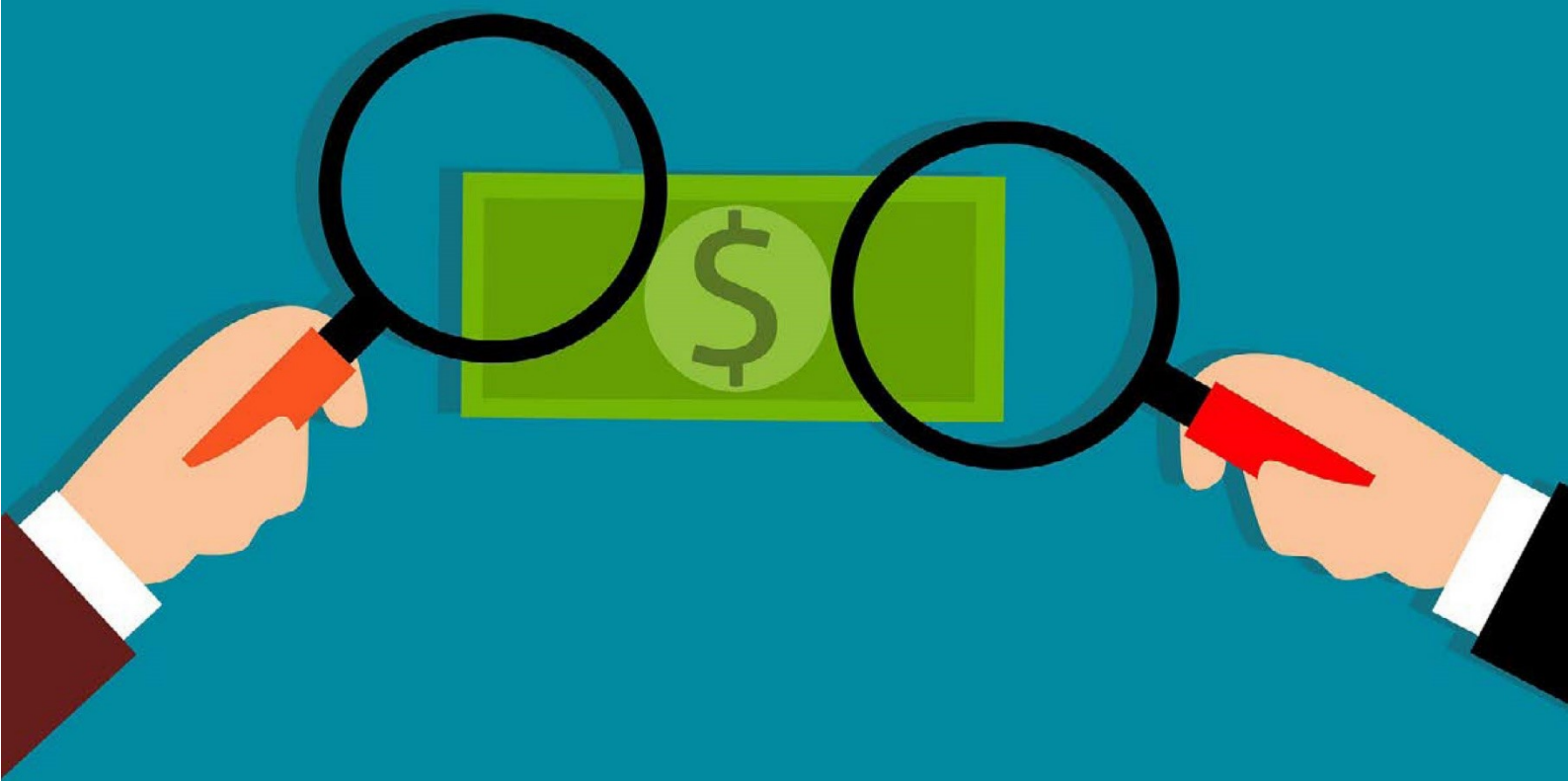
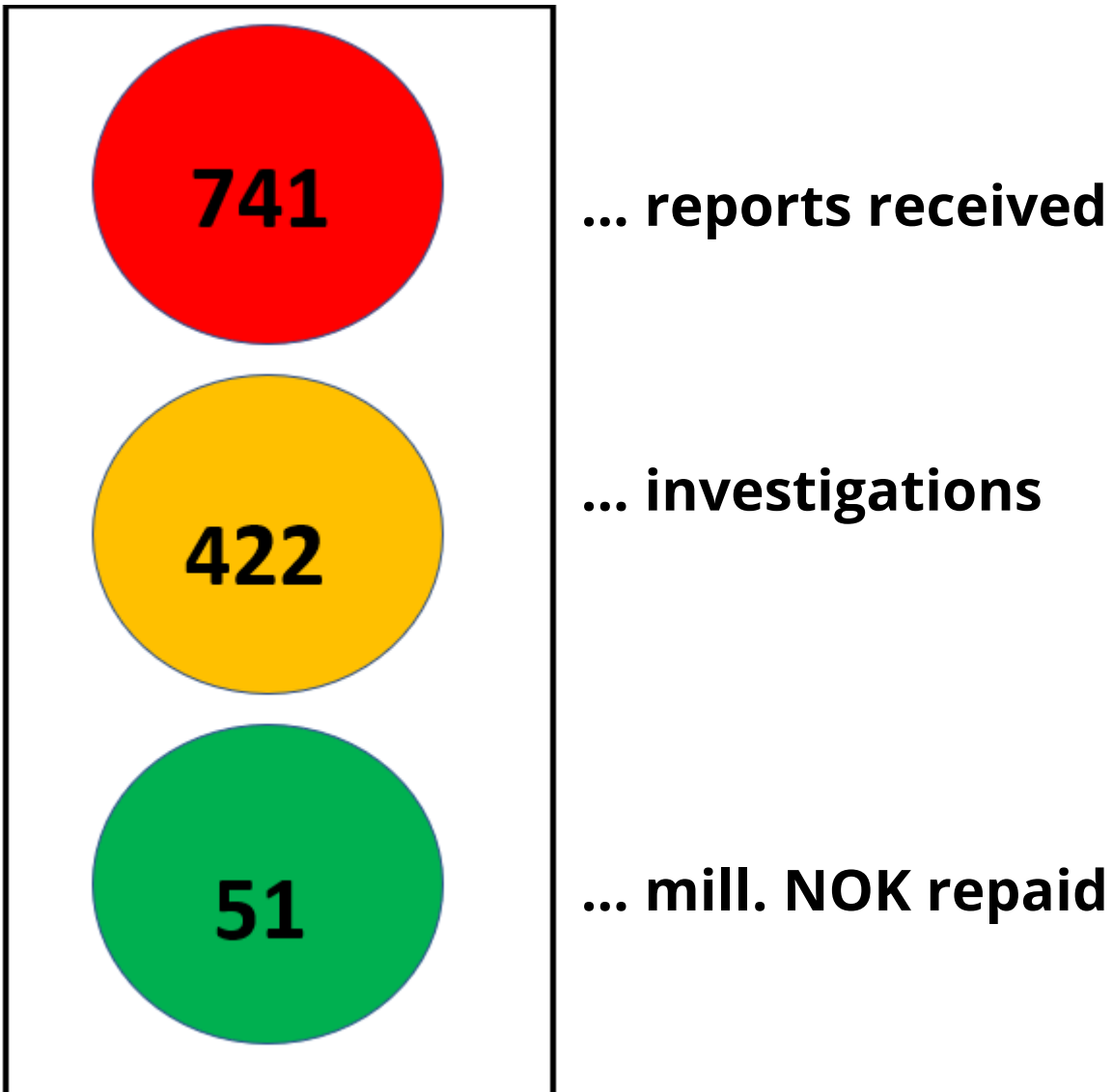




Annual report on Norad's investigation cases 2021
with a look back to 2011



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Introduction

A general principle of Norwegian development assistance is zero tolerance for corruption and other types of financial irregularities. When suspicion of irregularities arises, Norad employees and Norad’s contractual partners must immediately report the issue.

The Internal Audit and Investigations Unit of Norad receives, processes and makes decisions for all cases of suspected financial irregularities reported to Norad and affecting Norad funds. This Annual Report contains some of the result of this work in 2021 and takes a look back at the previous 10 years. The overriding objective of the report is to help raise awareness of the risk of financial irregularities in the administration of development assistance funding.

The Internal Audit and Investigations unit reports new cases and concluded cases of financial irregularities affecting Norad’s development aid funds to the relevant ministry, being Ministry of Foreign affairs or the Ministry of Climate and Environment in cases related to the Norwegian International Climate and Forest Initiative.

Zero tolerance means that any such deviation from the agreed terms and requirements for the use of government funds will be met with a reaction. Norad's agreements with grant recipients include 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. If Norad's demand for reimbursement is contested, legal measures to recoup the funds will be considered.

Norad also receives reports on suspected cases of sexual exploitation, abuse, or harassment (SEAH) among partners that receive Norad support. Norad's contractual partners should notify Norad wherever suspicions of sexual abuse, exploitation or harassment may entail material implications for the grant agreement. In 2021, Norad received 13 notifications of sexual exploitation, abuse or harassment and concluded 9.

Norad's former Fraud and Integrity Unit was established in 2011. Prior to that, the Ministry of Foreign affairs handled all suspicion of irregularity-cases, including cases involving development cooperation funds.

Norad went through a significant organizational change in 2021. Norad's Internal Audit and Investigations Unit was formed in September, into which the former Fraud and Integrity Unit was integrated.

Cases processed in 2021²

In 2021, altogether 54 new cases were opened, and 56 cases were processed to completion. In 39 of the completed cases Norad demanded reimbursement of grants, because of financial irregularities and/or other material breaches of grant agreements. A total of NOK 5 278 372 was reimbursed, of which 3 972 873 to Norad and 1 305 499 to the projects concerned.

The smallest sum reimbursed in one case in 2021 was NOK 251, whereas the largest sum amounted to NOK 731.913. Four cases involved reimbursement of more than NOK 500 000. For an overview of all the cases, see: [Report on cases of financial irregularities](#).

Four of the completed cases involved irregularities by Norad's contractual partner (the grant recipient), while 35 involved their local partners.

Types of irregularities

The term 'financial irregularities' is used as a generic term for financial conditions that are unlawful or entail a misuse of Norad's funds. Examples include corruption, embezzlement,

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

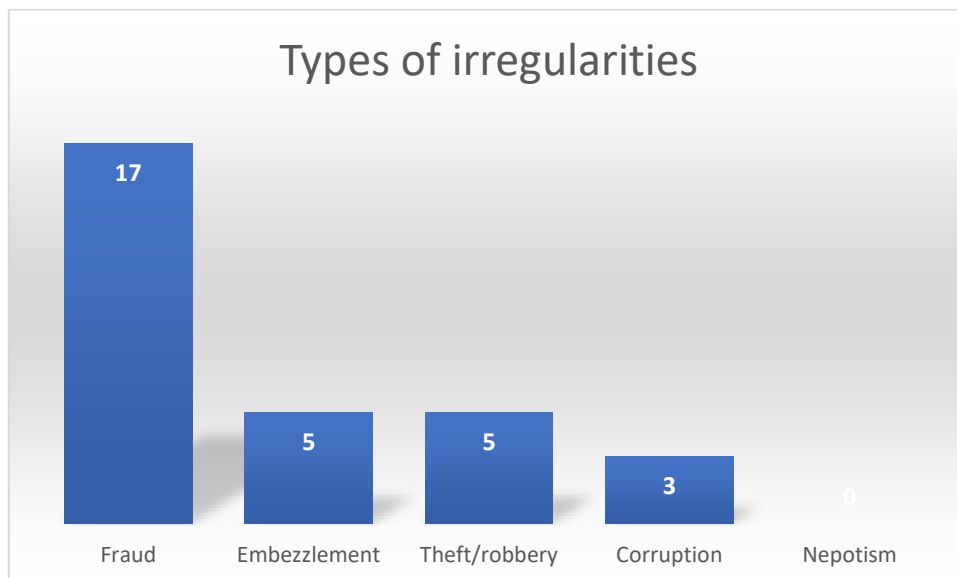
² Adjusted version as of 25.03.22

fraud, theft, favouritism/nepotism or other misuse of a position, financial and non-financial fraudulent statements, and all other use of Project funds which is not in accordance with the implementation plan and budget. The cases reported to Norad’s Internal audit & investigations unit cover all these categories.

Even after a thorough investigation, it is not always possible to ascertain whether actions resulting in 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 easily 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.

Of the 56 investigations that were concluded in 2021, irregularities were detected in 30 cases. Some types of irregularities are easier to uncover than others. Corruption will often be harder to detect and even harder to prove than embezzlement, fraud, and theft. Evidence of certain financial irregularities may be elusive.

Figure 1 - Categories of cases with detected irregularities sanctioned 2021



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

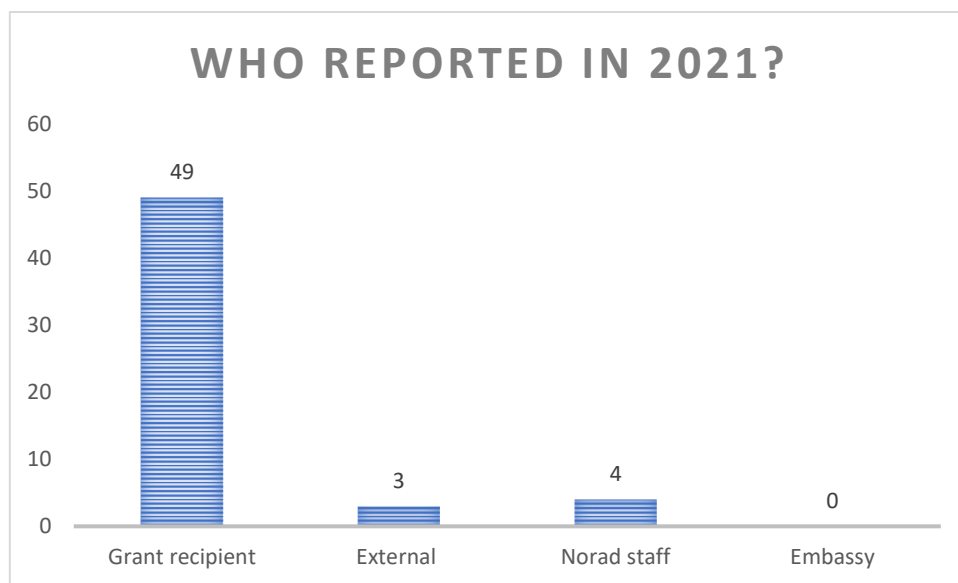
Theft/robbery – dishonestly appropriating the property of another/ obtaining an unwarranted gain for oneself or another through violence or threats

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

Reporting of abuse of funds

Figure 2 below shows that reports to Norad of abuse of funds are mainly submitted by Norad grant recipients, in accordance with their contractual obligations. In addition, the Internal audit & investigations unit also receives cases directly from external whistle-blowers, including anonymous ones. Occasionally other donors alert Norad, and the Internal audit & investigations unit also receives reports of suspected financial irregularities from Norad grant managers.

Figure 2 Breakdown by source of report 2021

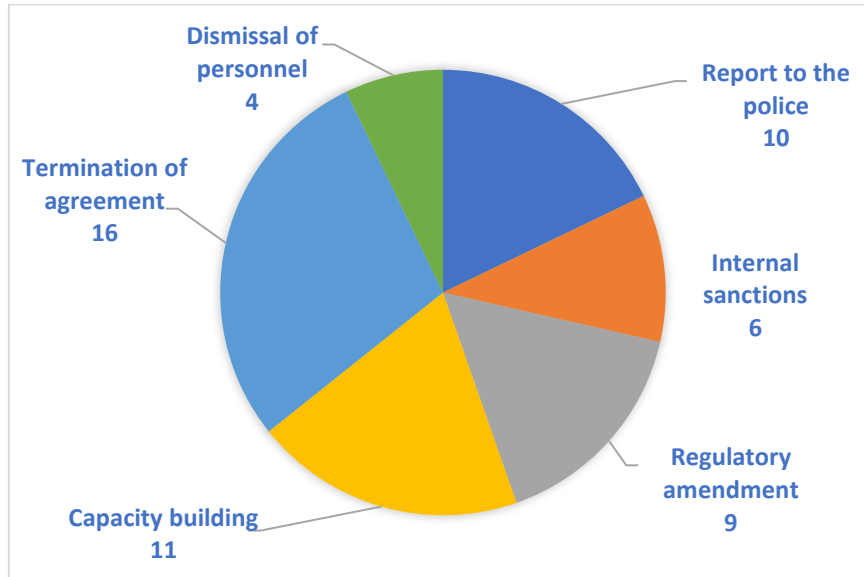


Reactions

Figure 3 below shows the reactions that grant recipients, or their partners, enacted or were instructed to enact because of the outcome of investigations. Norad and the grant recipient often demand strengthening of internal controls to be undertaken before support can be resumed. Dismissals of staff members and internal sanctions are undertaken without any involvement by Norad.

The table includes cases concluded with a reaction in 2021 where breach of contract had been established. Cases that involved no reaction are excluded.

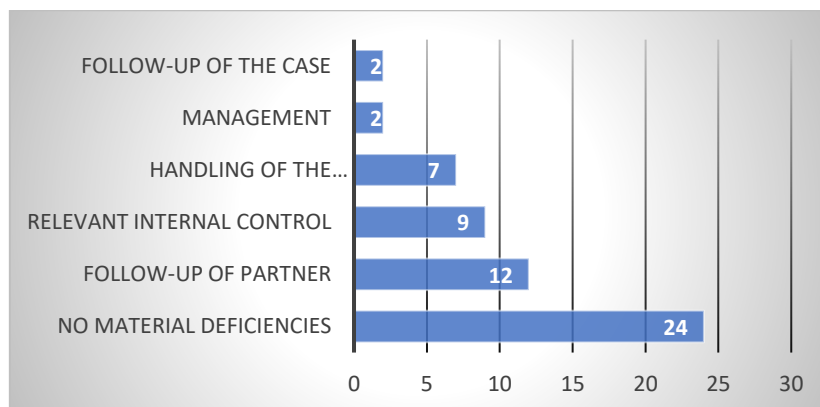
Figure 3: Cases concluded in 2021 - by type of reaction



Weaknesses at grant recipient level

Figure 4 below shows the nature of the most material deficiencies in Norad’s contractual partner, i.e., the grant recipient. In many cases, the deficiencies were linked to inadequate follow-up of the implementing partner. This includes cases in which no financial irregularities were proven, but reimbursement of funds was demanded because of breach of contract.

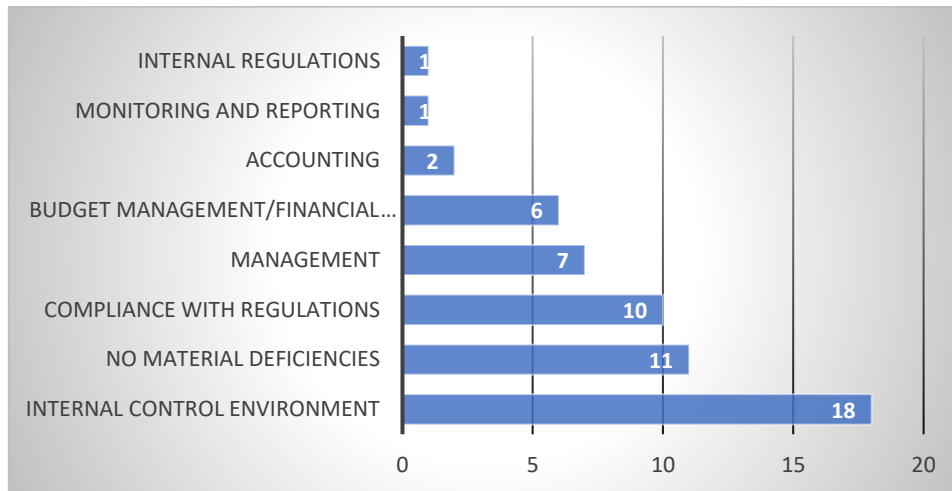
Figure 4: Grant recipient weaknesses - by category



Weaknesses at implementing partner level

Figure 5 below shows the nature of the most material deficiencies in the implementing partners. Many local partners have adequate regulations and written administration procedures, but the familiarity and compliance with agreements and regulations are often deficient. In many cases there have been multiple deficiencies; the graph shows only the main area of deficiency.

Figure 5: Local partner failings - by category



Sexual exploitation, abuse, and harassment (SEAH)

Norad's guidelines for prevention of sexual exploitation, abuse and harassment describe responsibilities and internal procedures for handling SEAH-cases reported to Norad.

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

All Norad employees are required to report suspicion of sexual harassment committed by persons affiliated with Norad grant recipients and their partners.

The Internal audit & investigations unit has been given responsibility for Norad's efforts to follow up SEAH-reports. The unit does not investigate individual harassment cases as such, since such responsibility is an aspect of employers' responsibility that falls within the remit of the partner's personnel department. The unit's responsibility is primarily to assess whether the grant recipient's internal framework against SEAH and its implementation conform with the agreement with Norad. If the organisation is not dealing with the risk as required under the agreement, Norad may temporarily freeze disbursements to the partner or even terminate the grant agreement.

In 2021, the Internal audit & investigations unit closed 9 cases regarding SEAH. These cases are not included in the figures that are presented elsewhere in this report.

See also the [MFA's guidelines on SEAH](#).

A look back to 2011

From the establishment in 2011, statistics have been developed for tracking what types of breaches, contraventions and irregularities that have made up the case load of the Fraud and Integrity Unit at Norad.

These statistics have uncovered variations over time, and between countries. The cases handled have so far been too few per year to enable extraction of clear trends among the cases reported.

While the sum of grants disbursed by Norad has increased substantially over these 10 years, the sums recovered by sanctioning fraud and irregularity cases varies from year to year. No clear trend is shown by the annual reimbursements, and no increase proportional to the increased grant disbursements can be seen.

Through the latest decade, the Norwegian zero-tolerance policy (ZTP) has stood firm, and still does. However, from the early focus largely on reactions to financial irregularities, it has developed into becoming more integrated in the overall Norwegian anti-corruption efforts and emphasizing prevention and strengthening of the internal controls of Norad's grant recipients and their partners.

Norwegian NGO's have been important partners for MFA in developing the ZTP. In May 2021, following input from the Norwegian NGOs "anti-corruption network", a MFA and Norad working group advised the MFA on improvements to the ZTP. The process of adjustments is expected to result in certain modifications to the policy.

The ZTP is designed to contribute to the improvement of our grant recipients' internal control systems. An excerpt from page 20 of the [Evaluation of Norway's Anti-Corruption Efforts as part of its development Policy and Assistance](#) is encouraging in this respect:

"The ZTP has been effective in incentivising Norwegian NGOs to get much better systems for due diligence and anti-corruption in place".

Key figures 2011-2021

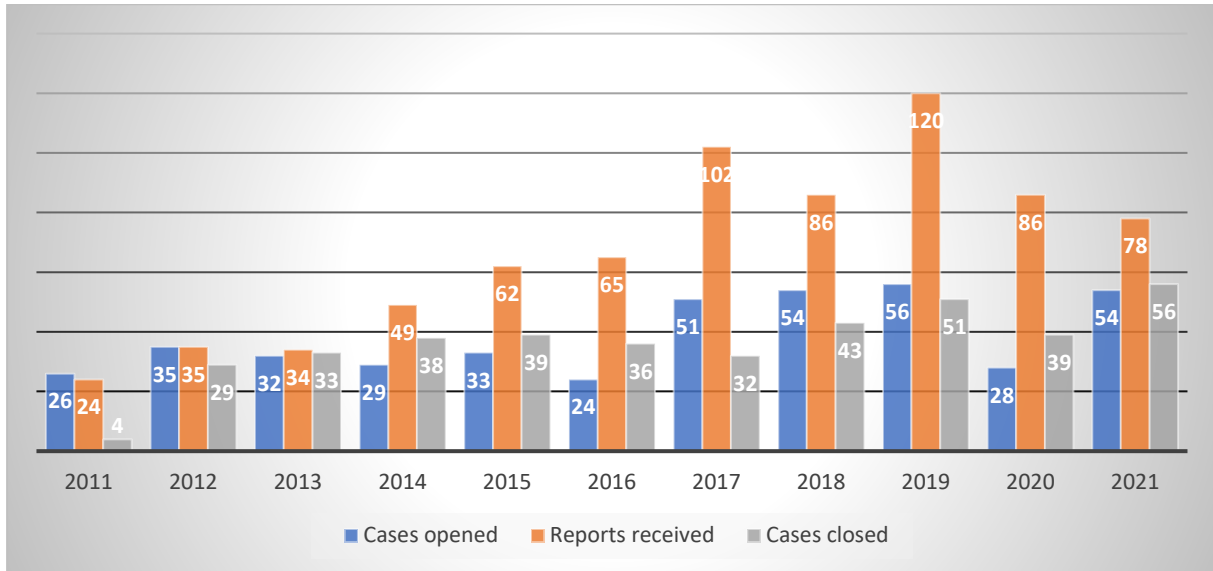
Since 2011, Norad has received **741** reports, out of which **422** were opened for investigation based on suspicions of financial irregularities, see table 1 below. Out of the 400 investigations finalized, **302** resulted in a claim for repayment of misused funds.

Table 1 Key figures from investigations since 2011

Year	Notifications received	Investigations opened	Cases closed*	Reimbursed to Norad	Reimbursed to the project
2011	24	26	4	182.732	n/a
2012	35	35	29	1.514.969	n/a
2013	34	32	33	1.121.801	n/a
2014	49	29	38	857.306	n/a
2015	62	33	39	1.412.225	n/a
2016	65	24	36	3.995.062	n/a
2017	102	51	32	1.734.713	n/a
2018	86	54	43	11.380.989	n/a
2019	120	56	51	18.380.383	22.202
2020	86	28	39	7.079.358	815.446
2021	78	54	56	3.972.873	1.305.499
Total	741	422	400	51.632.411	2.143.147

Table 1 also shows that Norad, since 2011, has closed **400** cases and claimed repayment for a total of **NOK 51.632.411**. While this may seem like a substantial number, it is likely only the tip of the iceberg, as Norad has disbursed over **36 billion NOK** in bilateral aid over the past 10 years. The smallest amount reclaimed was **NOK 148**, and the largest **NOK 7,240,823**. The irregularity cases have originated from a total of **68** countries (see Figure 7) and territories and involve **110** grant recipients.

Figure 6 - Graphic illustration of notifications received and cases handled since 2011



The notifications received and Norad’s case handling, when plotted graphically (see Figure 6 above), show that there has been an increase of irregularity reports to Norad until a peak in 2019, after which the trend has decreased two years in a row.

The reduction of reported cases from 2019 (120) to 2021 (78) may be due to a set of causes. It is noted that the years 2020 and 2021 have been marked by the Covid-19 pandemic and measures to combat that pandemic. It is believed that the attention to programmatic adjustments to meet the pandemic may in part explain the reduction in reported cases.

Still, it should be remembered that the statistics presented here merely represent cases that were reported to Norad. Unfortunately, it is highly likely that most irregularity cases affecting Norad funds go unnoticed or unreported. This may be due to schemes designed to conceal the irregularities, management involvement in the irregularities, inadequate internal controls, inadequate monitoring from the grant recipient, lack of reporting, lack of proper systems for reporting/hotlines, potential whistleblowers’ fear of retaliation, etc., and probably a combination of several factors.

Where the irregularities took place

A total of 74 countries were represented in the 400 cases concluded between 2011 and 2021. 41 cases pertained to projects in Uganda, 25 in South Sudan, Tanzania and Malawi.

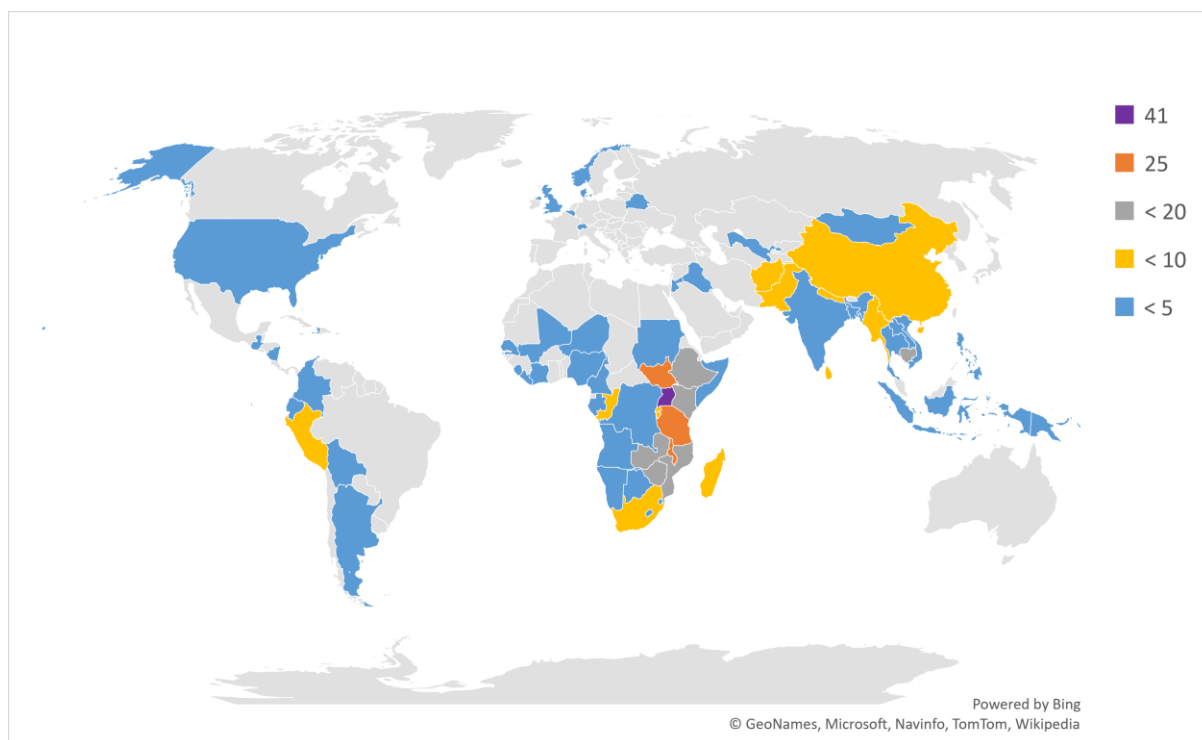


Figure 1 - Geographic origin of reports received

It is not reasonable to draw conclusions about the existence of irregularities in a country based on the number of cases per country. Coincidence certainly plays a role, and not least the proportion of Norad funding which is channelled to the country in question.

Most of the cases in 2021 pertained to foreign NGOs, and most of these are partners of Norwegian NGOs.

Multilateral organisations and banks follow up alerts themselves. The UN system and global funds alone investigate several thousands of potential cases of financial irregularities annually, and these cases are not included in the Internal audit & investigations unit's report. These cases are published on the websites of the various institutions concerned, see for example:

[Report of the Joint Inspection Unit for 2020 and programme of work for 2021](#)

[Reports from the Office of the Inspector General, The Global Fund to Fight AIDS, Malaria and Tuberculosis](#)

[Annual report for 2019 from the Office of Audit and Investigations, UNDP.](#)

“Reimbursement to project”

An important modification to the ZTP became effective from 2019 when the Norwegian Foreign Ministry (MFA) decided to allow grant recipient to compensate grant funds lost due to financial irregularities by reimbursing the amount in question to the project (“reimburse to the project”) as an alternative sanction in certain cases. The sanction of “reimbursement to the project” is only available given that a specific set of [criteria](#) are satisfied. As in cases where the grant recipient must reimburse Norad, the reimbursement shall be covered by the grant recipient’s own funds (i.e., not from moneys disbursed by Norad). So far, a small proportion of the total yearly amount to be reimbursed due to financial irregularities is allowed to be repaid to the project. This has in most cases been due to late reporting or poor internal controls within the organization being affected by the irregularities.

How to report

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

Norad has, in collaboration with the MFA, the Ministry of Climate and Environment, Norfund and Norec, an external whistleblowing channel, managed up until year-end 2021 by the law firm Wiersholm and from 1 January 2022 by the consultancy firm EY. The external channel provides staff and external partners with an alternative channel through which to reach Norad, and reports may be submitted anonymously here as well. More information about the external reporting channel can be found at: <https://www.norad.no/aktuelt/varslingstjeneste>.

Investigations

If the Internal audit & investigations unit finds grounds for suspicion of irregularities regarding Norad funding, an investigation is opened. In approximately half of the 741 cases reported over the past ten years, an investigation 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. Generally, new disbursements to the relevant end-recipient are frozen until the matter has been investigated or 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 suspending the monetary support is to safeguard government funds, and the suspension is applied when the internal control exercised by the grant recipient, or that of an implementing partner, is considered inadequate.

Recipients of Norad grants are responsible for ensuring that the use of all government funding is spent in accordance with grant agreement including the implementation plan and budget and can be documented in accordance with the agreement. The Internal audit & investigations unit is responsible for adequate investigation of all cases. In many cases, external expertise is engaged to undertake a special audit. If the grant recipient concerned by a notification investigates the matter itself or initiates an investigation, this should be undertaken in consultation with the Internal audit and investigations unit.

Topics from previous annual reports with continued relevance in 2022

2020: Covid-19 and IT security. During the corona-pandemic, we have seen examples of delayed or prevented regular project follow-up as well as missing control actions from the grant recipient or external auditor, due to the risk of infection and corresponding travel restrictions. Reduced control activities entail a higher risk that the controls do not capture significant discrepancies (control risk) and the same for the auditor (audit risk). The pandemic has also made investigations more complex and time consuming.

In 2020, Norad experienced an attempted theft of a significant amount. Another similar fraud attempt against Norfund proved successful; About \$ 10 million was in good faith sent to an account opened by fraudsters, and the money disappeared. On September 1, 2020, Norad arranged an online seminar together with The Ministry of Foreign Affairs and Norfund on the topic of IT fraud. At the seminar, these fraud cases were described, and the topic was discussed by an expert panel. Video recordings of the seminar can be found on Norad's [website](#). [Link to the 2020 report. \(in Norwegian only\)](#)

2019: Call for early notification of suspicions. 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 prior to any special investigations being initiated.

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 and the corresponding risks has been clarified. Moreover, early notification provides Norad with the opportunity to effectively help elucidate the case sufficiently and prevent destruction of evidence.

Immediate notification to Norad is also a prerequisite (among several others) 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 the irregularities. Furthermore, other agencies supporting the organisation ought to be made aware of the issue and are thus able to secure their resources against loss. [Link to the 2019 report.](#)

2018: Red flags. All those managing development aid funding should learn to be aware of and deal with discrepancies or circumstances that may indicate financial irregularities: so-called 'red flags'. Red flags such as vagueness, small discrepancies and lack of transparency may not be material, 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 in cases that involved Norad funding.

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. Certainly, audits have a preventive effect against errors and irregularities. However, regular financial audits rarely capture financial irregularities. Statistics show that only three to four per cent of all irregularities proven globally are detected by way of external audit.

Norad's experience is consistent with global statistics. Clean audit reports were found in all cases under investigation by Norad in 2017, even though grave irregularities were detected later in forensic audits.

The Internal audit and investigations unit's experiences suggest that third-party controls should be incorporated as an additional component of annual audits concerning projects supported with Norad grants. Investigation cases reveal a considerable number of forged accounting documents, including tenders, invoices and receipts, bank statements, attendance lists and travel documents. It may prove cost effective to perform supplemental and risk-based agreed-upon procedures (ISRS 4400) 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, the organisation should provide a consolidated overview of accounts showing all revenues and expenses, as well as the distribution of revenues and expenses among the individual donors as required under the agreement. Several instances of multiple donors being charged for the same expenses are uncovered every year. In one-third of the cases in 2016, coordination among donors and actors, at various stages, could have played a significant role in strengthening the financial control. More about this topic is available in the [2016 report](#).

2015: Background checks. Strengths and weaknesses in the recipient’s internal control and management need to be assessed before entering into a grant agreement and must be followed up throughout the funding period. Norad has several instruments available for due diligence in surveying grant recipients’ competence and capacity. A particular challenge arises when more complex financial schemes are established, including transferring of funds – and thereby responsibility and authority – through many stages and various actors. Knowledge of the cash flow, the partner agreements and the audit hierarchy is an excellent starting point for checking accountability through the chain of support. More about this topic is available in the [2015 report](#).

The Ministry of Foreign Affairs’ quarterly list of cases

The quarterly reports listing investigation cases with reactions in 2021 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 concluded by Norad.

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