

Can Audits Backfire? Evidence from Public Procurement in Chile

(with Stephan Litschig and Maria Paula Gerardino)

Abstract:

The government is the biggest buyer in the economy of most countries. At the same time, the public procurement process is often thought to be fraught with corruption and malpractice. However, there is little evidence regarding the impact of audits aimed at reducing such malpractice. This paper investigates the effect of being audited on public entities' subsequent procurement practices in Chile. We exploit a scoring rule of the national auditing agency, which allows for regression discontinuity analysis. The audits lead to a temporary shift towards a less transparent and competitive modality of procurement. Purchases through direct negotiations increase by around 35 percentage points and the use of public auctions increases correspondingly. The effect starts already during the months when the audit is taking place before audit results are revealed and disappears completely by the beginning of the subsequent year. This time pattern of effects is consistent with public agents responding to a temporary drop in audit risk during the year of the audit: Audits rarely happen in twice in consecutive years on the same topic and typically focus on the preceding year.