

The Fraud and Integrity Unit's report on the handling of cases of financial irregularities 2018



This report summarises the efforts related to cases of financial irregularities and whistleblowing in Norad in 2018. The purpose is to raise awareness of the risk of financial irregularities in the management of development aid funding.

Development aid funding is to be managed in accordance with the Regulations on Financial Management in Central Government, the regulations for the various grant schemes, the Ministry of Foreign Affairs' Grant Management Manual and the contracts with grant recipients. Zero tolerance for corruption and other types of financial irregularities is a general principle of Norwegian development assistance.

Norad works systematically to prevent irregularities in development aid. This encompasses measures within internal management and requirements imposed on grant recipients. The measures include ethical guidelines and training, risk assessments and risk management, partner assessments, agreement templates, reporting requirements, reviews of grant management and other quality assurance measures, project visits, audits, etc.

Cases of financial irregularities at Norad are instances where a suspicion of financial irregularities in development aid funding has arisen in spite of measures to prevent them. When financial irregularities are suspected, employees of Norad and its contractual partners are required to report the matter without undue delay. Norad's Fraud and Integrity Unit handles all

incoming alerts. When there is justifiable suspicion of irregularities in Norad's development aid funding, a so-called 'whistleblowing case' is opened, an investigation is set in motion, and Norad assesses on an ongoing basis whether additional disbursements to the grant recipient or project should be frozen.

Suspicion of unlawful, unethical or unacceptable circumstances may be reported openly or anonymously via: varsling@norad.no

Norad also has an external whistleblowing channel managed by the law firm Wiersholm AS, which is an alternative channel for employees and external parties to convey their suspicions to Norad.

More information about whistleblowing is available at:
<https://norad.no/en/front/about-norad/whistleblowing/>

Processing of whistleblowing cases

Most alerts are reported from the organisation that has received the funding, but the Fraud and Integrity Unit also receives many alerts from individuals within and outside the institution that the alert concerns. The Fraud and Integrity Unit also receives alerts from the responsible technical departments in Norad, and uncovers breach of contract itself.

If the Fraud and Integrity Unit finds grounds for suspicion of irregularities regarding Norad funding, a whistleblowing case is opened. Norad informs the Ministry of Foreign Affairs, or the Ministry of Climate and Environment if the funding is for the Climate and Forest Initiative. As a general rule, new disbursements to the relevant end-recipient are frozen until the matter has been investigated and risk-reduction measures have been implemented.

The Fraud and Integrity Unit is responsible for ensuring that cases of whistleblowing are adequately investigated. In some instances, external expertise is engaged to conduct a special audit. Norad has framework agreements with consulting firms for such services. If the grant recipient that the alert concerns investigates the matter or has an investigation conducted, the Fraud and Integrity Unit will typically await the results before considering further measures.

Norad's agreements with grant recipients require reimbursement of all or part of the aid amount, and/or termination of the agreement in the event of a breach of contract. If Norad's demand for reimbursement is contested, legal measures to collect the funds will be considered.

In December 2018, the Ministry of Foreign Affairs decided that, under certain conditions, loss resulting from irregularities or a material breach of the grant agreement *may* be covered by the grant recipient reimbursing the relevant amount to the project rather than to Norad. An absolute condition for this is that the grant recipient itself discovered the irregularities and reported the matter without undue delay in accordance with the agreement. Good internal grant management and no material responsibility for the irregularities/breach of contract on the part of the grant recipient are other aspects that will be emphasised. The new policy document is available here:

[Practising zero tolerance for financial irregularities \(in Norwegian only\)](#)

Norad's guidelines of 15 January 2019 are available here:

[Norad's Guidelines for dealing with suspicion of financial irregularities, 15 January 2019 \(in Norwegian only\)](#)

Whistleblowing cases are closed when Norad's demands for reimbursement are met, or if investigations do not find grounds for a reaction from Norad. The Director General of Norad is responsible for deciding on the appropriate reaction.

Preventive efforts

Norad works systematically to prevent the misuse of development aid funding and reacts to all instances of financial irregularities. Norad's agreements with grant recipients set out clear requirements for adequate internal control.

If the whistleblowing cases identify specific examples of insufficient internal control and the accompanying negative consequences, investigations can be an important source of institutional learning at all stages of the aid chain, and result in a stronger administration and more effective prevention of new irregularities.

Each whistleblowing case is concluded with a summarising memo signed by the Director General of Norad. These memos serve as input on the management of areas at risk of breach of contract and financial irregularities and how such management can be strengthened. Experiences from whistleblowing cases are a part of the training in Norad's internal course on case processing. The Fraud and Integrity Unit holds risk seminars with the various sections in Norad, which include a discussion of the inherent risks in each portfolio or sector.

Good practice requires Norad's various sections that manage aid to assess new aid applicants in relation to open international registries of institutions that have

been banned from receiving support due to financial irregularities ('debarment lists'). The sections may receive an assessment from Norad's Fraud and Integrity Unit about the applicants as part of a due diligence process.

Types of irregularities

'Financial irregularities' is used as a generic term for financial conditions that are unlawful or that entail a misuse of Norad's funds. Examples of this are corruption, embezzlement, misappropriation of funds, fraud, theft, accounting manipulation, favouritism/nepotism or other misuse of a position in connection with the Norwegian aid. The cases reported to Norad's Fraud and Integrity Unit cover all of these categories.

In many cases, managers have abused their position to gain unlawful advantages. Multiple people are often involved in the same situation. There are also many instances of unlawful cooperation with suppliers and fraudulent invoicing by external parties, or use of forged invoices and receipts in which it is unclear whether employees in the organisation are involved. Theft/robbery also occur in some cases. In 2018, a breach of procurement rules was found in nine of the concluded cases that prompted a reaction from Norad.

Another recurring situation in the cases is that a local partner of a grant recipient has broken national law by failing to pay taxes and fees or paying them past the due date.

In many cases, Norad's contractual partners fail to conduct adequate follow-up of their partners. It is only when an irregularities case arises that non-compliance with internal regulations, inappropriate distribution of tasks, inadequate financial expertise, etc. are uncovered.

Following an investigation, it is not always possible to ascertain whether actions to obtain an unlawful advantage were premeditated. By the same token, a proven breach of contract, such as non-compliance of procurement rules, missing or insufficient documentation of expenses, etc., can often conceal extensive irregularities.

Cases processed in 2018

In 2018, Norad's Fraud and Integrity Unit received a total of 85 alerts. Altogether 52 new cases of whistleblowing were opened and 43 cases were processed to completion. Norad demanded reimbursement of funds in 36 of the concluded cases. A total of NOK 11 380 989 was reimbursed in 2018.

Year	Cases opened*	Alerts	Cases concluded	Reimbursed amount in NOK	External channel
2015	33	63	39	1 412 225	2
2016	24	68	36	3 995 062	3
2017	51	96	32	1 734 713	7
2018	52	85	43	11 380 989	3

* A whistleblowing case is opened when financial irregularities are suspected.



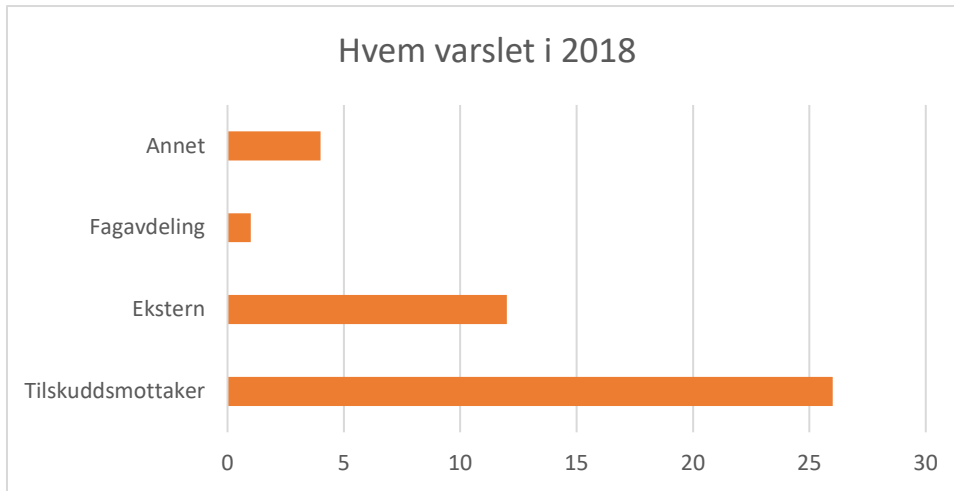
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The amount of reimbursements resulting from breach of contract in 2018 comprised about 0.001 per cent of Norad's allocated development aid budget in 2018.

An increasing number of alerts are resulting in whistleblowing cases being initiated. The minimum amount reimbursed in a case was NOK 324, and the largest amount was NOK 2.7 million. There was a considerably larger number of cases of greater magnitude in 2018 than in previous years. In eight cases, more than NOK 500 000 was reimbursed.

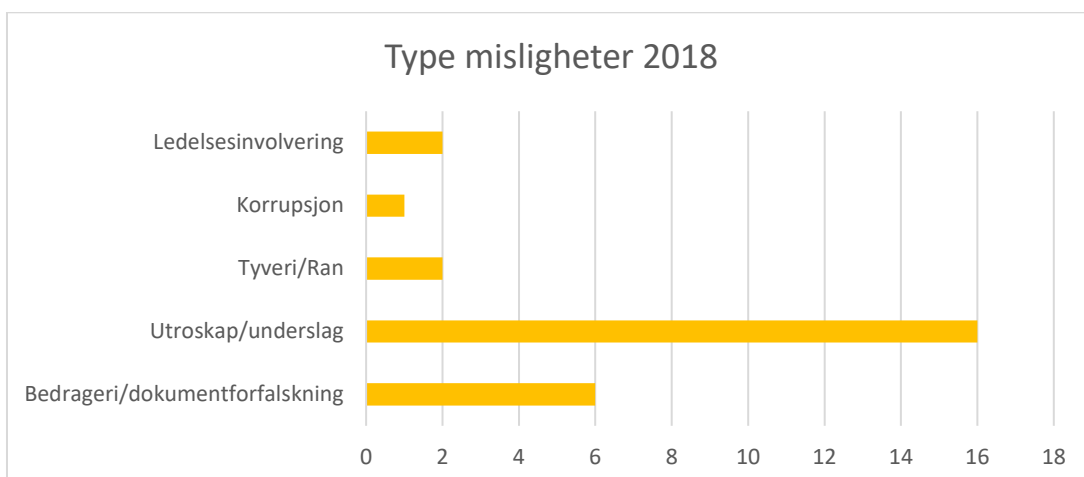
As of 31 December 2018, 101 open cases are being processed, both alerts and full-fledged whistleblowing cases.

Statistics on concluded cases in 2018



Hvem varslet i 2018	Who reported irregularities in 2018
Annet	Other
Fagavdeling	Technical department in Norad
Ekstern	External party
Tilskuddsmottaker	Grant recipient

The graph above shows concluded cases and who reported irregularities in 2018. It is primarily Norad's grant recipients that report irregularities, but the Fraud and Integrity Unit also receives cases directly from external whistleblowers. Twelve external alerts were received (from the general public, former employees, etc.). Additionally, three of 85 alerts received came by way of external whistleblowing channels. These cases are not shown in the graph as they have not been concluded.

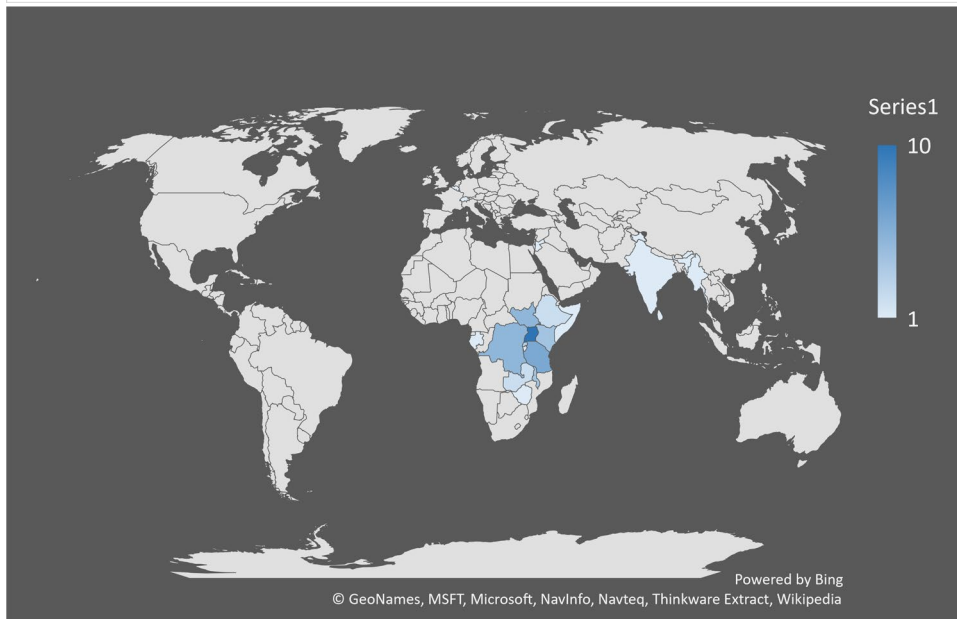


Type misligheter 2018	Types of irregularities 2018
Ledelsesinvolvering	Involvement of senior management
Korrupsjon	Corruption

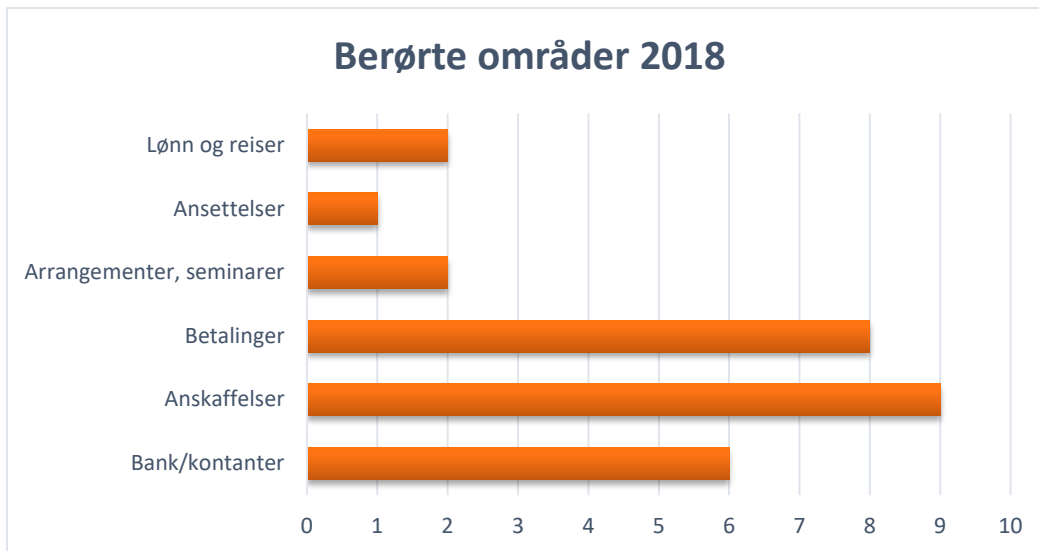
Tyveri/ran	Theft/robbery
Utroskap/underslag	Misappropriation of funds/embezzlement
Bedrageri/dokumentforfalskning	Fraud/document forgery

The graph above shows the types of irregularities in cases that were *concluded* in 2018. Of the 43 cases concluded, premeditated irregularities were proven in 27 cases. Most cases concerned misappropriation of funds/embezzlement. Some types of irregularities are easier to uncover than others. Corruption and nepotism are often more difficult to uncover than embezzlement and theft.

Countries with the most cases in 2018



In 2018, whistleblowing cases were opened in 20 countries. Uganda and Tanzania had the highest number of cases concluded in 2018, while in 2017 it was Zambia and South Sudan. It is not reasonable to draw conclusions about the existence of irregularities in a country based on the number of cases per country. Coincidence can play a role, as can a prevailing culture of reporting of some few grant recipients.



Berørte områder 2018	Areas impacted 2018
Lønn og reiser	Payroll and travel
Ansettelses	New hires
Arrangementer, seminarer	Events, seminars
Betalinger	Disbursements
Anskaffelser	Procurements
Bank/kontant	Bank accounts/cash

This graph concerns the 27 cases of proven, premeditated irregularities. Procurements and disbursements (transfers, cheques, cash, prepayments) are areas within the organisations involved that are most often affected by irregularities. Irregularities in the management of project funding in banks and with cash have also occurred in many cases.

Harassment

The year 2018 saw the rise of the #MeToo movement, including greater awareness of sexual harassment, exploitation and abuse in international aid and development efforts.

In February and March 2018, the Minister of Foreign Affairs, the Minister of International Development and the Minister of Climate and Environment sent letters to their partners with a clear message to combat harassment. The letters indicate an expectation that the organisations receiving aid from the Ministry of Foreign Affairs, the Ministry of Climate and Environment, and Norad have ethical guidelines and good systems in place to prevent, report on and deal with

instances of sexual harassment, sexual exploitation, abuse and violence. The letters state that the organisations also have a responsibility in this area vis-à-vis their own partners and the local communities in which they work.

Norad has had internal guidelines on harassment for many years, and in June 2018 it prepared guidelines for dealing with suspicion of harassment among Norad's partners. The guidelines describe where responsibility and authority lie, as well as internal case procedures within Norad in instances where Norad has been made aware of, including received alerts about, a suspicion of harassment at its partners. The guidelines define harassment as 'actions, omissions or statements that are, or are intended to be, offensive, frightening, hostile, degrading or humiliating'. The definition of 'partner' is broad, and involves grant recipients and their employees, as well as cooperating institutions and consultants engaged by Norad or Norad's grant recipients, and employees or volunteers participating in programmes that directly or indirectly provide services associated with funding from Norad.

Norad has set requirements for its grant recipients regarding ethical guidelines with fixed minimum standards, including that they '...contain provisions which are strict regarding sexual abuse, sexual exploitation and harassment'.

All Norad employees are required to report any suspected harassment taking place at Norad's partners.

The guidelines on dealing with reports of harassment at Norad's partners are available at: [Guidelines on dealing with suspicion of harassment at Norad's partners](#) (in Norwegian only)

The Fraud and Integrity Unit has been given responsibility for Norad's efforts to follow up specific reports of harassment at Norad's partners. The Fraud and Integrity Unit does not process or investigate individual harassment cases as such, since such responsibility is generally an aspect of employer liability that falls within the remit of the partner's personnel department. The Fraud and Integrity Unit's follow-up task is primarily to assess whether the relevant grant recipient's internal framework against harassment and its implementation conform with the agreement with Norad. If it is concluded that the organisation is not dealing with the harassment risk as required under the agreement, Norad may freeze future disbursements to the partner.

Red flags

All those who manage development aid funding can learn to be aware of and deal with discrepancies or circumstances that may indicate financial irregularities, a 'red flag' that should be examined more closely because it may signal a misuse of funds. Awareness of red flags is used as a method of prevention in risk management efforts and as a means of exposure in the work of identifying irregularities.

Listed below are some red flags that turned out to represent underlying discrepancies in cases that were reported to the Fraud and Integrity Unit. Some of these were insignificant in isolation, but gave grounds for closer examination when combined with other factors.

Red flags upon reading the budget: The budget was unclear and intuitively did not correspond with the plan. It was not dated nor could it be traced intuitively to the point of decision-making. The payroll budget was not linked to the payroll budget of the entire institution.

Red flags upon review of written reports: Major discrepancies between the report, budget and plan. Technical errors, carelessness and absence of quality assurance. The report concerns the project only; no overview or connection to an institutional overview.

Red flags regarding the financial statement: Inconsistency between budget numbers and accounting numbers. Rounded numbers. Addition errors. Ambiguities. Insufficient budgetary control (major deviations from the budget). Unclear connection between project records and institutional accounting.

Red flags regarding the audit report: Repeated weaknesses over many years in management letters. Ambiguities/vagueness. Absence of laws, standards and other components required under the agreement. Recent change in auditors; in another instance there had not been a change in auditors for a long time.

Red flags regarding a lack of transparency: Negative reactions when questions were asked. Reluctance to engage in donor dialogue. Insufficient/unclear information about the institution's overall financial situation. Absence of legally required information on the organisation's website (e.g. annual financial statements). National statutory reporting documents are difficult to obtain.

Red flags regarding a lack of understanding of internal control: The internal control (IC) did not appear to be a function of goals and risk assessments.

Insufficient guidelines/inadequate knowledge about the guidelines. No dedicated resources for IC, monitoring or reporting on IC.

Red flags regarding exchange rate: Rounded numbers were used. In another instance there were too few decimals. Insufficient/inconsistent information/ambiguities about currency and conversion (dates).

Red flags regarding allowances (per diem): Large payments. Lack of transparency around payments and guidelines, including rates and selection criteria. Varying rates. Rumours/discord/jealousy.

Red flags regarding vouchers: Missing vouchers. Classic shortcomings in vouchers. Classic forgery of vouchers. Unclear when/how self-produced formats for vouchers were approved. System difficult to grasp.

Red flags in connection with the control environment: Control was not discussed in the donor dialogue. No transparency about weaknesses. No internal audit/independent controls imposed by management. Delays. Changes. Harassment. Gossiping. Non-compliance. Confusion.

Red flags regarding procurements: Procurements are not dealt with separately in the budget and accounts. Those within the organisation are not familiar with the guidelines. No guidelines on impartiality. Use of waivers (direct procurement). Technical deficiencies in the procurement process. Classic signs of forgery in tendering processes.

Red flags regarding insufficient expertise/inappropriate distribution of tasks: Inappropriate distribution of tasks. No correspondence between expertise and task. Unqualified individuals hold positions vulnerable to irregularities, especially in financial departments and hiring processes. Long-term employment in one (vulnerable) position.

Red flags regarding hiring: Closed, disorderly/ambiguous processes. Same surnames. Rumours.

Red flags regarding a lack of positive involvement by senior management: Both very absent and very involved managers. No overview of authorisation and delegation. Culture of fear. Authoritarian leadership.

Red flags regarding legal registration and legally required reporting: Unclear presentation of own legal structure. Ambiguity about legal status/registration. Ignorance of legal requirements. Inadequate reporting of VAT/payroll expenses.

Red flags regarding bank accounts: The grant recipient does not have its own bank account as required under the agreement. Complex account structure.

Transactions via multiple banks and countries. Unusual banking practices. Ambiguity around authority to conduct transactions. Signatory authority issued to low-level employees.

As part of the sectoral identification of risk, lists of typical red flags for the various sectors can be downloaded from the Internet, see the examples below:

- [Extractive sector](#)
- [Health sector](#)
- [Procurement processes](#)

Highly relevant topics in 2018 that are also addressed in previous annual reports

Audit reports do not uncover irregularities. The 2017 report discussed the fact that external audits are the most common measure to counteract financial irregularities. Certainty about audits has a preventive effect against errors and irregularities. However, international experience shows that only three to four per cent of the proven irregularities are found by annual external audits.

Norad's experience is consistent with global statistics. 'Clean' audit opinions were found in all of the audited project accounts from Norad's grant recipients in the concluded cases of whistleblowing in 2017.

The Fraud and Integrity Unit's experience suggests that third-party controls should be incorporated into many projects as an additional component of the ordinary annual audit. Whistleblowing cases find a significant number of forged accounting vouchers, including invoices and receipts. It may be cost effective to direct the auditor to carry out certain expanded controls in order to strengthen prevention as well as to uncover irregularities. Read more about this topic in the 2017 report: [Summary report 2017: The Fraud and Integrity Unit's work related to financial irregularities](#) (in Norwegian only).

Coordination among donors and transparency around total revenues and expenses

Coordination among donors has to do with transparency, and is an essential instrument in the fight against financial irregularities. When an organisation has multiple income sources/donors, it is important that the organisation provides a supplementary, consolidated overview of accounts showing all revenues and

expenses, as well as the distribution of expenses among the individual donors as required under the agreement. In an environment at high risk of irregularities, it is not sufficiently reassuring to receive a project account alone – without being able to see this in connection with the other project accounts and a consolidated account for all of the organisation’s revenues and expenses. Several instances of multiple donors being charged for the same expenses are uncovered every year. In one-third of the cases in 2016, a lack of coordination among donors and actors at various stages played a major role in weakening internal control. Another risk can arise from a misconception that other donors have good control over their funding use. Read more about this topic in the 2016 report: [Summary report 2016: The Fraud and Integrity Unit’s work related to financial irregularities](#) (in Norwegian only).

Background checks. Strengths and weaknesses in the recipient’s internal control and management capacity need to be assessed before entering into an agreement, and must be followed up throughout the funding period. Norad has a number of instruments for due diligence that can be used in surveying grant recipients’ expertise and capacity. A particular challenge arises when more complex instruments are employed, including the transfer of funds – and thereby transfer of responsibility and authority – through many stages and various actors. Mapping the cash flow and good knowledge about the agreement and audit hierarchy are an excellent starting point for identifying potential deficiencies in the control and monitoring chain (‘the compliance gap’). Read more about this topic in the 2015 report: [Summary report 2015: The Fraud and Integrity Unit’s work related to financial irregularities](#) (in Norwegian only).

Ministry of Foreign Affairs’ quarterly list of irregularities cases 2018

The quarterly reports listing whistleblowing cases and reactions in 2018 are available at: [Ministry of Foreign Affairs’ consolidated reporting of financial irregularities 2018 – including Norad’s cases](#)

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