

Chapter 11

Assessment of the Risks of Financial Crimes in Local Government

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ABSTRACT

The current study aimed to reveal the risks of financial crimes in local government; to identify the main trends in the emergence of risks. During the research, the following methods were used: literature analysis, case analysis, and semi-structured interviews. It is clear that preventing financial crimes is necessary not only in those areas where bribery and fraud usually occur but even in specific stages of the political cycle. The conducted qualitative study revealed that the main risk of financial crimes in all examined municipalities is related to public procurement. Depending on the size of the municipality and the scope of public procurement, the perception of risks differed.

INTRODUCTION

Financial crimes in the municipality, like other corruption crimes, distort relations between individuals and reduce trust in local authorities, which are closer to the population and formally represent the government. Frauds by municipal officials affect the balance of economic competition and can also distort it. When the financial resources intended for the local community fall into the hands of fraudsters, it increases social inequality and injustice and degrades the ethical values of society.

There is much research on why companies or citizens pay bribes to public officials whose decisions affect their daily activities or lives. Therefore, there is a general recognition that corruption is a transaction between two actors: a civil servant from the state side and a citizen or company from the other side. However, according to Harch (1993), in some regions, corruption is associated with a wider range of criminal offences, such as theft, fraud, false accounting, embezzlement or embezzlement of state property.

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On the other hand, it is recognized that financial crimes in the public sector can cost significantly more than other forms of corruption. And even academics are used to justify them. The movie “Inside Job” shows how intellectual academics provide an intellectual justification for financial problems (Gough, 2013). Fraud is said to be the second largest source of global money laundering (National Fraud Authority, 2011; The UK’s Fraud Prevention Community, 2020). Global events have confirmed that cases of fraud and theft in the public sector can destabilize the country’s political system, affect the well-being of the local community, and can stop financial support for the development of poor countries. Even the Catholic Church has faced various financial crimes (West, Zech, 2007).

Fraud and employee theft in the private sector are classified as forms of organizational deviance (Hollinger, Clark, 1982; Gabor, 1994; Greenberg, 1997; Pinto et. al., 2008; Govender, 2012; Karstedt, 2015; Tomlinson, 2016; Beck, 2017; Bennett et. al., 2018; Watkins, 2021). The analysis of the literature on the topic of corruption showed the prevailing attitudes in the public sector. It is clear that financial crimes in the public sector are not considered corruption, based on the strict legal position in many domestic and international definitions of corruption (Galtung et. al., 2013; Dvorak, 2017). Generally, financial crimes are included in the broader concept of corruption (Andvig, Fjelstand, 2001). However, it is noted that a certain context must exist: embezzlement of money, property and other values, when these values are appropriated or taken by a person who does not own them, but has access to them.

Previous studies (Brito, Pimenta, 2015) found that when conducting research on the prevention of financial crimes, local self-government faces problems determining the circumstances that are usually characteristic of many crimes of a corrupt nature. Financial crimes (e.g. fraud) are often difficult to measure, so one can actually talk about the perception of financial crimes in municipalities. Also, in order to ensure effective prevention of corruption and financial crimes in municipalities, reliable statistical information is needed. It is clear that the municipal units responsible for prevention, without having such information, cannot know in which areas the greatest risk exists. According Burkšienė et. al. (2019), obtaining such data can be helped by m-government solutions in local government.

The aim of the study is to reveal the risks of financial crimes in local self-government; identify the main trends in the emergence of risks. Two research questions guided the current research. How does the existing literature in the field of corruption (financial crime) prevention cover the aspect of local governments?; What are the risks of financial crimes, the factors influencing financial crimes in local government?

During the research, we used the following methods: literature analysis, case study, semi-structured interview. *Analysis of scientific and expert literature*: During the research performed the analysis, division and classification of scientific literature on corruption prevention issues. Great attention was paid to identifying the risks of corruption. The literature analysis was based on the meta-analysis method. It was intended not only for the conceptualization of the studied phenomenon, but also for the summarization of empirical material. *Semi-in-depth structured interview*: during the semi-structured interview, respondents from municipalities (member of councils, civil servants), control institution were asked according the pre-prepared questions. However, some questions were rephrased or additional questions were asked. Since these parts were prepared by synthesizing data from several studies on local self-government, I will mention that the study is based on interviews and focus groups conducted in Lithuania and Sweden (more than 40), but of course, due to the textual limitations of the existing part, the data is used in summary or only excerpts from several interviews. Interviews have been conducted since 2016. When selecting respondents, modern scientific selection criteria were followed, such as experience in the service, positions in an institution, a municipal company, representatives of investigative journalism,

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