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How the Ministry of Foreign Affairs deals
with financial irregularities

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I Introduction

Public funds must be used in accordance with democratic decisions to ensure optimal achievement of public objectives. In certain contexts, it has been found that trust is not always sufficient to ensure this – control mechanisms are also required. Funds must be used not only according to the will of the Storting (the Norwegian parliament), but also in accordance with the principles of good financial management and concluded agreements. To ensure that this is done with development assistance funds, the Ministry of Foreign Affairs established the Foreign Service Control Unit (SK), an independent control body for the administration of funds under the Ministry's budget, in November 2007. The SK currently comprises a control director, who reports directly to the Secretary General of the Ministry of Foreign Affairs, and five senior advisers. In March 2011, Norad established a unit to follow up reports of financial irregularities (VT) within its Department of Quality Assurance (AMOR), which reports to Norad's Director General and has a corresponding control function in respect of the operational and grant funds provided to Norad by the Ministry of Foreign Affairs. The VT currently comprises a manager and staff drawn from AMOR as needed, totalling approximately one-and-a-half full-time positions. The Norwegian Peace Corps (FK) and Norfund have both integrated the control function into their ordinary administrative structures.

Norad, FK and Norfund thus have independent responsibility for dealing with cases involving financial irregularities. They report to the SK when matters arise, and inform the SK of the outcomes of cases once they are closed. The SK thus has a overall overview of cases concerning financial irregularities, which provides the basis for the quarterly summaries published on www.regjeringen.no of cases dealt with and closed by the different bodies. EEA funds and funds provided to Norway Grants and Innovation Norway are not included in the overview.

The principle of zero tolerance for financial irregularities is a key factor in efforts to ensure that funds are used as intended. The principle requires steps to be taken whenever irregularities can be documented. As a matter of form, it should be noted that the investigation and potential confirmation of alleged irregularities will not necessarily trigger individual criminal prosecution or criminal liability. The zero-tolerance principle covers all deviations from applicable regulations and agreements, whether intentional or negligent. The core of the principle is that funds must be used as intended by the Storting. If public funds are not used as envisaged in budget decisions or acts, regulations or agreements, efforts must be made to recover the funds for the public purse.

II Sources of reports

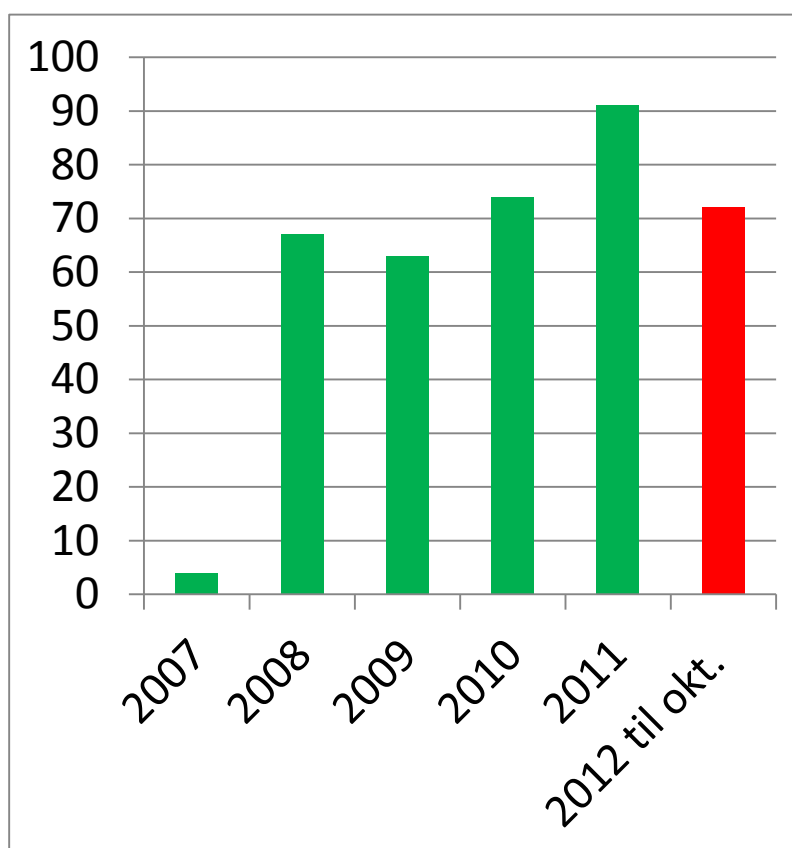
Norwegian embassies are an important source of reports on suspected financial irregularities. Irregularities are identified in reports from partners and other involved parties, although many are also detected during the embassies' follow-up of projects funded by Norway. Improved follow-up facilitates both the discovery of irregularities and their prevention. Some embassies employ auditors to assist them with follow-up, and some also engage lawyers. The use of such experts enables not only the discovery and rapid follow-up of cases through various forms of specialised audit, but also improvement of the embassies' ability to prevent irregularities. An important, positive secondary effect is training for and transfer of expertise to embassy staff.

Contractual partners who receive funds directly from the Ministry of Foreign Affairs or Norwegian embassies, Norad, FK or Norfund are required to report cases in which financial irregularities are suspected. This requirement also applies to multilateral and other non-Norwegian institutions that receive support for specific projects and programmes. The threshold for reporting must be low, and in many cases the reporting duty will be triggered as long as a suspicion is not obviously groundless.

Many reports on irregularities come directly from organisations that have received grants from the Ministry of Foreign Affairs, Norad, FK or Norfund. Grants in various forms account for some NOK 29 billion of the Ministry's total 2012 budget of approximately NOK 33 billion. Around NOK 18 billion of this amount is channelled through multilateral and global organisations and programmes. The grant agreements oblige recipients to report any suspected misuse to the Ministry. The 10 largest Norwegian non-governmental organisations have concluded agreements with the Ministry or Norad that require them to publish the number of cases concerning financial irregularities they have dealt with and closed, along with an account of their anti-corruption efforts. Such reports will also be published in 2013. As at 12 October 2012, the five largest Norwegian NGOs had received NOK 1,477 billion from UD and Norad.

The Ministry of Foreign Affairs, Norad and FK established an external reporting channel in 2008. Any person who becomes aware of unacceptable circumstances relating to the Foreign Service, Norad or FK may make a report via this channel. Reports may be made anonymously or openly. Depending on which organisation has administrative responsibility for the matter in question, the reports are then forwarded to the Ministry's Foreign Service Control Unit, Norad or FK for further consideration.

The figure below shows the number of cases received by the Ministry, Norad, FK Norway and Norfund in different years:



“2012 up to October”

III Special provisions on funds channelled through multilateral organisations and global funds and programmes

UN agencies and other non-Norwegian institutions with which Norway cooperates are contractually obliged to check that the funds they receive are used for the defined allocation purposes.

Support agreements for individual projects run by multilateral organisations have gradually become more like the agreements the Ministry concludes with NGOs. This means, for example, that suspected financial irregularities must be reported to the SK, and that misused funds must be repaid to Norway.

Support that international organisations and programmes administer through their own budgets is regulated entirely by the organisations’ own articles of association, and Norway has no separate monitoring power. Generally, financial irregularities cannot be linked to the funds provided by individual donor countries. As a result, the Ministry does not include reports it receives on irregularities connected to such funds in its summaries of reported cases and cases concerning irregularities.

In cooperation with other member states, Norway is working through governing bodies to ensure that organisations comply with adopted guidelines on combating financial irregularities. Information about cases involving financial irregularities is increasingly being

published in annual reports and on websites. See, for example, the United Nations Development Programme (www.undp.org), the World Bank (www.worldbank.org), the Asian Development Bank (www.adb.org), the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) (www.theglobalfund.org), the GAVI Alliance (GAVI) (www.gavialliance.org) and the UN Office of Internal Oversight Services (OIOS) (www.un.org/Depts/oios).

Norway is giving emphasis to securing greater transparency in organisations' financial management. This year, the boards of UNDP/UNFPA and UNICEF decided to publish their internal audit reports in future. This is an important step in the right direction, but much remains to be done before we can declare ourselves satisfied with the access we have when following up cases concerning financial irregularities in UN agencies generally. Compared, not least, to the World Bank and the ADB, and EFTA's financial mechanism for EEA contributions (FMO) in particular, considerable work remains. The requirement for better reporting to the member states will be followed up in new framework and project agreements with multilateral organisations. Norway will seek to secure an improved authority to monitor the use of funds and the follow-up of any irregularities that are detected by an organisation or otherwise reported.

Together with Iceland and Liechtenstein, Norway funds projects in central and southern European countries through the EEA financial mechanism. The mechanism is administered by the Financial Mechanism Office (FMO) in Brussels (part of the EFTA Secretariat) (<http://www.eeagrants.org/>). The FMO also administers funds for projects in these countries that are provided solely by Norway (the Norwegian financial mechanism, Norway Grants). Separate administrative procedure rules have been developed for the FMO, which publishes its own summary of irregularities cases it has closed. Similarly, Innovation Norway (IN) (<http://www.innovasjon Norge.no/>) publishes a list of closed irregularities cases connected to the cooperation programmes with Bulgaria and Romania that IN administers for the Ministry of Foreign Affairs.

Norway is coordinating a Nordic pilot project that aims to develop a method for effectively monitoring implementation of the zero-tolerance principle in multilateral organisations.

IV Procedure for dealing with reports

When the SK, the VT, FK Norway or Norfund receive a report, their first step is to assess whether the report is groundless or requires further investigation. The initial investigations may take anything from several hours to several days.

In cases which are not dismissed straight away and in which a suspicion is documented, instructions are issued to freeze the funds earmarked for the agreement/project in question until the case has been investigated. Money earmarked for other projects will only be frozen in exceptional circumstances, even if the same partners are involved. This will normally only happen if the initial investigations suggest that the financial management of the partner or one of its cooperation partners presents a high risk of similar irregularities in other projects.

The focus of the case then shifts to documenting or disproving the content of the report. It will often be necessary to engage an independent, internationally recognised accounting firm to conduct a forensic audit to disprove or confirm the suspicion that financial irregularities have occurred and, in relevant cases, the scope of the irregularities.

When all available and necessary documentation has been obtained, a decision is made on appropriate measures.

From its establishment in November 2007 to 30 September 2012, the SK registered a total of 371 reports concerning suspected financial irregularities. This figure includes not only cases where the funds were administered by the Foreign Service, but also cases where such administration was delegated to other parties, including public institutions and the subsidiary agencies of the Ministry of Foreign Affairs (Norad and FK), Norfund, multilateral organisations/funds and NGOs. All parties with delegated responsibility for the administration of funds have an independent responsibility to prevent and deal with financial irregularities, and to inform the relevant donor (the Ministry, Norad, FK or Norfund), of suspected financial irregularities and case outcomes.

In total, 220 cases have been closed, while 151 cases are still being dealt with, either by the SK or by other parties with such responsibility. Of the closed cases, 128 were closed because:

- the investigations did not reveal financial irregularities, or
- the case fell outside the mandate of the SK, the VT, FK or Norfund because the reported potential irregularities did not concern funds allocated to the Ministry of Foreign Affairs by the Storting.

In 92 closed cases, matters were documented that were followed up in accordance with the following appended documents:

- The Ministry of Foreign Affairs' zero-tolerance policy on corruption. How can it best be put into practice? 2010
- Guidelines for Dealing with Suspicion of Financial Irregularities, 2008
- Guidelines for Dealing with Suspicion of Financial Irregularities, 2009
- Guidelines for Dealing with Suspicion of Financial Irregularities, 2011
- Norad Guidelines for Dealing with Suspicion of Financial Irregularities, 2011

These cases are discussed in reports dated 31 August 2011 and the updated quarterly summaries for the first, second and third quarters of this year.

V What have we learned thus far?

The content and scope of the cases registered to date vary. As a result, each case has to be considered individually, and new cases often feature new elements and problems that present new challenges. Nevertheless, as the primary problems generally have some common features, the control units are able to utilise experience from previous cases when dealing with new ones.

Relevant administrative staff within the Ministry of Foreign Affairs system are improving their expertise as the number of cases grows. The Ministry, Norad, FK Norway and Norfund have all developed guidelines on dealing with financial irregularities in order to improve administrative procedures. These are available online. The Ministry's guidelines have been updated to reflect recent experiences.

The experience gained by the control units while working on these cases is also used in training programmes for other staff, organised and run by the Ministry's Foreign Service Institute. Some courses have been made mandatory for Ministry and Norad employees. Norad

has introduced an electronic questionnaire through which all new employees must confirm that they have familiarised themselves with the zero-tolerance policy and Norad's guidelines. The staff of the Foreign Service Control Unit and Norad's fraud unit actively advise and train their colleagues, both in Oslo and at embassies abroad.

When recruiting new personnel to be deployed to embassies abroad, the Ministry looks for relevant experience in aid assistance and administrative matters. Some embassies have also strengthened their local staffs with finance and audit experts. Further, the Ministry is working to improve procedures at the systemic level. This involves, for example, the revision of handbooks and agreement templates.

Experience shows a continuing need among partners of the Ministry, Norad, FK and Norfund for information about zero tolerance for corruption and what it means. As part of efforts in this area, meetings focused on zero tolerance have been held with various organisations, including Norwegian NGOs, and key documents have been published on www.regjeringen.no. The websites of Norad, FK and Norfund contain similar information.

The organisations have criticised certain zero-tolerance requirements. This applies particularly to the requirement to freeze further payments when there is a documented suspicion of financial irregularities, and the requirement to repay amounts found to be linked to financial irregularities. The zero-tolerance approach is based on the fundamental principle of administrative law that the Ministry of Foreign Affairs and its subsidiary agencies are obliged to ensure that the funds to which they have access are used in accordance with applicable legislation and the intentions underpinning the grant decision. The Ministry will continue to conduct a dialogue with the organisations as part of its efforts to develop the most effective zero-tolerance policy possible.

Clarifying the facts in an individual case is frequently time-consuming, for various reasons. Often, those who are responsible for irregularities wish to cover their tracks. In other cases, there may be few ways to gain access to documentation held by partners. Newer agreement templates contain provisions that seek to deal with these weaknesses.

The Ministry of Foreign Affairs and the embassies are also working to concentrate the aid portfolio under a smaller number of grant agreements in order to reduce the administrative burden and thereby improve control.

In several cases, the same project/grant recipient receives grants from both the Ministry of Foreign Affairs and Norad. Given the administrative structure, current practice is to assign full responsibility for control function-related administration to either the Ministry or Norad, depending on which of the two organisations provides more than 50% of the grant funds.

Greater transparency about the results achieved through the zero-tolerance approach to corruption has generated interest in the public sector. We will continuously consider how best to present our work in order to promote transparency, debate and the prevention of corruption.

VI Discussion of selected cases

The cases discussed in this report have naturally been selected from the category of closed cases, i.e. cases that have been dealt with. At the end of September 2012, this category

totalled 220 cases. Of these, 128 cases were investigated and closed without the Ministry of Foreign Affairs finding grounds for taking any further steps. In 92 cases, however, the Ministry concluded that there were sufficient grounds for implementing measures. Twelve cases have been chosen from these 92 cases for use in this account, to illustrate the breadth of the problems that are dealt with. The examples illustrate the following:

1. Appeal against an administrative decision requiring repayment
2. Embezzlement by a local employee
3. Irregularities in an inter-state agreement
4. Quantification of irregularities as a basis for repayment
5. Support for the production of services for the authorities of another country
6. Audits that do not reveal irregularities
7. Termination of an agreement when the preconditions change
8. Deficient follow-up
9. High-risk projects
10. Inadequate power to monitor partners
11. Time-barring of claims
12. Irregularities in the processing of visa applications

1. Appeal against an administrative decision requiring repayment

In April 2004, the Ministry was informed that a total of NOK 7,585,000 had been embezzled at Norwegian Church Aid's Khartoum office in the period 2002–2003, by the organisation's locally employed finance director. NOK 6.9 million of the embezzled funds had been allocated through public budgets: NOK 4,448,000 through humanitarian budgets, NOK 1,901,000 in transitional aid and approximately NOK 500,000 through Norad's civil society budget.

By letter dated 18 December 2006, the Ministry requested the repayment of the embezzled funds. In its assessment, the Ministry emphasised that Norwegian Church Aid had not established satisfactory internal controls in the situation in question, and that the embezzled grant funds had not been used for the agreed purposes, resulting in a breach of contract. Norwegian Church Aid appealed the decision by letter of 6 February 2007, on the grounds that it had continued work on several of the affected projects after the embezzlement occurred, financing this work with its own funds. The organisation stated that it had injected NOK 4 million of its own funds into the projects in 2004 and 2005. The Ministry was not informed or consulted about these contributions, and had not approved them as compensation for funds embezzled in 2002 and 2003. Norwegian Church Aid appealed against the Ministry's request for repayment of NOK 6,349,200 allocated to the organisation's Sudan programme through public budgets to the King in Council, as permitted by the Public Administration Act. The appeal was not granted by the King in Council.

This case underlines the importance of ensuring that organisations that administer public aid funds have adequate project administration procedures in place. This is particularly important because the funds are used in countries and regions featuring high levels of poverty and widespread corruption. The Norwegian authorities expect recipients of Norwegian aid funds to practice good financial management and zero tolerance for corruption. In this particular case, the Ministry gave decisive weight to the fact that Norwegian Church Aid, in this project and at the relevant time, did not have satisfactory procedures and adequate internal controls in

place, and that the funds were not used for the agreed purposes. The Ministry is pleased that, after this embezzlement case, the organisation has implemented sweeping measures to improve its financial management. Today, Norwegian Church Aid appears to be a well-run organisation with a considerable focus on combating corruption.

2. Embezzlement by a local employee

In 2006, Norway established an embassy branch office in Dili under the embassy in Jakarta, which continued to have direct responsibility for local aid cooperation. In 2010, a decision was made to close the embassy branch office from 1 July 2011, and to continue work focused on East Timor from a strengthened Jakarta embassy. In May 2011, the Foreign Service Control Unit was notified of the discovery that a local employee had stolen petty cash funds and improperly profited from refunds of hotel expenses. The total sum involved was USD 750. The local employee admitted embezzlement and resigned. The amount was repaid. Consideration was given to legal prosecution, but as it was concluded that it was unrealistic to expect a satisfactory legal process, and the case was closed.

Zero tolerance obviously also applies to the Ministry's own employees, including local employees. The question of whether to involve the prosecuting authorities in connection with criminal actions is considered in each individual case. Among other things, it is necessary to consider legislation, the national legal system and issues relating to diplomatic immunity.

3. Irregularities in an inter-state agreement

In 1994, the Norwegian Government concluded a four-year agreement with the Government of Tanzania to assist the latter in developing its natural resources. This agreement was renewed multiple times, ending with the period 2002–2006. The final evaluation and audit of the programme in 2006/2007 established that monetary controls had not been adequate, and that funds had been used in breach of the agreement. A total of NOK 300 million was allocated during the period.

An external auditor was engaged to review the accounts for the entire agreement period. The review revealed financial irregularities, i.e. the use of funds contrary to concluded agreements, totalling approximately NOK 11 million. The misuse concerned the payment of value added tax and other taxes into the Tanzanian public purse, the use of project funds to pay wages to project employees even though the agreement stated that Tanzania would provide the requisite staff, the misuse of the travel allowance scale by paying excessive allowances to meeting participants, embezzlement in one project, corruption in connection with the purchase of motorcycles that were paid for but never delivered, and a considerable number of cases of missing documentation such as purchase receipts, etc. All elements were accepted by Tanzania, which repaid NOK 10.7 million (the difference is due to changes in the exchange rate).

When the irregularities were discovered, all further financing was suspended.

Four employees of the Tanzanian ministry responsible for implementing the programme were suspended and investigated by Tanzania's Prevention and Combating of Corruption Bureau (corresponding to the investigation department of the Norwegian National Authority for

Investigation and Prosecution of Economic and Environmental Crime – Økokrim). However, the prosecuting authority decided not to issue indictments in the case, on the grounds that there were limited chances of securing convictions.

The case raised awareness of the importance of evaluating financial management, not just results, and illustrated the need to engage external financial advisers on a permanent basis. Many Norwegian embassies now systematically provide financial advice to, and conduct checks of, grant recipient right from the start of projects. A secondary effect was operational improvements to Tanzania's national audit function, and reform and enhancement of financial management in Tanzania. The case also provided valuable experience of the handling of a relatively large case in which the agreement parties were governments.

4. Quantification of irregularities as a basis for repayment

For several years, Norad supported the construction of a school in Kisangani through the body Norwegian Missions in Development (now DIGNI). DIGNI concluded an agreement with De norske pinsemenigheters ytremisjon (PYM) for the completion of the project. The school was constructed in the period 2003–2007, and commissioned in the autumn of 2007. PYM suspected financial irregularities when the school building proved to be proportionately more expensive than other, corresponding buildings PYM had constructed. An investigations group that included auditors and building experts visited Kisangani in December 2007.

The group's report concluded that the school building had probably cost more than it should have. PYM sent two of its senior staff to Kisangani to evaluate the case thoroughly. DIGNI held back the remaining funds for 2008 allocated to activities connected to the school building in Kisangani.

The investigations concluded that there was a probable excess consumption of USD 68,000. PYM repaid this amount to Norad.

Consideration was given to reporting the case to the prosecuting authorities, but this option was not pursued further, not least due to a lack of concrete evidence of embezzlement.

In a situation where the issue of documentation is not primarily linked to the keeping of accounts but to checks of the quality of physical objects, discretion will often have to be exercised on the basis of technical expertise. In such situations, the Ministry and Norad will conduct their own evaluation of the conclusions reached by the agreement partner. In this case, the conclusion was that the assessment conducted by DIGNI's experts could be accepted.

5. Support for the production of services for the authorities of another country

Kabul Ambulance Service (KAS) was established in 2002. From 2002 to 2004, KAS was run as a cooperation project involving the International Committee of the Red Cross (ICRC), the Norwegian Red Cross and the Afghan Ministry of Public Health (MoPH). The ICRC withdrew from the cooperation in 2004, partly to facilitate stronger local ownership and partly due to altered priorities in the constantly changing context in Afghanistan. In total, the

Norwegian Red Cross has received just over NOK 35 million in support for KAS from the Ministry during the period of operation.

When the Norwegian Red Cross was warned about potential financial irregularities, it immediately launched an internal investigation of the claims. The allegations concerned embezzlement and bribes. The investigations revealed that persons from KAS' management had embezzled funds in connection with the purchase of consumables and equipment for KAS from September 2006 until the matter was uncovered in September 2009.

The falsified invoices totalled approximately NOK 700,000, but the actual amount embezzled was NOK 700,000 minus the amount spent on actual purchases. Almost all of the real invoices for the largest true purchases of medical equipment between 2006 and 2009 were missing. To calculate the embezzled amount, therefore, the actual consumption of purchases was worked out. The embezzled amount was determined to be NOK 495,884.

Irregularities were also discovered in connection with a purchase of car parts, and there were indications that an invoice for another purchase of car parts had been falsified. The total amount embezzled in connection with car parts was NOK 98,312.

In total, NOK 594,196 was repaid to the Ministry.

The Afghan authorities took responsibility for considering the prosecution of the persons involved, who were all Afghan citizens.

The case was satisfactorily resolved through positive, constructive dialogue between the Norwegian Red Cross and the Ministry, which is required when discretion is an important element in the assessment. Further, the way the case developed revealed how important it is for both parties that cases are handled individually, not processed automatically, and that sanctions, particularly the question of freezing further payments, are focused only on the aspects of cooperation affected by the irregularity.

6. Audits that do not reveal irregularities

Norad has supported the International Work Group for Indigenous Affairs (IWGIA) since 1997. IWGIA is an international human rights organisation that promotes the rights of indigenous populations. In April 2012, Norad received a report concerning potential embezzlement at IWGIA's head office in Copenhagen.

Suspicious had arisen when an employee notified management of suspicious accounts vouchers approved by a member of the organisation's accounts staff. Management confronted the employee with the suspicions against him. He admitted his guilt and was suspended. IWGIA initiated an investigation of vouchers and accounts for 2009, 2010, 2011 and 2012 in cooperation with an auditor. IWGIA reported the suspect to the police on the same day as the auditor's embezzlement report was presented.

The audit of the annual accounts for 2011 determined that the embezzled amount totalled DKK 435,126. The embezzlement had occurred in the period 2009–2011. It was decided that the total embezzled amount should be recorded as a loss in the 2011 fiscal year. IWGIA had several donors during this period, and Norad's share of the embezzled amount was

DKK 189,445, corresponding to NOK 197,440. Norad claimed and received a repayment of this amount.

IWGIA not only had several internal control procedures in place but also, for the past three years, an expanded agreement with an international accounting firm to improve its ability to discover embezzlement and other financial irregularities quickly. Subsequent to this embezzlement case, IWGIA has sought to strengthen its internal control functions and procedures further.

This case illustrates that external audits and auditor-approved accounts do not guarantee the discovery of financial irregularities.

7. Termination of an agreement when the preconditions change

The Community Trust Fund (CTF) in Sri Lanka was an organisation that received support from Norway and many other donors. One of the objectives of the organisation's work was ethnic integration in Sri Lanka. In 2010, the Ministry received a report from a third party concerning corruption. Further payments to the CTF were frozen until further notice. The investigations that were launched found that all financial reports to the embassy were satisfactory and had been reviewed by the embassy's external auditor. There were no indications of irregularities in the use of funds donated by Norway.

The organisation was reported to Sri Lanka's National Secretariat For Non Governmental Organizations. The Secretariat is an agency of the Ministry of Defence, and is responsible for the supervision of all NGOs registered in Sri Lanka.

When the Ministry of Defence, through the Secretariat, took over the CTF, and the purpose of providing the support was no longer being met, Norway requested the repayment of unused funds in the CTF to the embassy. This request was complied with, and the funds were repaid.

Some countries that receive Norwegian aid funds have established supervisory authorities for their national NGOs. In countries which have chosen this organisational form, difficulties may arise in implementing necessary sanctions for breaches of agreement by NGOs.

8. Deficient follow-up

In the period 1998–2005, the Ministry supported Normicro, a microcredit project run in Azerbaijan by the Norwegian Refugee Council, with a total of NOK 8,466,700. In 2006, the Norwegian Refugee Council informed the Ministry that it was negotiating with a financial institution regarding a takeover of Normicro, which in 2002 had been licensed to operate as a financial institution in Azerbaijan. The Ministry did not claim repayment of the funds it had granted in operational support and for the build-up of capital. Nor did it make a claim in May 2007, when the Norwegian Refugee Council notified the Ministry that Normicro had been disposed of. It was only when the Norwegian embassy in Baku reported in December 2008 that the Azeri authorities were asserting that Normicro had been improperly claiming exemptions from value added tax and other taxes as a charity since 2002 that the Ministry reacted by launching an investigation.

However, the investigation took such a long time that any claim against the Norwegian Refugee Council became time-barred.

The case revealed deficient project follow-up. The Ministry should have reacted to the information it received in 2006 and 2007 regarding the disposal of the project. Both the allocation agreement and the follow-up of the project illustrate that the administration of grants to untraditional development projects, such as microfinance structures, requires specialist expertise that a ministry does not normally possess. The Ministry now has framework agreements with accounting and law firms in place so that it can hire external experts when following up on grant administration. This particular project is an example of an area in which it would now be natural to employ such external expertise. These experiences have also been taken into account in the development of new templates for grant administration, and been incorporated into training programmes for Ministry officials who administer grant funds.

9. High-risk projects

In 2009, Norwegian People's Aid informed the Ministry of Foreign Affairs of irregularities in projects in Burma that the organisation had discovered through its own control mechanisms. The organisation's own investigations showed that NOK 116,271 had disappeared as a result of financial irregularities in local partner organisations, and refunded this amount to the Ministry. Norwegian People's Aid also implemented measures to protect itself against similar irregularities, for example by discontinuing support for certain local partner organisations and strengthening monitoring of the part of the project that was continued.

Normally, the Ministry of Foreign Affairs does not accept organisations' own reports as a basis for decisions concerning repayment but, due to the political situation in Burma and the nature of the projects, it not considered impossible to conduct an independent audit to check Norwegian People's Aid's own review. The Ministry also accepted Norwegian People's Aid's argument that reporting the matter to the police would complicate further work in Burma and carry a risk of disproportionately stringent punishments for the suspected perpetrators.

Among other things, this case illustrates the problems involved in following up on potential irregularities in countries and regions in which ordinary control tools cannot be used. The situation becomes particularly difficult when the two factors arise simultaneously. The combination of location and project type meant that, in this case, the Ministry had to accept the organisation's own documented investigations.

The case also illustrates the need to focus on preventive efforts and have special controls and follow-up mechanisms in place when there are otherwise good reasons for supporting this type of high-risk project.

The experience gained from this case and similar cases forms part of the basis for the Ministry's work on new risk management tools for use in grant administration, and the further development of agreement templates as procedural tools in the administration of grants.

10. Inadequate power to monitor partners

In 2009, the World Bank's Internal Auditing Department warned the Nordic Office that certain consultants had issued false invoices to a consultancy fund to which Norway contributed in connection with consultancy assignments. The falsification partly involved the invoicing of non-refundable expenses as hours and partly the invoicing of hours in excess of the limit set for short-term assignments. The Norwegian share of the amount involved totalled NOK 25,000, which was repaid the same year.

The Ministry of Foreign Affairs requested access to the internal report on which the repayment decision was based. The bank refused the request by reference to its confidentiality rules.

The case itself is relatively simple. However, it raises a question of principle, namely how much insight Norway can gain into processes involving Norwegian public funds given to the development banks and the UN system. The issue partly concerns the exercise of a control function, but partly also a desire to improve Norway's own expertise in this area and, of course, to check that the repaid amount does in fact correspond to Norway's justified claim. The World Bank introduced new guidelines on external transparency – its “disclosure policy” – in 2011. The guidelines are considered to be among the best guidance on granting insight adopted by any multilateral institution.

11. Time-barring of claims

The Governments of Norway and Tanzania concluded an agreement on the Songwe-Tunduma road rehabilitation project in 2001. The grant totalled NOK 167 million. Tanroads, a state-owned company, was the implementing agency. In accordance with the practice of the time, a project account was established at DNB bank (in Norway). Through its internal controls, Tanroads discovered in the autumn of 2005 that irregular payments had been made from the project account in the summer/autumn of 2005. These irregular payments totalled USD 890,566 (NOK 5,739,699). The payments were secured by the use of falsified signatures. After the fraud was discovered, Price Waterhouse Coopers (PWC) was engaged to review the administration of the project. PWC made several recommendations that were implemented, including the improvement of pre-payment procedures. The cooperation with Tanroads was continued to the end of the project period, but the grant was reduced by NOK 5.7 million.

The embassy was notified of the matter in October 2005. Since then, the embassy has followed the case closely, and frozen funds for a period. The embassy also advised Tanroads on its follow-up of the matter, and claimed repayment from Tanroads in accordance with the repayment clause in the agreement. Tanroads agreed to make a repayment subject to DNB compensating it for its loss. Tanroads followed up on the case by reporting the matter to the police. Oslo Police District assisted the Tanzanian police in their investigation. Four suspects were identified, two of whom have apparently fled the country. Criminal proceedings against one suspect are ongoing, while the fourth has been confirmed as deceased. Tanroads claimed repayment of the money from DNB, and gave notice in the summer of 2008 that legal proceedings would be instituted if the funds were not refunded by August 2008. However, Tanroads did not follow up on this notice.

The Foreign Service Control Unit was informed of the Tanroads case in August 2008, and followed up on the report by contacting the Legal Affairs Department and the Office of the

Attorney General. The Office of the Attorney General concluded that the matter was time-barred, both as a claim based on the ordinary law of damages and as a claim based on contract. Depending on which legal ground is used, the ordinary limitation period of three years expired in either August or October 2008.

The principle of zero tolerance for corruption is discussed in the 2007 budget proposal (Proposition No. 1 (2006–2007) to the Storting). The Ministry clarified and expanded on the content of this policy in a memorandum dated 9 June 2010. The policy has been communicated to all affected parties within the Foreign Service and all grant recipients in different ways, including through publication on www.regjeringen.no.

As described in the introduction to this document, the Ministry and Norad have established units with control responsibilities that include following up on received reports. Moreover, guidelines have been developed on administrative procedures in cases concerning financial irregularities. This ensures uniform administrative treatment and helps to build up important administrative expertise. This particular case illustrates the importance of the rules on time-barring, a topic discussed in the latest version of the Guidelines for Dealing with Suspicion of Financial Irregularities. The Ministry has also focused on providing training on the Limitation Act.

12. Irregularities in the processing of visa applications

Allegations are sometimes made of corruption in the processing of visa applications at Norwegian embassies. The allegations often claim that a visa application will not be processed without the performance of some reciprocal act.

In most cases, these allegations have proven to be groundless. Such situations generally involve the word of one person against that of another. Although some allegations are clearly without foundation, there are cases where the employment of embassy staff has been terminated due to matters discovered during the internal follow-up of corruption allegations.

The cases that have been investigated show that corruption allegations can be difficult to document and prosecute, even when irregularities are shown to be likely.

The Ministry is working continuously to ensure that the processing of visa applications is transparent and predictable, to prevent corruption. Administrative procedures are probably the most important tool, but preventing corruption has also been an aim when designing premises where visa applicants are received and applications are processed. The message communicated to those who work with visa issues at embassies is that it is entirely unacceptable to engage in conduct that may appear corrupt, and that the consequence of doing so is dismissal.

Annexes:

- The Ministry of Foreign Affairs' zero-tolerance policy on corruption. How can it best be put into practice? 2010
- Guidelines for Dealing with Suspicion of Financial Irregularities, 2008
- Guidelines for Dealing with Suspicion of Financial Irregularities, 2009
- Guidelines for Dealing with Suspicion of Financial Irregularities, 2011
- Norad Guidelines for Dealing with Suspicion of Financial Irregularities, 2011