

Annual report from the Fraud and Integrity Unit for 2019



This report summarises the results of whistleblowing cases in Norad in 2019.

Zero tolerance for corruption and other types of financial irregularities is a general principle of Norwegian development assistance. The whistleblowing cases in Norad include instances of suspected financial irregularities involving Norad funds. When suspicion of irregularities arises, Norad employees and Norad's contractual partners must immediately report the issue.

The objective of the Annual Report is to help raise awareness of the risk of financial irregularities in the administration of development assistance funding.

In 2019, alerts of 119 suspected cases of financial irregularities were received. A total of 51 whistleblowing cases were investigated and concluded, and more than NOK 18.4 million was returned as a result of financial irregularities and other material breaches of the grant agreement.

Norad staff must also report suspected cases of harassment among partners that receive support. Norad's contractual partners are under no general obligation to report cases of harassment but should notify Norad wherever this may entail material implications for the agreement. In 2019, alerts of ten issues involving suspected or revealed harassment among Norad's partners were received.

Preventive efforts

Norad works systematically to prevent irregularities in the projects that receive Norad funds. Clear requirements for appropriate internal control are included in Norad's agreements with grant recipients.

Prevention of financial irregularities implies requirements for the internal administration in Norad and requirements for the follow-up of grant recipients. This encompasses risk assessments and risk management, partner assessments, ethical guidelines and training, contract templates, follow-up of reporting, administrative reviews and other quality assurance measures, project visits, audits, etc.

The administration of aid funds must comply with the Public Administration Act, the Regulations on Financial Management in the Central Government, the regulations for the various grant schemes, the Letter of Allocation from the Ministry of Foreign Affairs, the zero tolerance policy and other instructions, the

Ministry of Foreign Affairs' Grant Management Assistant, the agreements with grant recipients and Norwegian legislation.

The grant management departments in Norad assess new grant applicants and may also screen applicants against open international registries of organisations that have been excluded from support because of financial irregularities (so-called 'debarment lists'). On request, the departments will also receive an assessment of applicants from Norad's Fraud and Integrity Unit as part of a due diligence process.

Since the whistleblowing cases identify specific examples of insufficient internal control and its associated consequences, investigations may constitute an important source of institutional learning in all parts of the aid chain and engender administrative reinforcement and more effective prevention of new irregularities. 'The aid chain' refers to the series of agencies that are contractually involved in disbursement of the aid grant to the end user.

Whistleblowing

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

In collaboration with the Ministry of Foreign Affairs, the Ministry of Climate and Environment, Norfund and Norec, Norad also has an external whistleblowing channel managed by the law firm Wiersholm AS. This provides staff and external partners with an alternative channel where they can reach Norad with their suspicions, and alerts may be submitted anonymously here as well. More information on whistleblowing can be found at: <https://www.norad.no/aktuelt/varslingstjeneste>.

Zero tolerance for financial irregularities in development aid

The Ministry of Foreign Affairs and Norad practises zero tolerance for financial irregularities in Norwegian development aid. Zero tolerance means that any deviation from the preconditions for the use of government funds will be met with a reaction.

Norad's agreements with grant recipients contain provisions on sanctions in case of irregularities and breaches, in the form of repayment of the grant, in whole or in part, and/or termination of the agreement in cases of breach of the contract¹.

¹ There are separate agreements for multilateral institutions, funds and development banks. See further details in the section 'Where did irregularities take place' on page 7.

If Norad's demand for reimbursement is contested, legal measures to recoup 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 is among other aspects that will be emphasised. The policy is available here: [Practising zero tolerance for financial irregularities.](#)

Processing of whistleblowing cases

If the Fraud and Integrity Unit finds grounds for suspicion of irregularities regarding Norad funding, a whistleblowing case is opened. In half of the 367 cases that were reported over the last four years, a whistleblowing case was opened. In such cases, 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-mitigating measures have been implemented. Decisions to freeze the monetary support are as far as possible made in consultation with the recipient of the Norad grant and the Norad section responsible for the agreement. The purpose of halting the monetary support is to safeguard government funds, and is applied only to transactions that are considered to be subject to inadequate control.

Recipients of Norad grants are responsible for ensuring that the use of all government funding can be documented in accordance with the agreement. The Fraud and Integrity Unit is responsible for adequate investigation of all whistleblowing cases. In some cases, external expertise will be engaged to undertake a special audit. If the grant recipient that the alert concerns investigates the matter or causes an investigation to be conducted, this should be undertaken in consultation with the Fraud and Integrity Unit. In some cases, it will be appropriate for the Fraud and Integrity Unit to undertake its own investigations. When a case is concluded and the results shared with the grant recipient in a consultation round, the case is forwarded with the Fraud and Integrity Unit's recommendations to Norad's Director General for a final decision.

The whistleblowing cases are closed when investigations reveal no grounds for reaction on the part of Norad or when Norad's demand for reimbursement of funds has been met.

Norad's guidelines can be found at: [Guidelines for dealing with suspicion of financial irregularities, 15 January 2019.](#)

Cases processed in 2019

In 2019, Norad's Fraud and Integrity Unit received a total of 119 alerts. Altogether 56 new cases of whistleblowing were opened, and 51 cases were processed to completion. In 46 of the completed cases Norad demanded reimbursement of grants. In 2019, a total of NOK 18 402 585 was reimbursed, whereof 18 380 383 to Norad and 22 202 to the project concerned.

Year	Cases opened*	Alerts	Cases concluded	Reimbursed to Norad	Reimbursed to the project
2016	24	68	36	3 995 062	n/a
2017	51	96	32	1 734 713	n/a
2018	52	85	43	11 380 989	n/a
2019	56	119	51	18 380 383	22 202

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

As shown by the above table, only a small proportion of the misappropriated funds qualified for reimbursement to the project rather than to Norad. Further details are provided under the topic 'Early whistleblowing' on page 11.



The amount of reimbursements resulting from breach of contract in 2019 comprised about 0.0015 per cent of Norad's allocated development aid budget in 2019.

The number of alerts increased by 40 per cent from 2018 to 2019. This increase can be seen in the context of significant growth in Norad's proportion of Norway's development aid budget in recent years (a growth of approximately 150 per cent from 2016 to 2019).

The smallest sum reimbursed as the result of a case in 2019 was NOK 330, whereas the largest sum amounted to NOK 7 240 823. Eight cases involved reimbursement of more than NOK 500 000. For an overview of all the cases, see: [Report on cases of financial irregularities – update](#).

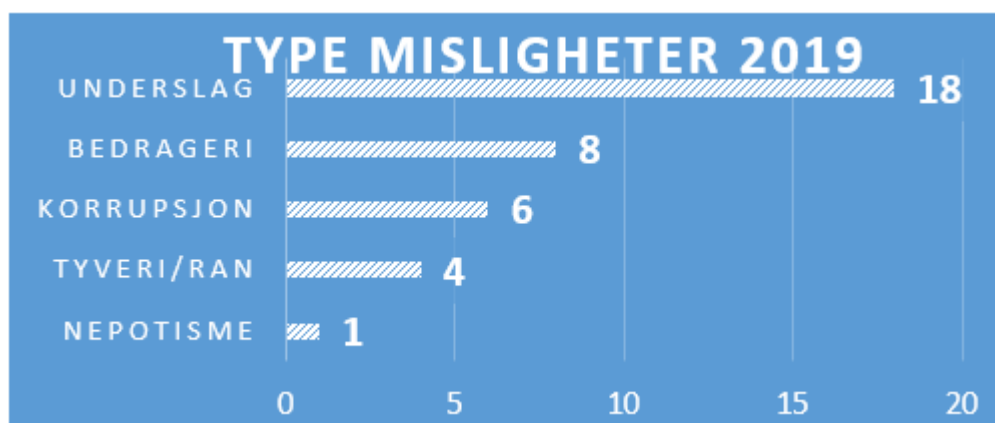
The Fraud and Integrity Unit finds that as a result of the efforts undertaken as part of the zero tolerance policy towards corruption, many grant recipients have acquired considerably more knowledge about the risk of irregularities and risk management. In 2019, there was an extensive public debate on zero tolerance. There seems to be an increasing understanding of the fact that this zero tolerance does not apply to taking risk, but that the risk of irregularities needs to be met by risk-mitigated and powerful internal control.

Types of irregularities

The term 'financial irregularities' is used as a generic term for financial conditions that are unlawful or that entail a misuse of Norad's funds. Examples include corruption, embezzlement, fraud, theft, favouritism/nepotism or other misuse of a position. The cases reported to Norad's Fraud and Integrity Unit cover all of these categories.

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, inadequate financial expertise, etc. are uncovered. Moreover, it is frequently revealed that these issues have extended over a prolonged period of time.

Even after a thorough investigation it is not always possible to ascertain whether actions to obtain unlawful advantage were premeditated. However, breach of contract is often proven, such as breach of the procurement regulations, missing/inadequate documentation of costs, etc., which may conceal extensive irregularities. This type of breach of contract qualifies for a reaction on the part of Norad, even when no financial irregularities have been proven.



Type misligheter 2019	Types of irregularities 2019
Underslag	Embezzlement
Bedrageri	Fraud
Korrupsjon	Corruption
Tyveri/ran	Theft/robbery
Nepotisme	Nepotism

Of the 51 cases that were concluded in 2019, irregularities were proven in 37 cases. Some types of irregularities are easier to uncover than others. Corruption and nepotism will often be harder to detect than embezzlement and theft. Even though irregularities were proven in 37 cases, demands for reimbursement were nevertheless made in 46 cases, because of breach of contract.

More detailed explanations of the above terms:

Embezzlement – obtaining unlawful gain through assets that are at his/her disposal but belong to someone else

Fraud – obtaining unlawful gain by establishing and exploiting a deception

Corruption – paying or accepting bribes in the form of money, gifts or services

Theft – dishonestly appropriating the property of another

Robbery – obtaining an unwarranted gain for oneself or another through violence or threats

Nepotism - providing relatives or close acquaintances ('cronyism') with unwarranted advantages

Who blew the whistle in 2019?

Alerts are mainly submitted by Norad grant recipients, in accordance with their contractual obligations, but the Fraud and Integrity Unit also receives cases directly from external whistle-blowers, including anonymous ones. Occasionally other donors alert Norad, and the Fraud and Integrity Unit also receives reports of suspected financial irregularities from Norad staff members.

Which countries were concerned in 2019?

A total of 27 countries were represented in the 51 cases concluded in 2019. Nine cases pertained to projects in Uganda. South Sudan, Tanzania and Kenya each had four cases. 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 refraining from revealing/reporting within the organisation of some grant recipients, and not least the proportion of Norad funding which is channelled to the country in question.

Where did irregularities take place in 2019?

The vast majority of the whistleblowing cases in 2019 pertained to foreign NGOs, and most of these are partners of Norwegian NGOs. Norway is represented on the boards of multilateral organisations and banks, and these follow up alerts themselves.

The UN system alone investigates several thousands of cases annually, and these cases are not included in the Fraud and Integrity Unit's report. These cases are published on the websites of the various institutions concerned, see for example:

Overview report for 2012–2016 from the UN Joint Inspection Unit, special reference on page 84:

https://www.unjiu.org/sites/www.unjiu.org/files/jiu_rep_2018_4_english_0.pdf

Report from the Office of the Inspector General, The Global Fund to Fight AIDS, Malaria and Tuberculosis, ongoing:

<https://www.theglobalfund.org/en/oig/reports/>

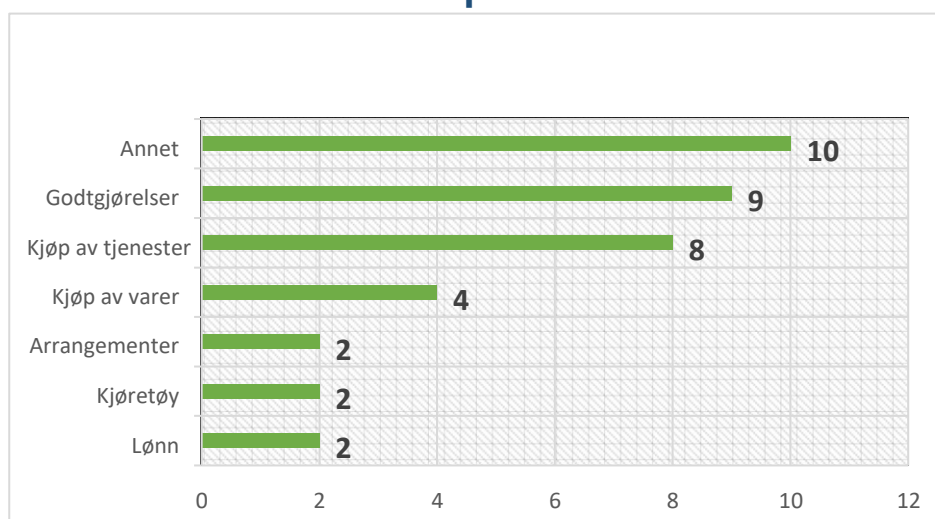
Report from the World Bank's Sanctions System for 2018:

<http://pubdocs.worldbank.org/en/227911538495181415/WBG-SanctionsSystemARFY18-final-for-web.pdf>

Annual report for 2018 from the Office of Audit and Investigations, UNDP:

https://www.undp.org/content/dam/undp/library/corporate/Transparency/OAI_Annual_Report_2018.pdf

Which activities were impacted in 2019?

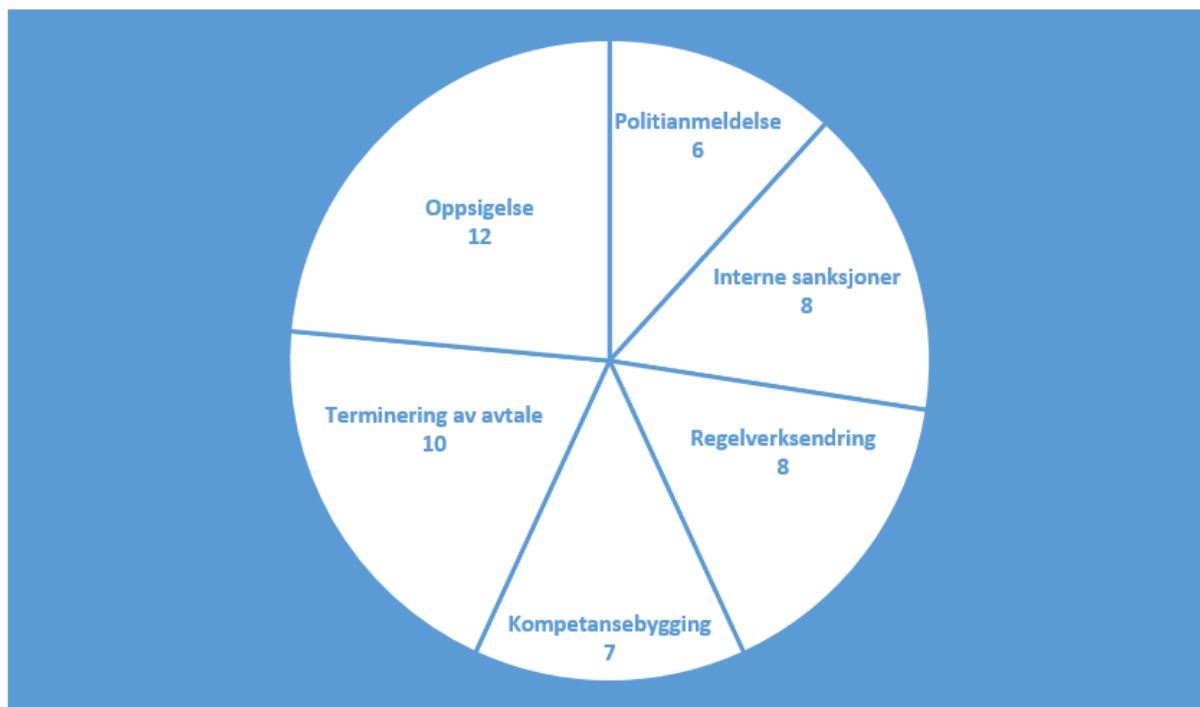


Annet	Other
Godtgjørelser	Remunerations
Kjøp av tjenester	Procurement of services
Kjøp av varer	Procurement of goods
Arrangementer	Events
Kjøretøy	Vehicles
Lønn	Payroll

Remunerations and procurement of services were those business areas in the involved organisations that were most often impacted by irregularities in 2019.

This graph includes cases concluded with a reaction in 2019 where breach of contract had been established. Cases that involved no reaction are excluded.

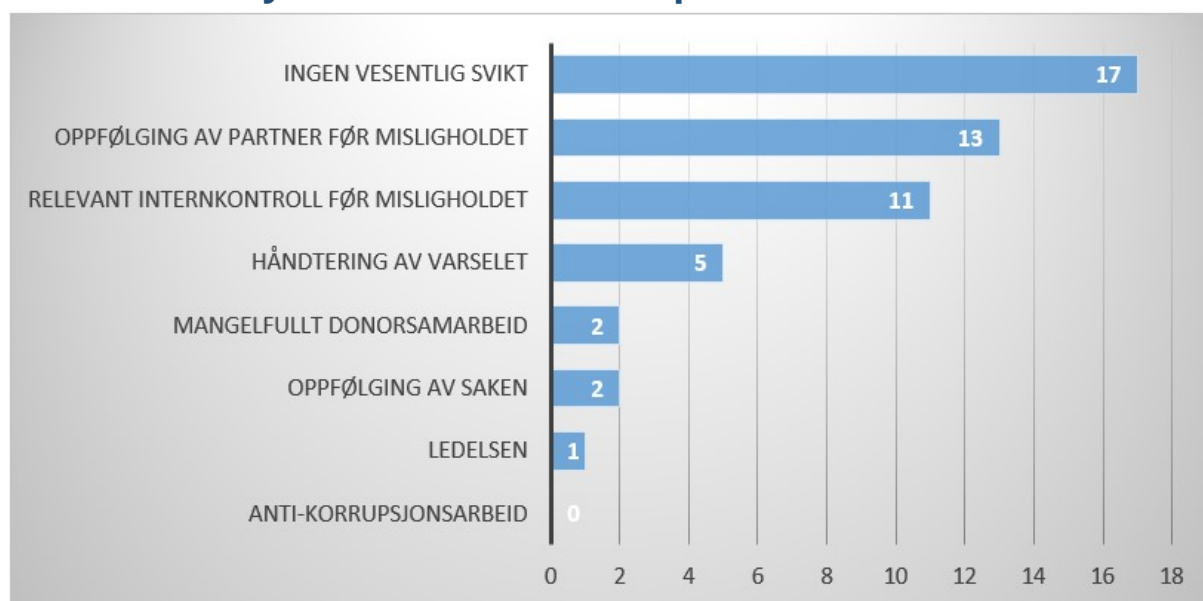
Reactions among grant recipients in 2019



Politianmeldelse	Report to the police
Interne sanksjoner	Internal sanctions
Regelverksendring	Regulatory amendment
Kompetansebygging	Capacity building
Terminering av avtale	Termination of agreement
Oppsigelse	Dismissal

The table shows the reactions that the Norad grant recipients or their partners enacted or were instructed to enact as a consequence of the whistleblowing case. In six of the 51 cases a report was made to the police, and ten of the cases led to termination of the contract. In some cases, Norad will require amendment of procedures to be undertaken before the support can be resumed. Dismissals of staff members and internal sanctions are undertaken without any involvement by Norad.

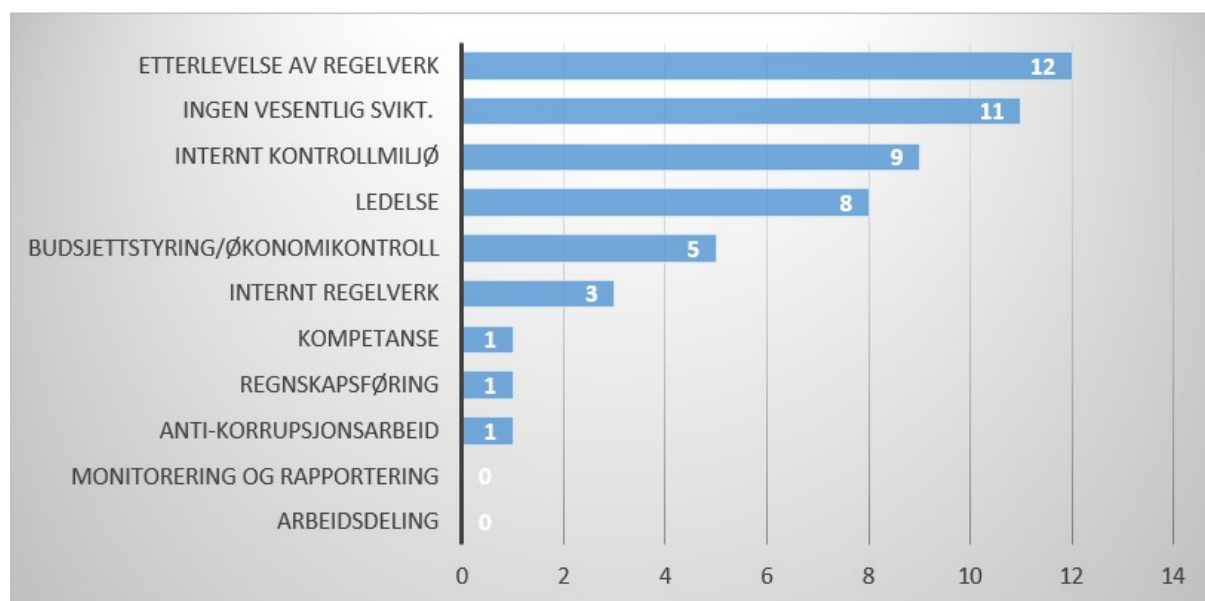
Deficiencies by Norad's contractual partner in 2019



The table shows the nature of the most material deficiencies in Norad's contractual partner, i.e. the so-called 'grant recipient'. In many cases, the deficiency involved inadequate follow-up of the implementing partner. This includes cases in which no irregularities were proven, but reimbursement of funds was demanded because of breach of contract. (Irregularity is a *deliberate* act that involves dishonesty to obtain an unwarranted or unlawful advantage.)

Etterlevelse av regelverk	Compliance with regulations
Ingen vesentlig svikt	No material deficiencies
Internt kontrollmiljø	Internal control environment
Ledelse	Management
Budsjettstyring/økonomikontroll	Budget management / financial control
Internt regelverk	Internal regulations
Kompetanse	Competence
Regnskapsføring	Accounting
Anti-korrupsjonsarbeid	Anti-corruption efforts
Monitorering og rapportering	Monitoring and reporting
Arbeidsdeling	Division of labour

Deficiencies by implementing partners in 2019



The table shows the nature of the most material deficiencies in the implementing partners. Very many of them have adequate regulations and written procedures, but the familiarity and compliance with agreements and regulations are deficient. In many cases there have been multiple deficiencies; the graph shows only the main area of deficiency.

Call for early notifications of suspicion

Agreements with Norad stipulate that the grant recipient *must immediately notify Norad of any indication of financial irregularities in association with the project.*

The term 'immediately' is used for good reason, and Norad applies a strict interpretation. 'Immediately' means as soon as indications of irregularities arise and without any special investigations having been undertaken. Setting a specific time limit is not appropriate; this must be assessed on a case-to-case basis.

Such notification is crucial for Norad's grant management. It gives grounds for an immediate freeze of planned disbursements and for securing grant funds that have already been disbursed until the situation has been clarified. Moreover, early notification provides Norad with the opportunity to effectively help elucidate the case sufficiently and prevent destruction of evidence.

The agreements with Norad grant recipients include an obligation on the grant recipient to provide Norad with an account of all known facts, as well as an assessment of how the case should be followed up. On this basis, Norad can establish guidelines for the follow-up of the case, in light of Norad's requirements.

Note that the obligation to notify is activated by ‘any indication’ of financial irregularities. Such indications are often referred to as ‘red flags’. These are visible circumstances that often arise around irregularities, but they may also stem from other causes. This cannot be determined before more detailed investigations have been undertaken.

Red flags can include missing signatures, missing vouchers, receipts in which the amounts have been changed, disbursements larger than the sum of the associated vouchers, direct procurement, etc. These signs are occasionally interpreted as minor breaches of guidelines or accounting errors, but they may also be surface signs of underlying financial irregularities.

Notifications submitted by external parties with concrete allegations of financial irregularities in projects with Norad funding, received from former employees, suppliers, volunteers, incidental persons who come across suspicious matters, or unknown (anonymous) persons, must also immediately be reported to Norad. This applies even when there are indications that the whistle-blower’s motivation is to harm the grant recipient or the project. In many cases, persons with an intent to cause harm provide correct information.

Immediate notification to Norad is also a prerequisite (among many) for permitting misused funds to be reimbursed to the project, rather than to Norad. In cases where the other conditions have been met, a delayed notification may alone be sufficient to prevent the funds from being reimbursed to the project.

In addition, an adequate set-up for early notification, involving multiple stages, may help maintain a continuous focus on the risk and management of irregularities and encourage establishment of effective notification channels for internal and external parties that are privy to information that otherwise would go unreported.

Early notification will not only be an advantage for Norad, but also help ensure a reduction of the potential harm to the organisation impacted by irregularities. Not infrequently, multiple agencies ought to be alerted to the suspicions, and early notification may mean that other donors and agencies are made aware of the issue and are thus able to secure their resources against loss.

Many of the 51 cases concluded in 2019 were reported too late. Thirteen cases were reported to Norad only three months or more after the suspicion arose.

Harassment

Norad has had internal guidelines on harassment for many years, and in June 2018 it prepared guidelines for dealing with suspicion of harassment among its partners. In February and March 2018, the political leadership instructed the central government administration to ensure that all organisations that receive support from the Ministry of Foreign Affairs, Norad and the Ministry of Climate and Environment have ethical guidelines and adequate systems in place to prevent, report and address cases involving sexual harassment, sexual exploitation, abuse and violence.

Norad's guidelines describe responsibilities and authority, as well as internal procedures for cases in which Norad has been made aware of, including notified about, suspicion of harassment committed by partners. The term 'partner' is widely defined and includes, in addition to grant recipients and their employees, also cooperating institutions and consultants hired by Norad or Norad grant recipients, as well as staff and volunteers who directly or indirectly provide services associated with Norad funding.

Norad requires grant recipients to have ethical guidelines with defined minimum standards, including 'provisions of a strict nature when it comes to sexual abuse, sexual exploitation and harassment'.

All Norad employees are required to report suspicion of sexual harassment committed by Norad partners.

The guidelines on dealing with reports of harassment on the part of 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 on the part of Norad's partners. The Fraud and Integrity Unit does not process 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 responsibility 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.

In 2019, the Fraud and Integrity Unit received reports of ten issues that involved harassment. The cases are not included in the figures that are presented

elsewhere in this report, these only concern suspicion of and reactions to financial irregularities.

Topics from previous annual reports with continued relevance in 2019

2018: 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.

Red flags such as vagueness, small discrepancies and lack of transparency may represent an underlying discrepancy that may not be material in itself, but in combination with other issues provide grounds for more detailed investigation. The 2018 report refers to dozens of red flags that have been observed as part of cases that have involved irregularities and have been investigated by Norad.

For purposes of risk identification by sector, lists of typical red flags for different sectors can be downloaded from the internet. [Link to the 2018 report.](#)

2017: Audit reports do not uncover irregularities. The 2017 report discussed the fact that external audits are the most common control measure for development aid funds. Certainty about audits has a preventive effect against errors and irregularities. However, regular accounting audits rarely capture financial irregularities. Statistics show that only three to four per cent of all irregularities proven globally are found by way of external audit.

Norad's experience is consistent with global statistics. Clean audit reports 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 reveal 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. More about this topic is available in the [2017 report.](#)

2016: 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 one 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 the use of their funding. More about this topic is available in the [2016 report](#).

2015: 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’ competence and capacity. A particular challenge arises when more complex instruments are employed, including the transfer of funds – and thereby responsibility and authority – through many stages and various actors. Surveying 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’). More about this topic is available in the [2015 report](#).

The Ministry of Foreign Affairs’ quarterly list of irregularities cases 2020

The quarterly reports listing whistleblowing cases with reactions in 2020 are published on the [government’s website](#), and include cases concluded by the Ministry of Foreign Affairs and Norec (formerly FK Norway), in addition to cases from Norad.

04.02.2020

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