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Audit Risk and Rent Extraction: Evidence from a Randomized Evaluation in Brazil*

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Abstract

We report results from a randomized policy experiment designed to test whether increased audit risk deters rent extraction in three areas of local government activity in Brazil: procurement, health service delivery and cash transfer targeting. Our estimates suggest that temporarily increasing annual audit risk by about 20 percentage points reduced the share of audited resources involved in corruption in procurement by about 10 percentage points and the proportion of procurement processes with evidence of corruption by about 15 percentage points. In contrast, we find no evidence that increased audit risk affected the quality of publicly provided preventive and primary health care services - measured through user satisfaction surveys - or compliance with eligibility requirements for the conditional cash transfer program - measured through household inspections. The observed impact heterogeneity across activities is consistent with differences in potential sanctions and in the probability that a sanction is applied, conditional on detection.

Keywords: government audit, corruption, procurement, cash transfer program, health service delivery

JEL: D73, D78, H41, H83, K42

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