

Report

Annual report on Norad's investigation cases

2022

Internal Audit and Investigations, Norad

Internrevisjonen



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Introduction

A general principle of Norwegian development assistance is zero tolerance for corruption and other types of financial irregularities. Development assistance funding that is not used for the agreed purpose will counteract the desired development goal and thereby undermine our joint efforts to achieve the Sustainable Development Goals. In the event of suspected irregularities, the grant recipient and employees managing development aid funding must immediately report the matter.

Any non-compliance with conditions and requirements set out concerning the use of public funds will result in a reaction. Norad's agreements with grant recipients include provisions on reactions in cases of irregularities or violations in the form of full or partial repayment and/or termination of the agreement in cases of a material breach of contract.¹

In 2022, a separate provision to affirm Norad's zero-tolerance for in-action in the fight against sexual exploitation, abuse and sexual harassment (abbreviated SEAH) was added to several of the grant agreement templates. Failure to comply with the activity requirements in the new agreement clauses has been included as an example of a material breach of agreement.

Norad's Internal Audit and Investigations Unit receives and considers all cases in which Norad's funds are affected by a suspicion of financial irregularities or sexual exploitation, abuse or sexual harassment. This annual report includes some of the results from this work throughout 2022. The overarching purpose of the report is to raise awareness of the risk of irregularities in the management of development assistance funding.

Reporting

Suspected unlawful, unethical or unacceptable matters can be reported openly or anonymously to Norad via e-mail: varsling@norad.no

In collaboration with the Norwegian Ministry of Foreign Affairs, the Norwegian Ministry of Climate and Environment, Norfund and Norec, Norad has an external whistleblowing channel administered by the consulting company EY. The external channel provides employees and external partners with an alternative channel for contacting Norad and anonymous reports are also accepted. Further information about the external whistleblowing channel can be found at <https://www.norad.no/aktuelt/varslingstjeneste>.

¹ Separate agreements have been entered into with multilateral institutions, funds and development banks. See further details in the section "Where did the irregularities take place?".

Investigations

If Norad's Internal Audit and Investigations Unit finds grounds to suspect irregularities relating to Norad's funds, an investigation case will be opened. In such cases, Norad will notify the Norwegian Ministry of Foreign Affairs, or the Norwegian Ministry of Climate and Environment if the funds have been allocated to the Climate and Forest Initiative. Suspension of payments to the recipients in question may be considered until the matter has been investigated or until sufficient risk-mitigating measures have been implemented. As far as possible, decisions to freeze financial support will be made in consultation with the Norad grant recipient and the Norad department responsible for the agreement. The purpose of suspending financial support is to protect public funds. Suspensions will enter into effect if the internal control performed by the grant recipient or implementing partner is considered inadequate.

Norad may also temporarily freeze payments to the partner or terminate the grant agreement if the organisation fails to manage SEAH cases as required in the agreement.

Norad's grant recipients are responsible for ensuring that all public funds are used in accordance with the grant agreement, including the implementation plan and budget, and that the use of funds can be documented as required in the agreement. Norad's Internal Audit and Investigations Unit is responsible for ensuring that all cases are adequately investigated. In many cases, external expertise will be brought in to conduct a special audit. If the grant recipient wishes to investigate the matter itself or initiates external investigations, the suspicion must nevertheless be reported immediately and before its own investigations are initiated. Investigations conducted by grant recipients must be performed in consultation with Norad's Internal Audit and Investigations Unit.

In Norad's agreements, the term "financial irregularities" is used as a collective term for financial matters that are unlawful or entail abuse of Norad funds. Examples include corruption, embezzlement, fraud, theft, favouritism/nepotism or other abuse of position, deliberate misrepresentation of financial or non-financial matters and any use of project funds that is not in accordance with the implementation plan and budget. The cases reported to Norad's Internal Audit and Investigations Unit cover all of these categories.

Sexual exploitation, abuse and sexual harassment (SEAH)

Sexual exploitation, abuse and sexual harassment have constituted a breach of Norad's grant agreements for a number of years, as Norad's contractual partners are required to report incidents that could have significant consequences for the grant agreement. Grant recipients are also required to have a code of conduct in place to set out minimum standards, including "strict provisions relating to sexual abuse, sexual exploitation and sexual harassment."

In 2022, a separate provision to affirm Norad's zero-tolerance for in-action in the fight against sexual exploitation, abuse and harassment was added to several of the grant agreement templates. Inadequate compliance with the activity requirements set out in the new clause (Clause 16) may be considered a material breach of the agreement.

With the new Clause 16 mentioned above, the requirements to actively fight such abuse and harassment have been tightened. In this way, the fight against SEAH has become a goal in itself, regardless of any consequences for the grant agreement. Norad's grant recipients are now obliged to do their utmost to prevent, detect and follow up on SEAH in Norad-funded projects. This applies throughout the entire project chain.

The Internal Audit and Investigations Unit is responsible for Norad's work to follow up on reports relating to SEAH. However, the unit does not normally investigate individual SEAH-cases. This is the responsibility of the employer and the duty of the grant recipient or implementing partners. The Internal Audit and Investigations Unit's responsibility primarily consists of assessing whether the grant recipient's handling of the report and its internal initiatives against SEAH are in accordance with the agreement with Norad. Norad may also temporarily freeze payments to the partner or terminate the grant agreement if the organisation fails to manage SEAH cases as required in the agreement.

In 2022, Norad received 9 reports about sexual exploitation, abuse or sexual harassment and closed 17 such cases. These cases have not been included in the figures presented elsewhere in this report.

See also the [Norwegian Ministry of Foreign Affairs SEAH Guidelines](#).

Financial irregularity cases processed in 2022

Norad received 91 reports of financial irregularities in 2022. 65 new cases were opened and 51 cases were completed and closed. In 39 of the completed cases, Norad demanded the repayment of funds as a result of financial irregularities and/or material breaches of the grant agreement.

A total of NOK 11,629,585 was repaid, of which NOK 11,341,127 went to Norad, while NOK 288,458 went to the affected projects.

The “repayment to project” sanction is possible only when a specific set of criteria have been met, including that notification must take place immediately in the event of suspicion and that the grant recipient’s internal control was not at significant fault. The grant recipient must have ensured that the internal control prior to and during the period in which the irregularities occurred was satisfactory. The full list of conditions can be found [here](#).

The smallest sum repaid in a single case in 2022 was NOK 188, while the largest sum amounted to NOK 4,247,229. An overview of all cases can be found here: [Report on financial irregularity cases](#).

Nine of the closed cases involved financial irregularities on the part of Norad’s contractual parties (grant recipients), while 42 cases involved their local partners.

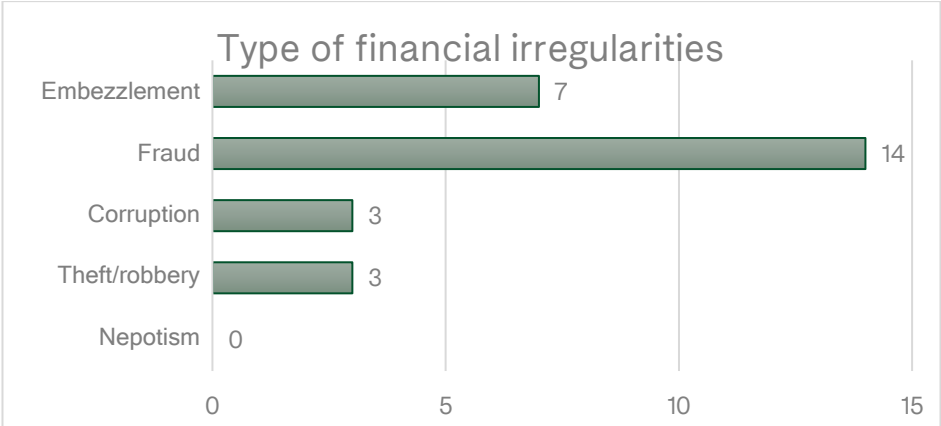
2022 Overview	
Cases reported to Norad	91
Investigations opened	65
Closed cases	51
Cases closed with reactions	39
Number of cases repaid to Norad	36
Number of cases repaid to projects	3
Total NOK repaid to Norad	11,341,127
Total NOK repaid to projects	288,458

Types of irregularities

Even after a thorough investigation, it is not always possible to determine whether actions have been carried out deliberately. Nevertheless, breach of contract can often be proven, for example, breaches of procurement rules, inadequate/insufficient documentation of costs and other matters that can easily cover up more extensive irregularities. This type of breach of agreement provides grounds for sanctions from Norad, even if no financial irregularities have been proven.

In the 51 investigations concluded in 2022, financial irregularities were detected in 27 cases. Some types of irregularities are easier to detect than others. Corruption will often be harder to detect and

even more difficult to prove than embezzlement, fraud and theft. Evidence of certain types of financial irregularities can be ambiguous.



A more detailed explanation of the terms used above:

Embezzlement – obtaining unlawful gain through the acquisition of assets that are at one’s disposal but that belong to someone else

Fraud – obtaining unlawful gain by establishing and exploiting a deception

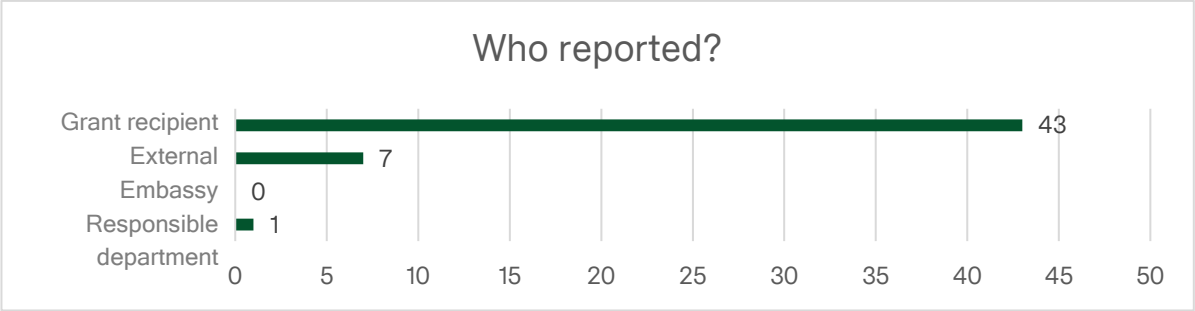
Corruption – abuse of power for personal gain in a trusted position by paying or receiving bribes in the form of money, gifts or services

Theft/robbery – unlawful appropriation of other’s property/obtaining unlawful gains for oneself or others through the use of violence or threats

Nepotism – extending unlawful advantages to relatives or close acquaintances (“cronyism”)

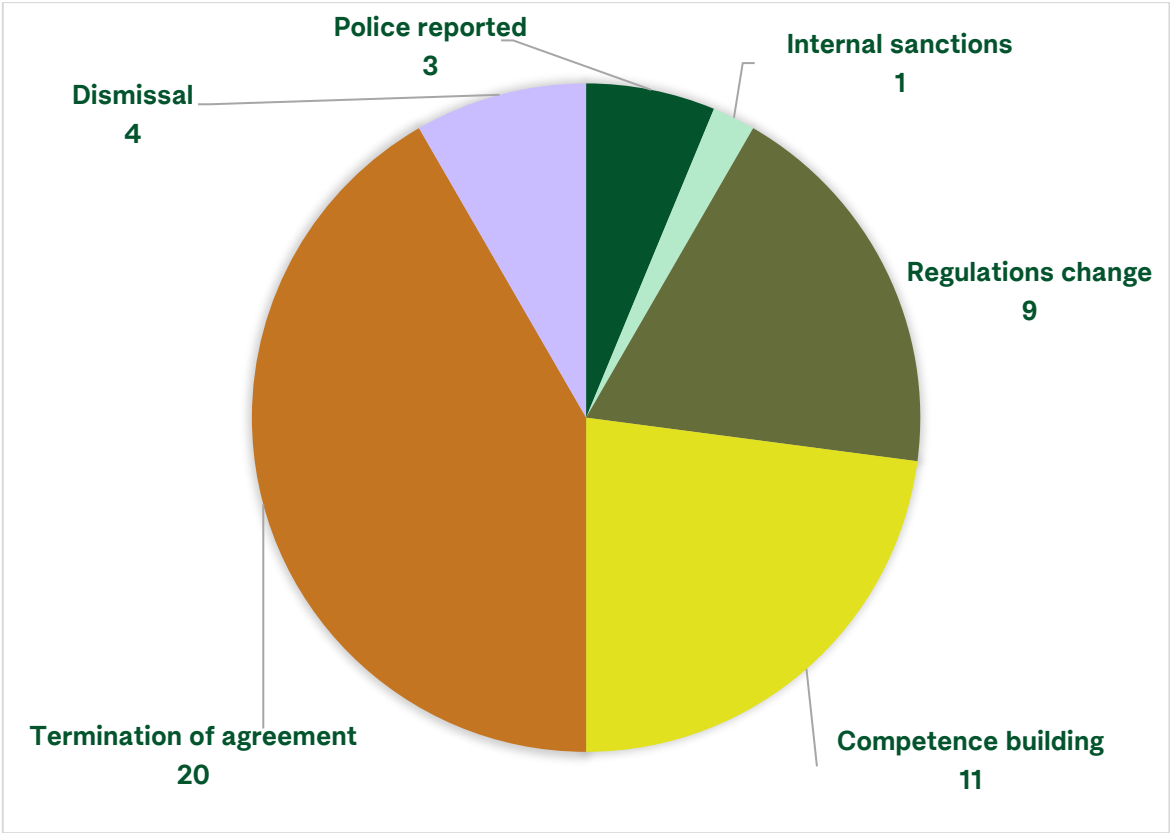
Who reported?

Figure 2 shows that reports on suspected abuse of funds are primarily received by Norad from grant recipients in keeping with their contractual obligations. Additionally, the Internal Audit and Investigations Unit also receives cases directly from external whistleblowers, including those that opt to remain anonymous. In some cases, Norad will also be notified by other donors and the Internal Audit and Investigations Unit also receives reports of suspected financial irregularities from Norad’s grant managers.



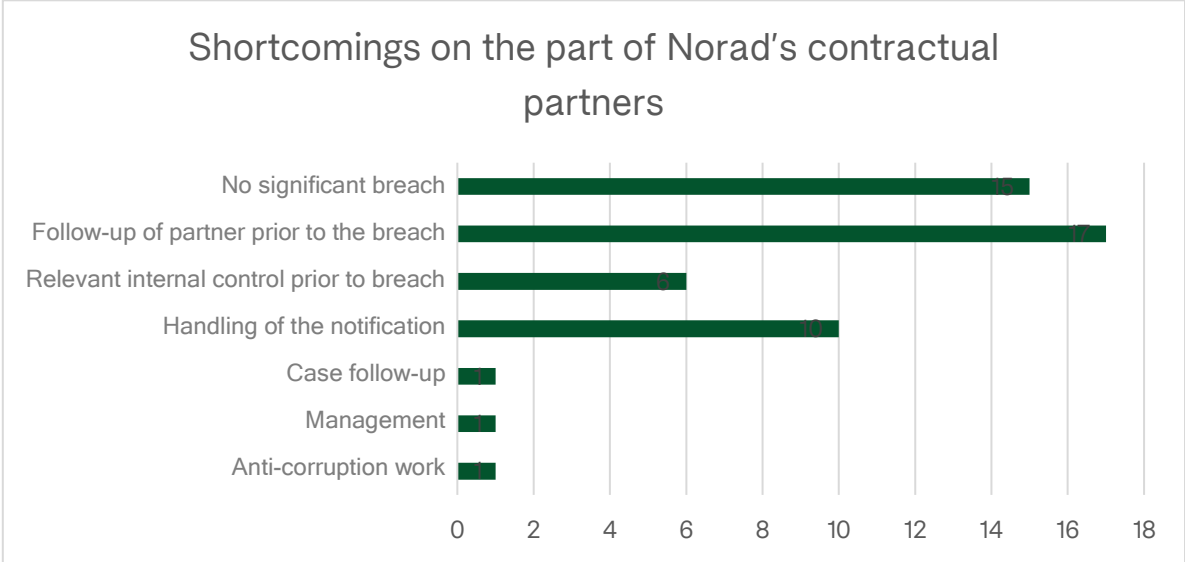
Reactions

Figure 3 shows an overview of the reactions that grant recipients or their partners initiated or were instructed to implement as a result of investigations. Norad and grant recipients often require strengthened internal control before development aid payments can resume. Internal sanctions, such as the dismissal of employees, will be implemented without Norad's involvement. The table shows cases in which a material breach of contract was determined to have taken place. Cases that did not result in reactions have been omitted.

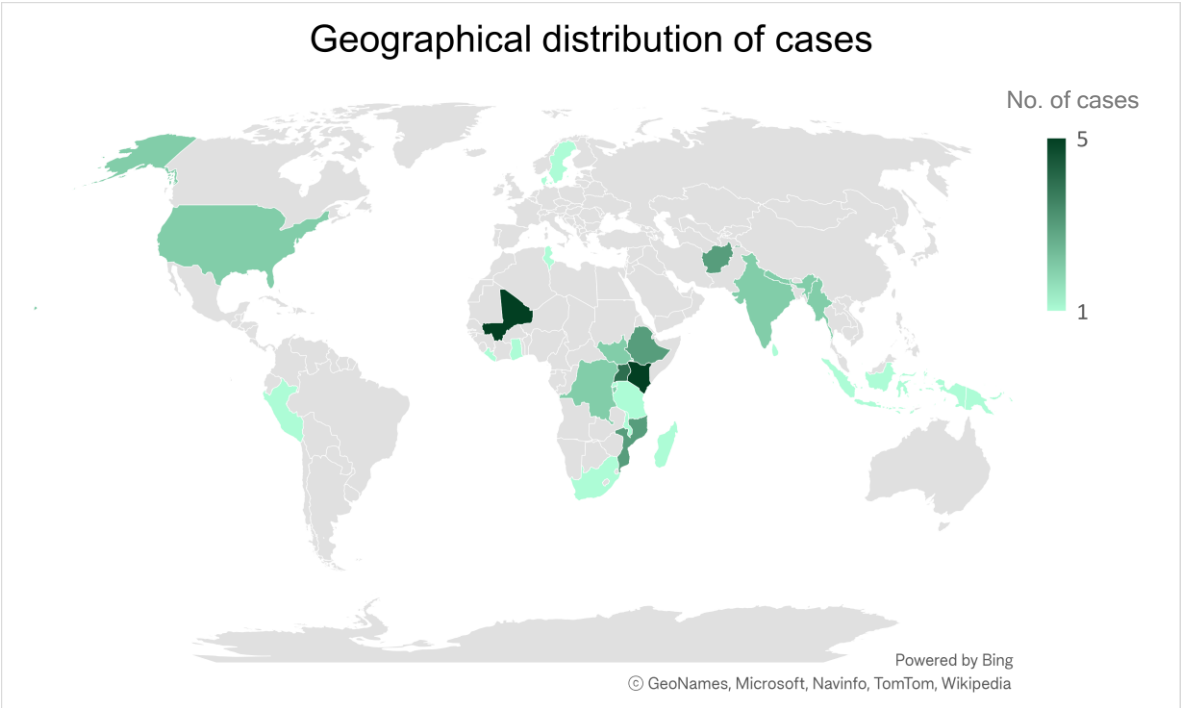


Shortcomings on the part of Norad's contractual partners

Figure 4 shows significant types of shortcomings on the part of Norad's contractual parties. The shortcomings were, in many cases, linked to inadequate monitoring on the part of the implementing partner. Many local partners have adequate written procedures and internal guidelines but there is often inadequate compliance. In the majority of cases, shortcomings in the internal control environment were the main reason why irregularities were able to occur. The figure includes cases in which no wilful breach (financial irregularities) of contract was detected, but for which the repayment of funds was required due to a material breach of contract. In many cases, there were several types of shortcomings and the figure highlights the most important shortcoming for each case.



Where did the irregularities take place?



The Internal Audit and Investigations Unit considered cases from 27 different countries in 2022.

It would not be reasonable to draw any conclusions about the incidence of irregularities in a country based on the number of cases for each country. Chance plays a major role and not least the proportion of Norad funds channelled to the country in question.

The majority of cases in 2022 were related to foreign NGOs and the majority of these were partners of Norwegian NGOs.

Multilateral organisations and banks follow up on whistleblowing reports internally. The UN system and global funds alone investigate several thousand potential cases of financial irregularities each year and these cases have not been included in this annual report.

Spot checks to detect red flags

High inherent risk

Auditing and monitoring Norad's grant recipients take place continuously throughout the term of the agreement for each project. Norad conducts several types of organisational audits and due diligence in order to assess the grant recipient's capacity and ability to manage public aid funds. Progress reporting and field visits form part of continuous monitoring. A specific assessment of periodic accounts and budgets is carried out prior to each payment. An annual external audit of financial project accounts is also required.

The measures mentioned above likely have a preventive effect. But these measures detect irregularities only to a very limited extent. According to the International Association of Certified Fraud Examiners, ACFE, only 4% of financial irregularities are detected through external audits².

Regardless of where internal control has been implemented, there will be a control vacuum in which there is an elevated risk of irregularities. In cases where aid funds are passed from Norad's agreement partners through several levels, it can be especially challenging to follow the cash flows and there have been cases in which not all terms set out in Norad's agreements with grant recipients are included in agreements with national or local partners.

Spot checks as one of several special control measures

Several measures can be implemented in order to determine whether elevated risk further down the aid chain is adequately managed. Both special audits and agreed control activities performed by auditors in selected areas may detect discrepancies. However, such control measures are rarely undertaken by grant recipients and very rarely for preventive purposes.

Norad's grant recipients are responsible for monitoring that all funds are used correctly, including ensuring internal control adapted for risk and materiality right up to the final recipient of development assistance funding from the government. Norad has an individual responsibility for ensuring that the agreement partners comply with their obligations. One preventive control measure conducted by Norad is spot checks to detect red flags. Such spot checks investigate aspects of internal control that are particularly important for detecting irregularities and activities that are generally exposed to a high risk of corruption. Examples of matters investigated include whistleblowing systems,

² ACFE, Association of Certified Fraud Examiners- Report to the Nations 2022

procurements, salaries and benefits, accounting, taxes and duties. Spot checks are conducted in a single day and do not provide an overall picture of the grant recipient's internal control. Spot checks are not audits or investigations and do not replace regular audits or monitoring by Norad or the grant recipient.

When conducting spot checks and in subsequent reports, recommendations are given to address any red flags or weaknesses detected. Prevention is much less expensive than repair, and individual observations can be used by the management of the visited institutions and Norad's case officers to rectify discrepancies before a material breach of contract occurs. An external investigation will be initiated if serious weaknesses are detected.

Observations are described in detail and summarised in tables for the various areas and assigned to risk levels: Serious weaknesses that must be corrected immediately, weaknesses that must be corrected and less serious weaknesses that should be corrected:

Risk scale	
High	Significant risks or critical deficiencies identified requiring immediate remediation
Medium	Risks or deficiencies identified requiring remediation
Low	Minor findings identified recommended remediation
Low	No findings

Norad conducted 12 spot checks in 2022

The Internal Audit and Investigations Unit visited five organisations in Tanzania. Two of the organisations visited received funding from Norwegian organisations and via the Global Fund to combat AIDS, tuberculosis and malaria. The other three organisations received funds from Norwegian organisations. The spot checks detected, among other things, red flags in connection with inadequate background checks on partners, severely delayed payment of salaries, weak systems for maintaining an overview of payments, extensive use of cash and shortcomings in agreements with subcontractors/further links in the aid delivery chain.

The Internal Audit and Investigations Unit visited seven organisations in Malawi. One of the organisations received funding through one Norwegian organisation and the Global Fund. Five of the other six organisations received funding from both Norad and the Norwegian Ministry of Foreign Affairs through the embassy in Lilongwe. The spot checks detected several red flags linked to e.g. inadequate whistleblowing procedures, inadequate compliance with procurement regulations, weaknesses in accounting, non-payment of statutory taxes and extensive use of cash.

Topics from previous annual reports with continued relevance in 2023

2021: Annual report on Norad's investigation cases with a look back to 2011: In this report, we looked at all cases considered by the Fraud and Integrity Unit/Internal Audit and Investigations Unit since the Fraud and Integrity Unit was established in 2011. [Link to 2021 report.](#)

2020: COVID-19 and IT security. During the COVID-19 pandemic, we saw examples of delays or prevention of regular project monitoring and of grant recipients or external auditors being unable to conduct control measures due to the infection risk and associated travel restrictions. Reduced control activities entail an elevated risk of the control not detecting significant discrepancies (control risk) and the same applies to audits (audit risk). The pandemic also resulted in investigations becoming more complicated and time-consuming.

In 2020, Norad prevented an attempted theft of a significant amount. A similar case of fraud targeting Norad did, however, succeed. Around USD 10 million was transferred in good faith to a bank account that had been opened by fraudsters and the money disappeared. On 1 September 2020, Norad arranged a webinar on online fraud together with the Norwegian Ministry of Foreign Affairs and Norfund. These cases of fraud were described at the webinar and the topic was discussed by a panel of experts. A video recording of the webinar can be found on Norad's [website](#). [Link to 2020 report.](#)

2019: Encouraging early reporting of suspicions. Agreements entered into with Norad stipulate that grant recipients must immediately notify Norad of any indication of financial irregularities relating to the project. The term "immediately" has been used with good reason and is interpreted strictly by Norad. "Immediately" means as soon as there are signs of irregularities and before any special investigations are initiated.

Such notifications are of great importance to Norad's management of development aid funding. Such notifications provide grounds for immediate suspension of scheduled payments and securing any aid funds that have already been paid until the situation and associated risk factors have been identified. Early notification also provides Norad with the opportunity to provide effective assistance in highlighting the matter sufficiently and preventing evidence from being destroyed.

Immediately notifying Norad is also a precondition e.g. for permitting abused funds to be returned to the project instead of to Norad. In cases where the other criteria have been met, the delayed notification may be enough to preclude funds from being repaid to the project.

An adequate early notification system could also help ensure a continuous focus on risk and discrepancy management and stimulate the establishment of effective whistleblowing channels for internal and external partners that know of information that would otherwise not have been reported.

Early notification will be advantageous not only to Norad but also when it comes to reducing potential damage to the organisation exposed to the discrepancies. Furthermore, other agencies that support the organisation would also be made aware of the matter so that they can protect their resources against losses. [Link to 2019 report.](#)

2018: Red flags. Anyone who manages development assistance funding should learn to be vigilant with regard to discrepancies and matters that may indicate financial discrepancies, so-called red flags. Certain red flags, such as ambiguity, minor discrepancies and lack of transparency, do not need to be significant in themselves but may provide grounds for a more detailed investigation when combined with other factors. The 2018 report describes a number of red flags that have been observed in cases relating to funding from Norad.

A list of typical red flags for various sectors can be downloaded from the internet. [Link to the 2018 report.](#)

2017: Audit reports do not detect irregularities. The 2017 report discussed the fact that external audits constitute the most common control measure relating to development assistance funding. Audits absolutely have a preventive effect when it comes to shortcomings and irregularities. However, financial irregularities are rarely detected in account audits. The statistics show that only three to four per cent of all irregularities detected globally are detected through external audits.

Norad's experiences are consistent with the global statistics. Approved audit reports were available for all cases investigated by Norad in 2017, even though the legal investigations later identified grave irregularities.

Norad's Internal Audit and Investigations Unit has found that controls performed by commissioned third parties should be incorporated as an additional component to the annual audits conducted on projects that have received funding from Norad. Investigations have uncovered a significant number of falsified accounting documents, including tenders, invoices and receipts, bank account statements, timesheets and travel documents. It may be financially prudent to conduct extensive risk-based control activities (ISRS 4400) both to strengthen prevention and to detect irregularities. Further information about this topic can be found in the [2017 report.](#)

2016: Coordination of donors and transparency regarding total income and expenses. The coordination of donors is about transparency and is a fundamental instrument in the fight against financial irregularities. When an organisation has multiple sources of income/donors, the organisation should present consolidated accounts showing all income and expenses, as well as the distribution of income and expenses between the various donors, as required under the agreement. Every year, several cases of multiple donors being charged the same expenses are uncovered. In a third of the cases from 2016, coordination of donors and stakeholders at several levels could have played a major part in strengthening financial control. Further information about this topic can be found in the [2016 report.](#)

2015: Background checks. The strengths and weaknesses of the recipient's internal control and management must be considered before a grant agreement is entered into and must be monitored for the duration of the funding period. Norad has a number of instruments in place that can be used for partner due diligence to identify the grant recipient's expertise and capacity. Special challenges arise when more complex financial arrangements are established, such as the transfer of funds – and

thus responsibility and authority – through several levels and various stakeholders. Knowledge of cash flow, agreements with partners and the audit hierarchy provides a good starting point for verifying responsibilities throughout the entire aid chain. Further information about this topic can be found in the [2015 report](#).

The Norwegian Ministry of Foreign Affairs’ quarterly overview of cases

The quarterly reports featuring an overview of cases that were subjected to sanctions in 2022 were published on the [government’s website](#) and include cases that had been closed by the Norwegian Ministry of Foreign Affairs, Norec (formerly FK Norway) and Norad.

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