

FOKUS

The logo for Fokus is a white graphic on a teal background. It consists of a globe with a grid pattern, a female profile silhouette, and a female symbol (a circle with a cross) below it.

**FORUM FOR WOMEN AND
DEVELOPMENT**

**PREVENTING CORRUPTION
HANDBOOK**

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1. Introduction

Why this handbook

Many international development agencies have put in place corruption prevention policies tailored to development programmes. They did so because they believe that the prevention of corruption merits strategic attention and that analysis of corruption risks, sharing of information, open discussion and coordinated action are the best ways of implementing their agencies' zero-tolerance policies on corruption in humanitarian action.

Addressing corruption is an integral element in humanitarian accountability, quality assurance and good management. This handbook can be a comprehensive menu of good practice tools that can help managers and staff in FOKUS secretariat, Norwegian member organizations and partner organizations identify, prevent or remedy corruption risks. In this handbook the focus will be on financial management. We will continue updating and improving this handbook, which should be considered a living document, evolving as new corruption risks and new ways of addressing them emerge.

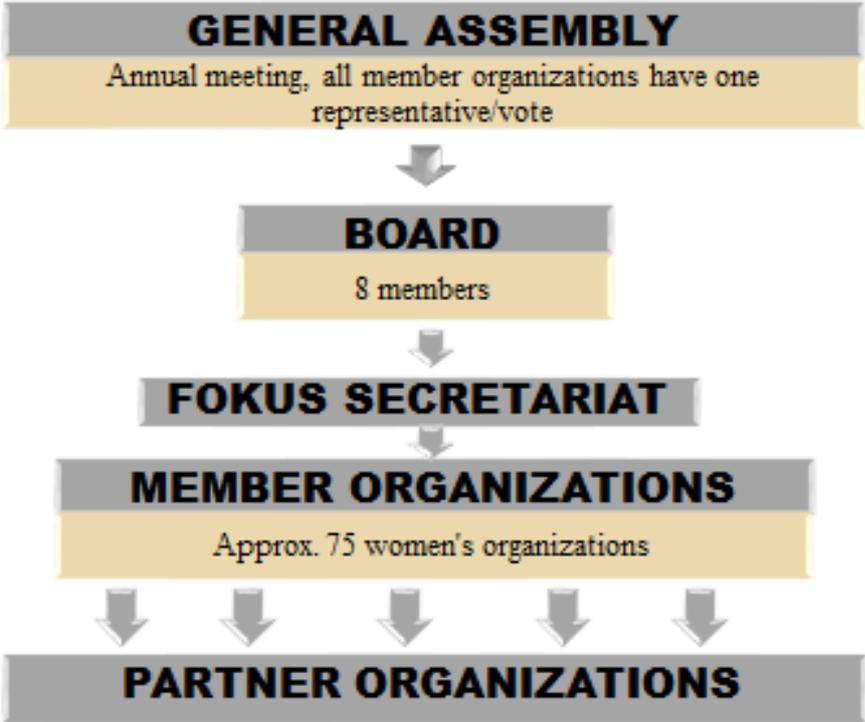
Who is the handbook for

The handbook is primarily aimed at managers and staff in FOKUS secretariat and Norwegian member organizations when they are in the field. It is also important to include the partners in the South, to provide them with measures to prevent corruption.

What is FOKUS

FOKUS – Forum for Women and Development – is a knowledge and resource center for international women’s issues with an emphasis on women-centered development cooperation and information dissemination. FOKUS’ primary goal is to contribute to the improvement of women’s social, economic, and political situation internationally. The organization consists of close to 80 women's organizations and women's committees in political parties, trade unions, and solidarity and aid organizations in Norway. The main parts of FOKUS’ activities are financed through public funding from the Norwegian Agency for Development (Norad) and various ministries. The program and project coordination constitute a central component of FOKUS’ operations. Through collaborative support between Norwegian organizations and their partners in the South, FOKUS can help improve women's situation internationally.

FOKUS organizational chart:



2. What is corruption

Corruption is still a complex and controversial area, and the measurement of the exact level of corruption in a country and any comparative assessments across countries are difficult. There are real differences between countries in the seriousness with which the governments fight corruption. Some reports from the embassies indicate that even the watchdog agencies set up by the governments are corrupt. Another common problem is the low capacity of the police and the judiciary to investigate and prosecute corruption cases.

Corruption promotes privatisation of profit and socialisation of costs. The victims of corruption are most often poor, the disempowered and other vulnerable members of society. Therefore, both public and civil development actors must fight corruption.

The fight against corruption should be prominent on the agenda in the dialogue with our partners. It should naturally be linked with other issues related to good governance, such as promotion of democracy, respect for human rights and public sector reforms.

Definitions of corruption

A widely accepted definition of corruption is the one used by the World Bank: *"the abuse of public power for private benefit"*. Another, and more precise, definition is that *"corruption is any transaction between private and public sector actors through which collective goods are illegitimately converted into private payoffs."*

This definition focuses on the state-society relation. On the one side is the state, that is, the civil servants or politicians - anyone who is elected or appointed to a position of public authority with the power to allocate rights over scarce public resources in the name of the state or the government. Corruption occurs when, for private benefit, these individuals misuse the public power given to them. However, corruption is also found in the private sector and in civil society.

Corruption may occur in many forms:

"Bribery" - means that a person, organization or institution improperly provide goods or services against some form of improper remuneration. Bribery involves (at least) two parties.

"Embezzlement" – is the theft of resources for own use. It may involve only one person.

"*Fraud*" – is a criminal deception or the use of false representations to gain an unjust advantage. It covers both bribery and embezzlement.

"*Extortion*" – is when money or other resources are extracted from somebody by force, threats or undue demands.

"*Favouritism*" – is the unfair favoring of one person or a group with something at the expense of others.

"*Nepotism*" – is a form of favouritism, where an office holder with the right to make appointments prefers to nominate his or her own and family members, irrespective of their qualifications.

In this document the focus will be on financial management, but it is important to be aware of “nepotism” and “favouritism” also.

3. Requirement from Norad and FOKUS secretariat

Requirement from Norad

Norad’s guiding principle is “zero tolerance” for corruption. They will enforce strict and consequent sanctions when embezzlement or other forms of corruption have been proved or there is strong reason to suspect they have occurred. Norad’s follow-up of corruption cases will include requiring reimbursement of money when the recipient is unable to account satisfactorily for the use of the funds – in accordance with what is stated in the agreements.

Requirement from FOKUS secretariat

FOKUS secretariat has “zero tolerance” for corruption. The grant recipient has to ensure that Norwegian member organisations and their project partner organisations possess satisfactory administrative procedures to make sure that obligations pursuant to the contract with regards to reporting, external auditing and anti-corruption precautions can be complied with.

Demands to such procedure shall appear in written contract between grant recipient and partner organisation.

In the contract between FOKUS secretariat and Norwegian member organisations as well as between Norwegian member organisations and project partner it says: *Conducting its*

activities in a way that deters corruption, misuse of funds and irregularities. Furthermore, the Norwegian member organisations, in the execution of the activities encompassed in the agreement, have an obligation to decline any form of gift, offer, payment or benefit that reflect illegal or corrupt practice.

4. Corruption risks

Accounting records may be falsified or destroyed to conceal improper actions. Receipts may be obtained from suppliers for goods not bought, or for more than the cost of goods, then presented for payment or to support expense claims. Invoices and receipts without company logo are easy to obtain. Someone in charge of payroll may make unauthorized loans to employees and keep interest payments. Or the employees only receive a portion of their actual salary, because they risk losing their jobs if they don't comply. Payroll fraud is especially likely with short term staff and rapid turnover.

Projects may be double-funded and funds diverted. The budget amount for the material is intentionally made higher than the real price. The accounts and reports are in a format that can't be compared with the budget and work flow plan.

The utilization of illiterate people to sign papers indicating they have attended seminars/received material, when in reality they have not.

Auditors may be unfamiliar with particular fraud or corruption risks, and inexperienced audit staff may fail to go beyond the paper trail to uncover collusion or kickbacks. Be aware of complex, technical audit reports that are difficult to understand (e.g. tables of numbers with unclear or limited narrative).

Watch out for:

- Accounting software systems with limited audit trails and documentation (more risks for manual error and override)
- False receipts
- False and double budgeting
- “Ghost” employees (that inflate the costs of project activities)
- Incorrect payment of salary
- Different format on accounts and budget

- Staff unwilling to take leave (for fear of wrong-doing being exposed)
- Complex Audit report

5. How to prevent corruption

The leadership in FOKUS secretariat, Norwegian member organisations and partners in the South should work out and publish a clear policy on corruption, for example in the organisation's annual report. The leaders at all levels of an organization are powerfully placed to create an environment of 'zero-tolerance' towards corruption. Leaders' words, policies and actions can break the implicit taboo about discussing corruption, behind which it can thrive, and give incentives that build the necessary trust for staff to report it. Leadership also determines whether staff feels equipped to identify corruption and empowered to do anything about it. A strong internal and external focus on corruption can establish an organizations' reputation as truly accountable.

- *Break the taboo on discussing corruption*

Be open about corruption from the very top of your organization. The leaders must practice what they preach and lead by example, openly addressing corruption and working to prevent it. They must respond quickly when corrupt practices are identified, building further confidence that corruption is not tolerated. Managers must keep anti-corruption awareness on the agenda and ensure all staff know their responsibilities and feel able to report corrupt acts.

- *Emphasize that 'zero tolerance' doesn't mean zero discussion or zero reporting*

Don't let staff think a zero-tolerance policy against corruption means it's unacceptable to admit that corruption is taking place. Build an open culture in which you can communicate clearly that the risk of corruption is high in challenging humanitarian environments, and that your organization wants to encourage more open discussion of it as part of your commitment to reduce and prevent it.

- *Mainstream corruption prevention throughout your strategic agenda*

The management should be explicit that tackling corruption risks runs throughout your Organization's strategy and isn't just a concern for the internal audit department. Leaders must keep the issue alive, reiterating that addressing corruption is central to improving programme quality and agency accountability.

- *Create the right environment for discussing corruption*

Encourage managers to create an open environment in which staff are accountable for their actions and feel able to report fears of corruption. Train and develop leaders who listen, are sensitive to people and situations, and are personal models of excellence in working against corruption.

- *Nurture leadership that motivates and raises aspirations*

Offer staff an inspiring vision of a corruption-free future, so they regard anti-corruption measures as helping them deliver the best programme possible. Give staff positive incentives to address corruption, e.g. recognition in performance evaluations.

6. Control questions specific to financing that must be asked when visiting a project/partner

Goal/purpose: It is vital that questions be asked regarding the administration of a given project as it not only provides additional knowledge on each project but also signals that there is a focus on managerial efforts and follow-up.

Scope: This is an overview of the types of questions which should be asked during a project visit. The questions are meant to be used by all who visit our projects and partners (not only the finance staff). Along with each question is an explanation that states why this question is being asked.

REVIEW OF FINANCIAL MANAGEMENT AND ACCOUNTING PROCEDURES DURING PROJECT VISITS

CHECK LIST REGARDING FINANCIAL MANAGEMENT	COMMENTS
ROUTINES	
Request a meeting with the person responsible for the project’s accounting. This should not be the person responsible for running the project. Does the accountant have sufficient qualifications for this position? <i>(Shall ensure appropriate work distribution and professional qualifications)</i>	
Have financial guidelines been written? <i>(It is important that responsibilities are made clear and obvious to all involved. Written routines are needed for procurement and payment of invoices as well as appropriated responsibility for the account, specifically the signing of checks and withdrawal of funds)</i>	
Do you find the general ledger accounts well suited and reasonable, considering the size and the extent of the project? Are transactions classified correctly? <i>(The assurance of capacity and oversight)</i>	

<p>Is the accounting done by computer? Do they have Accounting systems with limited audit trails and documentation?</p> <p><i>(Automation is paramount, reducing the risk of manual errors and allowing for better financial oversight)</i></p>	
<p>Does the project have its own bank account? <i>(Norad request)</i>.</p> <p>Ask for an overview of the signatories for the bank accounts.</p>	
<p>REPORTS AND RECONCILIATIONS</p>	
<p>How up to date is the accounting? Is it more than a month behind?</p> <p><i>(Bookkeeping shall be up-to-date such that project coordinators know how many resources they have at any given time)</i></p>	
<p>When was the last reconciliation of the bank statement(s) and the general ledger?</p> <p><i>(Shall ensure that only authorized persons have access to bank accounts and that there are two individuals who verify transactions. If the balance between the statement and the general ledger is correct, this indicates that the bookkeeping is sufficiently done)</i></p>	
<p>How often is the petty cash checked? When was this last checked? Did anyone witness that the amount in the petty cash agreed with the cash book? Was there any deviation between the petty cash and the cash book at that time?</p> <p><i>(To ensure good routines for maintenance of petty cash, as there is often considerable sums delivered in our projects)</i></p>	
<p>Is each accounting period (monthly, quarterly) concluded by preparing a financial report?</p> <p><i>(Shall ensure that bookkeeping is up-to-date and can be read in a report)</i></p>	
<p>Is it clear when project reports (financial and narrative) shall be delivered, according to agreement</p> <p><i>(Shall ensure that the report is sent to the donor within the specified time)</i></p>	
<p>THE BOARD</p> <p>Request the last financial report. Does the board of the project</p>	

<p>regularly receive financial reports comparing the budget with the Accounts? Ask for the Board's most recent financial report.</p> <p>Are the resources used in accordance with the approved budget?</p> <p><i>(Shall ensure that when the report is requested, bookkeeping is up-to-date and the Board is informed on the project's financial situation)</i></p>	
ACCOUNTS	
Does the report include all income from donors and from sale?	
<p>Ask to see a folder with vouchers from this year. Are the vouchers numbered and organized in an orderly way? Are the vouchers certified by someone other than the accountant?</p> <p><i>(Ensures the validity of the voucher)</i></p>	
<p>Are expenses paid in Norway charged to the local project account? Do the local accounts include all the costs that belong to the project?</p> <p><i>(Ensures good communication between the local project coordinators and the Norwegian member organization)</i></p>	
<p>Does the project have problems related to financial management and accounting? Are there problems related to budgets and reports to the Norwegian member organization?</p> <p><i>(Ensures that the FOKUS Secretariat delivers the budget and reporting within the deadlines)</i></p>	
BALANCE	
<p>Ask to see a fixed asset register (e.g. stock of goods) When was this list last reconciled to the general ledger? Has there been much waste? How was this reported?</p> <p><i>(Ensures proper routines regarding stock such that at any given time, one know how much stock is on hand)</i></p>	
<p>Choose an article from the fixed asset register and check that the quantity on the list agrees with the actual stock.</p> <p><i>(Sampling will give an indication of our control routines)</i></p>	
An inventory register must be established and kept up to date.	

<i>(Gives an overview of the project's assets)</i>	
<p>Ask for a specification of debt and accounts receivables. Have any doubtful receivables been written off?</p> <p><i>(Ensures oversight over the listing of balances, to whom does the project owe money to and who has debt to the project. Are the sums large? Are the listings old?)</i></p>	
<p>Project funds have not been lent out throughout the year?</p> <p><i>(Request from Norad)</i></p>	
<p>Has the project given an advance on salaries? How many months?</p> <p><i>(In such cases, there must be special circumstances, it must be agreed upon and writing and there must be a plan regarding repayment)</i></p>	
AGREEMENTS	
<p>Agreement made between local partner and Norwegian member organization?</p> <p><i>(Ensures that expectations and conditions are drafted beforehand)</i></p>	
<p>Agreement made with external consultant in the project?</p> <p><i>(Ensures that expectations and conditions are agreed upon beforehand)</i></p>	
AUDIT	
<p>Does a qualified and independent auditor do the local auditing?</p> <p>Request a meeting with the local auditor.</p> <p>Have the local and Norwegian auditor been in touch?</p> <p><i>(Ensures good auditing standards. Is the partner organization satisfied with the auditor, the audit and feedback from the auditor)</i></p>	
<p>How comprehensive are the management letters from our external auditors?</p> <p><i>(Contains the audit report that is needed in accordance with requirements)</i></p>	

<p>Are the remarks made by the external auditors in their formal and informal reporting followed up with sufficient seriousness by management? <i>(Important that auditor's notes are followed up)</i></p>	
<p>Is the discussion of corruption open? <i>(Important that the external auditor emphasizes prevention of corruption)</i></p>	

7. Reporting corruption and sanctions

Reporting corruption is a sensitive issue. The cooperating partners need to have discussed these matters beforehand, assessed risks to those reporting corruption and agreed on possible sanctions. Anti-corruption attitudes and practice require a focus on values, good communication skills, respect for culture and diversity, and integrity from all parties involved.

Whistle-blowing

Reporting corruption can start with a whistle-blower. A whistle-blower is a person who tells the public or someone in authority about alleged dishonest or illegal activities occurring in a government department, a public or private organization, or a company.

Whistle-blowing mechanisms enable and encourage staff to speak out against corruption, and are a public demonstration of the will to fight it, alongside beneficiary complaints mechanisms. Whistle-blowers frequently face reprisal, sometimes at the hands of the organization or group which they have accused, sometimes from related organizations, and sometimes under law. Therefore is it important to have a confidential and independent mechanism (whether internal or external) that helps to create an environment intolerant of corruption, in which staff feel safe report wrongdoings. Rather than being considered disloyal to colleagues, whistle-blowers should be regarded as being loyal to their organization and its values. Whistle-blowing mechanisms increase accountability and allow valuable programme learning about corruption risks.

Whistle-blowing can be done in writing (e-mail or letter) or verbally (telephone or in a meeting). Normally the whistle-blower should inform the closest leader or the leader on a higher level, all should use the line of command when it is possible. They can also inform other colleagues, a lawyer or an advisor.

An alternative is also to inform the contact person in the Norwegian partner organization. FOKUS secretariat can also be contacted directly (E-mail: fokus@fokusvinner.no). The donor, Norad, also has their own e-mail and telephone number that everyone can use (varsling@norad.no or call + 47 93 21 02 02)

How and what to report

Well-founded suspicions of corruption or demonstrated corruption shall immediately be reported. The reporting shall emphasize the following information:

- How big is the amount?
- What routines for fighting corruption were included in the project?
- For how long has corruption taken place?
- How was the misuse/embezzlement detected?
- Is it possible to detect a pattern in the case?
- What actions have been taken?
- Which lessons have been learned/ what experiences have you made?
- Conclusion

Before reporting can begin, evidence must be obtained which validate the claim of corruption and justify further investigation. It is also important to notify other organizations which give money to the same project partner or are involved in any way. The following guidance is intended to help those receiving information react properly to safeguard the interests of those raising concerns and those allegedly involved in any irregularities. Although the action points are numbered, it is not necessary for all points to be followed in the order set out below:

1. Keep the information as confidential as possible (“need to know” basis). Remember to keep your line manager informed (if possible).

2. Start logging all developments in the case.
3. Seek advice and help regarding finding more information. Possible sources of help for FOKUS secretariat:
 - External auditor
 - Accountant
 - Members of FOKUS board
 - Other competent persons outside FOKUS, lawyers or auditors familiar with national laws, other donors, other NGO's or embassy
4. Secure the evidence and prevent further losses
 - Protect all possible documents
 - Ensure technological evidence is left untouched and isolated
 - Secure that further losses will not occur, such as with banking authorizations
5. Decide whether to use external resources.
6. Draft an interview list for persons working with or near the affected irregularities, to be used in an eventual investigation.
7. Inform those bringing the issue to your attention that their message has been received and that action is being taken, without forgetting confidentiality considerations. It would not help the investigation if the informer felt frustrated by inaction from management and therefore turned to external targets to release this frustration.
8. Work with your manager on how to inform the affected donors and the media.
9. If the findings of any investigation are adequately conclusive, inform the authorities.
10. Make plan for learning from the issue within FOKUS secretariat, Norwegian member organization and project partner, to mitigate the risk of something similar happening elsewhere.

Sanctions

The contract between FOKUS secretariat and Norwegian member organisation and between Norwegian member organisation and project partner says that FOKUS secretariat will demand a refund, full or partial, of the grant if the grant recipient fails to fulfil its obligations in the contract. Should the project partner administration(s) fail to fulfil its obligations, the project partner is to be held responsible towards the Norwegian member organisation. The Norwegian member organisation is responsible towards FOKUS secretariat.

1. The support of a project in which corruption has been demonstrated will normally be suspended immediately by FOKUS secretariat. The board in FOKUS will also be informed. A continued support of the project will depend on the following:
 - Routines must have been established to counteract corruption in the future, and an evaluation must have been made by an independent party so as to confirm that the routines are in place. FOKUS secretariat must have received such a report before the project is allowed to receive funds from FOKUS again.
 - A plan must have been presented regarding how the disappeared amount is to be made up for.
2. In projects in which there are grounds for suspicion of corruption, the Norwegian member organisations must immediately take action in order to reveal what occurred, and potential irregularities have to be sorted out. During this process, the financial support from FOKUS to the project will normally be stopped. If the suspicion of corruption is not confirmed, the project support will be reinitiated. If the suspicion is confirmed, the measures described in point 1 are to be implemented.
3. A decision regarding to restart the support when the irregularities have been sorted out is to be made by FOKUS board.
4. Regarding the reimbursement of embezzled funds:
 - The South partners and Norwegian member organisations are responsible for making up for the funds lost due to corruption. They have to pay the lost funds to FOKUS secretariat.
 - FOKUS secretariat must pay back the lost funds to Norad.

8. Who should be the spokesperson in corruption cases to the media

If a corruption case is discovered, it is necessary that the FOKUS secretariat and the Norwegian member organization communicate and coordinate a plan of action before any public disclosure or statement is made to the media. In the FOKUS secretariat the Executive Director or the person she delegates will inform the media on all cases involving corruption cases. The Norwegian member organizations have to decide who they want to be their spokesperson.

References

The Norwegian Development Network (NDN): “Promising Practices Fighting Corruption by Putting Good Governance to Practice in a Civil Society organization partnership context”.

www.Transparency International.no

www.Norad.no

Norwegian Church Aid

Norwegian Missions in Development