jet skis, etc.) parked in these homes or used for ferrying officials, or the retinues they keep (bodyguards, valets, maids, etc.). A visit to the office might display expensive suits and jewellery they wear.

Lifestyle checks can include asking the official, and his/her neighbours, acquaintances, or colleagues for other information, such as foreign trips, children sent abroad for schooling, or sumptuous parties.[31] Information might possibly be found on the internet as well (see *supra* at 0).

For example in Kosovo*, the Anti-Corruption Agency received an anonymous tip-off that an official owned a very luxurious house with a swimming pool, which he had not mentioned in his publicly online available declaration. The Agency contacted the anonymous source who agreed to cooperate informally. The source and Agency officials went to the town where the house was claimed to be. The Agency took some pictures of

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[28] ReSPA (see Annex III) page 12.

[29] ReSPA ibid.

[30] http://www.ombudsman.gov.ph/index.php?home=1&navId=Ng==&subNavId=NTE=&sub2NavId=NjE=&projId=MTY=&disp=1.

[31] http://pcij.org/HotSeat/lifestyle.html.

the house and requested data on the ownership from the land registry – turned out that in fact the official was the true owner of the house.[32]

8.4.2.2 Business check

Similarly to the lifestyle check, a visit of the business, or seeking information otherwise, can reveal, whether a family business is just a pretence for income generated illegally.

8.4.3 Interviews

8.4.3.1 Experts, witnesses

The oversight body can always request expert information from state agencies, for example from the land registry or a comparable institution (or even private brokers) on the market value of real estate. The oversight body can also ask witnesses, such as the owners of a casino, the creditor of a loan, the seller of a car, etc. If it does not have the power for compelling an interview (formal witness statement) but compulsory means are necessary, a law enforcement agency needs to be involved. For this to be possible, a provisional claim of a suspected offence would have to be made.

8.4.3.2 Public official, family member

In any case, public officials and their family members are the most knowledgeable source of information. However, one should carefully weigh the pros and cons of questioning a public official or his/her family members. It would warn an unfaithful official and might give opportunity to tamper with the evidence if he/she is aware that an irregularity has been detected.

Another option might be to inform law enforcement authorities. If they have exploited all means of investigation, the official or family members could be interviewed.

If public officials provide additional documentation to corroborate their position, it is important to review their validity (are supporting documents valid, i.e. signed by a competent person, in the proper form, etc.?)

For example, a renting contract with a company might require signature by the director of the company, and not just by one of its staff.

8.4.4 Compulsory measures by other agencies

Indications of illegal income might not point towards a specific corruption crime such as bribery or embezzlement, but illegal income almost always entails the criminal offences of money laundering and/or tax evasion.

Based on suspicious initial evidence the following law enforcement authorities can use compulsory and secret measures of obtaining evidence:

- Tax police or other police unit
- General Prosecutor
- Security service

[32] ReSPA, page 145.

In addition, FIUs can obtain financial data from other jurisdictions.

8.4.5 Data of foreign parties

Throughout the process, a foreign country's sovereignty must be treated with the utmost respect. State authorities have no right to pursue their own investigations in the territory of a foreign country. In some jurisdictions, even communication inquiries (by phone, letter or email) fall under the territorial sovereignty. In order to obtain information from foreign state or private parties, the oversight body or law-enforcement agency would need to go through the channels of mutual legal assistance, usually located with the General Prosecutor and/or the Ministry of Justice. Such procedures can be rather time-consuming.

Alternatively, the oversight body might conclude agreements for direct data exchanges with foreign bodies at some stage in the future. In this context, one should note the following international examples: Macedonia partly channels its need for information from foreign sources through the tax administration: based on double-tax treaties, the tax authority obtains information from the tax offices of other countries about whether a specific person pays taxes, and if so, what kind. In Kosovo*, the oversight body has a memorandum of cooperation with Albania and is in preparation of a memorandum with Montenegro, allowing the exchange of data for verification (and other anti-corruption) purposes. Furthermore, the oversight body in Kosovo* uses the international network of its FIU to obtain data from abroad in a direct and less formal way. It is noteworthy, that in Croatia the Act on Preventing the Conflict of Interest empowers the legal oversight body to request information from international organizations or a foreign entity directly, without going through the channels of mutual legal assistance. However, this provision of the Act on Preventing the Conflict of Interest has never been tested in practice, so it is not yet certain to what extent this legal provision is effective in real life.

9 TRANSFER OF CASES TO OTHER AUTHORITIES

9.1 Indications of hidden income/assets

Transfer of cases is to be distinguished from requesting assistance from other authorities as described above at 8.4.4. Requesting assistance is focused on collecting further evidence through compulsory measures, so the oversight body can round up an audit. The transfer of cases takes place whenever the means of the oversight body are exhausted or whenever the evidence collected so far already suggests the probability of a criminal offence (and the oversight body itself does not have the powers of criminal investigation). The most likely two offences would be tax evasion and/or money laundering, as they normally go hand in glove with hidden income. Indications for any other more specific crime, such as embezzlement or bribery, would normally not be inferable from the indications of hidden income. Thus, indications of hidden income or assets would regularly need to be transferred to a body with powers of criminal investigation and/or the Tax Service: the official will normally not declare hidden income and assets properly for tax purposes. At the same time it needs investigation, whether the income stems from criminal activities and its use amounts to money laundering.

The oversight body should request the mentioned bodies to provide feedback on the outcome of the case. This will allow the oversight body to notify the disciplinary body of the official in case any wrongdoing has been found (even if law enforcement authorities decide not to prosecute the case). Pursuing disciplinary liability only after tax and criminal investigations will also support keeping the investigations secret; however, statutes of limitations need to be kept in mind for the disciplinary proceeding. Even if no disciplinary proceedings are started (for example, because the possible irregularity took place exclusively outside the service), such information is valuable for agencies, which monitor red flags for internal risk analysis.

9.2 Conflict of interest

It should be kept in mind that financial declarations also serve the purpose of detecting possible conflicts of interest. Any indications of a conflict of interest should be recorded and notified to the body/unit in charge of handling conflicts of interest and the institution of the official in question.

In fact, for the verification of conflicts of interest, two questions are important:

- Is the declaration truthfully showing all possible causes of conflicts of interest situations such as contracts, business activities, etc. (truthfulness)?
- Are there actual conflicts of interest arising from this (compliance)?

Truthfulness: The plausibility and audit verification procedure ensures that undeclared positions are detected as much as possible, and therefore inherently covers the truthfulness of the declaration as far as conflicts of interest are concerned.

Compliance: As for actual conflicts of interest, the relevant law needs to define who is responsible for ensuring compliance with conflicts of interest provisions. The supervision of conflicts of interest should explicitly be the obligation of the superior of a public official, possibly assisted by the human resource department or an ethics advisor. For judges, often the superior is the High Council of Judges, for members of parliament, the relevant disciplinary commission. The question arises, which additional role the central oversight body could play. One needs to distinguish the following two constellations:

- **Incompatibilities**: The conflicts of interest in these situations are absolute, i.e., they do not depend on circumstances. The oversight body could check any incompatibilities (notwithstanding the primary duty of the official's superior to do this as well).
- **Conflicts of interest**: These are mostly relative – they depend on the actual job description and implementation. Therefore, by and large only the superior can assess to what extent they apply. Still, a central oversight body should have the additional power to flag any apparent conflicts of interest and notify the superior of the respective state body. The state body should provide feedback on the outcome of the further examination of possible conflicts of interest.

10 SANCTIONING

Four levels of sanctions are possible in the context of asset declarations:

Criminal	Official	Family member
Administrative	Official	Family member
Disciplinary	Official	-
Civil (forfeiture)	Official	Family member

Criminal sanctions would seem to be the exclusive domain of the police, other criminal investigation bodies and public prosecutor, whereas disciplinary sanctions fall within the competency of the employer (mostly its head or human resource department) of the respective official. Administrative sanctions would be administered by the body competent for handling administrative liabilities (the oversight body itself or other agency).

Typically, declarations can lead to the following violations:

- late filing – specific declaration offence;
- incomplete filing – specific declaration offence;
- non-filing – specific declaration offence;
- false information (without hiding income or assets, for example, for preparing to hide income to be generated only in the future) – specific declaration offence with considerably harsher sanctions if malicious intent is proven;
- hiding income or assets – specific declaration offence and/or tax offence, may also lead to the criminal offence of illicit enrichment, or any offence for generating the hidden wealth. Criminal or civil forfeiture of the hidden wealth might be another consequence.

11 CLOSURE OF PROCEDURE

11.1 Grounds for closure

The following incidents will lead to the closure of the procedure by the oversight body:

- The review of the declaration (formal check, plausibility check – if applicable, audit) has not produced any indication of irregularity.
- The review produced an indication of irregularity but:
  - the oversight body exhausted all means of investigation without producing sufficient evidence for transferring the file to the law enforcement authorities,
  - or the case has been referred to law enforcement authorities (and subsequently, to the disciplinary body), which make the final decision or send the case to the court.

11.2 Rectifying declarations

It should always be the oversight body who rectifies a mistake. As a principle, a mistake should always be corrected in a way that the initial, wrong information is still visible (also in the published version). Hence, replacing a wrong declaration by a sanitized one should generally not be an option. This is for the following reasons:

- It creates an (additional) incentive for the official to pay attention and to declare properly, if mistakes remain on the declaration form.
- The initial mistake might point to a violation which is only visible to somebody reviewing the published declaration.

However, there may be certain discretion with the oversight body on this question, wherever the mistake appears to be small enough.

11.3 Final report

A written final report states all verification and investigation steps taken, any irregularities detected, and the reason for closing the procedure.

11.4 Archiving

All files (declarations, final reports, communication regarding verifications, etc.) are archived at least as long as any timeline foresees for human resource files.

12 PROVIDING ADVICE TO DECLARANTS

The oversight body is responsible for answering any request on how to construe and implement declaration obligations, such as on how to fill out forms, on unclear cases, etc. All answers are made public in a “question and answer section” of the web-presence, so other declarers can profit from it.

13 PUBLIC AWARENESS AND PARTICIPATION

The oversight body will report annually on its work containing the following information:

Oversight body:

- Senior officials or members.
- Special events (trainings, participation in conferences, launching of electronic submission, etc.).

Case statistic (numbers per year) and analysis of trends:

- Complaints.
- Media reports.
- Cases notified by other authorities.
- Cases referred to the police or prosecutor general.
- Cases referred to Tax Service.
- Cases referred for disciplinary follow-up.
- Cases with data being corrected.
- Formal checks, plausibility checks, audits.
- Sanctions.
- Open investigations.
- Closed investigations.
- Data on court decisions.

The internal procedures of the oversight body should be as transparent as possible to the public. It is recommended to invite representatives of the public to attend for example the lottery selection of public officials subject to an audit. In terms of general public relations, the oversight body should critically reflect and present the added value of its work to the public at large.

14 ANNEX I: STANDARD CHECKLIST

The following checklist can be used for following the steps on each declaration:

1. Registering
2. Publishing
3. Submission compliance check
    a. Sample: all
    b. Time: following deadline
    c. Non-compliance:
        i. Legal sanctions
        ii. Notification of the official's superior or human resource department
        iii. Full audit
4. Formal check
    a. Sample: all
    b. Steps of analysis
        i. All relevant fields filled out?
        ii. All necessary data filled in?
        iii. Data fitting the respective field?
    c. Non-compliance:
        i. Legal sanctions
        ii. Notification of the official's superior or human resource department
        iii. Full audit
5. Plausibility check
    a. Sample: random selection (with possibility of risk-assessment)
    b. Steps of analysis
        i. Incoming asset-and-cash flow
        ii. Outgoing asset-and-cash flow
        iii. Relation of incoming and outgoing flows (income v. expenses/assets)
    c. Lack of plausibility: audit
6. Audit
    a. Trigger
        i. Irregularities in previous steps
        ii. Red flags
        iii. Open and anonymous complaints
        iv. Media reports
        v. Information from other authorities
        vi. Other irregularities
        vii. Random sample
    b. Investigative strategy
    c. Using all sources of information
        i. Electronic and written data

            1. Databases
            2. Public files
            3. Internet search
            4. Trash runs
            5. Banking transactions
            6. Other declarations
        ii. Observations
            1. Lifestyle check
            2. Business check
        iii. Interviews
            1. Experts, witnesses
            2. Public official, family member
        iv. Compulsory measures by other agencies
        v. Data of foreign parties
7. Transfer of cases to other authorities
8. Sanctioning (a variety of possible types of legal liability and definitions of violations)
9. Closure of procedure
    a. Rectifying declarations?
    b. Final report
    c. Signature
    d. Archiving
10. Advice and reporting

15 ANNEX II: REAL LIFE INVESTIGATIONS OF HIDDEN WEALTH

Despite numerous publications on the topic of asset declarations (see Annex III), there is little documentation of what real life investigations of public officials' declarations look like. The only publications with a total of 35 cases seem to be the following two:

- Council of Europe Technical Paper, Processing and verifying financial declarations – A Manual for the Ethics Commission for High-Ranking Officials of Armenia (2013), by Tilman Hoppe and Valts Kalniņš for the EaP-Project (Annex II, four cases investigated by the Integrity Agency of Romania).[33]
- Regional School of Public Administration (ReSPA), Comparative study – Income and asset declarations in practice (2013), edited by Tilman Hoppe (Chapter 2, 31 real life cases investigated by the oversight bodies in Western Balkan countries).[34]

[33] www.coe.int/eap-corruption.

[34] http://www.respaweb.eu/11/library#respa-publications-and-research-18.

16 ANNEX III: PUBLICATIONS ON ASSET DECLARATIONS

Regional School of Public Administration (ReSPA), Comparative study – Income and asset declarations in practice, edited by Tilman Hoppe (September 2013), 222 pages
www.respaweb.eu/11/library#respa-publications-and-research-18

World Bank/Public Accountability Mechanisms (PAM) Initiative, Financial Disclosure Systems, Declarations of Interests, Income, and Assets – A Background Primer (September 2013), 9 pages
https://agidata.org/Pam/Documents/FD%20Primer_30Sep2013.pdf

Council of Europe, Processing and verifying financial declarations – A Manual for the Ethics Commission for High-Ranking Officials of Armenia (2013), by Tilman Hoppe and Valts Kalniņš for the EaP-Project, 44 pages
www.coe.int/t/DGHL/cooperation/economiccrime/corruption/Projects/EaP-CoE%20Facility/EaP_TP_default_en.asp

World Bank, Public Office, Private Interests: Accountability through Income and Asset Disclosure (2012), 150 pages
http://www1.worldbank.org/finance/star_site/documents/PublicPrivateInterests/Public-Office-Private-Interests.pdf

Regional Anti-Corruption Initiative (RAI), Rules and Experiences on Integrity Issues (2012), 119 pages
http://www.rai-see.org/doc/Study-Rules_and_experiences_on_integrity_issues-February_2012.pdf

OECD, Asset Declarations for Public Officials – A Tool to Prevent Corruption (2011), 148 pages
www.oecd.org/dataoecd/40/6/47489446.pdf

Richard Messick, Income and assets declarations: Issues to consider in developing a disclosure regime, U4 ISSUE 2009:6, 20 pages
www.u4.no/publications/income-and-assets-declarations-issues-to-consider-in-developing-a-disclosure-regime/

Stolen Asset Recovery (StAR) Initiative/World Bank/UNODC, Income and Asset Declarations: Tools and Trade-offs (2009), 179 pages
www.unodc.org/documents/corruption/Publications/StAR/StAR_Publication_-_Income_and_Asset_Declarations.pdf