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Guest Editor, Journal of Public Budgeting, Accounting & Financial Management

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Accounting can support “sustainable” corruption network: a case analysis

Journal:	<i>Journal of Public Budgeting, Accounting & Financial Management</i>
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4 **Title: Accounting can support a “sustainable” corruption network: a case analysis**
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6
7 **Abstract**

8 Purpose (mandatory): The paper aims to explore the links between corruption and accounting in the
9 public procurement setting. In particular, it investigates how accounting can fight or facilitate corruption.

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11 Design/methodology/approach (mandatory): The study takes a qualitative approach, analyzing one of
12 the worst recent Italian cases of corruption, the “MOSE” trial. Documents produced during the trial are
13 analyzed.
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15 Findings (mandatory): The findings contribute to our understanding of how the (mis)use of accounting
16 can help to build a “sustainable” corruption network, and be used to create, maintain and share corruptive cash
17 flows. Participating actors can use accounting tools to coordinate their actions and organize their misconduct.
18 Accounting may also reveal the existence of such networks, however, by enabling the fiscal police to discover
19 tax fraud, and by reconstructing how a corruption network functions from records kept to manage internal cash
20 flows and the provision of other benefits.
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22 Practical implications (if applicable): Because corruption is a worldwide phenomenon, a better
23 understanding of how it functions may lead (among other things) to the identification of more effective
24 prevention measures. Particular attention should be paid to events that favor corruption, such as extraordinary
25 occurrences, huge amounts of public resources, and new institutional structure without appropriate control and
26 balance tools.
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28 Originality/value (mandatory): Given the specific features of episodes of corruption, qualitative
29 studies on this topic are scarce. Little is known about corruption processes, and even less about the part that
30 accounting can play in them. The MOSE case offers some intriguing insight, showing how accounting can be
31 used to build a “sustainable” corruption network by collecting slush funds and facilitating benefit-sharing
32 among individuals.
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43 *Keywords:* corruption, corruption network, public procurement, slush funds

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45 *Article classification:* research paper
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Introduction

Corruption is a pervasive challenge worldwide, affecting many different activities. The European Commission (EC) generally defines it as the abuse of power for private gain. It may take many forms, such as bribery, trading in influence, and abuse of functions, but it can also hide behind nepotism, conflicts of interest, or revolving doors between the public and private sectors (EC 2014).

Since the seminal works by Klitgaard (1988), and Rose-Ackerman (1999), corruption has been discussed and examined from many different perspectives, in relation to many different practices, and in various contexts. Nonetheless, we still know little about how corruption occurs, and why it persists despite apparently robust barriers to prevent it (Martin et al. 2007; Aguilera et al. 2008; Neu et al., 2013; Johnston 2015; Neu et al. 2015; Roberts 2015; Sargiacomo et al. 2015). This lack of knowledge probably persists because corruption is tremendously difficult to study, as those involved wish to avoid drawing attention to it, and investigating it tends to undermine the public's faith in government (Klitgaard 1988).

Since little is known about the processes of corruption, we know even less about the specific role of accounting in these processes (Neu et al. 2013; Johnston 2015; Neu et al. 2015; Sargiacomo et al. 2015; Changwony et al. 2019). The main aims of accounting include preventing or discovering (administrative) malpractices. Corruption can take many forms, however, and it is not always easy to see how single episodes develop into major scandals. Very little is known about the phenomenon of corruption as a whole, and how it has expanded over the years, and it has come to involve so many people. While it might also be interesting to investigate why a given accounting procedure did not work to prevent, or failed to reveal a fraud, the present contribution examines instead how accounting can be used to support the coordination of inter-organizational actors within a corruption network. Barriers such as internal government controls and anti-bribery legislation should make corrupt practices more complicated, but they cannot eliminate them (Neu et al. 2013). It seems instead that they might encourage some forms of corruption that take advantage of accounting "toolboxes" developed within networks of politicians, bureaucrats and business actors. Previous studies have suggested that the 'skillful' use of accounting can enable corruption by giving an impression of legitimacy even to distinctly illicit activities.

The present paper focuses on the public procurement setting, and investigates how accounting can fight or facilitate corruption by analyzing one of the worst recent Italian corruption scandals, the "MOSE" trial. MOSE is an acronym for the set of mobile barriers designed to protect the city of Venice against dangerously high tides. What emerged during the legal proceedings was an enormous corruption network that had involved local and national politicians, bureaucrats, businessmen and professionals, diverting the flow of millions of euros in public funds without even completing the

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3 project. We conduct a qualitative analysis of documents produced during the trial to improve our
4 understanding of how the (mis)use of an accounting toolbox helped to build and maintain a
5 “sustainable” corruption network in this public procurement setting.
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8 The paper makes two main contributions. The first concerns the facilitating role of accounting in
9 episodes of corruption. Accounting enables the creation and development of cash flows, which are
10 the core resources (though not the only ones) of any corruption network. Building a corruption
11 network that is sustainable and can last for years demands a careful management of financial
12 resources and inter-organizational relationships between individuals. The second contribution
13 concerns the role of accounting in revealing corruption, and keeping track of what happened.
14 Accounting books can reveal how a sustainable corruption network developed because it will have
15 needed (among other things) to control its internal cash flows and the benefits being allocated.
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18 The remainder of this article is organized as follows. First, the theoretical underpinning is developed.
19 Then the Italian context is summarized. After providing a description of the study design and some
20 empirical background information, one of the most significant cases of corruption in Italy in recent
21 years (the MOSE trial) is analyzed. The paper concludes with a discussion of the findings and some
22 suggestions for future research.
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32 **Theoretical underpinning**

33 This article is concerned with understanding the surprising diffusion of corruption in public
34 procurement processes. While such accounting conceals corrupt activities from the public eye, it is
35 also extremely useful to the development of such activities within the corruption network. As a
36 consequence, accounting records can also often pave the way to the discovery of corruption.
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43 *Corruption and the public procurement setting*

44 In this study, the term ‘corruption’ is used to mean the “illegitimate use of public or communal
45 resources for private gain” (Neu et al. 2015, 2). It describes an abuse of public power for personal
46 gain (Monteduro et al. 2016). The United Nations has recognized corruption as a global problem
47 (United Nations 2004). Acknowledging the urgency of the problem, the European Commission
48 published its Anti-Corruption Report in February 2014, which provides a clear picture of the
49 European situation (EC 2014). According to the EC, corruption costs around 120 billion euros a year.
50 Corruption involving public officials has some rather surprising features. Corruption usually moves
51 from individuals who act in their own interests at the expense of an organization (as in the case of
52 embezzlement), but it sometimes expands to involve a whole array of actors. Many studies have
53 shown that public employees are often among the leaders of corruption networks (Beeri et al. 2013;
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3 Neu et al. 2013; Sargiacomo et al. 2015; Vaidya 2019; Pianezzi and Grossi 2020). Governments
4 frequently announce anti-corruption schemes, but they seem to have little effect. There seems to be a
5 consensus in the literature that the State has a pivotal role in fighting corruption, while there are
6 conflicting views on the specific steps that should be taken to do so (Hopkin and Rodríguez-Pose
7 2007, Lehman and Thorne 2015; Reichborn-Kjennerud et al. 2019). Even accountability and
8 transparency seem to be often correlated with the level of corruption and they may significantly
9 influence government effectiveness (Ejiogu et al. 2019; Sherif et al. 2019).

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15 Studies on corruption have sought many theoretical explanations. Several studies have focused on
16 how perpetrators of episodes of corruption engage in “rationalization” tactics, which enable them to
17 view their behavior as acceptable (Huberts 1998; Anand et al. 2004; Graf 2004). According to this
18 kind of theory, an individual, rational and deliberate weighing process leads to some officials
19 becoming corrupt, without perceiving themselves as guilty (Rose-Ackerman 1999).

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24 Another theory traditionally adopted to explain corrupt behavior revolves around the concept of
25 agency, which focuses on the information asymmetry between a principal and the agent (usually
26 politicians and public officials). Studies have focused on the abuse of political power at the expense
27 of citizens when politicians, knowing the uncertainty regarding the costs of public goods, can exploit
28 this asymmetry of information to reap rents for personal gain (Della Porta and Vannucci, 1997; Alt
29 and Lassen 2008). The institutional structure should have a central role in preventing corruption
30 because an appropriate balance of power between government branches should contain the
31 phenomenon (Alt and Lassen 2008; Reynaers, 2014). This issue is particularly important because
32 corruption can be expected to grow very quickly whenever the institutional structure does not
33 establish effective balances and controls. Taking the same line of reasoning, increasing transparency
34 and internal organizational controls should also limit the opportunities for corruption, especially when
35 public awareness is increased (Coxson 2010).

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44 A significant stream of literature has investigated individual wrongdoing, its causes, characteristics
45 and detection (e.g. Zyglidopoulos and Fleming, 2008; Albrecht and Zimbelman, 2011; Brody et al.,
46 2012). In this sense, corruption can be seen as a lack of integrity and ethics, and it may stem from
47 certain unsuitable personal values or features (Lasthuizen and al. 2011; Kwon, 2014; Monteduro et
48 al. 2016; Grossi and Pianezzi, 2018).

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57 Recent research on inter-organizational misconduct (albeit applied to the setting of cartels) highlights
58 as an important feature that participating actors need to coordinate their actions to organize their
59 corrupt activities (Bertrand and Lumineau 2016; Pianezzi and Grossi, 2020).

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Among the forms of corruption relating to the provision of public goods in general, the public
procurement setting has some features that make it a particularly fertile ground. Policies involving

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3 various forms of public-private agreement to deliver public services or build large-scale infrastructure
4 have been presented in many countries as part of a given government's new, or reformed public
5 management agenda. This process has been driven by the aim to 'rationalize' public sector activities
6 and improve the delivery of public services by introducing public-private contracts and competition
7 (Hood 1995; Pashev 2011; Caperchione et al. 2017; Miguel and Cuadrado-ballesteros 2019; Opara
8 and Rouse 2019). Public procurement accounts for around one third of public spending in developed
9 countries, so corruption in this domain can be very costly (OECD 2013). Its economic significance
10 in the EU is considerable, amounting to around 20% of the Union's GDP annually spent on goods,
11 services and public works (PricewaterhouseCoopers and Ecorys 2013). As well as posing challenges
12 concerning the financial benefits, risk transfer, service monitoring, assessment and accountability
13 processes (Caperchione et al. 2017; Khadaroo 2008), the formats in which organizations from the
14 private and public sectors work together introduce additional complications stemming from the risk
15 of corruption (Søreide 2002; Neu et al. 2015). Their economic magnitude can make bribing officials
16 more tempting, along with various other issues, such as: the non-standard nature of the goods and
17 services being procured; uncertainties and asymmetries relating to market prices for components; the
18 complexities in the construction process; and the existence of networks of bureaucrats, business
19 people and elected politicians involved at different stages of the procurement process (Søreide 2002;
20 Beets 2005; Neu et al. 2015).

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36 In the development of corruption, prior literature has highlighted some important features that tend
37 to nurture a deviance from the law and societal values. For instance, the structure of an institution
38 influences the extent of the information asymmetries that always characterize the supply of public
39 goods (Søreide 2002; Alt and Lassen 2008). Apart from the specific nature of a public procurement
40 contract, there may also be "*trigger settings*" that lead individuals to initiate corrupt activities. This
41 depends on the balance of power between political, public and private actors, as well as on the role
42 of auditing and assessment processes.

43 44 45 46 47 48 49 *Corruption and accounting*

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51 Accounting has a key role in the functioning of any organization (Hopwood 1983), and covers a broad
52 array of processes, techniques and information systems. It could be described as a set of activities for
53 supporting managers via traditional bookkeeping, setting financial standards and norms, reporting on
54 an organization's performance to internal and external stakeholders, assessing costs and benefits, and
55 developing internal control systems (Hopwood 1983). Since accounting is so entwined with an
56 organization's daily life, it has also been associated with any episodes of corruption in various ways.
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3 In particular, accounting occupies a “grey” area in between corruption and anti-corruption activities
4 because it is unclear whether and how it can prevent or enable episodes of corruption. On the one
5 hand, accounting might be seen as a set of neutral techniques with the potential both to bring corrupt
6 activities to light and to help prevent them (Johnston 2015; Neu et al. 2015). Some authors claim that
7 the strategic management of accounting transactions in businesses operating in criminal settings
8 always leaves some traces detectable in their financial accounting records, which can serve as red
9 flags of illicit practices (Ravenda et al. 2018). A recent study claimed that accounting is crucial for
10 reducing corruption by increasing the effectiveness of decentralized monitoring mechanisms
11 (Changwony et al. 2019). On the other hand, corrupt actors may devise their strategies around and
12 with accounting tools, thereby impairing its visibility and force. That is why some authors are rather
13 skeptical about the role of accounting in fighting corruption (Sargiacomo et al. 2015), while others
14 even judge that an expert use of accounting enables the development of corrupt actions (Neu et al.
15 2015). Accounting can be used strategically to support criminal business activities and consolidate
16 criminal networks of public servants, businessmen, and politicians (Neu et al. 2013), corroding the
17 political and economic system in the process (Lehman et al. 2015). There are clearly various settings
18 in which accounting can facilitate corrupt activities. First of all, there is the case of financial fraud. A
19 skillful use of bookkeeping practices enables the so-called “white-collar crimes”. Second, accounting
20 may be (mis)used in many public bodies. For instance, a Canadian case highlighted how accounting
21 came to organize the corrupt network (Neu et al. 2013).

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23 In addition to accounting, auditing may also have a contradictory role in the fight against corruption.
24 It was recently suggested that, because corruption always involves a giver and a receiver, it might
25 give rise to different types of accounting ‘error’ in the giving and receiving organizations (Jeppesen
26 2018). Commercial corruption thus generates false entries in financial statements, leaving a trace of
27 such behavior. This means that auditing could reveal corrupt activities whenever they have effects on
28 a firm’s financial figures. But auditing processes have also been directly involved in major corruption
29 scandals. Enron’s bankruptcy is an example of particular interest, not only because its long-time
30 auditor (Arthur Andersen) was one of the Big 5 CPA firms, but also because of the highly complex
31 accounting issues involved (Benston and Hartgraves 2002). Finally, corruption often concerns
32 activities that are not the object of any auditing processes, or may be less easily detectable. This is
33 the case of companies that do not have to be audited, for instance, or when corruption involves cases
34 of favoritism (political patrons facilitating particular groups), and clientelism (relatives or other
35 individuals being favored in return for political, monetary, or cooperative support) (Jeppesen 2018;
36 Khan 2006).

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3 Generally speaking, corruption seems to be somehow interwoven with accounting, but we still know
4 too little about the specific features of these links. This paper examines the role of accounting in
5 contrasting or fostering corruption, taking a qualitative research approach to analyze archival data
6 emerging from a famous Italian corruption scandal.
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10 11 **The Italian context**

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13 There was an increase in the attention paid to the public debate on corruption in Italy, and in the
14 legislative activity aiming to build an effective anti-corruption system following the national scandal
15 called “Clean Hands”. During the 1990s, an enormous corruption and fraud case came to light that
16 involved a whole array of actors, including politicians, business people and the many Italian
17 bureaucracies (Della Porta and Vannucci 1997; Sargiacomo 2015). Some authors (Della Porta and
18 Vannucci 1997) calculated that more than 7,000 people were involved, among them politicians and
19 public officials belonging to all levels of government (national, regional, provincial, and local). From
20 1992 onwards, the findings of the anti-corruption investigations prompted the enacting of reforms,
21 including changes to the articles of the Constitution regarding parliamentary immunity from
22 prosecution, and a reorganization of public expenditure to reduce the opportunities for corruption
23 (Della Porta and Vannucci 2005; Sargiacomo 2015). From 2001 onwards, however, the efficacy of
24 these legislative interventions was reduced due to the opposition of political parties, experts and a
25 large section of public opinion (Della Porta and Vannucci 2005). It is interesting to note that the story
26 of the MOSE analyzed in this paper started in 2002, when a sort of negative public attitude to anti-
27 corruption initiatives was widespread. It may be that the actors involved on the Italian scene at the
28 time felt relatively “safe”, as the political system and public opinion were no longer focusing on the
29 issue of corruption.
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43 Italy's anti-corruption approach had generally relied largely on repression (EU 2014). In 2012,
44 specific anti-corruption legislation (law No. 190) was adopted that aimed to ensure a more balanced
45 approach, and to reinforce plans for preventive actions. A national anti-corruption authority was
46 established to promote the implementation of ambitious anti-corruption policies. The broad
47 preventive framework provided by the new legislation puts a significant burden on the public
48 administration and demands considerable efforts to provide the capabilities needed for its effective
49 implementation. The same law introduced the concept of “whistle-blower”. More recently, in 2016
50 and 2017, new laws on corruption assigned the national anti-corruption authority new functions, made
51 it compulsory for all public organizations to adopt a formal anti-corruption and transparency plan,
52 and reinforced the role of whistle-blowers.
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3 Despite these efforts, the fact that government procurement remains an area of significant corruption
4 in Italy is common knowledge amongst national and international observers (Sargiacomo 2015,
5 **Grossi et al. 2018; Pianezzi et al. 2020**). Their pessimism is confirmed, for example, by the
6 international index (Transparency International) used to measure experts' and business people's
7 perception of corruption. Italy was still usually classified as one of the worst among Western countries
8 in terms of corruption, even if there has been a slight improvement in recent years (from a score of
9 42 in 2012 to 52 in 2018). The Italian Court of Audit calculated that the total direct costs of corruption
10 amount to EUR 60 billion a year (equivalent to approximately 4% of Italy's GDP) (EU 2014).
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19 **Study design**

20 Given the nature of episodes of corruption, the qualitative approach acquires very particular features.
21 Analyses based mainly on the review of publicly-available material have often been used to
22 investigate corruption scandals (Mitchell et al. 1998; Gabbioneta et al. 2013; Neu et al. 2013; Sikka
23 et al. 2015; **Grossi et al. 2018; Pianezzi et al. 2020**). For various reasons, an episode of corruption
24 cannot be examined by means of direct observation or interviews with the main actors involved. This
25 is primarily because the corruption is not known ex ante, but only ex post, so researchers cannot select
26 a case to study in advance. Apart from this issue of timing, corruption also usually only involves a
27 few individuals or small group within an organization. Then there is the fact that corruption is (by
28 definition) concealed, making any direct observation of the event really difficult (and often
29 impossible).
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37 That said, episodes of corruption have some unique characteristics not encountered in other research
38 settings, especially when they are on quite a large scale. In the case of major scandals like the MOSE
39 affair, a vast investigative activity had been going on for years, collecting the body of evidence
40 described in the trial documents. These documents are extremely interesting because they summarize
41 the prosecutors' investigative efforts and the verdicts reached by the judges. The narrative is
42 integrated with wiretap transcripts illustrating the views of individuals directly involved, and excerpts
43 from their organizations' documents that are not usually publicly available.
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49 A content analysis was conducted on the trial documents, which cover the story of the MOSE project
50 from 2002 to 2014. Two main documents were analyzed: the application for parliamentary approval
51 to place under detention the ex-President of the Veneto Regional Authority (Parliamentary Acts -
52 Chamber of Deputies, 4th June 2014); and one of the verdicts emerging from the inquiry concerning
53 eight individuals, including politicians, public officials, and businessmen (verdict 1478/2017,
54 Ordinary Court of Venice, Second Criminal Section). These documents amount to more than 1,500
55 pages, and describe all the events relating to the MOSE corruption case in detail. The first document
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3 we analyzed was prepared by the prosecutor to support their application for the Italian Parliament's
4 official permission to investigate the ex-President of the Veneto Regional Authority. This was needed
5 because the ex-President had become a Member of Parliament by the time their investigation found
6 evidence of his involvement. Italian politicians who are active Members of Parliament are entitled to
7 apply "immunity from prosecution" regulations and ignore a formal arrest warrant issued by a
8 magistrate. This first document was submitted to Parliament, and the investigation of the ex-President
9 was allowed to proceed. The second document contains the verdicts of the inquiry, reached in 2017.
10 The two documents summarize the results of many other related investigations, trials and sentences,
11 and provide a complete picture of the corruption network built around the MOSE public procurement
12 project.
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22 Our analysis followed established techniques and procedures for qualitative studies (Eisenhardt 1989;
23 O'Dwyer 2014), and the ATLAS.ti 8.2 qualitative research software was used to support the data
24 analysis. In a first stage, the trial documents were read and encoded, identifying when and how
25 accounting practices emerged. The software facilitated the organization of all the codes emerging
26 from the data. In conducting this analysis, it was important to bear in mind that judges lent the
27 documents particular meanings because they had a specific aim (to establish the guilt of the
28 individuals on trial). Then second-order themes were identified by analyzing the codes emerging from
29 the first stage. This second stage was not a linear process because the analysis moved back and forth
30 between the first-order codes and the emerging theoretical themes. For example: codes containing
31 instances in which individuals talked about identifying the percentages of money assigned to each
32 person involved were collapsed into a theme called "accounting used to share slush funds"; and
33 instances relating to the use of false invoices to create slush funds were pooled under the heading
34 "misuse of invoices". The second-order themes covered numerous issues, which were then organized
35 into overarching domains of relevance from a theoretical standpoint. Three main domains emerged,
36 that we called: trigger settings; accounting that can favor corruption; and accounting that can reveal
37 corruption.
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51 **Description of the case**

52 In June 2014, more than 35 people were arrested on charges of paying bribes and embezzlement of
53 funds paid to the consortium responsible for the construction of the high-profile Venetian
54 infrastructure intended to protect Venice against rising sea levels (Sargiacomo et al., 2015). The
55 matter was called the "MOSE affair".
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3 The story of the organizations involved in the building of the MOSE dates back to 1984, when a
4 special agreement (Rep. n. 6393) was signed between the Venice Water Board (a decentralized board
5 of the Ministry of Infrastructure and Transport) and a single institution, called the “New Venice
6 Consortium” (NVC). The Consortium was in charge of the overall project, from planning to
7 completion, and it established a unique monopoly situation, overriding the general regulations in
8 place at the time (Barbieri and Giavazzi 2014; Cantone and Di Feo 2016). It could also award
9 contracts to firms belonging to the consortium without any public tender process. This monopoly
10 should have had the effect of speeding up the completion of the infrastructure, and directly controlling
11 important public financial resources. Today the building work has yet to be completed, however. The
12 trial documents revealed an empire of corruption involving millions of euros and the top management
13 of important institutional bodies, indicted alongside many individuals. Even the President of the
14 Veneto Regional Authority (the Veneto is one of the most developed regions in Italy) was directly
15 involved in the flows of stolen public funds. Apart from politicians and public functionaries of the
16 Regional Authority, many other actors on the “public” side were involved, including: politicians and
17 public functionaries of the Venice Local Authority, public officials of the Venice Water Board, a
18 high-ranking officer in the Fiscal Police, and members of the regional and national Audit Court. On
19 the “private” side, the numerous firms involved were usually small businesses operating as
20 cooperatives or limited liability companies. Some freelance professionals were also part of the
21 network. There were very few public companies, none of them quoted on the Stock Exchange, so it
22 is hard to see this case as a traditional failure of auditing activities or reporting of the kind described
23 by Benston et al. (2002), or Gabbioneta et al. (2013). In fact, there were even people in charge of
24 public auditing activities and surveillance courts involved in the MOSE affair. The main reason for
25 involving them was to accelerate the disbursement of public funds and induce the Court of Audit to
26 turn a blind eye to the audits on the sums reportedly paid to the NVC. In 2014, legislation (Act n.114)
27 identified the President of the National Anti-corruption Agency as the person responsible for
28 requesting an extraordinary administration in cases of unlawful conduct or criminal behavior relating
29 to contracts for public works, services or supplies. One of the first steps taken by the National Agency
30 was to request that the NVC be put under external administration as a result of the investigation
31 underway.
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55 **Case analysis**

56 After analyzing the documents three theoretically-relevant domains were identified: trigger settings;
57 accounting that can favor corruption; and accounting that can reveal corruption.
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1. The trigger setting

The above-mentioned studies seem to converge on the fact that favorable circumstances are needed to make corruption possible (McKendall et al., 1997). Thus it is worth looking into the events that enabled the network behind the MOSE scandal to expand over time and remain in place for many years. The MOSE project had some features that lent it to episodes of corruption: mainly the completely new nature of the services, which made it difficult to establish a reasonable market price for them ex ante. Moreover the analysis pointed out other particular features of this case, including: the large amount of resources involved; the personal relationships between the individuals concerned; and the existence of an acknowledged ringleader, who had a crucial role in the extraordinary governance system.

People and financial resources involved

There were many actors in the MOSE affair. The network relied mainly on inter-organizational relationships, although few people were involved in each organization. For the corruption revolving around the MOSE project to work, these people needed to be able to create and pursue their corrupt activities in secret, while within the network almost all of them knew each other. For a corruption network to be developed, it is also essential to involve individuals in all the key positions, otherwise the corruption chain can be interrupted and discovered. Due possibly to the historical period, which was characterized in Italy by a general opposition to anti-corruption interventions (Della Porta and Vannucci, 2005), the individuals involved seem to have been overconfident and convinced they were untouchable. They felt so safe that they did not even put a stop to their corrupt activities after the Fiscal Police had begun their investigations. The public-private joint organization created specifically to develop the MOSE project (the NVC) managed all relations with local, regional and national political actors directly. It also managed the whole supply chain, comprising two minor consortiums (Coveco and Clodia), one large construction company (Mantovani), and a number of small firms and professionals. Last but not least, the NVC handled all dealings with public officials (which included bribing certain individuals working for the Venice Water Board). Overall, between 2002 and 2014, the NVC created financial flows that were estimated to be worth between 20 and 30 million euros. Different service agreements were drawn up in order to involve new actors.

“... [one of the individuals investigated] also explained that, while the slush funds were always downgraded by the same company, the service contracts were stipulated:

- by the NVC with CLODIA in 2005;*
- by the NVC with CONDOTTE in 2006, 2007;*

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3 - and by the NVC with COVECO from 2008 to 2011.”
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7 The main goal of the network remained the same, however: to generate slush funds to share among
8 the people who had – or were thought to have – the power to influence decisions regarding the public
9 procurement project. Meanwhile, the benefits for the firms providing the services (i.e. building
10 activities, landfill management, dugouts, ...) took the form not of money, but tenders, thereby
11 excluding firms not involved in the network.
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17 “QUESTION: ... What would have happened if you had refused?
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19 ANSWER: Well, we would have ended up in the black book, in the sense that decisions regarding the
20 allocation of the works, and the timing of their allocation, would have been taken by the President of
21 the NVC himself. He was the one who decided whether a company would be awarded dredging works
22 or works on the quay, or other types of work.”
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25 *Personal relationships*
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27 To be sustainable, the corruption network needed to be managed and maintained over the years. This
28 issue also involves taking care of the personal relationships between all the individuals involved,
29 whatever their level and role. Exchanges were repeated with many individuals, who could gain
30 information about each other’s “trustworthiness” exhibited in previous dealings. The MOSE case
31 shows that a reputation for being dependable becomes particularly valuable. Personal trust was an
32 important factor, nurtured and developed as actors paid careful attention to the other people involved
33 in the network. The documents describe numerous situations in which trust played a key part. In many
34 of the wiretappings the speakers refer to their trust in each other (e.g. “Don’t worry... I trust this
35 guy”), or offer reassurance regarding payments or work assignments. The following quotation
36 provides an example.
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46 “The member of the NVC board meets the chairman of one of the companies involved in the works
47 to solicit the payment of money that had already been requested by another member of the NVC
48 board. Then he meets the same company chairman again to reassure him about the allocation of
49 the works to his company in exchange for the payment, and advises him that he has already
50 scheduled a new meeting for the following week, also with the other companies involved.”
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56 Trust was then developed by underscoring the knowledge shared by the individuals, since most of
57 the people involved in the network knew each other personally, even if they did not meet very often.
58 Trust was also measured on the long-term horizon because the corruption network could only survive
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3 as long as none of the people involved reported how it worked to external actors. This was often
4 ensured by giving money to individuals even if they were not directly involved in the network:

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6 *“even if the corrupt public official was no longer in the same post, in order to continue to exploit his*
7 *influence and personal relations in the various offices, he was assured a situational income that he*
8 *could count on even after formally leaving his appointment”.*
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12 13 *The network’s leader and the governance system*

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15 Within the MOSE project, a “special” entity was created to manage this extraordinary public work.
16 A unique institution (NVC) was directly assigned all the works relating to the MOSE. This monopoly
17 situation was lacking in many of usual balances and controls over such activities, and became a
18 favorable setting for corruption to occur. The corruption network featured a clearly-identified
19 ringleader in the President of the NVC, who was de facto irremovable. In other words, the governance
20 system did not consider the need to replace the consortium’s president. He decided which firms were
21 allowed to have a share in the profits of the corruption network, and he was often called the “man at
22 the top” or the “pater familias” (the head of the family). He was always the final addressee of all the
23 slush funds, which were then allocated to public officials and political parties. Within the network, a
24 select “board” of the NVC’s three main partners was created to manage the whole flow of money and
25 works contracts. Once or twice a year, this board met to establish the “coming back rule”: they
26 decided on the cash flow of the slush funds, and then analyzed and assigned the main activities
27 relating to the building of the infrastructure. The total amount of the available resources was shared
28 within the network. The board kept a note of the tenders awarded to each partner, then each partner
29 distributed the sub-tenders among firms and professionals belonging to its own supply chain. Almost
30 all the recipients of slush funds were identified and the amounts were recorded.
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45 *“The assets/liabilities situation of the fund (of money) was periodically, six-monthly or annually,*
46 *discussed with the reference persons from the three main partner enterprises in the NVC ... they took*
47 *part in the decisions made with the president of the NVC concerning the ‘real nature of the operation’,*
48 *i.e. the real destination of the downgraded funds.”*
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53 To sum up the first domain, a trigger setting implies the presence of specific circumstances that make
54 illegal actions possible and facilitate the development of a stable corruption network. The opportunity
55 to engage in corruption arises when and where there are the conditions needed to do so and people
56 can break laws and expect, with reasonable confidence, to avoid detection or significant penalties. In
57 the MOSE affair, the monopoly created meant that a great deal of institutional power was in the hands
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3 of a single agent, making corruption easier and less risky (Della Porta et al. 1997). Weak balances
4 and controls then characterized the resulting situation. There were many extraordinary features of the
5 project (primarily the uniqueness of Venice and the kind of infrastructure needed to protect it against
6 high tides) that seemed to justify this unusual institutional frame. There was also the particular
7 personal attitude of the corruption network's members: they took great care of their relationships,
8 building a mutual trust based not only on financial cash flows, but also on employment and business
9 opportunities.
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17 2. Accounting that favored corruption

18 Generally speaking, a skillful use of accounting enabled money to be obtained to feed the network.
19 The (mis)use of accounting first led to the collection of financial resources, then supported the sharing
20 of the loot among the individuals involved.
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25 *Misuse of invoices and other accounting devices*

26 Accounting was used to ensure that money was available by creating slush funds. A “feedback” was
27 established as the main mechanism for collecting this money, which worked in the following way.
28 First a corrupt agreement was made between the NVC and a given firm to enable the latter to join the
29 public procurement network (from here on, this firm is labeled B). If firm B wanted to take part in
30 the whole MOSE project, it had to agree to the feedback mechanism. Once the amount of slush fund
31 required had been established, one of the main partner firms in the NVC (i.e. firm A belonging to a
32 Consortium) asked firm B (usually one of its traditional business partners) to issue an invoice. The
33 invoice was usually unrelated to any real service being supplied, and it was usually wholly
34 disconnected from firm B's real operations. When firm A received the invoice, it invoiced the NVC
35 for the same amount. The NVC paid firm A, and firm A paid firm B the total amount of the invoice.
36 Then firm B promptly returned part of the money to an individual belonging to the NVC. The amount
37 of money returned was usually 50% of the amount invoiced. This process generated slush funds and
38 assured firm B a contract directly or indirectly related to the MOSE project. This arrangement was
39 identified as a “*feedback rule*” and some of the people investigated described it as an “*unwritten*
40 *charter rule*”.
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53 This method was used time and again, reiterated regularly every three or four months over the years.
54 Such regularity was possible because the object of the invoice was completely false, so the flow of
55 the invoices did not follow the business's real activities. The accountant at one of the firms involved
56 confirmed that many invoices were false inasmuch as the services described had never been provided.
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3 The same rule was also applied, however, when the object of the tender was (partially) true. In these
4 cases, not surprisingly, the percentages applied according to the *feedback rule* were not always the
5 same, but depended on the value of the activities involved in the tenders.
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10 *This rule defines how much has to be returned to the NVC in relation to each service:*

11 - 5-6% of revenues relating to “stone works”, which means providing stones for use in the various
12 areas;
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14 - 50-60% of the amounts specified in the contracts for the provision of services;
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16 - 50-60% of the amounts indicated in requests for the advance payment of reserve funds, that could
17 be paid to firms to compensate for unpredictable problems encountered during the completion of the
18 works).
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22 Overall, thanks to the feedback rule, more than 23 million euros passed through the hands of the NVC
23 from 2005 to 2011.
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27 Another way to create slush funds was to use “unforeseen expenses”: after being awarded a tender, a
28 firm would demand an additional payment to cover unforeseen costs. This additional payment had to
29 be approved by the NVC, but that was never a problem because 50% of this additional amount was
30 returned directly to the NVC.
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34 Figure 1 summarizes how the cash flows were moving within the network.
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38 Figure 1 here
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41 As well as false invoices, used to create slush funds, actors also applied favorable rules concerning
42 withdrawals, both related to the thresholds not yet defined by legislation in Italy or in other foreign
43 countries. So it was easy for corrupt politicians or entrepreneurs to hide at least a part of the money
44 they received in foreign bank accounts.
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49 *Accounting used to share slush funds*

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51 Maintaining the corruption network involved keeping records of all the payments received and
52 distributed to each individual. The slush funds served three main purposes. One concerned
53 “systematic needs”, and covered the periodic payment of bribes to a number of people.
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56 Then there were “episodic needs”, which consisted of payments of bribes at the time of certain events,
57 such as the signing of new agreements, an audit by a national committee, and so on.
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3 Finally, there were “particular or emergency needs”, which referred to payments for unpredictable
4 events, such as the corruption of a high-ranking officer in the Fiscal Police.

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6 Given the quantity of resources, the number of individuals, and the period of time involved, it was
7 essential to record all the details of these financial flows. The documentation considered in this study
8 revealed that both computer files and simple sheets of paper were used to keep records of at least
9 some of the payments.

13 14 15 *Accounting used to provide individuals with other benefits*

16
17 The corruption network did not survive on slush funds alone, but also by providing a broad range of
18 benefits to individuals involved in the network. One (famous) example is the complete renovation of
19 the home of the ex-President of the Veneto Regional Authority. In this case, the invoices referred to
20 services that were actually provided, so they were not false, but they were settled not by the home
21 owner, but by other individuals or firms. The investigations shed light on the corrupt nature of such
22 payments, which were clearly described as being in lieu of direct money transfers.

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29 *“[The President of the Veneto Regional Authority] had renovations done on his home, where work*
30 *was done on the main building from 2007 to 2008, and then on the outhouse in 2011. The works were*
31 *partly designed and implemented by the building company (...), which was paid by one of the partner*
32 *companies in the NVC through the inflated invoicing of services relating to 4-5 different contracts,*
33 *including the renovation of its own head office ... In particular, the building company was granted*
34 *an extra amount of Euro 1,100,000 attributable to the works completed at the President’s home.”*

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41 Individuals belonging to the corruption network could take advantage of many other benefits as well,
42 such as being employed by firms in the network. In this way, participants also took care of the specific
43 relationships developed at the lowest levels of the corruption network.

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46 *“[one of the people investigated] obtained a fixed-term contract worth a gross Euro 27,600 for his*
47 *daughter to work with the NVC. Then he had her employed on a permanent contract by one of the*
48 *companies controlled by the NVC. He also obtained a contract for one of his brothers through one*
49 *of the partner companies in the NVC, which was worth € 38,000, and was paid with funds from the*
50 *NVC.”*

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57 Generally speaking the second domain sheds light on the use of accounting to implement corruption
58 activities. It is incredible that the simple trick of false invoices was the main source used to generate
59 such huge amounts of cash. False invoices related not only to wholly or partially nonexistent services,
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3 but also to unforeseen expenses. Moreover, because the slush funds had to be managed within the
4 network, precise sharing rules were established so that everyone knew how systematic, episodic or
5 emergency needs were met. Accounting was also used to conceal corruption activities by providing
6 network members with many benefits. This was the case, for example, when corruptor firms paid
7 directly for goods or services provided to corrupted politicians or functionaries.
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13 3. Accounting that revealed corruption

14 Using accounting also provided records retained traces of the corrupt cash flows and, to some degree,
15 of the relationships between organizations and individuals. So it is hardly surprising that accounting
16 could also reveal corruption.
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22 *Misuse of invoices*

23 What triggered the inquiry was when the Fiscal Police ran a check, looking for evidence of tax
24 evasion. In fact, the story initially appeared to be an issue of tax fraud. The finding of invoices relating
25 to services that had never been provided led to the discovery of other illegal business activities. In
26 the MOSE affair, nobody came forward spontaneously to report the corruption network that came to
27 light.
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34 *“[the investigations] produced fundamental objective evidence of the fake invoicing system in*
35 *relations between the NVC and its partner companies, and its instrumental use to create slush funds*
36 *by downgrading an important proportion of the financial resources of these same NVC partner*
37 *companies for the purpose of the subsequent use of a part of these funds by the NVC to pay public*
38 *officials and politicians to serve the economic interests of the consortium.”*
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44 *Records describing corruption linkages*

45 Because accounting was used to keep a record of all the payments received and given to each
46 individual, these records also enabled the collection of information and an enhanced understanding
47 of how the network operated. In particular, the whole project was managed by dividing it into four
48 part-projects relating to different Venetian lagoon inlets (called *bocche di porto*). Each area was
49 basically assigned ex ante to a particular firm, which managed all the related tenders. First of all, the
50 inquiry revealed, that the amounts indicated in the official invoices differed from those of the informal
51 internal documents. Second, agreements for the provision of services were vaguely worded and
52 unclear, largely because they were unrelated to any real business activities. Third, the surnames of a
53 few individuals mentioned in the documents coincided with precise amounts of money.
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5 *“Concerning the decision to prepare and conceal those papers, there is a fundamental wiretap*
6 *recording from the office of the President of one of the main partner companies in the NVC, of a*
7 *conversation between the President and the administrative manager of the consortium in which*
8 *instructions are given to:*

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12 *- keep these notes on “edible” paper, that can be made to disappear if necessary, and not to keep*
13 *them in the office;*

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15 *- not to keep them at his own home either;*

16
17 *- to keep them at the home of a third party with no direct link to the company”*
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21 As the amounts of money and the numbers of people involved rose with time, some sort of accounting
22 system, however simple, was needed to keep records of the cash inflows and outflows. It was usually
23 the person in charge of the administrative office who was given the task of managing these second-
24 level accounting systems (in addition to the official one) because a specific expertise was required.
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29 Accounting is about recording values related to activities, even when the activities are related to
30 corruption. In the MOSE scandal, beyond the false invoices discovered by the Fiscal Police, the
31 records of the cash flows generated within the network were extremely useful for showing how it
32 worked, at least partially. This is what enabled the network’s operators not only to keep track of
33 money paid and received, but also to build trust among the individuals involved, because the rules
34 were clearly defined and shared.
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40 41 **Discussion**

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43 Developing a corruption network demands settings and practices that differ, to some degree at least,
44 from those needed for a single episode of corruption. In a situation like the case described here the
45 mere illicit relationship between a corruptor individual and a corrupted public official is not enough.
46 Nor is the public procurement element enough, although it may make things easier. According to
47 previous literature, public procurement has certain features that make it prone to corruption
48 phenomena, such as: opportunities to change the quality of the raw materials and components used;
49 the existence of networks of bureaucrats, business people and elected politicians, in which close and
50 mutually-dependent relationships develop, and business actors are willing to purchase influence in
51 order to achieve favorable policy or procurement outcomes; the non-standard nature of some goods
52 and services being procured, which are received over a period of several years, making it difficult to
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3 establish a precise total cost ex ante (Beets 2005). Within this context, accounting can both support
4 corruption, but also reveal corruption and clarify how it evolved.

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6 This paper focuses on three main domains that may help to improve our understanding of corruption
7 processes: trigger settings; accounting that can favor corruption; and accounting that can reveal
8 corruption.

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11 Clearly corruption can grow rapidly in settings where there are significant amounts of resources and
12 a long-term horizon that makes it possible to plan a development strategy, identify people to involve,
13 and generate the significant financial resources needed to keep them in the network. The
14 “extraordinary” nature of the object of interest also seems to have an important role, however, in
15 framing a favorable trigger setting, and there were many extraordinary aspects in the case of the
16 MOSE project. First of all, there is the special legislation (dating back to the 1970s) identifying ad
17 hoc national and regional rules for managing Venice’s needs and projects. A second extraordinary
18 feature concerns the institutional structure devised for the MOSE project, for which no effective
19 balances and controls had been envisaged. The NVC’s monopoly had been established in 1984, with
20 no provision for periodically replacing its board members. Auditing activities were restricted by
21 including key members of the audit and control authorities in the corruption network, and that is why
22 there was no effective control over the NVC’s recurring demands for further funding. Complex public
23 procurement procedures for infrastructure projects typically leave room for corrupt activities, and
24 these opportunities were magnified by the extraordinary nature of the NVC’s position. **As it happened
25 in other cases of corruption, the effectiveness of new structures of governance depend on the specific
26 circumstances of implementation and on the accountability mechanisms that are in place (Reynaers,
27 2014; Pianezzi et al. 2020)**

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30 Personal relationships are also crucial. While a ringleader was clearly recognizable, many other
31 people were involved, and their trust in each other was often used to ensure the overall functioning
32 of the network. Benefits of participating in the network were mainly financial for politicians and
33 public officials, while for firms they could concern the opportunity to obtain or retain works contracts,
34 or create job opportunities for individuals or their relatives.

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37 As for the second domain, it seems remarkable that such huge amounts of slush funds (more than 20
38 million euros) were created mainly by using such simple tools of false invoices, bank withdrawals,
39 and some favorable bank account legislation. The misuse of invoices is common in many episodes of
40 corruption, and may involve invoicing for services that are not really provided, or charging for
41 nonexistent “unexpected costs”. As in other cases of corruption in public procurement settings
42 (Søreide, 2002; Neu et al. 2013), so too in the MOSE affair, additional works related to, but not
43 included in the initial contract were awarded to the initial successful bidder without any tendering

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3 process. In such situations, the successful bidder has contract-specific knowledge that makes it easy
4 to justify the awarding of additional works without going through a formal bidding process. Basic
5 accounting skills were needed to develop and maintain the network, of course, even though the tools
6 used were not very complex. The false invoices worked not only because they took advantage of
7 loose rules about withdrawals or bank account transparency, but also because checks on the amounts
8 of these invoices were avoided. The involvement of members of the audit boards provided an
9 extraordinary amount of room for corruption. That is also the reason why this scandal lasted for years.
10 Another interesting issue concerns the use of quantitative reports to share the profits of corruption.
11 Some accounting “rules” were needed to distribute the loot among network members and avoid
12 politicians and public officials being discovered. The so-called “feedback rule” and the variety of
13 percentages applied, depending on the type and value of the activities being remunerated, was known
14 to all parties concerned. Sharing these rules had a positive effect in terms of ensuring conformity to
15 a particular set of practices, and thus supporting a paradox of transparency within the network. It may
16 also be argued that this conformity was also highly effective in inducing individuals to accept the
17 corruption practices even if they initially disapproved.

18
19 The story ended with the discovery of the scandal, and the third domain – accounting that can reveal
20 corruption – brought out other interesting aspects. First of all, the misuse of invoices enabled the
21 Fiscal Police to discover the corruption, and seems to have been the main instrument used to shed
22 light on the MOSE affair. Once the network was discovered, how it was able to function emerged
23 from the records it kept of corruption linkages because some form of accounting (however simple)
24 were needed to manage the cash flows and keep records of the amounts paid and the individuals
25 receiving them.

26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 **Conclusion**

44 Corruption remains a systemic phenomenon almost everywhere in the world today. It helps keep
45 countries poor while short-circuiting democratic processes and supply procedures, and reducing
46 citizens’ faith in efforts to control it (Everett, Neu, & Rahaman, 2007; Johnston, 2015; Sargiacomo
47 et al., 2015). Public procurement schemes have certain features that make them rich pickings for
48 corruption activities (Søreide 2002; Neu et al. 2015), and a firm may pay a bribe in order to be
49 included in a list of qualified bidders, or to be selected as the winning contractor. Then the firm may
50 pay for the opportunity to raise its prices or reduce the quality or quantity of the products and services
51 it provides (Rose-Ackerman 1999). In this scenario, corruption may develop among many people
52 operating in public institutions, firms, and audit authorities. There may be certain factors that
53 contribute to “trigger settings”, in which corruption may be easier to implement than in other
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3 situations. These factors often have to do with the extraordinary nature of certain projects, justified
4 by special circumstances. In the case analyzed in this paper, the extraordinary element was the city
5 of Venice and the unique infrastructure that was to be built to protect it against high tides. This
6 prompted a deviation from the normal model for managing public procurements, which led to a
7 monopolistic frame and a suspension of normal public tendering. The case of the MOSE also goes to
8 show that corruption is a phenomenon that not only affects dealings between public and private
9 entities, but also and increasingly involves business-to-business relationships.

10 Taking the same line of reasoning as Neu et al. (2013), the present study also indicates that
11 “accounting practices become part of the rules of the game around which political, bureaucratic and
12 business actors structure their activities” (page 521). In many ways, accounting supports the
13 acquisition of an apparent legitimacy and acts of corruption by the network become “normalized”
14 practices (Earlier et al. 2010), which even somehow manage to seem less illegal. In the MOSE affair,
15 accounting supported the generation and sharing of slush funds. Detailed rules were established,
16 paradoxically lending the network a sort of transparency. It is interesting that these rules made the
17 relationships between the corrupt parties trustworthy.

18 At the same time, however, accounting data serve as a record of what happened in the past, and
19 become a powerful resource for bringing illicit practices to light. In the MOSE scandal, this was not
20 only because the tax fraud investigation enabled its discovery, but also because the records of the
21 cash flows generated within the corruption network could be traced over several years.

22 The Italian case described here is also a glaring example of the widespread diffusion of corruption
23 and the partial ineffectiveness of anti-corruption initiatives (Corrado and Rossetti 2018; Sargiacomo
24 et al. 2015). Since the corruption revolving around the MOSE started before anti-corruption
25 legislation had been enacted, it could be argued that it was fostered by this shortcoming. During the
26 decade that followed, several types of action were taken by the State, and probably facilitated the
27 discovery of the corruption network. Nowadays countries like Italy are particularly under scrutiny
28 because government procurement has been an area of significant corruption episodes (Sargiacomo et
29 al. 2015). The Italian government has since adopted new methods to prevent them, but the astonishing
30 MOSE affair shows how effective corruption networks can be.

31 This paper adds to previous research on the relationships between accounting and corruption (Neu et
32 al. 2013; Sargiacomo et al. 2015). There may be difficulties involved in implementing general
33 accounting-based anti-corruption assemblages because corrupt politicians and civil servants involved
34 in public procurement know very well how the regulations work, and can thus not only avoid anti-
35 corruption accounting tools, but even use them to achieve their own objectives. The case reveals that
36 “accounting-based” controls alone did not work, while controls over the actions of board members

were not in place. The policy implications may therefore be that we need to pay more attention to devising governance structures to ensure adequate power balances and controls between the actors involved in public procurement projects. The regulations regarding whistleblowers, enacted in Italy a few years ago, goes in this direction, as does the establishment of the National Anti-corruption Authority. A spotlight could also be turned on the management of extraordinary situations. Particular attention could be paid to finding ways to handle emergencies and unusual needs, because deploying extraordinary accounting and governance systems can foster corruption opportunities (Ferejohn and Pasquale, 2004; Sargiacomo, 2015).

This study also suggests some intriguing directions for future research. First, we did not consider in detail how individuals reacted to the corrupt activities going on, and how corruption may be perceived as a “normal” or unavoidable characteristic of public procurements. It may even be seen as a particular kind of ritual within an organization, reinforcing the sense of belonging for those individuals who accept it. Second, this study only partially considers the impact of governance structures on cases of corruption. An interesting avenue for future research would be to consider the extent to which the features of governance in extraordinary circumstances may contribute to creating opportunities for corruption.

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