CORRUPTION –
AN OBSTACLE TO DEVELOPMENT

THE PALME CENTER'S METHODOLOGY SUPPORT FOR ANTI-CORRUPTION

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Fighting corruption is essential when working to improve the living conditions of people living in poverty. The World Bank has identified corruption as one of the greatest obstacles to economic and social development. The Swedish International Development Cooperation Agency (Sida) prioritises anti-corruption in its efforts to fulfil the objective of Sweden's international development cooperation, that objective being to contribute to an environment supportive of poor people's own efforts to improve their quality of life.

Corruption is a problem throughout the world. However, it is more widespread in countries with weak states and institutions; where citizens have little opportunity to exercise influence over their own lives; and where shortcomings in civil participation, transparency and the division of power is a reality.

Corruption has proven to be more prevalent in certain sectors of society, such as the public sector, the infrastructure sector, sectors utilising valuable natural resources as well as the arms industry.

Nevertheless, international development cooperation can also attract corruption, when the monetary value of the aid is high and control mechanisms are insufficient. On the other hand, development cooperation can also be used as a tool for fighting corruption. This can be achieved, for example, by supporting stakeholders in civil society who work with human rights, democracy, freedom of expression, a functioning legal system, increased transparency and so on.

Those who suffer most from corruption are the weakest and poorest members of society. Corruption leads to an increased cost of living and limited or no access to fundamental social services. In turn, this reduces the opportunities to break the cycle of poverty, and those who are already poor risk becoming even poorer.

The Palme Center works actively against corruption of all forms and considers anti-corruption a natural and important part of its work.

This handbook gives guidance to organisations conducting projects with funds from the Palme Center. The handbook is a complement to the Palme Center's project handbook (available at www.palmecenter.org).

1. WHAT IS CORRUPTION?

Corruption can take many forms, such as petty corruption, corruption in business transactions, political corruption or corruption favouring friends or relatives. There is no single, universally accepted definition of corruption. Transparency International, which is a global civil society organisation that monitors corruption worldwide, defines corruption as the abuse of entrusted power for private gain (read more on www.transparency.org).

The Palme Center's definition of corruption includes for example bribery, forgery, embezzlement and favouritism. Corruption can be of both a financial and a non-financial nature. The Palme Center defines corruption as:

The misuse of money or power in order to gain personal, often financial, advantages

The corruption we come across in international development cooperation often involves money being used for purposes other than those intended and approved; project funds or materials being used for private gains; favouritism shown to friends and relatives; and failure to comply with procurement rules. Below, we describe the types of corruption most common in development cooperation.

Petty corruption: This type of corruption affects millions of people around the world every day. Petty corruption takes place where the public officials meet the public and it often involves bribes consisting of small amounts of money. It may involve a civil servant demanding payment for a service that should be provided free of charge, or demanding a higher price than the service actually costs.

Petty corruption results in an increased cost of living, with the poor being most affected. People living in poverty cannot afford to pay the extra costs of bribes and often lack the possibility to hold those responsible accountable. Petty corruption leads to a lack of access to fundamental social functions such as education and healthcare, which results in increased poverty for those who are already poor.

Petty corruption is common in many of the Palme Center's partner countries. Project participants may, for example, be forced to pay a sum of money to a local civil servant in order to obtain a permit for running the project in the local community or to gain access to certain services. It is important to reflect on the fact that petty corruption is the type of corruption with the greatest impact on the poorest and weakest members of society. Paying bribes reinforces undemocratic structures and counters a country's economic and social development.

Grand corruption: Occurs when high-ranking politicians embezzle money from publicly financed services. This type of embezzlement leads to both fewer services as well as services with poorer quality, and has consequences for all of society. Grand corruption can result in the stagnation of an entire country's economic and social development. Corruption in public services such as education and healthcare is particularly damaging, especially for the most vulnerable. Although we rarely see this type of corruption in our project work, awareness of its existence and its devastating consequences is important.

Bribery: Bribery entails *receiving* or *providing* a bribe in exchange for a service, property or some kind of action. Bribes are often monetary, but can also comprise gifts or sexual favours. Bribery in order to gain economic or other advantages is a form of corruption. Note that gifts, too, can be considered bribery if given in order to influence the recipient's behaviour to favour the giver.

Kickbacks: A kickback is when someone receives an illegal commission or reward from a supplier, such as in a procurement process or when purchasing goods or services. The person engaging the supplier receives a sum of money taken from part of the payment made to the supplier. The original receipts and invoices are in order, but the supplier has overcharged and shared the additional profit with the buyer.

This type of corruption is common in development cooperation. Preventing kickbacks requires that the project organisations have effective internal control systems and complies with procurement rules.

Embezzlement: A person is guilty of embezzlement if he or she uses funds entrusted to him/her for a specific purpose in an improper manner.

In development projects, embezzlement can take many different forms, such as an organisation reporting the same project costs to several donors, or falsifying receipts or invoices.

Having all projects audited by an external, qualified and independent auditor minimizes the risk of false receipts. However, it is important to remember that auditors are not specially trained to discover corruption and that an unqualified audit opinion does not guarantee the absence of corruption (an audit opinion is said to be unqualified when the auditor concludes that the financial statements give a true and fair view of the finances the organisation has presented).

Favouritism (cronyism/nepotism): Favouritism occurs when a friend, relative or someone close and trusted is hired or favoured, despite the presence of other candidates with better qualifications or lower prices.

Just like in society in general, many development projects are at high risk of friends and family being engaged on improper grounds, even though there are other candidates who would do a better job for the same price. It is also common

to engage companies run by family members or friends, rather than seeking out the most cost-effective alternative.

In order to prevent favouritism and to ensure that development cooperation funds are used effectively, be sure to always seek opportunities for competition and to follow procurement rules in all purchases.

1.1 Support to civil society compared to political party support

The Palme Center provides support to projects within different areas of operations, of which support to civil society organisations (CSO) and democracy support to party-affiliated organisations (PAO) are the largest frameworks for funding.

Experience from all over the world shows that the risk of corruption is greater in the support provided to political parties. At national level, kickbacks have been shown to be particularly common in procurement, where the profit is used to increase parties' incomes and for political campaigns.

At the same time, party political organisation and functioning parties are important tools for fighting poverty and promoting democracy, which is why the Palme Center supports party political organisation within the framework of the PAO support. However, it is important to be aware of the increased risk of corruption in this type of support and to organise the support responsibly. Therefore, good administrative systems and internal control together with transparency in managing the funds is especially important in political party support. Read more about concrete anti-corruption methods in the following sections.

2. ZERO TOLERANCE FOR CORRUPTION

The Palme Center has **zero tolerance for corruption.** This means that the Palme Center does not accept any action that can be defined as corrupt. This encompasses the Palme Center's personnel as well as Swedish and local project organisations which have received funds from the Palme Center.

It is important to remember that the Palme Center's operations are run in environments that generally exhibit a high risk of corruption. This risk does vary, however, depending on the country or area of operation, the organisational strength of the cooperating organisation and the form of cooperation.

In the following sections we present methods on how your organisation can work to reduce or eliminate corruption.

Group work and discussions

Barbro Gunnarsson and Gillian Nilsson, resource personnel for international development cooperation at Skåne's Social Democratic Party District, report on the anti-corruption work they have conducted together with their partner organisation in South Africa:

Our seminars in the party support project include programmes with group work and discussions on corruption: what it is, who becomes corrupt, how corruption works in the participants' villages and what can be done to change the situation. We can use these discussions to highlight corruption, to make it visible. Corruption is found everywhere, but people are often so used to thinking 'this is how it is' that they no longer see it.

In our project, we conducted group work in which we discussed:
• Why does corruption exist?
• What tools do we have available to counter corruption?

We compiled a long list of more than 20 reasons for corruption, everything from greed and incompetence to nepotism and poverty. The list of suggested countermeasures was equally long. Many demanded firmer action by the police and harsh penalties, but there was also a desire for a greater sense of patriotism among employees and politicians, more insight into the true meaning of democracy and improved understanding of human rights.

In conclusion, the group determined the following measures against corruption:
• Everyone must follow the organisation's statutes.
• Corruption must be reported to the organisation's leaders.
• We must expose corruption and replace corrupt individuals in positions of power.
• Leaders must not accept gifts without declaring them. Society must be encouraged to look out for leaders who increase their private wealth.
• Members of political organisations must be encouraged and educated to criticise improper actions taken by leaders.
• Traditional leadership within the organisation should be abolished.
• Governance must be proper, with clear, simple policies. Mechanisms and strategies for exposing corruption must exist.

Another method we have used, together with our local partner, entailed so-called four corners exercises. We asked the question 'What is the foremost cause of corruption?' The alternatives were greed, poverty, nepotism or other. Each participant had to choose one of the four alternatives and the result was a tremendously passionate discussion. Arguments were bowled back and forth as voices grew louder. Towards the end, the choices narrowed to greed and poverty, and finally everyone decided that greed was the foremost cause of corruption.

3. ANTI-CORRUPTION – AN INTEGRAL PART OF OPERATIONS

The risk of corruption is present at all levels of operations and in all stages of the project cycle. It is essential to not limit anti-corruption work to those with administrative or economic responsibilities in the project; instead all project members shall work actively against corruption. The Palme Center strives to prevent corruption. Below we present some advice on possible measures to reduce the risk of corruption as the project progresses.

3.1 Project start-up and budgeting

At this stage of the project cycle a lot of decisions need to be taken. What problem is the project aiming to solve, who should manage the project, and how large a budget do we need? Be sure to include the target group and other relevant stakeholders in the decisions. Transparent decision making with several persons involved reduces the risk of corruption.

When hiring remunerated staff for the project, be sure to follow the procurement guidelines and watch out for favouritism. Assess the amount of work required by the remunerated staff and if the compensation is reasonable.

When planning the budget, it is important to analyse the relation between budgeted costs and planned activities. The more detailed your knowledge of the budget contents, the less the risk of corruption.

Budget assessment checklist
• Are there clear relations between the budget, the activities and the objectives of the project?
• Are project management costs reasonable in relation to salaries in your country and the amount of work required by the project?
• Are budgeted materials (such as computers and other equipment) necessary to achieve the project's objective? Can the objective be fulfilled without the purchases?
• Is there an agreement regulating the ownership of the equipment after the end of the project?

Preventing corruption through procurement

Procurement is one of the areas where corruption is common. Procurement processes favouring candidates or suppliers on unfair grounds affect the quality and efficiency of a project, and thus also the target group and objective fulfilment.

By following procurement rules and making decisions transparent, procurement can be used to prevent and combat corruption. In all projects funded by the Palme Center, procurement shall take place in accordance with Sida's procurement regulations. The regulations and applicable amounts are available at the Palme Center's website (www.palmecenter.org).

If your country or your organisation has internal procurement rules with lower minimum amounts than Sida, you should use the internal regulations instead.

3.2 During the project

Always follow up activities and their costs continuously during the project. Make sure that all costs belong to the project and that they are recorded in the accounting system. Documentation (invoices/receipts) supporting the project's costs must always be available.

A well-functioning organisation characterised by internal democracy, good administrative capacity and several people with insight to operations reduces the risk of corruption. Therefore, implement measures to develop the organisation and improve its internal control systems. One suggestion is to introduce anti-corruption training for staff members and other people involved in the project.

3.3 Project end

When the project comes to an end, there is a risk that individuals will take the opportunity to profit by taking equipment acquired for the project. Particular emphasis should be placed on ending the project responsibly and drawing up ownership agreements or agreements regulating what is to be done with profits from sales. A plan for how the equipment is to be used ought to be in place already when planning the purchases.

3.4 Evaluation

The Palme Center regularly engages external evaluators to evaluate operations. These external evaluators are independent in their assessments and have no self-interest in delivering positive results.

The local project organisation can also carry out self-evaluations. In such cases, remember to conduct the evaluation in a structured manner and remain objective. Practical advice and methods for conducting self-evaluations are included in the Palme Center's project handbook (www.palmecenter.org).

> ### Reviewing an annual report
>
> By reviewing an organisation's annual report and audit report, the donor can obtain information on the partner organisation's finances, other donors, debts, observations made by the auditor and so on, helping to minimise the risk. Coordinating with other donors is a good way to prevent corruption. Read more about how to review an annual report on page 20.

3.5 Administration

There is a considerable risk of corruption in the administrative side of operations. Kickbacks, reporting the same costs to several donors, faking receipts and showing favouritism toward relatives and friends are just a few examples. In order to minimise the risk of corruption, it is important that the administrative routines and internal control systems function well. The organisation's normal administrative procedures shall always be followed, with as few exceptions as possible.

The Palme Center has developed an anti-corruption tool to help you gain an overview of the general level of corruption in your country, as well as to analyse the strengths and weaknesses of the organisation from an anti-corruption perspective. The tool is presented in the following section.

In order to assess strengths and weaknesses in the partner organisations' administrative systems, the Palme Center conducts administrative monitoring of all its cooperation partners. Read more in section 4.

- Organisations with weak structures and poor internal democracy
- Organisations with poor administrative capacity
- Few people with insight into the project or the organisation's operations
- Projects with a weak and unclear ownership structure
- Limited possibilities for the target group to influence the project or the organisation's operations
- Diminished potential for demanding accountability of those in power
- High monetary value of project funds in comparison to the local economy
- Support to political parties

Based on the above, the Palme Center has developed an anti-corruption tool to help you gain an overview of the general level of corruption in your country, as well as to analyse the strengths and weaknesses of the organisation and project cooperation from an anti-corruption perspective. The anti-corruption tool is available at two levels: *country level* and *project and organisation level*.

4. PREVENTATIVE WORK WITH THE PALME CENTER'S ANTI-CORRUPTION TOOL

Employees of the Palme Center, as well as persons in the Swedish and local partner organisations, can be exposed to corruption or commit corrupt acts intentionally or unintentionally. As such, it is important to be especially observant in situations where there is a particularly high risk of corruption.

According to research and studies, the circumstances in international development cooperation under which corruption has shown to be more widespread can be categorized at the country level and at the organisation and project levels:

Country level:
- Countries with a weak state and weak institutions
- Countries with weak democratic structures
- Countries with a high level of corruption in society in general
- Countries with a poorly developed civil society
- Conflict zones

Organisation and project level:
- Non-transparent organisations

4.1 Country level

The Palme Center's operations are run in environments that generally exhibit a high risk of corruption. This risk does vary, however, and the Palme Center has developed a list of countries where the risk of corruption is graded from 1 to 3 (1 = lower risk of corruption and 3 = higher risk of corruption). This tool indicates the risk of corruption in society in general and aims to increase awareness of the level of corruption in the countries in which the Palme Center operates.

The countries are listed in descendent order, with the country with the highest risk of corruption at the bottom of the list.

The Palme Center's classification of the risk of corruption

COUNTRY OF OPERATION	CLASSIFICATION
Namibia	2
Turkey	2
South Africa	2
Macedonia	2
Brazil	2
El Salvador	2
Serbia	2
Colombia	2
China	2
Bosnia-Herzegovina	2
Albania	2
Bolivia	3
Kosovo	3
Moldova	3
Mozambique	3
Philippines	3
Pakistan	3
Ukraine	3
Palestine	3
Western Sahara	3
Belarus	3
Russia	3
Zimbabwe	3
Congo	3
Iraq	3
Burma	3

This table was prepared using data from 2011. The Palme Center updates the table annually.

The list is based on research and studies showing the circumstances under which international development cooperation is more exposed to corruption (see bullet points in the previous section).

The classifications have been made based on the following:

i) Transparency International's *Corruption Perceptions Index*[1] (CPI). The CPI measures the perceived level of corruption in the public sector in 180 countries and territories. We use this index to measure the level of corruption in society in general.

ii) Freedom House *Freedom Rating*[2], which measures political rights and civil liberties in more than 200 countries and territories. We use this index as a measure of the strength/weakness of the state and its institutions, the level of development of civil society and the level of democracy in a country.

iii) Swedish Ministry for Foreign Affairs' travel recommendations[3], as a measure for conflict zones.

4.2 Organisation and project level

Naturally, the general level of corruption in a country is nothing we can influence through our projects. As such, it is important to also conduct a deeper analysis of the cooperation at organisation and project level. The Palme Center's anti-corruption tool for organisation and project level can be used to analyse the risk of corruption in those organisations granted funds from the Palme Center. With the aid of this tool, strengths and weaknesses can be identified and a strategy to improve the organisation and the project can begin.

In preventing corruption it is necessary to tackle several fronts. Areas to be targeted include *transparency* in operations, *internal democracy* and the target group's ability to hold the organisation *accountable*. The organisation's *administrative capacity* is also of great importance. Below are a number of areas that should be investigated, together with a list of suggested questions to start with.

The organisation's structure and internal democracy

There are certain fundamental questions to be asked in order to assess the organisation's structure

1   www.transparency.org
2   www.freedomhouse.org
3   www.sweden.gov.se

and internal democracy. For example, does the organisation have a clear structure with a democratically elected board? Does the organisation have registered members? Are annual meetings documented and held in a democratic manner?

The organisation's administrative capacity

Good administration and internal control with well-functioning accounting structures, written financial manuals and clear delegation responsibilities are foundations for preventing corruption. Again, certain fundamental questions need to be asked. Do different people certify and pay out money, or is it possible for a single person to do that? Can the organisation present, in an easily comprehensible manner, how its finances are organised and managed on a general level? Is the petty cash stored in a secure manner, and what methods are used to ensure that only authorised personnel have access to it? Are there clear procedures for approving payments from cash?

The Palme Center conducts 'administrative monitoring' of all its cooperation partners, in order to assess the organisations' administration and internal control. Read more about this and how to make a deeper analysis of an organisation's administrative capacity in the information box below as well as in appendix 1.

Organisational and project transparency

Transparency is crucial to prevent corruption. Assess to what degree different actors (staff, members, target group, donors) have insight into the governance and financial management of the organisation or project.

Project group size and division of responsibility within the project group

Projects funded with development cooperation funds often have specific requirements on funds management, application and reporting. This may lead to a parallel structure being created wherein only a few people have insight into the

management of the project. This generates corruption opportunities. It is always better to follow the organisation's normal administrative procedures, with as few exceptions as possible.

The Palme Center aims to improve the alignment of each cooperation organisation's procedures. If you have suggestions on how the Palme Center can adapt to your organisation so that a parallel structure within Palme Center funded

projects is avoided, please contact your programme manager.

In projects funded by the Palme Center, a project group should consist of at least three people with well-defined roles and responsibilities who have insight into each other's work. It is also important that the management of the organisation and the project's target group have insight into how the project is managed.

Deeper analysis of the organisation's administrative capacity

Administrative capacity and internal control are key issues in anti-corruption work. The internal control of an organisation is a means to manage, monitor and measure an organisation's resources and it plays a fundamental role in preventing and detecting corruption. Internal control involves an organisation's structure, the financial management, skills and capacity of the financial staff, accounting systems, the administration of petty cash, and so forth.

The Palme Center strives to support its partner organisations' efforts to increase their capacities, including administrative capacity and internal control. In order to assess partner organisations' capacities, the Palme Center conducts *administrative monitoring* of all its partners. These assessments reveal strengths and weaknesses, and serve as the basis for initiatives to strengthen the organisations and prevent corruption.

Administrative monitoring assesses several areas:

The local partner's organisation of its financial management/cash management

This area covers the organisation's formal and informal systems for handling and managing funds. These systems are important in order for the organisation to ensure that funds are used efficiently and for their intended purpose. Such systems include where the organisation has its money (e.g. bank account, cash), how decisions are made, how financial transactions are monitored, et cetera.

Expertise and capacity of finance personnel

The expertise of the finance personnel is one of the most significant factors used to assess an organisation's financial management and reporting. The more complicated the operation and the more sources of income an organisation has, the greater the demands that have to

be placed on financial managers. Formal training may be important, but in itself it is no guarantee of expertise.

Accounts

Accounts are a written presentation of financial transactions and events. The accounts must reflect the business and be a part of the organisation's control system. There are different ways of producing accounts. It is common to use standard computerised systems. In certain cases, accounts are kept on Excel worksheets or manually in handwritten journals. Choosing the best system depends on the size and complexity of the operations as well as the skills of the accountant.

Financial reconciliation

Performing periodic financial reconciliations involves verifying individual accounts, entries, projects, et cetera in the organisation's accounts by reconciling them against documents such as receipts, bank statements, lists of participants in project activities, and so on. This is an important check, in order to ascertain the reliability of the accounts.

Archiving

Archiving entails all kinds of storage of important documents, such as accounts with complete supporting data (receipts, et cetera.), agreements, project documents, salary lists, inventory lists, and so on. It is important to store such material in a systematic, secure and easily accessible manner. This is because the organisation has to be able to verify costs for activities that have previously been conducted and reported. It is also important in order to be able to use the material for forward-looking analyses and evaluations.

The complete monitoring tool (including interview questions connected to each area) is presented in appendix 1.

The target group's participation and opportunities to influence operations

Opportunities for the target group to influence the project's content is another fundamental issue in anti-corruption efforts. Assess whether the target group participates in planning and implementing the project or the organisation's operations. Does the target group have real influence?

Possibility for the target group to demand accountability

If there is no possibility for the target group to demand accountability from people in power, control measures (such as audits) are almost irrelevant and the risk of corruption increases considerably. Assess to what degree the project's target group is able to hold responsible parties accountable for their actions.

The monetary value of project funds in relation to the local economy

A high monetary value of project funds entails a higher risk of corruption.

Type of support

Support to political parties has been shown to entail a higher risk of corruption than other types of support (read more in chapter 1).

4.3 Managing the risk of corruption

The corruption analysis highlights weaknesses in the organisation and in the project. The Palme Center encourages all project organisations to use the results to draw up an *action plan* to include measures that will be taken to improve the weaknesses. In this way, you can improve the capacity of the organisation while also reducing the risk of corruption.

There are several basic measures which could be taken to prevent corruption:

- Implement measures for organisational development and improvements of the organisation's internal control systems.
- Use the Palme Center's anti-corruption tool to get an idea of the level of corruption in the country in which you are operating and to analyse the strengths and weaknesses of your organisation.
- Hold a clear dialogue within your organisation on the weaknesses you have identified.
- Discuss what can be done to strengthen the organisation in any weak areas. Can the Swedish partner organisation assist in any way? Also discuss with your auditor; he or she will certainly be able to offer advice on improvements.
- Raise the issue of corruption at meetings and in training.
- Set up practical arrangements so that reporting obligations are not overlooked.
- Pay special attention to particularly sensitive activities such as procurement and money transactions in order to ensure that established rules and procedures are followed.
- Promote openness, transparency and the target group's participation in project design and decisions.

5. WARNING SIGNALS

There are a number of warning signals which can indicate irregularities in the project:

- unclear reports
- reports completed late or not at all
- questions left unanswered or answered unclearly
- an unclear project budget that is difficult to relate to the planned activities
- the lack of an annual report or audit report for the organisation
- tip-offs (received anonymously or from other organisations) about irregularities in the project organisation

5.1 Investigation into suspected corruption

If the suspicion of corruption remains, an investigation is usually initiated. This investigation can be internal or external and conducted in various

ways. One advantage of selecting an external evaluator is that he or she is more objective. At the same time, an internal evaluation can be more cost effective and perhaps there is another department at the workplace that can handle the evaluation.

Always contact the Palme Center if you suspect corruption. Together, your organisation and the Palme Center assess whether an investigation is warranted and, if so, how it is to be handled. In certain cases, the Palme Center can apply for additional funds from Sida to conduct an external evaluation.

It is important to set clear and concrete objectives for the investigation. A detailed assignment description must be written, specifying both the objective and the expected results. Perhaps the investigation can be conducted in collaboration with other donors. Once the investigation is complete, compare the results with the assignment description and do not be afraid to demand clear and concrete results.

If the investigation shows that corruption has taken place, one of the following measures can be taken by the donor:
• Halt future disbursements
• Repay disbursed funds
• File a police report or contact a debt collection agency
• Demand a change of auditor
• Demand a change in the project group members

Reviewing an annual report

An organisation's annual report describes the organisation's entire operations for the previous year. The annual report often comprises an annual narrative report and a related audit report. The Palme Center requires that all organisations carrying out a project with funds from the Palme Center submit their annual report for the most recent year of operations together with the related audit report to the Swedish partner organisation.

By reviewing the annual report, information is gained about the organisation as a whole and not just about the project funds contributed by the Swedish organisation. Thus, an assessment can be made of the organisation's structure and finances, any debts, the auditor's overall assessment of the organisation and more.

Reviewing an organisation's yearly report is an important tool in corruption prevention work. Here is some advice when reviewing the report:
• The financial result: Recurring large deficits (operating at a loss for several years) can be an indicator of corruption.
• Income from donors: Check that the reported income agrees with donated funds.
• Income in general: A large dependency on a single income source can indicate corruption.
• Equity: Negative equity or little equity in relation to the balance sheet total can be a sign of corruption.
• Liquidity: Current liabilities larger than current assets can be a sign of corruption.
• Auditor: Is the auditor external, independent and qualified?
• Audit report: Is the audit report 'qualified', that is, has the auditor included any serious observations and comments? A 'qualified' auditor report may be a sign that finances are not in order (as opposed to an 'unqualified report' where the auditor does not have any major remarks).
There might also be an increased risk of corruption if the organisation has recurring large surpluses and fails to spend the predicted budget, since this may increase the incentives for misusing the funds.

• Demand additional reporting
• Inform other donors in the area/country

6. SUGGESTED READING

The Palme Center's anti-corruption policy

Code of conduct for consultants and representatives of the Palme Center

Sida's procurement rules for foreign non-governmental organisations

The Palme Center's project handbook

All documents are available at the Palme Center's website, www.palmecenter.org.

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Material received from Jarskogs Konsult on Sida's *Anti-corruption workshop*, 22–26 March 2010, Härnösand, and on the Palme Center's internal anti-corruption course, including: *Warning signals of corruption and fraud; Acting on warning signals of corruption and fraud; Investigating suspected corruption and fraud*.

APPENDIX 1: PRACTICAL GUIDE FOR ADMINISTRATIVE MONITORING

The Palme Center uses this guide when conducting administrative monitoring of its partner organisations during field visits. The guide can also be used to perform self-assessments of your organisation.

Layout and content of the guide

The guide includes the following five areas that are particularly important for an organisation's financial control:

1. The local partner's organisation of its financial management/cash management
2. Expertise and capacity of finance personnel
3. Accounts
4. Financial reconciliation
5. Archiving

Under each area there is a brief description of what the area relates to and why it is an important area to obtain information about. There are also suggestions for various sources from which information relating to the area can be obtained.

Each area is divided up into a small table with the following content:

Questions to work from	Gathered information	Judgement (1-5)	Comments about the judgement

We suggest that the programme manager, along with an individual skilled in financial matters, arrive at a joint, documented judgement (where 1 is the lowest possible score and 5 is the highest) on the basis of the information that has been collected.

1. The local partner's organisation of the financial management/Management of liquid assets (cash and bank)

This area covers the organisation's formal and informal structure of systems for handling and managing financial funds. These systems are important in order for the organisation to ensure that funds are used efficiently and for their intended purpose. Examples include where the organisation has its money (e.g., bank account, cash), how decisions and the monitoring of financial transactions are performed, etc.

The management of liquid funds involves the organisation's systems and procedures for handling money (e.g., the organisation's bank account or petty cash). Good management of funds is a precondition for a functioning business.

Suggested information for assessment

- Organisational chart
- Finance manual/handbook
- Work description
- Decision-making and certification instructions
- Discussions with manager
- Discussions with finance staff
- Cash storage and verifications

Judgement 1=Very poor, 2=Poor, 3=Acceptable, 4=Good, 5=Very good

QUESTIONS TO WORK FROM	GATHERED INFORMATION	JUDGEMENT (1-5)	COMMENTS ABOUT THE JUDGEMENT
Can the organisation present, in an easily comprehensible manner, how its finances are organised and managed on a general level?			
Is there a finance manual or handbook? If so, is it used in practice?			
Is there an order of delegation? If so, is it followed in practice?			
Does the amount of cash (the money that is stored at the organisation in cash) appear reasonable in relation to the organisation's expenditure?			
Is the petty cash stored in a secure manner, and what methods are used to ensure that only authorised personnel have access to it?			
Are there clear procedures for approving payments from cash? Do the procedures appear reasonable? Are they documented?			
Do different people certify and pay out money, or is only one person authorised to do this?			
Are there any family ties between employees, volunteers or members of the organisation that may be of importance for the organisation's financial management?			

QUESTIONS TO WORK FROM	GATHERED INFORMATION	JUDGEMENT (1-5)	COMMENTS ABOUT THE JUDGEMENT
How are funds received from different donors separated? Separate bank accounts? Some other way?			
How are withdrawals or payments from the bank account approved, and what procedures exist for carrying these out?			

Overall assessment 1. The local partner's organisation of financial management
• Strengths – this appears to work satisfactorily • Weaknesses – this appears to have deficiencies and needs to be developed • Unanswered questions, risks or warning signs
NEXT STEP
Does anything need to be done, developed or rectified? Does anyone need to be notified? Who is responsible? When should it be done?

2. Expertise and capacity of finance personnel

The expertise of the finance personnel is one of the most significant factors when it comes to how well an organisation's financial management works and is reported. The more complicated the operation and the more donors or sources of income an organisation has, the greater the demands placed on financial managers. This makes it possible for the accounts to reflect the organisation's operations in a relevant manner.

Formal training may be important, but in itself it is no guarantee of expertise.

Suggested information for assessment

- Finance manual/handbook
- Employment agreements
- Work description
- Discussions with manager
- Discussions with finance staff

QUESTIONS TO WORK FROM	GATHERED INFORMATION	JUDGEMENT (1-5)	COMMENTS ABOUT THE JUDGEMENT
What training do financial managers have?			
What experience do financial managers have?			
Can financial managers account for the management of finances in a clear manner?			

Overall assessment 2. Expertise and capacity of finance personnel
• Strengths – this appears to work satisfactorily • Weaknesses – this appears to have deficiencies and needs to be developed • Unanswered questions, risks or warning signs
NEXT STEP
Does anything need to be done, developed or rectified? Does anyone need to be notified? Who is responsible? When should it be done?

3. Accounts

Accounts are a form of written presentation of financial transactions and events. The accounts must reflect the business and be a part of the organisation's control system. There are different ways of producing accounts. It is common to use standard computerised systems. In certain cases, accounts are kept on Excel worksheets or manually in handwritten journals. The size and complexity of the operations, as well as the skills of the accountants, determine which system should be used.

Suggested information for assessment

- Finance manual/handbook
- Work description
- Accounts software
- General ledger and verifications
- Discussions with manager
- Discussions with finance staff

QUESTIONS TO WORK FROM	GATHERED INFORMATION	JUDGEMENT (1-5)	COMMENTS ABOUT THE JUDGEMENT
Are the accounts continually updated? (see attached checklist)			
Does the information appear satisfactory? (see attached checklist)			
Are the accounts stored in an easily accessible, secure manner?			

Overall assessment 3. Accounts
• Strengths – this appears to work satisfactorily
• Weaknesses – this appears to have deficiencies and needs to be developed
• Unanswered questions, risks or warning signs
NEXT STEP
Does anything need to be done, developed or rectified? Does anyone need to be notified? Who is responsible? When should it be done?

4. Periodic financial reconciliation

The organisation's periodic financial reconciliations include the verifying of individual accounts, entries, projects and other account events by comparing them with documents such as receipts, bank statements, lists of project participants, etc. This is an important check of various events and individual accounts, in order to ascertain the reliability of the accounts.

Suggested information for assessment

- Finance manual/handbook
- Work description
- Board of Directors' minutes
- Annual accounts

QUESTIONS TO WORK FROM	GATHERED INFORMATION	JUDGEMENT (1-5)	COMMENTS ABOUT THE JUDGEMENT
Are there established and documented procedures for financial reconciliations? If so, are they followed in practice?			
Are the reconciliations performed by the organisation documented? Are they easy to follow?			
Does anybody monitor to ensure that reconciliations are performed and appear reasonable? If so, is this check documented in any way?			

Overall assessment 4. Financial reconciliation
• Strengths – this appears to work satisfactorily
• Weaknesses – this appears to have deficiencies and needs to be developed
• Unanswered questions, risks or warning signs
NEXT STEP
Does anything need to be done, developed or rectified? Does anyone need to be notified? Who is responsible? When should it be done?

5. Archiving

Archiving entails the storage of important documents (such as accounts) with complete supporting data, agreements, project documents, salary lists, inventory lists, etc. It is important to store such material in a systematic, secure and easily accessible manner. This is because the organisation has to be able to verify costs for activities that have previously been conducted and reported. It is also important because it is necessary to be able to use the material for forward-looking analyses and evaluations.

Suggested information for assessment

- Finance manual/handbook
- Accounts files/folders
- Written archiving instructions
- Work description
- Discussions with manager
- Discussions with finance personnel
- Project manager files/folders
- Project manager folders on the computer

QUESTIONS TO WORK FROM	GATHERED INFORMATION	JUDGEMENT (1-5)	COMMENTS ABOUT THE JUDGEMENT
Does the organisation have a uniform and easily accessible system for archiving relevant documents?			
For how long is important documentation archived, including financial reporting with supporting data (receipts, etc.)?			
How are previous years' accounts and receipts stored? Is the archived material easily accessible and structured?			

Overall assessment 5. Archiving
• Strengths – this appears to work satisfactorily
• Weaknesses – this appears to have deficiencies and needs to be developed
• Unanswered questions, risks or warning signs
NEXT STEP
Does anything need to be done, developed or rectified? Does anyone need to be notified? Who is responsible? When should it be done?

CHECKLIST TO ADMINISTRATIVE MONITORING

This checklist is a practical tool for a general inspection of the accounts of an organisation.

A. Evaluation of reasonability: how outgoing payments have been entered into the accounts

1. Ask to see a bank statement.

2. Select the five largest outgoing payments during the period, as well as a further five randomly selected payments.

3. Follow up these payments to see how they have been allocated in the accounts (name of the account in the general ledger or in the verification list). Is this easy to follow? Is the cost reasonable? Does the supporting data for the accounts (receipts, invoices, travelling-expenses accounts, etc.) appear reasonable and relevant?

4. Check the quality of the supporting data for the accounts. Is it clear when the transaction took place, what the transaction relates to, who prepared the record and who paid the account? Is there certification?

B. Evaluation of reasonability: how a specific activity has been entered into the accounts

Go through all costs that have been entered for an individual activity (*e.g.,* a seminar). If it is a small activity, you can look at all the costs. If it is an extensive activity, you can select approximately ten costs. Follow up these costs as described in points 3 and 4 (section A). Do the costs appear reasonable with regard to the activity that has taken place and with regard to the conditions of which you are aware? For example, do they comply with the number of participants who are said to have participated? Is there sufficient supporting data (such as participant lists) to assess whether the costs are reasonable?

C. Quality of the organisation's financial reconciliations

1. Ask to see reconciliations that have been carried out recently, primarily bank reconciliations and cash. Has the organisation performed any documented reconciliations? Have the reconciliations been checked and certified by anyone other than the person who carried them out?

2. Check that the amount of the bank reconciliation corresponds with the account statement.

D. The organisation's procurement procedures

1. Ask to see supporting data for all procurements that have been carried out over the last 12 months.

2. Go through the three most recent procurements with the responsible person who performed them.

3. Check that the procurements have been carried out in accordance with the organisation's procurement regulations (if there are any) or in accordance with an agreement with the donor who financed the purchase.

If the random test shows deficiencies or mistakes – what should I do?

If you do not understand or there appears to be something wrong in the material, ask for an explanation. Document the explanation and consult with a controller at your office. If there are indications of serious problems, check this as soon as possible with your own office (don't

wait until you get back to your office) and reach agreement regarding measures that need to be taken immediately (e.g., stopping payments to the organisation).

CORRUPTION –
AN OBSTACLE TO DEVELOPMENT

THE PALME CENTER'S METHODOLOGY SUPPORT FOR ANTI-CORRUPTION

This handbook gives guidance to organisations conducting projects with funds from the Palme Center.

The handbook is a complement to the Palme Center's project handbook.

Contact the Palme Center or visit our website for methodology support in other subjects.

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