INTOSAI
Working Group
on Environmental
Auditing



Addressing Fraud and Corruption Issues when Auditing Environmental and Natural Resource Management

Guidance for Supreme Audit Institutions

2013

This publication was prepared by the INTOSAI Working Group on Environmental Auditing (WGEA). The WGEA aims to encourage the use of audit mandates and audit methods in the field of environmental protection and sustainable development by Supreme Audit Institutions (SAIs). The WGEA has the mandate to

- help SAIs gain a better understanding of environmental auditing issues,
- facilitate exchange of information and experiences among SAIs, and
- publish guidelines and other informative materials.

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Foreword and Acknowledgements

According to the United Nations, fraud and corruption represent one of the most serious challenges faced by the world community today. The economic, social and political costs they bring upon societies are enormous and affect people in both rich and poor countries, although evidence shows that the latter suffer the most severe consequences. Furthermore, there is a growing body of evidence which clearly indicates that the negative impacts of fraud and corruption also are substantial in the environmental and natural resource sectors.

Since the middle of the 1990s and especially during the last few years, INTOSAI has focused increasingly on the challenges posed by fraud and corruption, and on the roles of individual SAIs in coping with these challenges. The fight against corruption is also one of INTOSAI's five strategic priorities in its Strategic Plan for the period 2011-2016.

This Guide was initiated by the INTOSAI Working Group on Environmental Auditing (WGEA). The mandate for the project was to prepare guidance material addressing fraud and corruption issues when auditing environmental and natural resource management. The Guide provides information on why and how fraud and corruption is considered highly present in the environmental and natural resource sectors, as well as tips and examples on how to introduce this risk into the planning and/or the conduct of the audit of a particular environmental/natural resource topic. We do hope that this Guide provides SAIs with a tool which can inspire and support them in addressing the challenges posed by fraud and corruption in the environmental and natural resource sectors.

A word of caution should be raised, however. The roles of SAIs in this field may vary considerably, depending on their mandate and national legislation. Moreover, it should be noted that there are several other authorities in addition to SAIs which are responsible for fighting fraud and corruption in society. For some of these authorities, their roles and responsibilities in this field may go far beyond those of SAIs. Hence, it is very important that auditors are well aware of their mandate, the standards which already apply in their office, and the relevant national legislation relating to fraud and corruption cases.

This project was led by the SAI of Norway. Many thanks also go to the contributions made by SAIs worldwide, especially the SAIs of Brazil, Canada, Czech Republic, Estonia, Finland, India, New Zealand, Poland, the Russian Federation, the United Kingdom and the United States. We also appreciate very much that the INTERPOL Environmental Crime Programme and Transparency International have provided us with valuable support during the course of the project.

Readers are invited and encouraged to consult this paper as well as information on other WGEA products and services on the INTOSAI WGEA website http://www.environmental-auditing.org/. We hope you will find this Guide useful.

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Executive Summary:

1. Introduction

Since the mid-1990s INTOSAI has focused increasingly on the challenges posed by fraud and corruption, and on the roles of individual SAIs in coping with these challenges. The fight against corruption is also one of INTOSAI's five strategic priorities in its Strategic Plan for 2011-2016.

However, the roles and responsibilities of SAIs in this field may vary considerably, depending on their mandate and national legislation. Moreover, it should be noted that there are several other authorities in addition to SAIs which are responsible for fighting fraud and corruption in society. For several of these authorities, their roles and responsibilities in this field may go far beyond those of SAIs (in particular, this concerns the police, the prosecution authorities and the judiciary).

Increasing evidence indicates that the negative impacts of fraud and corruption are substantial in the environmental and natural resource sectors. The main objectives of this Guide are: (1) to make the auditor aware of the challenges posed by fraud and corruption in the environmental and natural resource sectors; and (2) to provide SAIs with a tool to inspire and support them in addressing these challenges.

This Guide is intended for all three basic audit approaches (financial, compliance and performance auditing). This is because fraud and corruption also may involve activities which may not have an identifiable impact on the financial statements, and because taking a multi-disciplinary approach is more in accordance with the hybrid nature of forensic auditing - which in practice often involves a broad spectrum of activities and methods.

Consequently, this Guide can be seen as an expansion of existing INTOSAI standards which deal with the auditor's responsibilities in relation to prevention and detection of fraud and corruption in the public sector, in particular ISSAI 1240. In addition to the ISSAIs, this Guide is based on the INTOSAI Guidance for Good Governance (INTOSAI GOV), and the UN Convention Against Corruption.

Although this Guide is intended for audits of the environmental and natural resource sectors, some duplication with other fraud and corruption guidelines is unavoidable. This because almost all of the criteria, procedures, and methods relating to fraud and corruption auditing are generic.

This Guide is intended for auditors who wish to integrate fraud and corruption issues as part of regular environmental audits, as well as auditors who wish to carry out fraud and corruption audits within particular environmental or natural resource sectors.

It is very important that auditors are well aware of their mandate, the standards that already apply in their office, and the relevant national legislation relating to fraud and corruption cases. Also, it is essential they have good knowledge of the reporting procedures which apply to such cases in their office, that is, procedures prescribing where, when and how to report when audit findings confirm suspicions of fraud and corruption.

2. Background to fraud and corruption and environmental and natural resource management

According to several published studies and reports, fraud and corruption within the environmental and natural resource sectors may have several different negative consequences. In addition to possible negative impacts on the environment and the natural resources, these consequences also may include economic, social and political costs.

There are many different - both general and specific - definitions of fraud and corruption in use today. This great variety of definitions reflects the various ways that people perceive and conceptualize fraud and corruption. This Guide recognizes both concepts, and uses the ISSAI 1240-definition of fraud and the World Bank's definition of corruption.

Just as there are many different definitions of fraud and corruption, these two concepts can be divided further into many different types or categories of acts and practices. One fundamental distinction is between *internal* fraud and corruption, and *external* fraud and corruption.

Another distinction is the *level* at which the fraud and corruption occurs. For instance, fraud and corruption can be divided into petty corruption, grand corruption and State capture.

When people commit fraud and corruption, there are three key elements - referred to as the "fraud triangle" - which normally are present: incentive/pressure, opportunity, and rationalization/attitude.

3. Fraud and corruption risk factors associated with weak internal controls

Auditors can do much to prevent fraud and corruption in the environmental and natural resource sectors - and in other sectors - by addressing weak internal controls. Depending on the mandate of the SAI in question, risk factors associated with weak internal controls could be integrated into audits of environmental and natural resource management in several ways.

More specifically, such risk factors could be addressed: (i) as part of the key questions of the audit; (ii) integrated as audit questions at lower levels in the question hierarchy; or (iii) as part of the questions in surveys or qualitative interviews (or in other ways and forms found appropriate by the SAI and the audit team). Depending on their mandate, many SAIs may consider it sufficient only to report on weaknesses in internal controls, and end their audit at that point.

Chapter 3 presents several key questions for auditors about internal controls and fraud and corruption, drawn from INTOSAI GOV 9100, ISSAI 1240 and 1315, and the UN Convention Against Corruption (UNCAC). In this chapter, some of the weaknesses addressed by these key questions are illustrated in a case study from the environmental and natural resource sectors.

4. Fraud and corruption risk assessments relating to the environmental and natural resource sectors

Depending on their mandate, the next possible step for auditors - after detecting and reporting on weaknesses in internal controls - would be to carry out risk assessments which focus specifically on fraud and corruption risks. This implies a broader scope for the audit, where internal control is but one of several aspects taken into consideration.

Chapter 4 presents some of the most important elements in a fraud and corruption risk assessment process. The chapter has a particular focus on the environmental and natural resource sectors, and is organized into three main parts.

First, *the composition of the risk assessment team* is described. As fraud and corruption risk assessments and their follow-up typically involve many different issues and concerns, one possible approach could be to establish a team, or consult external experts, who can provide various sorts of inputs. Irrespective of the way in which the team or experts are brought together, it helps to have competence in, among other things:

- All the three basic audit disciplines, that is, performance, compliance and financial auditing;
- Internal auditing and fraud;
- Particular knowledge of the environmental and natural resource sector in question; and
- Legal matters.

Second, some of *the most important elements in the risk identification process* are discussed. These elements are identified by answering the following questions:

1. Where, in the environmental and natural resource value chain, are the places to look for fraud and corruption risks?
2. What types of fraud and corruption could be envisaged?
3. How could the act of fraud and corruption be carried out?
4. What could be possible red flags?
5. What has been done to address these risks?

Thirdly, this chapter introduces *the risk assessment scheme*. In this scheme, in addition to risk elements 1-5, the auditors should be able to give:

6. Their assessment of the probability or likelihood that a person or persons could carry out a particular act of fraud and corruption;
7. Their assessment of the possible consequences of the act of fraud and corruption in question;
8. Their prioritization into high or low priority, based on their assessments of probability and consequences; and
9. Possible audit procedures to follow up risks which are given a high priority in the assessment.

5. Red flags and suggested audit procedures in selected scenarios

Chapter 5 presents five different fraud and corruption scenarios from the environmental and natural resource sectors, along with possible red flags and suggested audit procedures. The scenarios, which are meant to represent various stages or processes in the value chain, each consists of three main parts:

(i) Short description of the scenario;

(ii) List of possible red flags, that is, indicators of possible fraud and corruption, associated with the scenario. For instance, this could include:

- Decisions carried out in a very non-transparent manner;
- Signs of illicit enrichment among actors involved;
- Anonymous tips that "something is wrong";
- Inexplicably expensive procurements;
- Grants given before or immediately after receiving project applications
- Reports from media and Civil Society Organizations (CSOs) on, for example, environmental degradation and adverse health effects in an area surrounding a chemical production plant.

(iii) List of possible audit procedures. For instance, this could include:

- Document analysis;
- Compliance audits to check whether relevant rules and procedures have been followed;
- Searches in business registers to find information on roles and relationships between persons, companies and other entities;
- Searches of other sources, such as other registers, media-reports, etc. to find indications of illicit enrichment;
- Confidential/sensitive interviews; and
- Transaction analysis to look for suspicious payments.

Chapter 1: Introduction

Increasing evidence clearly shows that the negative impacts of fraud and corruption are substantial in the environmental and natural resource sectors. At the same time, it is important to note that fraud and corruption is a multi-faceted concept which refers to practices taking place at all levels of the public sector[1], and which cover a wide spectrum of acts, spanning from improper use of public funds and/or office to serious criminal acts. In principle, all such acts can be considered as material, but they may be very different in character. This means that different authorities will become involved, depending on the particular subject matter.

The two main objectives of this Guide are: (1) to make the auditor aware of the challenges posed by fraud and corruption in the environmental and natural resource sectors; and (2) to provide SAIs with a tool to inspire and support them in addressing these challenges.

Moreover, the Guide is intended for all the three basic audit approaches (financial, compliance, and performance auditing). This is because:

- fraud and corruption may involve activities which may not have an identifiable impact on the financial statements; and
- a multi-disciplinary approach involving a mix of auditing approaches is more in accordance with the hybrid nature of forensic auditing - which often involves a broad spectrum of activities and methods.

This Guide provides information on why and how fraud and corruption are considered very common in the environmental and natural resource sectors, by discussing general fraud and corruption risk factors at all levels of the public sector. Furthermore, the Guide provides tips and examples on how to integrate this risk into the planning and/or the conduct of the audit of a particular environmental/natural resource topic.

1.1 A GLOBAL CHALLENGE

According to the United Nations, fraud and corruption are among the most serious challenges faced by the world community today. The economic, social and political costs that fraud and corruption bring upon societies are enormous and affect people in both rich and poor countries - although evidence shows that the latter suffer the most severe consequences. Estimates and surveys suggest that billions of dollars urgently needed for health, education, clean water and other infrastructure projects are embezzled or lost through bribery or other misconduct across the developing world each year. This weakens the delivery of basic public services and makes it harder to reach the Millennium Development Goals.[2]

[1] It must be emphasized that fraud and corruption also pose serious challenges within the private sector. The focus of this guide is primarily on fraud and corruption in the public sector because it is intended for public sector auditors.

[2] Extracted from UN Secretary-General Ban Ki-moon's messages for the International Anti-Corruption Day for the years 2008, 2009, 2010 and 2011. [Online] Available at www.un.org/en/events/anticorruptionday/sgmessages.shtml [Accessed on 16 December 2011]; UNDP/UNODC, 2011. ACT against corruption and promote ... ...development ...democracy ...education ...environment ...public health ...justice. Published 18 November 2011. [Online] Available at www.unodc.org/documents/yournocounts/print/materials2011/leaflets/corr11_leaflet_EN.pdf [Accessed on 16 December 2011]; World Bank, 2011. Costs & Consequences of Corruption. [Online] Available at http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTANTICORRUPTION/0,,contentMDK:20221941~menuPK:1165474~pagePK:148956~piPK:216618~theSitePK:384455,00.html [Accessed on 16 December 2011].

In addition fraud and corruption may also have other more indirect consequences. They may discourage investments, distort markets and curb economic growth, and may crumble fiscal and macroeconomic stability. Furthermore, fraud and corruption may also undermine democracy and the rule of law, and weaken the reputation of the State and the trust in public officials. Ultimately the stability and security of States may also be put in jeopardy.[3]

One of the most important global responses to these challenges is the adoption of the United Nations Convention Against Corruption. So far, it is the only global legal instrument against fraud and corruption. The Convention, which was adopted by the UN General Assembly on 31 October 2003 and which entered into force on 14 December 2005, has been ratified by more than two thirds of the UN member countries.

1.2 The roles of INTOSAI and the individual SAIs

Since the mid-1990s and especially during the last few years, INTOSAI has focused increasingly on the challenges posed by fraud and corruption, and on the roles of individual SAIs in coping with these challenges. Among other things, this focus has been reflected in two symposia on anti-corruption that INTOSAI has arranged together with the UN, and in the choice of "Preventing and Detecting Fraud and Corruption" as one of the two main themes at the XVI INCOSAI in 1998. Furthermore, at the XIX INCOSAI in 2007 the Working Group on the Fight Against Corruption and Money Laundering was also set up. As to more specific instruments in this field so far adopted by INTOSAI, the most substantial one is the financial audit guideline on "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" (ISSAI 1240).

The fight against corruption is also one of INTOSAI's five strategic priorities in the Strategic Plan for the period 2011-2016. Among other things, the Strategic Plan states the following: "Corruption is a pervasive global problem that threatens public finance, legal order, and social prosperity; endangers social security; and impedes the reduction of poverty. INTOSAI must lead by example in the fight against corruption and is fulfilling its responsibility to ensure transparency and prevention through several activities and measures."[4]

However, the roles of SAIs in this field may vary considerably, depending on their mandate and national legislation. Moreover, it should be noted that there are several other authorities in addition to SAIs which are responsible for fighting fraud and corruption in society. For some of these authorities, their roles and responsibilities in this field may go far beyond those of SAIs (this especially concerns the police, the prosecution authorities and the judiciary).[5]

Hence, it is very important that auditors are well aware of their mandate, the standards which already apply in their office, and the relevant national legislation relating to fraud and corruption. Also, it is essential that they have good knowledge of the reporting procedures

[3] Ban Ki-Moon, 2009 and 2010; World Bank, 2011; UNDP/UNODC 2011; Kaufmann, Daniel. 2005. Myths and Realities of Governance and Corruption, in: Global Competitiveness Report 2005-2006, the World Economic Forum. [Online] Available at http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/2-1_GCR_Kaufmann.pdf [Accessed on 10 May 2011], p. 83.
[4] INTOSAI, 2010. Strategic Plan 2011-2016. October 2010. [Online] Available at www.intosai.org/uploads/intosaispenglishv9web.pdf [Accessed on 14 November 2011], p. 5.
[5] In addition to the efforts at the national level, it should be noted that there are also various initiatives at the international level to fight fraud and corruption. As to international efforts to tackle environmental crimes and fraud and corruption in the environmental and natural resource sectors in particular, these include, among other things, the following two initiatives: INTERPOL Environmental Crime Programme (http://www.interpol.int/Crime-areas/Environmental-crime); The International Consortium on Combatting Wildlife Crime (http://www.cites.org/eng/prog/iccwc.php).

which apply to such cases in their own office, that is, procedures prescribing where, when and how to report when audit findings confirm suspicions of fraud and corruption.

It should also be underlined that, in addition to their mandate, the integrity of the auditors themselves is a critical factor in efforts to prevent and detect fraud and corruption. This is reflected in paragraph 25 of INTOSAI's Code of Ethics (ISSAI 30): "Auditors should not use their official position for private purposes and should avoid relationships which involve the risk of corruption or which may raise doubts about their objectivity and independence." [6]

1.3 FRAUD AND CORRUPTION IN THE ENVIRONMENTAL AND NATURAL RESOURCE SECTORS

Although fraud and corruption represent a serious challenge for the public sector in general, there are certain areas where the challenges may be particularly serious. It is highly likely that the environmental and natural resource sectors are among the areas which are particularly vulnerable. This is because these sectors - more than most - are under State control and often exclusively under the jurisdiction and control of State officials.

According to several published studies and reports, fraud and corruption within the environmental and natural resource sectors may have several different negative consequences. In addition to the possible negative impacts on the environment and on natural resources, consequences may also include economic, social and political costs. Fraud and corruption can, for example:

- result in large losses of government revenues from exploitation of natural resources such as oil and gas or timber;
- directly or indirectly contribute to depriving people of their livelihoods;
- contribute to unsustainable exploitation patterns and the undermining of the natural resource base;
- contribute to loss of biodiversity;
- contribute to serious pollution of land, water and/or air (thereby becoming a contributing factor in harming human health); and
- contribute to the weakening of climate change mitigation/adaptation measures.[7]

[6] The Netherlands Court of Audit has developed a self-assessment instrument, called Into-SAINT, which SAIs can use to help them design their own integrity policy. Into-SAINT is available to the entire INTOSAI Community. More information can be found at: www.courtofaudit.com/english/Organisation/What_do_we_do/International_activities/Design_your_own_integrity_policy_with_Into_SAINT.

[7] See, among others, World Bank, 2006. Strengthening Forest Law Enforcement and Governance. Addressing a Systemic Constraint to Sustainable Development. Report No. 36638-GLB. August 2006. [Online] Available at http://siteresources.worldbank.org/INTFORESTS/Resources/ForestLawFINAL_HI_RES_9_27_06_FINAL_web.pdf [Accessed on 4 April 2011]; Al-Kasim, Farouk; Søreide, Tina; Williams, Aled, 2008. Grand corruption in the regulation of oil. U4 Issue 2008:2, Chr. Michelsen Institute. [Online] Available at www.u4.no/publications/grand-corruption-in-the-regulation-of-oil/ [Accessed on 9 July 2010]; Dinh, Thi Thuy van, 2012. Addressing Corruption in the Environmental Sector: How the United Nations Convention against Corruption Provides a Basis for Action, pp. 34-36, in: UNODC, 2012. Corruption, environment and the United Nations Convention against Corruption. Papers from the special event "Impact of corruption on the environment and the United Nations Convention against Corruption as a tool to address it", fourth Conference of States Parties to the United Nations Convention against Corruption, Marrakesh, Morocco, 26 October 2011. [Online] Available at www.unodc.org/documents/eastasiaandpacific//indonesia/publication/Corruption_Environment_and_the_UNCAC.pdf [Accessed on 29 March 2012]; Dillon et al., 2006. Corruption & The Environment. A project for: Transparency International. Environmental Science and Policy Workshop. Columbia University, School of International & Public Affairs, April 2006. [Online] Available at www.columbia.edu/cu/mpaenvironment/pages/projects/spring2006/Transparency%20International%20final%20report.pdf [Accessed on 16 March 2011]; Nellemann, C., Miles, L., Kaltenborn, B. P., Virtue, M., and Ahlenius, H. (eds), 2007. The last stand of the orangutan – State of emergency: Illegal logging, fire and palm oil in Indonesia's national parks. United Nations Environment Programme. GRID-Arendal. Norway[Online] Available at www.grida.no/files/publications/orangutan-full.pdf [Accessed on 4 April 2011]; UNDP, 2010. Staying on Track – Tackling Corruption Risks in Climate Change. [Online] Available at http://climate-l.iisd.org/news/undp-publishes-report-on-tackling-corruption-risks-in-climate-change/?referrer=climate-change-daily-feed [Accessed on 17 February 2011].

1.4 INTRODUCTORY REMARKS ON THE USE OF THE GUIDE

In addition to ISSAI 1240, other INTOSAI standards deal with the auditor's responsibilities in relation to fraud and corruption prevention and detection in the public sector. They include, for example, ISSAIs 1000, 1200, 1210, 4000 and 4200.[8] In particular, fundamental benchmarks are found in paragraph 7 of ISSAI 1200 which establishes the principle of "professional skepticism", and paragraph A6 of ISSAI 1240 which states that the responsibilities of the public sector auditor with regard to fraud and corruption may go beyond the responsibility to consider the risks of material misstatements of the financial statements due to fraud.

This Guide encompasses corrupt activities, thereby broadening its scope to include activities which may not have an identifiable impact on the financial statements (in the form of fraudulent financial reporting or misappropriation of assets). As such, this Guide may be viewed as something of an extension of ISSAI 1240 and the other relevant ISSAIs. Aside from ISSAIs, this Guide is based on the INTOSAI Guidance for Good Governance (INTOSAI GOV), the United Nations Convention Against Corruption, and other relevant references as appropriate.

However, it should be added that although the Guide is intended for audits of the environmental and natural resource sectors, some overlap with other guidelines is unavoidable. This because almost all criteria, procedures, methods, etc. relating to auditing fraud and corruption are *generic*. This is reflected in the Guide's catalogue of "red flags," which contains both generic and sector-specific elements.

None of the views expressed in this document should be considered as requirements for or binding on SAIs or members of their staff.[9] This Guide should be considered as "work-in-progress" and additional contributions from practitioners are both needed and welcomed. As such, it should be reviewed at an early stage with the objective of incorporating experience gained from its use.

In addition, considering the sensitivity of the subject matter, the importance of the due care principle should also be emphasized: "Without affecting the SAI's independence, the auditors should exercise due professional care and caution in extending audit steps and procedures relative to illegal acts so as not to interfere with potential future investigations or legal proceedings. Due care would include consulting appropriate legal counsel and the applicable law enforcement organisations to determine the audit steps and procedures to be followed." (ISSAI 300, paragraph 4.7).

This Guide is intended both for auditors who wish to integrate fraud and corruption issues as part of regular environmental audits, and for auditors who wish to carry out fraud and corruption audits within particular environmental or natural resource sectors. For auditors in the former category, Chapters 3 and 4 may be most relevant as a starting point for the audit planning process. Under any circumstance, however, because different SAIs will have different mandates in respect to preventing and detecting fraud and corruption, the tools provided in this Guide may have to be adjusted to be in accordance with these differing mandates.

[8] Among other things, the following paragraphs are relevant: Paragraphs 71-74 in ISSAI 1000; paragraphs P4 and P18, paragraph 7 and paragraph A57 in ISSAI 1200; paragraph P7 in ISSAI 1210; paragraph 10 in ISSAI 4000; paragraphs 89-90 in ISSAI 4200.
[9] This also follows from paragraph 17 in ISSAI 100.

Chapter 2:
Background to fraud and corruption and environmental and natural resource management

This chapter is organized into four main sections. In the first section, the link between fraud and corruption and environmental degradation/natural resource depletion is explored, along with some examples of potential impacts of fraud and corruption from the INTOSAI WGEA portfolio. Section 2.2 presents the ISSAI 1240-definition of "fraud" and the World Bank's definition of "corruption", and also briefly describes two basic dimensions of fraud and corruption. Section 2.3 describes the main drivers of fraud and corruption based on the conceptual framework provided by the "fraud triangle". Finally, Section 2.4 briefly touches on the link between weak governance and fraud and corruption in the environmental and natural resource sectors.

2.1 THE POSSIBLE IMPACTS OF FRAUD AND CORRUPTION IN THE ENVIRONMENTAL AND NATURAL RESOURCE SECTORS

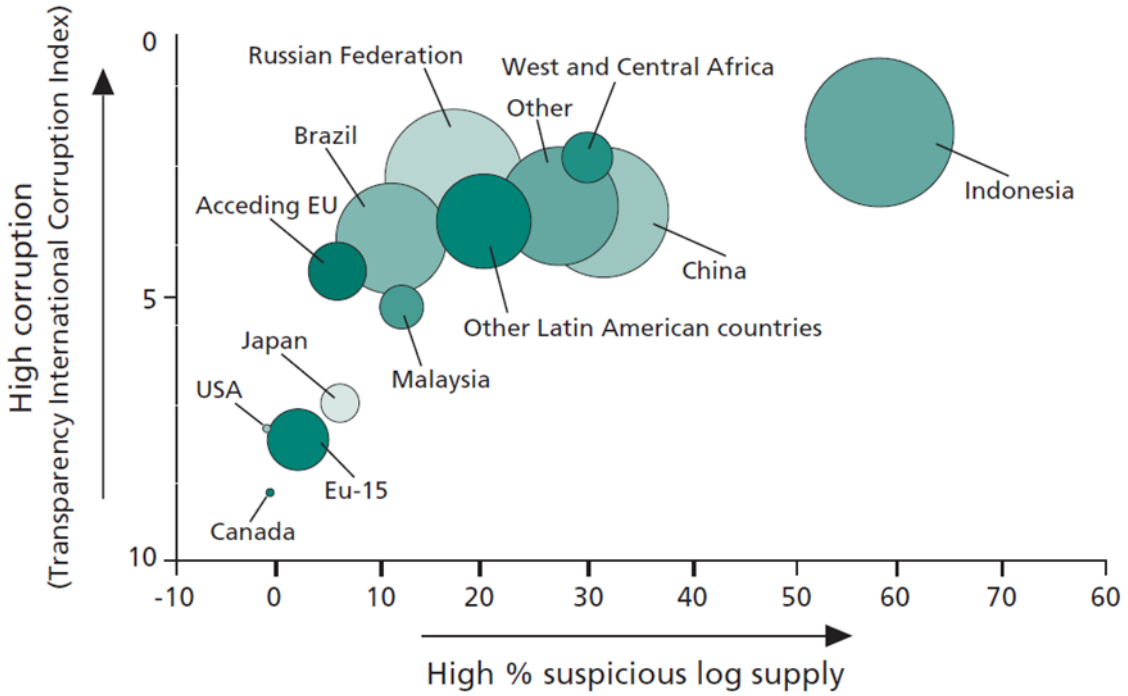
By their nature, fraud and corruption are often - but not always - concealed activities. It is therefore difficult to measure directly the impact of fraud and corruption on society in general[10] and on the environment in particular.[11] The lack of reliable statistics and systematic documentation of fraud and corruption committed by government officials or businesses makes measuring even more challenging.[12] Hence, the extent and impact of fraud and corruption is often measured *in*directly, through various indices such as Transparency International's Corruption Perception Index and Global Corruption Barometer, and the World Bank's Control of Corruption Index (CCI). These indices are based on perceptions of fraud and corruption, and/or direct experiences with it, and/or observed data.[13]

As to the environmental and natural resource sectors in particular, one way to establish - and measure - the link between fraud and corruption, on the one hand, and environmental performance on the other, is to combine indices for the former with indices for the latter. This was done in 2001, when researchers, for the first time, drew attention to the very high correlation between the two; that is, the level of environmental sustainability in a country decreases when the level of fraud and corruption increases.[14] This correlation was identified by combining the Environmental Sustainability Index (ESI) developed for the World Economic Forum with the CCI. Corruption was the variable (out of a total of 67 variables) showing the strongest correlation to the overall ESI. Furthermore, corruption also had a strong correlation with many of the more specific environmental indicators in the ESI.[15]

[10] UNDP, 2008, p. 24; Mock, 2003, p. 1.
[11] Winbourne, Svetlana, 2005. Environment and Natural Resources. Chapter 7, p. 104, in: Spector, Bertram I. (ed.), 2005. Fighting Corruption In Developing Countries. Bloomfield, CT: Kumarian Press. [Online] Available at www.usaid.gov/our_work/democracy_and_governance/technical_areas/anticorruption_handbook/annexes/subannexes/Environment/Environment1%20-%20Winbourne%202005.pdf [Accessed on 15 March 2012]; Transparency International, 2007, p. 2.
[12] Winbourne, Svetlana, 2005, p. 106; Mock, 2003, p. 1.
[13] UNDP, 2008, pp. 24-25; Mock, 2003, p. 1.
[14] Winbourne, 2005, pp. 106-07.
[15] Levy, Marc, 2001. Corruption and the 2001 Environmental Sustainability Index, pp. 300-302, in: Hodess, Robin (ed.), 2001. Global Corruption Report 2001. Transparency International. [Online] Available at www.transparency.org/publications/gcr/gcr_2001#download [Accessed on 17 March 2011].

Although the link between fraud and corruption and environmental degradation/natural resource depletion is far from straightforward and can be difficult to quantify, there is now a growing body of evidence which clearly shows that the magnitude of the problem is substantial.[16] Below are presented some examples from various sectors within the INTOSAI WGEA portfolio to illustrate the potential impacts of fraud and corruption in the environmental and natural resource sectors.

Figure 2.1 Relationship between corruption and suspected illegal forest activities



Source:
FAO,2005. Forestry Paper 145. Food and Agriculture Organization of the United Nations/International Tropical Timber Organization. [Online] Available at www.fao.org/docrep/008/a0146e/a0146e00.htm [Accessed on 4 April 2011], p. 13. Note: Bubble size represents the volume of suspect roundwood, including imports.

Forestry

According to the World Bank, more than 10 billion USD in assets and revenues are lost each year due to illegal logging. This is more than six times the total amount used for sustainable forest management through official development assistance. In addition, 5 billion USD is estimated to be lost each year due to uncollected royalties and taxes from legal logging. Although reliable estimates are not available, interviews with stakeholders and anecdotal evidence indicate that financial losses due to fraud and corruption in State-owned forests can be as large as or even larger than those from stolen timber. Fraud and corruption in forestry can be small scale and take place locally, or may involve officials at high levels within or outside the relevant State agencies who facilitate the supply of large volumes of illegal

[16] Mock, 2003, p. 2; Kolstad, Søreide and Williams, 2008, p. 2.

timber.[17] Figure 2.1 illustrates the correlation between corruption and illegal logging on the global level.

The link between fraud and corruption and illegal logging has been observed by several major stakeholders such as the United Nations Food and Agriculture Organization, the World Resources Institute, the United Nations Development Programme, the United Nations Environmental Programme, and the International Criminal Police Organization.[18]

Fisheries

During the last few decades, as the fisheries sector has become increasingly industrialized and globalized, fishing has developed into a multi-billion dollar business. In parallel to this, the world's total production from marine capture fisheries has peaked - in 2002 - and the proportion of overexploited, depleted or recovering stocks has increased from 10 % in 1974 to 32 % in 2008. This trend is partly due to so-called illegal, unregulated and unreported (IUU) fishing, which has grown into a serious global problem.[19]



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According to a 2009 study, the current global losses due to illegal and unreported fishing were estimated to range between 9 billion USD and 24 billion USD per year, equivalent to between

[17] The World Bank, 2006. Strengthening Forest Law Enforcement and Governance. Addressing a Systemic Constraint to Sustainable Development. Report No. 36638-GLB. August 2006. [Online] Available at http://siteresources.worldbank.org/INTFORESTS/Resources/ForestLawFINAL_HI_RES_9_27_06_FINAL_web.pdf [Accessed on 4 April 2011], pp. 1-2, 9-10; The World Bank, 2012. Justice for Forests: Improving criminal justice efforts to combat illegal logging. World Bank series ; R67. [Online] Available at http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/Illegal_Logging.pdf [Accessed on 10 July 2012], pp. 1-2.

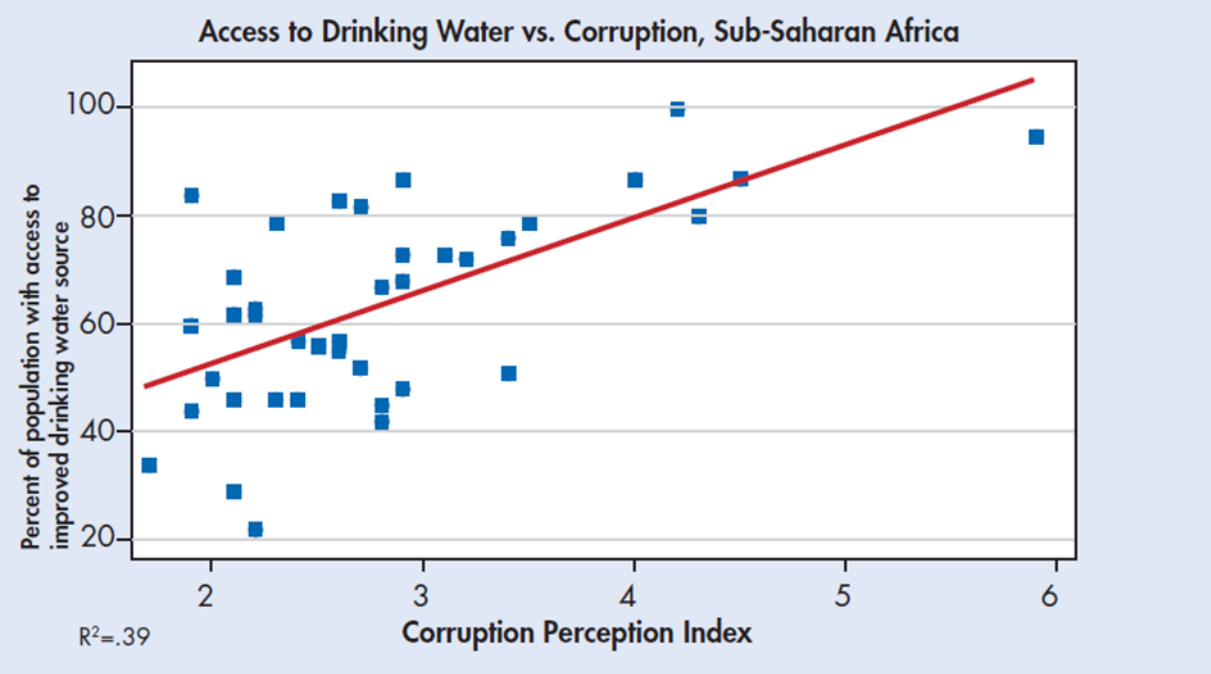
[18] FAO, 2005. Forestry Paper 145. Food and Agriculture Organization of the United Nations/International Tropical Timber Organization. [Online] Available at www.fao.org/docrep/008/a0146e/a0146e00.htm [Accessed on 4 April 2011], pp. 10-14; Mock, 2003, p. 2; UNDP, 2008, p. 95; Nellemann, C., INTERPOL Environmental Crime Programme (eds). 2012. Green Carbon, Black Trade: Illegal Logging, Tax Fraud and Laundering in the Worlds Tropical Forests. A Rapid Response Assessment. United Nations Environment Programme, GRIDArendal. [Online] Available at www.unep.org/pdf/RRAlogging_english_scr.pdf [Accessed on 8 October 2012], pp. 19-28.

[19] Transparency International, 2007, pp. 3-4; FAO, 2010. The State of World Fisheries and Aquaculture 2010. [Online] Available at www.fao.org/docrep/013/i1820e/i1820e.pdf [Accessed on 11 April 2011], p. 8; UNDP, 2008, p. 94; Standing, André, 2008 (a). Corruption and commercial fisheries in Africa. U4 Brief. Chr. Michelsen Institute. December 2008 – No. 23. [Online] Available at http://www.cmi.no/publications/file/3189-corruption-and-commercial-fisheries-in-africa.pdf [Accessed on 11 April 2011].

11 and 26 million tonnes of fish.[20] Consequently, in addition to the huge revenue loss, IUU-fishing also may threaten food security, in particular in the less developed regions of the world.[21]

The severity of this issue was also confirmed in a 2008-study of the 53 top fishing countries in the world. The study looked at the extent these countries complied with the United Nations Food and Agriculture Organizations Code of Conduct for Responsible Fisheries with regard to fisheries management (Article 7). Among other things, this study found that the overall compliance with the Code in respect of controlling IUU-fishing was very poor, and that the scores on IUU-fishing correlated with Transparency International's Corruption Perception Index.[22] In addition, empirical evidence (for example, from Africa and the Pacific) establishes the link between fraud and corruption and IUU-fishing.[23]

Figure 2.2 Relationship between corruption and access to drinking water in Sub-Saharan Africa



Source:
Stålgren, P., 2006. Corruption in the Water Sector: Causes, Consequences and Potential Reform. Swedish Water House Policy Brief Nr. 4. SIWI. [Online] Available at www.siwi.org/documents/Resources/Policy_Briefs/PB5_Corruption_in_the_water_sector_2006.pdf [Accessed on 5 April 2011], p. 5.

Water

[20] Marine Resources & Fisheries Consultants (MRAG)/UK Department for International Development (DFID), 2009. Illegal, Unreported and Unregulated Fishing. Policy Brief 8. [Online] Available at www.mrag.co.uk/Documents/PolicyBrief8_IUU.pdf [Accessed on 29 March 2012].
[21] UNDP, 2008, p. 94; Standing, André, 2008.
[22] Pitcher, Tony J. et al., 2008. Safe Conduct? Twelve years fishing under the UN Code. WWF-International and the University of British Columbia's Fisheries Ecosystem Restoration Research group. [Online] Available at http://awsassets.panda.org/downloads/un_code.pdf [Accessed on 6 July 2010], pp. 24-27.
[23] Standing, André, 2008 (b). Corruption and industrial fishing in Africa. U4 Issue 2008:7, Chr. Michelsen Institute. [Online] Available at www.cmi.no/publications/file/3188-corruption-and-industrial-fishing-in-africa.pdf [Accessed on 12 April 2011], pp. 8, 19; Tsamenyi, Martin and Hanich, Quentin, 2008. Addressing Corruption in Pacific Islands Fisheries (Draft), A Report prepared for the IUCN PROFISH Law Enforcement, Corruption and Fisheries Project. [Online] Available at http://www.illegal-fishing.info/uploads/IUCNfishcorruptionpacificdraft.pdf [Accessed on 28 January 2011], p. 10.

Water is a vital resource without any substitutes. Still, billions of people in many regions around the world today are experiencing a water crisis which threatens their health, lives and livelihoods. Transparency International and the Stockholm International Water Institute, among others, point out that this global water crisis is to a large extent a crisis of water governance, and fraud and corruption are a part of this.

Although the extent of fraud and corruption varies greatly across the water sector, and between different countries and governance systems, fraud and corruption seem to be widespread and appear to affect all aspects of this sector, from water resources management through to drinking water services, irrigation and hydropower. Fraud and corruption in the water sector may undermine development by scaring off investments, decreasing efficiency in the management of water resources and provision of services, and by weakening the quality of public institutions.[24] As an illustration from Sub-Saharan Africa, figure 2.2 shows that there is a correlation between corruption and access to improved drinking water. The higher the level of fraud and corruption in a country, the smaller the percentage of its citizens who have access to improved drinking water.

Biodiversity

Although both fraud and corruption and environmental degradation are worldwide problems, the so-called "biodiversity hotspots" are where the issues of environmental degradation and fraud and corruption overlap the most[25]. These areas comprise the richest, and most diverse assemblage of plants and animals anywhere in the world. But, at the same time, they are the most endangered. With a few exceptions, these hotspots are located in parts of the world where fraud and corruption levels are seen to be moderate or high.

In addition to the general risks relating to fraud and corruption in the environmental and natural resource sectors, the possible impacts of fraudulent and corrupt practices can be particularly severe in these hotspots. There are two main reasons for this: the ecosystems in question are particularly vulnerable to threats; and environmental degradation in these areas can result in globally significant biodiversity losses.[26]

In addition to the possible ecological degradation caused by illegal logging and deforestation, biodiversity hotspots can also be threatened by poaching of wild animals and illegal trade of endangered species. Of the illegal trade in wildlife products, timber accounts for about 65 %, followed by game and other food, forest products, animal products, and the trade in pets and decorative plants.

Often, fraud and corruption in this area seem to be driven by demand for illegal products in Western countries.[27] The problem appears to be especially severe in Asia, which is the home of about 90 percent of the most endangered species. In Asia itself, the demand for traditional

[24] Zinnbauer, Dieter and Dobson, Rebecca (eds), 2008. Global Corruption Report 2008. Corruption in the Water Sector. Transparency International. [Online] Available at www.transparency.org/publications/gcr/gcr_2008 [Accessed on 5 April 2011], pp. xxiii-xxv; Stålgren, P., 2006. Corruption in the Water Sector: Causes, Consequences and Potential Reform. Swedish Water House Policy Brief Nr. 4. SIWI. [Online] Available at www.siwi.org/documents/Resources/Policy_Briefs/PB5_Corruption_in_the_water_sector_2006.pdf [Accessed on 5 April 2011], pp. 3, 10.

[25] According to Conservation International, "biodiversity hotspots" are areas which contain at least 1,500 species of vascular plants (more than 0.5 % of the world's total) as endemic species, or species that cannot be found in any other places in the world, and which have lost at least 70 % of its original habitat. Source: Dillon et al., 2006, p. 18.

[26] Dillon et al., 2006, p. 18.

[27] Dillon et al., 2006, p. 26.

medicines is believed to be one of the main forces behind the illegal trade in wildlife products.[28]



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2.2 DEFINITIONS OF FRAUD AND CORRUPTION

There are many different general and specific definitions of fraud and corruption in use today. This variety of definitions reflects the various ways in which people perceive and conceptualize fraud and corruption.[29] Globally, therefore, these terms are used interchangeably by organizations working in this field - including INTOSAI - and in the public debate and the academic discussion on the subject. Moreover, depending on whether these terms are given a wide or narrow definition, there are also examples of "fraud" being referred to as a subtype of corruption - and vice versa. Taking this into consideration, this Guide defines the two concepts as follows.

First, this Guide uses the ISSAI 1240-definition of "fraud", provided in paragraph 11 (a):

[28] UNDP, 2008, pp. 95-96.
[29] ASOSAI, 2003. ASOSAI Guidelines for Dealing with Fraud and Corruption, adopted by the 9th ASOSAI Assembly on 22 October 2003. [Online] Available at www.asosai.org/asosai_old/guidelines/guidelines1.htm Accessed on 11 January 2011].

"An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage."

ISSAI 1240 does not define "corruption", however, and this Guide will use the World Bank definition of this concept:

"[…] the abuse of public funds and/or office for private or political gain."[30]
The latter definition should also be seen in connection with paragraph P6 of ISSAI 1240, which further defines the concept of "abuse" in respect of public sector officials.

It must be emphasized that these definitions are presented for guidance purposes only. Also, the terms "fraud" or "corruption" should never be used in a conclusive sense unless confirmed by a court of law.

2.2.1 Fraud and corruption - a multi-faceted concept

Just as there are many different definitions of fraud and corruption in use today, these two concepts can also be divided into many different types or categories of acts and practices. A rather exhaustive typology, based on UNODC (2004), is shown in Appendix A.[31] Here, only two basic dimensions, that is, internal vs. external fraud and corruption, and the "level-dimension" are presented.

Internal vs. external fraud and corruption

One fundamental distinction is between internal fraud and corruption, and external fraud and corruption.[32] For this Guide, the former category consists of fraudulent and corrupt acts which are committed by employees, management or the political leadership within the public sector, whereas the latter category refers to such acts committed against the public sector by individuals or groups in the private sector. Very often, however, fraud and corruption is taking place in the *interface* between the two sectors, that is, a combination of internal and external fraud and corruption via collaboration between those on the inside and those on the outside.

Fraud and corruption at various levels of government

Another distinction can be made in respect of the *level* at which the fraud and corruption is taking place. According to the United Nations Development Programme[33], fraud and corruption can be divided into (1) petty corruption, (2) grand corruption and (3) State capture.

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[30] Source: Halpern, Jonathan et al., 2008. Deterring Corruption and Improving Governance in the Urban Water Supply & Sanitation Sector. Water Working Note No. 18, December 2008. The World Bank. [Online] Available at http://siteresources.worldbank.org/EXTGOVANTICORR/Resources/3035863-1285189243778/WaterSourcebook1rev.pdf [Accessed on 29 March 2012], p. 4.

[31] According to UNODC, corruption can be divided into the following categories: 1. "Grand" and "petty" corruption; 2. "Active" and "passive" corruption; 3. Bribery; 4. Embezzlement, theft and fraud; 5. Extortion; 6. Abuse of discretion; 7. Favouritism, nepotism and clientilism; 8. Conduct creating or exploiting conflicting interests; 9. Improper political contributions. (UNODC, 2004, pp. 10-16.) For further reading, see also, among others, UNODC, 2005, pp. 21-27, and UNODC, 2003, UN Guide for Anti-Corruption Policies. [Online] Available at www.unodc.org/pdf/crime/corruption/UN_Guide.pdf [Accessed on 22 February 2011], pp. 28-34.

[32] ASOSAI, 2003.

[33] UNDP, 2008. Tackling corruption, transforming lives. Accelerating Human Development in Asia and the Pacific. Asia Pacific Human Development Report. [Online] Available at http://hdr.undp.org/en/reports/regionalreports/asiathepacific/RHDR_Full%20Report_Tackling_Corruption_Transforming_Lives.pdf [Accessed on 20 January 2011], pp. 17, 36, 92.

(1) *Petty corruption* refers to fraud and corruption, usually involving small sums of money, committed by lower level public servants. It relates to "everyday" fraud and corruption taking place where officials and the public interact with each other, that is, at the implementation end of laws, rules, regulations and policies.[34]

(2) *Grand corruption* refers to fraud and corruption which usually takes place at the highest levels of government - by members of the political or administrative elite, or people associated with them - and which generally involves substantial amounts of money.[35]

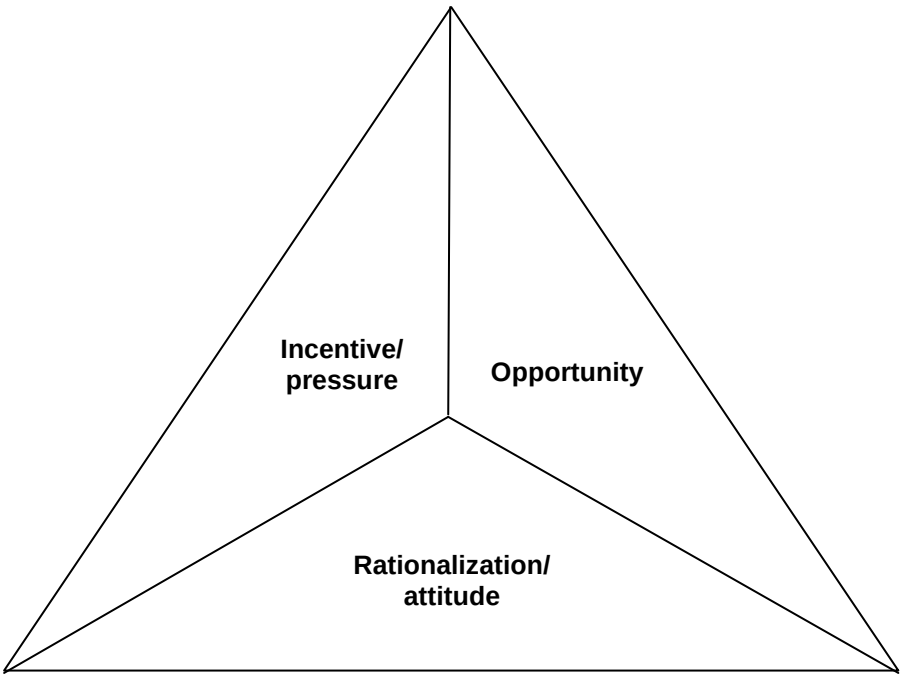
(3) *State capture* refers to the acts of individuals, groups, or companies in both the private and public sectors, to manipulate the shaping of laws, policies and regulations for private or political gain. This manipulation can be achieved through illegal practices, for instance, when companies are bribing public officials to shape legislation to their advantage. As a result, the activities of the companies in question may now be legal, but they are still corrupt. This is a way of "legalizing" fraud and corruption.[36]

2.3 DRIVERS OF FRAUD AND CORRUPTION: UNDERSTANDING THE CAUSES OF FRAUD AND CORRUPTION

When people commit fraud and corruption, three key elements are normally present: 1. Incentive/pressure; 2. Opportunity; 3. Rationalization/attitude. Together, these three elements make up what is referred to as the "fraud triangle"[37] (see Figure 2.3). The fraud triangle is a simple but powerful tool for auditors when assessing an entity's vulnerability of fraud and corruption. It is referred to in ISSAI 1240 and used to present examples of fraud risk factors.[38]

[34] UNDP, 2008, p. 230.
[35] See, among others, UNODC, 2005, p. 21; Shah and Schacter, 2004, p. 41; UNDP 2008, pp. 2, 230; McPherson, Charles and MacSearraigh, Stephen, 2007, Corruption in the Petroleum Sector, p. 199, in: Campos and Pradhan, 2007; World Bank, 1997, pp. 9-10.
[36] See, among others, Campos and Bhargava, 2007, p. 3; UNDP, 2008, pp. 7, 21-22, 92, 231; Paterson and Chaudhuri, 2007, p. 161.
[37] Lou, Yung-I and Wang, Ming-Long, 2009. Fraud Risk Factor of the Fraud Triangle. Assessing The Likelihood Of Fraudulent Financial Reporting, in Journal of Business & Economics Research – February, Volume 7, Number 2. [Online] Available at www.cluteinstitute-onlinejournals.com/PDFs/1065.pdf [Accessed on 18 January 2011], pp. 61-62; The Fraud Triangle and What You Can Do About It, in The Certified Accountant, 1st Quarter 2009 – Issue #37. [Online] Available at www.lacpa.org.lb/Includes/Images/Docs/TC/TC363.pdf [Accessed on 18 January 2011], p. 69.
[38] See Appendix 1 both in the Practice Note and in ISA 240.

Figure 2.3 The fraud and corruption triangle



The three elements of the fraud triangle can be described as follows:

2.3.1 Incentive/pressure

Incentive/pressure is also referred to as "motivation" or "greed or need".[39] When it comes to pressure or need felt by the person committing fraud and corruption, this may reflect a specific financial problem that the person is dealing with, or the need may arise because the salary of the person in question is inadequate for economic survival. Surveys in many countries have identified low salaries as an important reason behind corruption among civil servants.[40]

On the other hand, the incentives for committing fraud and corruption may also simply come from greed and the wish to have or maintain a lavish lifestyle. According to the United Nations Development Programme, greed is often more relevant as a reason than need, especially when it comes to grand corruption.[41]

However, although some of the indicators and so-called "red flags" for greed or need may be well-defined and detectable, it must be remembered that peoples' motivations for fraud and corruption can be very complex.[42]

Incentive/pressure in the environmental and natural resource sectors

[39] CIMA, 2008. Fraud Risk Management: A Guide to Good Practice. [Online] Available at http://www.cimaglobal.com/Documents/ImportedDocuments/cid_techguide_fraud_risk_management_feb09.pdf.pdf. [Accessed on 18. January 2011], p. 13.
[40] The Fraud Triangle and What You Can Do About It, in The Certified Accountant, 1st Quarter 2009 – Issue #37. [Online] Available at www.lacpa.org.lb/Includes/Images/Docs/TC/TC363.pdf [Accessed on 18 January 2011], p. 69; UNDP, 2008, p. 114.
[41] UNDP, 2008, pp. 9, 60.
[42] Jones, Peter, 2004. Fraud and corruption in public services: a guide to risk and prevention, Gower Publishing Limited, England, pp. 2-3.

As a source of much wealth in the form of environmental services (e.g., as a "sink" for pollution) and natural resources, the environment may be a natural object for fraud and corruption. Natural resources often have high commercial value, and the large amounts of formal and informal revenues which can be generated through their exploitation are significant incentives underlying fraudulent and corrupt behaviour. Such revenues - and incentives - can be present in all stages of the value chain (see Chapter 4 for further discussion). Furthermore, fraud and corruption can also occur when resources are scarce (see Section 2.1). Scarcity can be an issue for a wide range of resources, from water - a vital resource, essential for all people - to rare animal and plant species, which are potentially lucrative commodities in black markets.[43]



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2.3.2 Opportunity

In principle, almost any condition can provide opportunities to commit fraud and corruption.[44] Among other things, opportunity reflects the extent of authority that government officials, managers and employees have been entrusted with, and the degree of access they have to assets, information and/or systems.[45] Furthermore, opportunity is also a function of the likelihood of detection and the clarity and strictness of rules and policies regarding acceptable behavior.[46]

Opportunity in the environmental and natural resource sectors

One central aspect of the environmental and natural resource sectors is the technical complexity involved in regulating and managing these sectors. This complexity may be

[43] Dillon et al., 2006, p. 9; Mock, 2003, p. 2; Winbourne, 2005, p. 106; Kolstad, Ivar; Søreide, Tina and Williams, Aled, 2008. Corruption in natural resource management – an introduction. U4 Brief. Chr. Michelsen Institute. February 2008 – No. 2. [Online] Available at www.cmi.no/publications/file/2936-corruption-in-natural-resource-management-an.pdf [Accessed on 22 March 2011]; UNDP (2008), p. 91.
[44] Jones, 2004, p. 3.
[45] The Fraud Triangle and What You Can Do About It, p. 69.
[46] CIMA, 2008, p. 13.

present in regulation, licensing, exploration, monitoring, distribution, sale, reporting, etc. As a consequence, aside from a few insiders, most people may not fully comprehend how these sectors actually work. This may lead to imbalances in information access which in turn limit oversight and transparency for all parties; this can provide various entry points for manipulation, fraud and corruption for those who control the processes and have the proper knowledge ("knowledge is power").[47]

Another feature of fraud and corruption in the environmental and natural resource sectors is that there is often minimal risk of being caught. In many instances, the exploitation of natural resources - and sometimes the environmental degradation itself - takes place in remote locations, far from centres of government, public oversight and media scrutiny. In addition, the areas in question may be sparsely populated and physically vast. Furthermore, as the vast majority of extracted and exploited natural resources are to be exported, these commodities may also be traded via complex routes, involving smuggling. Consequently, it is not uncommon to find fraud and corruption in these sectors that transcends national borders. This makes monitoring - both of the exploitation itself and of possible collusion between companies and public officials - difficult.[48]

2.3.3 Rationalization or attitude

Rationalization refers to the ethical values and arguments which allow individuals to justify fraudulent and corrupt behaviour. Factors that may lead to the rationalization of fraud and corruption are, for example, career advancements which are perceived to be unconnected to merit and performance, inadequate and delayed budgets, insufficient supplies and equipment, and the lack of a clear and shared purpose for the organization in question.[49] Another rationalization might be that the employee in question considers the fraudulent or corrupt act as "harmless" because the damage caused is so small compared to the size of the organization and its resources.[50]

Then, there is the "everyone-else-is-doing-it" syndrome, that is, where an ethos tolerant of fraud and corruption has become entrenched as a cultural norm in large parts of the organization. This can be a particularly serious risk factor because once entrenched it is often very difficult to reverse.[51] Furthermore, this risk factor may be further exacerbated if the senior officials or political leadership in the organization lead the way when it comes to abusing power for private or political gain.[52]

As with incentive/pressure, however, peoples' rationalization or attitude may also be difficult to identify in practice.

Rationalization or attitude in the environmental and natural resource sectors

When it comes to fraud and corruption in the environmental and natural resource sectors, another aspect might be that the environment is quite often given a lower priority when

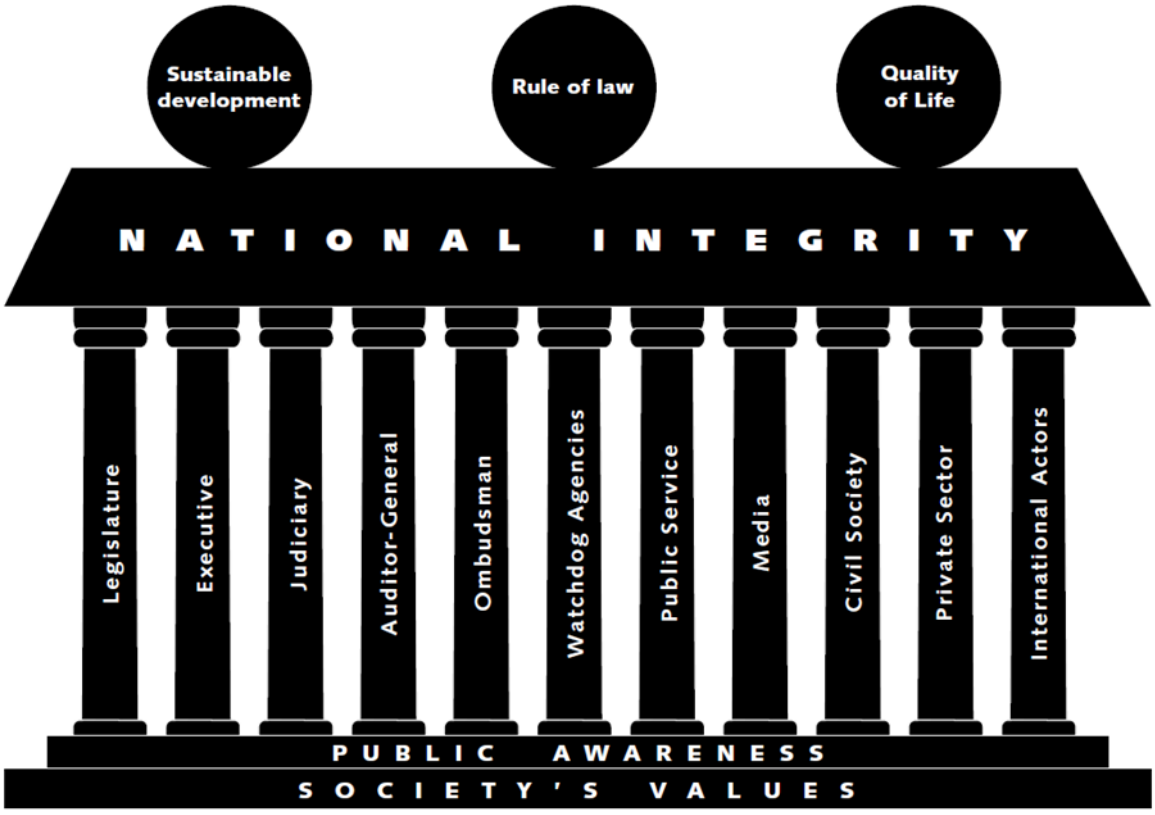
[47] Gillies, Alexandra, 2010. Fuelling Transparency and Accountability in the Natural Resources and Energy Markets. Conference Paper prepared for the 14th International Anti-Corruption Conference. 10-13 November 2010 - Bangkok, Thailand. [Online] Available at http://14iacc.org/wp-content/uploads/AlexandraGillesNaturalResourcesIACC.pdf [Accessed on 30 March 2011], p. 2; Mock, 2003, p. 2;
[48] Mock, 2003, p. 2; UNDP, 2008, pp. 91, 96, 104; Dillon et al., 2006, pp. 26-27.
[49] World Bank, 1997, p. 12.
[50] CIMA, 2008, p. 13.
[51] Jones, 2004, p. 3; UNODC, 2004, p. 244.
[52] World Bank, 1997, p. 12.

important political or economic decisions are made in other parts of the country. This can mean that the penalties for infringements in these sectors are often small compared to the potential profits. Also, because market prices for a lot of natural resources and/or ecosystem services are lacking, it is easy for a "if you cannot price it, it must be of little value" syndrome to then creep in.[53]

2.4 FRAUD AND CORRUPTION RISKS ASSOCIATED WITH WEAK GOVERNANCE

Experience gained from other sectors shows that many of the challenges relating to fraud and corruption in the environmental and natural resource sectors also may be due to fundamental and structural weaknesses of governance. That is, a lack of transparency, accountability, and the rule of law, and weaknesses in the institutions in place to promote and protect these attributes of good governance.[54]

Figure 2.4 The National Integrity System



Source:
Pope, Jeremy, 2000. Confronting Corruption: The Elements of a National Integrity System, TI Source Book 2000, Transparency International. [Online] Available at www.transparency.org/publications/sourcebook [Accessed on 24 January 2011], p. 35.

[53] Dillon et al., 2006, pp. 9, 14; Mock, 2003, p. 2; UNDP, 2008, p. 91; Winbourne, 2005, p. 108.
[54] See, among others: Dillon et al., 2006, p. 40; Winbourne, 2005, p. 105; Mock, 2003, p. 3; UNDP, 2008, p. 98; Gillies, 2010, pp. 4-7; Kolstad, Søreide and Williams, 2008.

The importance of good governance for the prevention and detection of fraud and corruption is recognized in article 5 of the United Nations Convention Against Corruption which states that State Parties should "develop and implement or maintain effective, coordinated anti-corruption policies that promote the participation of society and reflect the principles of the rule of law, proper management of public affairs and public property, integrity, transparency and accountability."

This system of co-ordinated anti-corruption policies is also referred to as the National Integrity System. (See figure 2.4). Its purpose is to provide the necessary checks and balances by separating power between the different agencies and branches of the public sector, and between the public sector and civil society.[55]

Generally, the characteristics of fraud and corruption risk factors associated with weaknesses in the integrity system do not lend themselves to being integrated into the specifics of planning and conducting environmental and natural resource audits. Nevertheless, these risk factors/governance elements do need to be kept in mind at some level, because they may be important when addressing fraud and corruption.

[55] See Langseth, Petter; Stapenhurst; Rick; Pope, Jeremy, 1997. The Role of a National Integrity System in Fighting Corruption. EDI Working Paper 18868. The World Bank. [Online] Available at www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/02/24/000094946_99030406262037/Rendered/PDF/multi_page.pdf [Accessed on 2 April 2012], pp. 9-22; Pope, 2000; UNODC, 2004, Chapter III, pp. 82-183.

Chapter 3:
Fraud and corruption risk factors associated with weak internal controls

According to the United Nations Convention Against Corruption, the fundamental commitment to prevent and combat fraud and corruption in countries lies with the State Parties. On the entity level, paragraph 4 in ISSAI 1240 stipulates that management has a primary responsibility for preventing and detecting fraud and corruption.

Taking these fundamental obligations into account, auditors can do much to prevent fraud and corruption in the environmental and natural resource sectors - and in other sectors - by addressing weak internal controls. The auditor's responsibilities in respect of understanding the internal controls of the public sector entity in question and responding to assessed risks are stipulated in paragraphs 12 and 13 of ISSAI 1315 and paragraphs 15 and 20 in ISSAI 1330.

There are various ways to integrate risk factors associated with weak internal controls into audits of environmental and natural resource management. These risk factors could be addressed: (i) as part of the key questions of the audit; (ii) integrated as audit questions at lower levels in the question hierarchy; and (iii) be part of the questions in surveys or qualitative interviews or in other ways and forms found appropriate by the SAI and the auditors.

Moreover, such risk factors could be addressed both in the planning of the audit and while doing the audit. This could, for example, come about as a result of new risk assessments carried out at later stages of the audit (based on new findings), or because the auditor detects risk factors/red flags during their audit. Depending on their mandate, many SAIs may consider it sufficient only to report on weaknesses in internal controls, and end their audit at this point.

This chapter consists of two main parts. The first part presents possible key questions for auditors about internal controls and fraud and corruption. The second part describes a relevant case that illustrates some of the weaknesses addressed by these key questions.

3.1 INTERNAL CONTROLS AND FRAUD AND CORRUPTION

Internal controls is a very comprehensive concept. In principle it encompasses every aspect of how individual public sector entities organize and carry out their work to accomplish their goals. Hence, for this Guide, the following key questions will only focus on elements which are of direct relevance for fraud and corruption risks. Information for this mainly comes from relevant documents from INTOSAI and the United Nations Office on Drugs and Crime; articles from the United Nations Convention Against Corruption; and the operationalization of the Internal Control framework (regarding fraud and corruption risks) provided by the Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Association of Certified Fraud Examiners.[56]

[56] Appendix I: COSO Internal Control Integrated Framework, p. 79, in: IIA, AICPA, ACFE: Managing the Business Risk of Fraud – A practical Guide.

The section below discusses the following key questions for the public sector entity in question:

1. Has the entity implemented a code of conduct or similar standard in the organization?
2. Has the entity established a proper "tone at the top"?
3. Does the entity have a well-functioning organizational structure in place?
4. Has the entity established proper human resource policies and practices?
5. Has the entity established a proper records management system?
6. Has the entity established an adequate system for the reporting of possible fraud and corruption?
7. Has the entity established procedures to identify and assess possible fraud and corruption risks, and to respond to these risks in an appropriate manner?
8. Does the entity have proper authorization and approval procedures in place?
9. Is there a sufficient separation of duties and/or routines in place for rotation of personnel?
10. Are there sufficient controls over access to resources and records?
11. Are there proper verification and reconciliation procedures in place?
12. Is the operative performance (efficiency and effectiveness) of the entity reviewed on a regular basis?
13. Are compliance reviews carried out in the entity on a regular basis?
14. Is there sufficient supervision of the internal controls in the entity?

The circumstances of a particular audit will determine if each question is to be regarded as a key question, a lower level question, or as a survey or interview question.

3.1.1 Has the entity implemented a code of conduct[57] or similar standard in the organization?

According to INTOSAI GOV 9100, public ethics are a precondition for, and give support to, peoples' confidence in the public sector. Public ethics are also at the core of good governance.[58] This is also recognized in article 8 of the United Nations Convention Against Corruption (UNCAC), which stipulates that State Parties - to fight corruption - should "promote integrity, honesty and responsibility among its public officials". It also follows from INTOSAI GOV 9100 and UNCAC article 8 that, ideally, these principles should be reflected in written documents such as a code of conduct (CoC) or similar standard.[59]

The basic *purposes* of a CoC are, among other things, to:
(i) make it clear what is expected of individual employees or a group of employees - thereby contributing in promoting basic values which serve to restrain fraud and corruption;
(ii) form the basis for employee training, discussion of standards and possible adjustment of standards; and
(iii) form the basis of disciplinary actions - including termination of employment in instances where employees contravene or fail to satisfy a stipulated standard.[60]

Central *elements* in a CoC for public officials when it comes to fraud and corruption are, among other things, standards concerning impartiality,[61] standards concerning conflicts of interest,[62] standards concerning administration of public resources,[63] and standards concerning confidentiality.[64]

In the case described in Box 3.1later in this part, there were ethical standards in place for the public sector entity in question. However, these standards were not properly put into action throughout the organization.

3.1.2 Has the entity established a proper "tone at the top"?

According to paragraph 4 in ISSAI 1240, the various levels of an organization's management have a primary responsibility for creating an environment where fraud can be prevented and detected. This responsibility involves a strong emphasis on fraud prevention and deterrence, as well as a strong focus on promoting an organizational culture based on honesty and ethical behaviour. Overall, this is also referred to as "tone at the top", that is, the ethical culture which is created in the public sector agency or entity in question by the management through its philosophy and operating style.[65]

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[57] See Appendix B for a further account of the "code of conduct" –concept.
[58] INTOSAI GOV 9100, pp. 10, 17.
[59] INTOSAI GOV 9100, p. 18. See also, among other things, paragraph A26 in ISSAI 1240; paragraph 2 (a) in Appendix 1 to ISSAI 1315; UNODC, 2004, p. 136. For SAIs in particular, see ISSAI 30 Code of Ethics.
[60] See UNODC, 2004, p. 133.
[61] See UNODC, 2004, p. 136.
[62] See UNODC, 2004, p. 137; Pope, 2000, pp. 187-88.
[63] See UNODC, 2004, p. 138.
[64] See UNODC, 2004, pp. 138-139.
[65] INTOSAI GOV 9100, pp. 18-19. See also, among other things, paragraph 2 (d) in Appendix 1 to ISSAI 1315; ACFE, 2006. Tone at the top. How management can prevent fraud in the workplace. [Online] Available at www.acfe.com/documents/tone-at-the-top-research.pdf [Accessed on 22 June 2011], p. 1.

Hence, as an internal control element, tone at the top is connected closely with the code of conduct element described above; this is because senior management has a key role to play when implementing CoCs in their organization. To help ensure that this happens, top management could focus on the following: (i) telling the staff what is expected from them; (ii) being a role model; (iii) making it safe to report violations; and (iv) rewarding ethical behaviour.[66]

With internal controls comes a risk. Corrupt management could be able to override internal controls (refer paragraph 8, ISSAI 1240). For example, management could be able to directly or indirectly alter accounting data, present fabricated financial information, or cancel control mechanisms which are established to prevent other employees from conducting similar frauds (refer paragraph 7, ISSAI 1240).

The case presented in Box 3.1 provides an example on improper tone at the top.



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3.1.3 Does the entity have a well-functioning organizational structure in place?

[66] INTOSAI GOV 9100, p. 19. See also ACFE, 2006, pp. 7, 11-12.

According to INTOSAI GOV 9100, an organization's structure is a key element of the control environment within the entity. As an internal control element, there are several aspects to this. First, the organizational structure is supposed to provide *assignment of authority and responsibility* in the entity. Secondly, the delegation of authority and responsibility in the organization is closely connected with the *empowerment and accountability* of the staff. Finally, empowerment and accountability also require *appropriate lines of reporting*.[67]

The case presented in Box 3.1 provides an illustration of an organizational structure which did not function properly.

3.1.4 Has the entity established proper human resource policies and practices?

According to INTOSAI GOV 9100, personnel are another important element of internal controls. For controls to be effective, it is important that employees are both competent and reliable. Therefore, the methods for recruiting, hiring, training, remunerating, and promoting public servants and other non-elected officials are a central part of the control environment.[68] The importance of proper human resource policies and practices for the prevention of corruption is detailed in article 7, subparagraphs 1 (a)-(c) of the United Nations Convention Against Corruption.

In addition to proper screening of candidates in the recruitment process and positive incentives to prevent fraud and corruption amongst staff, proper policies and practices may also involve post-employment constraints and rules prohibiting the use or disclosure of sensitive information.[69]

The case presented in Box 3.1 provides an illustration of possible risks relating to recruitment and resignation of personnel.

3.1.5 Has the entity established a proper records management system?

According to INTOSAI GOV 9100, one of the objectives of internal controls in the public sector is the fulfilment of public accountability obligations. To be accountable, it is important that public sector entities have record-keeping systems in place to ensure that appropriate records are stored, protected from alterations and made accessible for audits or similar evaluations - and, ultimately, are accessible to the public at large.[70]

Furthermore, in addition to fulfilling accountability obligations, INTOSAI GOV 9100 notes that proper records management is important to ensure effective internal controls and to achieve the objectives of the government entity in question. Finally, irrespective of whether information is operational, financial/non-financial or compliance-related, it is also important that it is of sufficient quality. According to INTOSAI GOV 9100, information should among other things be appropriate, timely, current, accurate and accessible.[71]

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[67] INTOSAI GOV 9100, p. 19-20. See also paragraphs 2 (e) and (f) in Appendix 1 to ISSAI 1315.
[68] INTOSAI GOV 9100, p. 20. See also, among other things, paragraph 2 (g) in Appendix 1 to ISSAI 1315; UNODC, 2004, p. 277.
[69] INTOSAI GOV 9100, p. 20. See also ACFE, 2006, pp. 7-8; UNODC, 2004, pp. 122, 141, 245, 277; Pope, 2000, pp. 201-202, 210-211.
[70] INTOSAI GOV 9100, p. 37. See also UNODC, 2004, p. 246; Pope, 2000, pp. 245. For financial records in particular, see also article 9, paragraph 3 in UNCAC and paragraph 6 in annex 1 to ISSAI 1315.
[71] INTOSAI GOV 9100, pp. 37-38. See also Pope, 2000, p. 245.

3.1.6 Has the entity established an adequate system for the reporting of possible fraud and corruption?[72]

In addition to information which is reported through regular channels, INTOSAI GOV 9100 recommends there also should be alternative channels of communication in place in the organization for reporting sensitive information, e.g., improper or illegal acts.[73]

This concept of adequate reporting is also noted in article 8, paragraph 4 of the United Nations Convention Against Corruption (UNCAC). That article recommends that State Parties consider putting in place mechanisms which enable public officials to report acts of possible corruption which they have become aware of during the course of their work. Such mechanisms may also be seen in connection with articles 32 and 33 of UNCAC, which deals with the protection of witnesses, experts, victims and reporting persons.

Some of the matters mentioned in Box 3.1 were discovered as a result of an anonymous tip.

3.1.7 Has the entity established procedures to identify and assess possible fraud and corruption risks, and to respond to these risks in an appropriate manner?

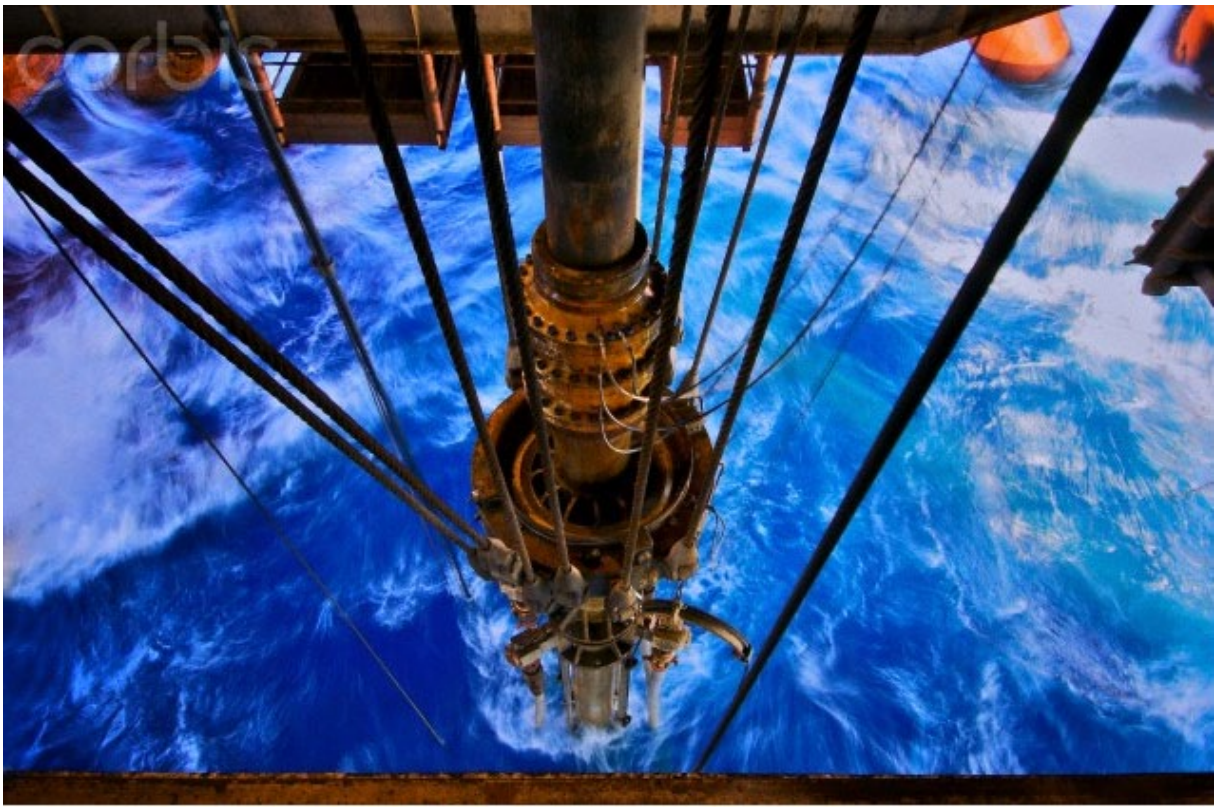
As noted in INTOSAI GOV 9100, risk assessment is a key element in the internal controls of an organization, and fraud and corruption risks are among the risks which should be taken into consideration in such assessments.[74] When it comes to fraud and corruption risk assessments in relation to financial statements in particular, this is further detailed in paragraphs 17 (a) and 17 (b), and in paragraphs A12-A14 in ISSAI 1240. According to paragraph A12, because management is responsible for the internal controls of the entity, it is appropriate for auditors to inquire whether, and to what extent, management has carried out fraud risk assessments and whether controls to prevent and detect fraud are in place.

The more specific content of fraud and corruption risk assessments is further elaborated in Chapter 4.

3.1.8 Does the entity have proper authorization and approval procedures in place?

According to INTOSAI GOV 9100, having such procedures implies that only individuals who act within the range of their authority can authorize and execute transactions and events. INTOSAI also notes that procedures should be put in place explaining how to undertake authorization and approval activities, as well as setting out the timing of these events. Authorization is the primary method to ensure that only legitimate transactions and events are initiated.[75]

[72] The various elements of a system for handling confidential information, including information on possible fraud and corruption, will be further accounted for in Appendix F.
[73] INTOSAI GOV 9100, pp. 20, 42. See also ACFE, 2006, pp. 8-9; Dye, 2007, pp. 318-319.
[74] INTOSAI GOV 9100, pp. 22-27.
[75] INTOSAI GOV 9100, p. 29.



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3.1.9 Is there a sufficient separation of duties and/or routines in place for rotation of personnel?

According to INTOSAI GOV 9100, having such procedures implies that no single individual or group is/are allowed to control all central stages of a transaction or event by herself/themselves. This is important to reduce the risk of mistakes, misuse, or misconduct and the risk of not discovering such problems. Hence, to ensure that the proper checks and balances are in place, tasks and responsibilities should be systematically allocated to a sufficient number of employees. If there is a risk of collusion, however (for instance because the agency in question has too few employees to achieve sufficient checks and balances), regular rotation of personnel may be a way to address this problem. Also, risks may be reduced through encouraging or demanding annual vacations, thereby bringing about a temporary rotation of duties.[76]

The case presented in Box 3.1 illustrates the possible risks associated with personnel who operate quite independently and enjoy a high degree of discretion.

3.1.10 Are there sufficient controls over access to resources and records?

[76] INTOSAI GOV 9100, pp. 29-30. See also paragraph 9 in Appendix 1 to ISSAI 1315.

According to INTOSAI GOV 9100, having such controls implies that access to resources and records is given only to those individuals who are authorized and accountable for the use and/or custody of the resources/records. By restricting access to resources and records, the risk of unauthorized use or loss is reduced.[77] According to ISSAI 1315, an important part of this is *physical* controls such as secured facilities and authorization requirements for access to computer systems and data files.[78]

3.1.11 Are there proper verification and reconciliation procedures in place?

According to INTOSAI GOV 9100, having proper *verification* controls in place implies that transactions and significant events are confirmed both before and after they are processed. Having proper *reconciliations* implies that records are harmonized at regular intervals with relevant documents, for instance, making sure that bank account records are harmonized with relevant bank statements.[79]

3.1.12 Is the operative performance (efficiency and effectiveness) of the entity reviewed on a regular basis?

According to INTOSAI GOV 9100, having such controls implies that efficiency and effectiveness are assessed regularly by reviewing operating performance against a set of standards.[80] According to ISSAI 1315, such standards may, among other things, include budgets, forecasts and data on prior performance. Furthermore, the assessments may also involve analysing the relationships between different sets of data (operational and financial), comparing internal data with information from external sources, and reviewing functional performance.[81]

3.1.13 Are compliance reviews carried out in the entity on a regular basis?

According to INTOSAI GOV 9100, having such controls implies that operations, processes and activities are evaluated on a regular basis, to make sure that they comply with relevant regulations, policies, procedures, or other requirements.[82]

3.1.14 Is there sufficient supervision of the internal controls in the entity?

According to INTOSAI GOV 9100, supervision relating to internal controls refers to the role and responsibility of management to ensure that internal control objectives are attained. For supervisors, this can typically involve: (i) clearly communicating to each employee what tasks, responsibilities and accountabilities are *assigned* to him or her; (ii) systematically *reviewing* the performance of every staff member; and (iii) *approving* work at crucial stages to make sure that it proceeds as planned.[83]

[77] INTOSAI GOV 9100, p. 30.
[78] Paragraph 9 in Appendix 1 to ISSAI 1315.
[79] INTOSAI GOV 9100, p. 30.
[80] INTOSAI GOV 9100, p. 30.
[81] Paragraph 9 in Appendix 1 to ISSAI 1315.
[82] INTOSAI GOV 9100, pp. 30-31.
[83] INTOSAI GOV 9100, p. 31.

Box 3.1
Case: Internal controls in a government agency responsible for the supervision of the petroleum sector

This case illustrates some of the issues raised by the key questions in this chapter.

Introduction
The internal controls in the government agency in question came under scrutiny after a major accident at an offshore oil drilling rig which was under the supervision of this agency. Among other things, this agency was responsible for inspecting oil and gas platforms for safety and compliance with relevant laws and regulations, and, if required, for enforcing these laws and regulations in cases of non-compliance.

The accident caused a major oil spill with serious short- and long-term effects on ecology and wildlife, as well as major negative impacts on tourism and commercial and recreational fisheries in the region.

The accident drew further attention to management challenges already identified in the government agency, and also brought new dynamics into reform efforts already in process in this organization.

Ethical challenges
Prior to the rig accident, public investigators had identified a number of management flaws, ethical failures among the employees, and conflicts of interest in several offices of the agency, including the offices in the region where the rig was located. One of these offices was investigated after an anonymous tip to the local public prosecutor, claiming that several employees in the agency had accepted gifts from representatives of oil and gas production companies.

To a large extent, this investigation confirmed these claims, as it revealed that a number of office employees had attended sporting events sponsored by oil and gas companies. They had also received lunches and gifts from the same companies. Further, one inspector had carried out four inspections of the platforms of one particular company - at the same time as he was in the process of negotiating employment with this company (a post he later accepted). No incidents of non-compliance were reported at these inspections.

Code of conduct
At the same time, another investigation showed that the offices in the region had - at least formally - established the practice of reporting the reception of gifts and other benefits through confidential financial disclosure reports. The investigation also confirmed that all agency staff in this region received annual ethics training. In addition, the provisions in both national regulations and agency ethics rules regarding the solicitation or acceptance of gifts from so-called “prohibited sources”, and/or in association with the official position of the federal employee in question, were very strict.

Apparently, however, this was not enough to prevent misconduct from taking place at the offices in this region. The latter investigation indicated that accepting gifts from oil and gas companies - such as fishing and hunting trips, admission to sporting events, meals, etc. - was common practice among agency supervisors and inspectors in the region.

Tone at the top
The catalyst that radically changed this situation seems to have been the investigation and later dismissal of the supervisor of one of these offices for accepting gifts. The supervisor in question had accepted gifts amounting to several thousand USD from one particular oil company that was affected by the agency's regulations and decisions. After receiving these gifts, the supervisor had improperly assisted the company in connection with an insurance case regarding a sunken offshore drilling rig. As a result of this, the supervisor was sentenced to a fine of several thousand USD as well as other penalties besides being dismissed. After this, the practice in the agency of accepting gifts from the oil companies seemed to decline drastically.

Organizational structure and human resource management
The misconduct discovered in the investigations was also symptomatic of more fundamental and structural challenges faced by the agency and other government organizations in the same situation; that is, the potential conflicts of a regulatory body that is intrinsically linked to the industry which it regulates.

Another aspect of this relationship is the environment in which the agency's inspectors operated. More specifically, the latter investigation discovered that many of the individuals - both in government and in the industry - who were involved in fraternizing and exchanges of gifts, had often known each other since childhood. Hence, their relationships were established long before they joined government or industry. Also, the individuals in question seemed to move quite easily between industry and government.

Segregation of duties and rotation of personnel
Later, it was also discovered that the agency's inspectors, especially in the region in question, operated quite independently, with little guidance regarding what to inspect, or how. In other words, the inspectors were left with too much discretion when conducting inspections on the platforms. Moreover, in the year before the accident, it was revealed that about 40 percent of inspections were conducted by inspectors working alone.

The responses to the challenges
The responses of the government to these challenges, which were announced both before and after the accident, were both specific and targeted. They were also of a more fundamental and structural character. As to the more specific measures, these included (among other things) more ethics training, assignment of a full-time ethics lawyer to provide advice and guidance to employees, and control measures to reduce the possibilities for conflicts of interests.

More fundamentally, a reorganization process was started in the month after the accident with the aim of separating the agency into three new offices. Behind this separation of the agency was the acknowledgement that the three distinct functions which all had been vested in the agency until then - (i) collection of revenues, (ii) energy development, and (iii) enforcement of safety and environmental regulations - were in fact conflicting, and needed to be divided.

Chapter 4:
Fraud and corruption risk assessments relating to the environmental and natural resource sectors

Depending on their mandate, the next possible step for auditors - after detecting and reporting on weaknesses in internal controls - would be to carry out risk assessments which focus specifically on fraud and corruption risks. This implies a broader scope for the audit, where internal controls are but one of several aspects which are taken into consideration. Such risk assessments could both be integrated into regular environmental audits, or be used as the basis for more focused fraud and corruption audits within particular environmental or natural resource sectors.

As mentioned in the introductory chapter, however, such assessments may need adjusting to accord with the mandate of the SAI in question.

The purposes of fraud and corruption risk assessments are: (i) To suggest and/or to identify possible fraud and corruption risks and associated "red flags" (that is, indicators of possible fraud and corruption[84]) at various levels and in various sectors, organizations or stages in the value chain; (ii) survey and assess what has been done to deal with such risks at the sector/agency level; (iii) assess residual risks and their materiality; and (iv) suggest possible audit procedures.[85]

This chapter presents some of the most important elements making up a fraud and corruption risk assessment with a particular focus on the environmental and natural resource sectors. The chapter is organized into three main parts:

- Section 4.1 briefly describes the composition of the risk assessment team;
- Section 4.2 discusses some of the most important elements in the risk identification process; and
- Section 4.3 introduces a scheme to structure the various elements in the risk assessment, and also deals with the issue of prioritization (that is, assessment of probability and possible consequences of suggested/identified risks).

Note: as audit procedures to follow up identified fraud and corruption risks are more fully discussed in Chapter 5, they will only be briefly referred to in Section 4.5.

4.1 THE RISK ASSESSMENT TEAM

Fraud and corruption risk assessments and their follow-up, that is, stages (a)-(d), typically involve many different issues and concerns. These issues and concerns normally relate to the audit topic, the audit process and the follow-up of possible irregularities. One way to deal

[84] The World Bank Group, 2010. Fraud and corruption awareness handbook. How it works and what to look for – a handbook for staff. Working Paper 57504 [Online] Available at www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/10/27/000334955_20101027071320/Rendered/PDF/575040WP0Box351Corruption1Awareness.pdf [Accessed on 2 January 2012], p. 3-5.
[85] IIA, AICPA, ACFE, 2008, pp. 20-21.

with these issues and concerns is to set up a *risk assessment team* who can provide various sorts of inputs, based on different knowledge, experience and skills.[86]

This approach aligns with the "Due care" principle in ISSAI 200. Among other things, this principle states that "[p]erformance and exercise of technical skill should be of a quality appropriate to the complexities of a particular audit." (2.41).[87] However, as SAIs may have different capacity and expertise in this field, consulting external or internal expertise on an ad-hoc basis may work just as well.

Getting the right team in place becomes even more important when taking into consideration that fraud and corruption are often hidden activities, which may involve both collusion and the design of advanced and carefully organized concealment schemes, cf. paragraph 6 in ISSAI 1240. In relation to financial auditing in particular, paragraph 15 in ISSAI 1240 and paragraph 10 in ISSAI 1315 discuss assessment teams in more detail.



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Possible fraud and corruption risk factors and "red flags" can be varied and numerous. They may include, for instance: (i) the efficiency, output, outcome and impact of government decisions and activities; (ii) possible breaches of - or lack of - laws, regulations, procedures, practices etc. relating to government decisions and activities; and (iii) the financial statements of government entities.

Because of the potential complexities involved in fraud and corruption, it may well be beneficial to include personnel with competence in *all* the three basic audit disciplines: *performance*, *compliance* and *financial auditing*.

[86] See also IIA, AICPA, ACFE, 2008, p. 22.
[87] ISSAI 200. General standards in Government Auditing and standards with ethical significance. [Online] Available at www.issai.org/media(630,1033)/ISSAI_200_E.pdf [Accessed on 10 December 2010].

As such assessments often may involve technical issues like internal controls, monitoring functions, detection procedures, and so on, it may also be useful to include or consult personnel with competence in *internal auditing* and *fraud detection*.

In general, under any circumstance, specific knowledge of the environmental or natural resource sector in question will be an advantage when planning an environmental audit. Such knowledge will be even more advantageous when seeking to integrate the risk of fraud and corruption (which, by their nature, are covert activities) into the audit.

It could also be helpful to include or consult personnel with *legal competence*. This is because there are usually legal issues involved in: (i) the assessment of whether laws, regulations, and procedures relating to fraud and corruption have been violated; (ii) the proper conduct of fraud and corruption investigations; and (iii) the relationship with the police and prosecution authorities in case of possible criminal offences. Good legal advice is probably going to be especially important during later stages in the audit/investigation process - if and when suspicions of fraud and corruption are confirmed by evidence collected by the auditors.[88]

4.2 THE RISK IDENTIFICATION PROCESS

Once the risk assessment team is assembled, it can be useful to organize a "brainstorming" exercise for the team. Brainstorming is a group or individual creativity technique by which efforts are made to find a conclusion for a specific problem by gathering a list of ideas spontaneously contributed by its member(s). The characteristics of an effective brainstorming include that:

- people are well prepared;
- there is a facilitator in place during the session (it can be helpful if the facilitator comes from outside); and
- the team needs to be as open as possible to various ideas, to ensure that as many risks as possible are identified.[89]

The fraud and corruption risk assessment can be done either separately or as part of the general risk assessment for the environmental audit in question. Under any circumstance, it can be very beneficial to integrate the two at some point. This can assist the auditors to juxtapose and *consider all risks together* before they start designing and planning the audit.

Possible matters for discussion in the team are detailed in paragraph A11 in ISSAI 1240. Central questions for a brainstorming session on possible fraud and corruption risks may include:

- Where to look for fraud and corruption risks?
- What types of fraud and corruption could be envisaged?
- How could the act of fraud and corruption be carried out?
- What could be possible red flags?
- What has been done to address these risks?

It should be emphasized, however, that the brainstorming exercise to some extent consists of two phases. Collecting background information and formulating possible scenarios is the

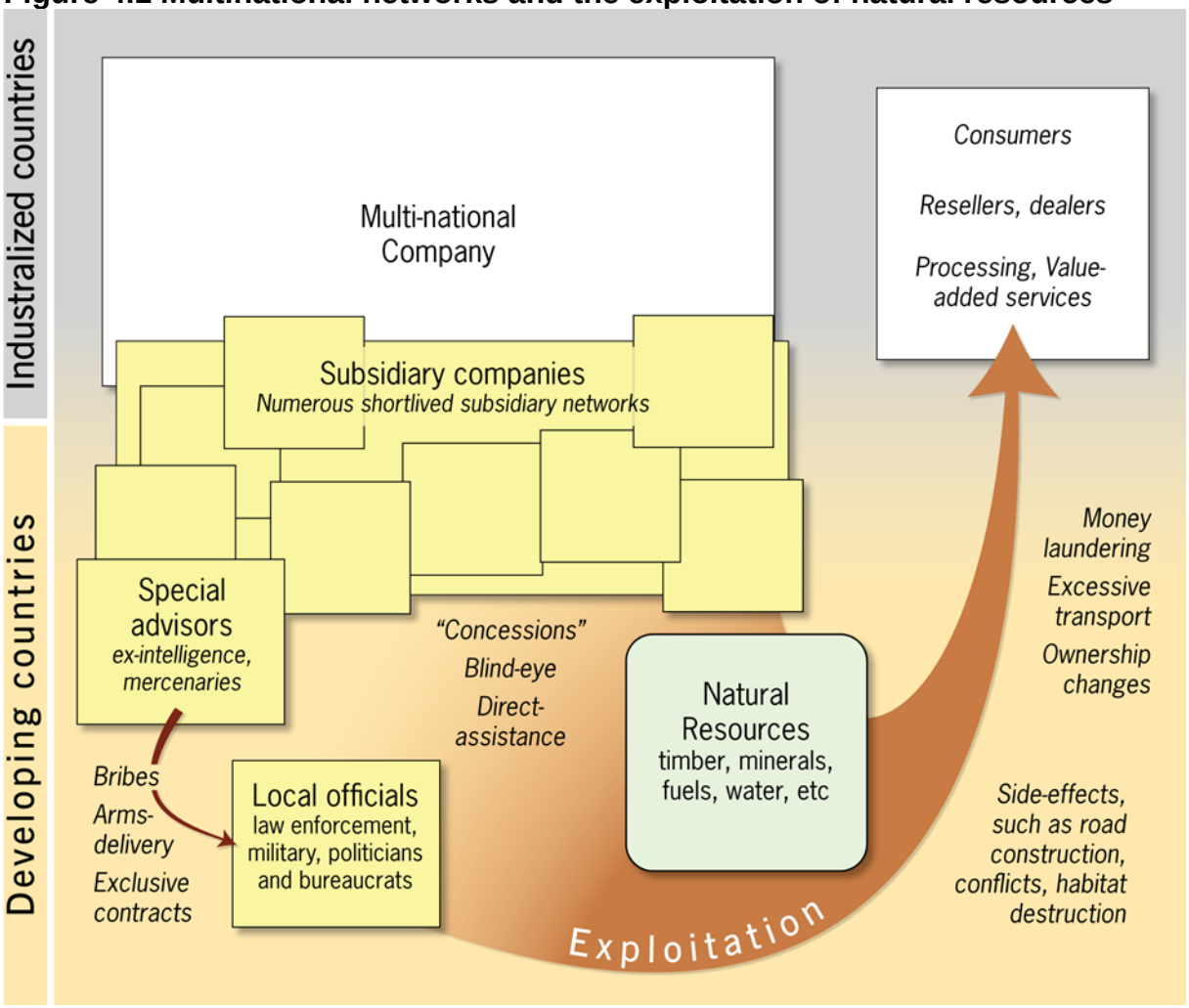
[88] See, among other things, paragraph 4.7 in ISSAI 300, paragraph P21 in ISSAI 1240 and Appendix E.
[89] See also IIA, AICPA, ACFE, 2008, p. 22.

main purpose of the first phase, whereas the second phase is more focused on specific fraud and corruption risks. So, the brainstorming session should deal with these questions at different times. Questions (i) (ii) and (iii) can be dealt with in a *preparatory first phase*, whereas questions (iv) and (v) should be pursued during a *second, more pro-active phase*.

4.2.1 Where to look for fraud and corruption risks?

Fraud and corruption can take place at all stages or phases of environmental management and natural resource exploitation. However, depending on the sector and the national context, some links or phases are more at risk of fraud and corruption than others; and they also may be influenced in different ways. Hence, in addition to a good understanding of the most important parties involved - and what their roles and influences are - it could also be beneficial for auditors to have good knowledge of the various links or stages in the value chain within the environmental or natural resource sector in question. Figure 4.1 provides an illustration of some of these links and actors in the exploitation of natural resources.

Figure 4.1 Multinational networks and the exploitation of natural resources



Source:
UNEP/GRID-Arendal, 2007. Multinational networks and the exploitment of natural resources in developing countries. UNEP/GRID-Arendal Maps and Graphics Library. Hugo Ahlenius, UNEP/GRID-Arendal [Online] Available at http://maps.grida.no/go/graphic/multinational_networks_and_the_exploitment_of_natural_resources_in_developing_countries [Accessed on 24 October 2011].

The value chain

The value chain can be thought of as a kind of "road map" for the auditor at the sector level. The more well-defined the various stages or phases of the value chain are (if, for instance, they can be illustrated as a process flow chart), the easier it is for the auditor to point out the weakest links in the chain. The next step would then be to identify possible red flags or warning signals along the "road map".[90] The links will of course vary, depending on whether the value chain in question concerns the exploitation of renewable natural resources (e.g., fisheries, forestry, water, wildlife, etc.), exploitation of non-renewables (e.g., oil, gas and minerals), environmental protection (e.g. pollution control, conservation measures, etc.), or more complex and compound issues and "sectors" such as climate change mitigation and adaptation. There are some generic features, however:[91]

1. Exploratory and framework-setting phases

These include mapping of resources, how environmental (impact) assessments are done, design and planning of frameworks, and adoption of relevant legislation and regulations. For instance, when it comes to exploiting natural resources, in these early phases there can be much uncertainty around the choice of management arrangements, issues relating to property rights, expected revenues, allocations, and other political or economic concerns. Different experts may provide advice pointing in different directions, and there may also be different views within government and between decision-makers at the national and local levels on the best way to utilize the resource in question.

Consequently during these early phases, there are incentives for companies and others to take advantage of this uncertainty, by attempting to shape political decisions regarding resource management. Such attempts at influencing decision-making can span from legitimate lobbying practices, to "grey zone" activities, to more clear-cut fraud and corruption.

Other examples from these early phases could be the design of Reducing Emissions from Deforestation and Forest Degradation (REDD)[92] frameworks, or adaptation programs. Here, among other things, actors such as political elites, various government departments, timber companies, large agribusinesses, multinational corporations (either interested in buying carbon offsets and/or having interests in utilities, infrastructure projects, pharmaceutics, etc.) or the military may all try to shape the design of national frameworks, legislation, regulations, programmes, projects, etc., in order to be in the best possible position to capture REDD revenues or derive benefits from adaptation projects.

2. Allocation, licensing and procurement phases

These include: negotiating terms and conditions for resource exploitation or emission/discharge permits, awarding of licenses and permits, allocating grants for

[90] Leipziger, Danny, 2007. Foreword, p. xii, in: Campos and Pradhan, 2007; Campos and Bhargava, 2007, p. 8.

[91] See, among other things: Kolstad, Søreide and Williams, 2008, p. 3; UNDP, 2010, pp. 16-17, 20-21, 32-33, 38; Revenue Watch Institute: The Value Chain. [Online] Available at www.revenuewatch.org/training/resource_center/backgrounders/value-chain [Accessed on 5 June 2011]; Williams, Aled and Hodess, Robin, 2007. U4 Expert Answer. Corruption risks in environmental cooperation programmes. 8 February 2007. [Online] Available at www.u4.no/helpdesk/helpdesk/query.cfm?id=125 [Accessed on 9 July 2010]; Gillies, 2010, p. 3; Le Billon, Philippe, 2011. Extractive sectors and illicit financial flows: What role for revenue governance initiatives? U4 Issue October 2011 No. 13. [Online] Available at www.cmi.no/publications/file/4248-extractive-sectors-and-illicit-financial-flows.pdf [Accessed on 25 November 2011], pp. 4-9.

[92] Reducing Emissions from Deforestation and Forest Degradation (REDD) is an international co-operative that provides incentives for developing countries to reduce emissions from deforestation and to achieve sustainable development. This is done through low-carbon paths - by creating financial value for the carbon stored in forests. REDD+ goes beyond deforestation and forest degradation, and includes enhancement of carbon stocks in forests, sustainable forest management and conservation. Source: UN-REDD [Online] Available at www.un-redd.org/AboutREDD/tabid/582/Default.aspx [Accessed on 17 February 2011].

environmental programs and projects; and procuring goods and services relating to environmental and natural resource management, etc. In general, depending on their value, such licenses, permits, grants and procurements can provide strong incentives for bribery by extractive companies, contractors and others, for favoritism and patronage by politicians or, in the case of grants, intentional misrepresentation by Civil Society Organizations (CSOs) and others.

Furthermore, as the value of the contracts and licenses will depend largely on the more specific requirements (for instance, degree of ownership of the resource in question, length of the extraction period and the allocation key for revenues), parties may also seek to renegotiate these arrangements at later stages through fraudulent and corrupt practices.



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3. Monitoring, reporting and enforcement phases
These include monitoring and inspection of the exploitation of natural resources and compliance with emission/discharge permits, inspection and verification of projects, reporting of activities and projects, enforcement of regulations relating to environmental and natural resource management, etc. Here, there is a general risk that inspectors are accepting bribes to "turn a blind eye" to illegal logging or fishing, or to breaches of environmental regulations, or for falsifying carbon rights or land titles. The scope for possible fraud and corruption increases where regulations are complex, non-transparent or inconsistent, and/or where the sector in question is very technical, such as the water sector.

In a complex sector it can be difficult for those on the outside to monitor those on the inside if the former lack the specialized engineering knowledge which the sector requires. As already mentioned, fraud and corruption at lower levels (petty corruption), may also be more prevalent in these phases. Moreover, the risk of fraud and corruption among officials at this

level may increase even further if their salaries are close to the poverty line, and if hiring, firing and career advancements are more or less unconnected to their merits and performance.

Furthermore, in these phases, the variety of parties involved may be even broader than in the earlier phases of the value chain. Consequently, the potential range and variety of fraudulent and corrupt practices may likewise increase. In addition to public sector officials at the low to medium level, fraud and corruption in these phases may (in the form of "grand corruption") involve political elites/high level officials, as well as large multinational companies, leaders of local communities and indigenous peoples, military groups, and international and local CSOs. Moreover, as resources such as timber, fish, endangered wildlife species, etc. often are traded internationally, the customs authorities are probably among those who should receive particular attention in these phases of the road map.

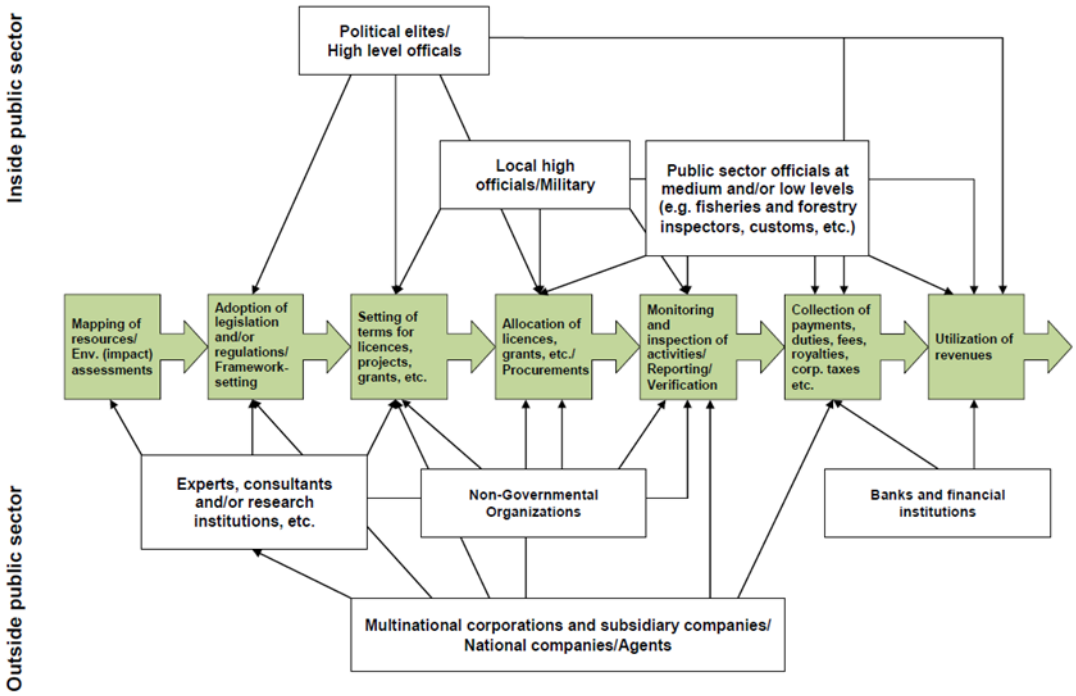
4. Revenue collection and utilization phases
These include the collection of payments for utilities services, duties, corporate taxes, fees, royalties, etc., as well as the utilization of these resources. As much of the basis for these revenues may have been established long before the actual collection takes place, these phases must be seen in close connection with the preceding phases of the value chain. For instance, in the extraction of non-renewable natural resources, large multinational companies may have already intervened in the regime-development/framework setting phases - in order to influence, for instance, management solutions and ownership arrangements. As mentioned above, such efforts may range from legitimate lobbying to more clear-cut fraud and corruption, and - depending on the outcome - can have a major impact on a government's share of the revenues.

During the negotiation of contracts, that is, in the licensing phase, companies may use things such as signature bonuses and profitable service contracts to bribe public officials to acquire more exclusive benefits through better fiscal terms in their contracts). This too can reduce public revenues. Moreover, during the monitoring and enforcement phases - also called the implementation phases - companies may seek to reduce their tax/royalty expenses. This can be done, for example, by underreporting production volumes or the quality of the resource extracted, or by inflating costs/reducing earnings through over- or under-invoicing between two subsidiaries of the same company. Such manipulation and falsification can take place either with or without the collaboration of public officials. Either way, the government is at risk of losing revenues. Generally, considering the close linkages with the preceding phases, it also follows that the number of different parties who could (directly or indirectly) affect the collection of revenues is potentially quite large.

As for *utilization* of the revenues, the fraud and corruption risks here are related to possible embezzlement committed by higher-level government officials.

To reflect some of the discussion above, figure 4.2 provides an illustration of: a) Some of the most important links in a generic environmental and natural resource value chain; b) Some of the most important actor groups – inside or outside the public sector – who may influence the processes in various stages of the value chain either through the use of, or as a result of fraud and corruption.

Figure 4.2 Example on environmental and natural resource value chain



4.2.2 What types of fraud and corruption could be envisaged?

Among other things, this question refers to the following types of fraud and corruption:[93]

- Bribery
- Trading in influence
- Offering or receiving improper gifts, gratuities, favors or commissions
- Embezzlement
- Theft
- Extortion
- Intentional misrepresentation and deception
- Favoritism, nepotism and clientilism
- Abuse of discretion
- Abuse of information
- Conduct creating or exploiting conflicting interests
- Improper political contributions.

It should be noted that the boundaries between the different types listed above are not always well defined, and several of them may overlap. Several types of fraud and corruption may also occur simultaneously.

[93] See Appendix A for a further description of several of the forms of fraud and corruption mentioned. See also UNODC, 2004, pp. 10-16.

4.2.3 How could acts of fraud and corruption be carried out?

Here, the risk assessment team may describe more thoroughly *who* could be involved and *how* acts of fraud and corruption could be carried out. The key concept here is *scenario thinking.*[94] This exercise can be quite demanding. The more accurate the description, however, the more useful it will be for auditors in their further assessments and choice of audit procedures. Examples of such descriptions from the environmental and natural resource sectors could be, for example:

- *Bribery:* Inspector A in the government agency responsible for monitoring fish landings receives several bribes from fishing company B for underreporting when its vessels are landing their catches in site C. The bribes are transferred to a bank account owned by the wife of inspector A.

- *Trading in influence:* The committee on energy and the environment in Parliament is considering a proposal for new legislation on nature conservation which, if adopted in its present form, will result in large economic losses for a few land owners and property developers in a particular part of the country. The leader of this committee, A, also has an ownership interest in Public Relations-company B. One of the largest land owners and property developers, C, is a client of company B. A uses his influence in the committee to change the relevant parts of the legislation in favour of C.



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- *Embezzlement:* The managing director A of the public water company B misappropriates a large part of the revenues company B receives from water taxes. This is done through his private company C and in collusion with companies D, E and F which are

[94] Scenario Thinking, also called scenario planning, is a structured process of thinking about and anticipating the unknown future, without pretense of being able to predict the future or being able to influence the environment in a major way. Instead, it navigates through the uncertainties and large-scale driving forces that are impacting on the future. The objective is to examine possible future developments that could impact on individuals, organizations or societies, in order to find directions for decisions that would be most beneficial no matter how the future unfolds. Source: http://scenariothinking.org/wiki/index.php/What_is_Scenario_Thinking%3F [Accessed 9 April 2013]

contractors/suppliers to company B. The revenues are misappropriated in two ways: (i) company C falsely invoices companies D, E and F, and the latter companies then again invoice company B for work/services from their sub-contractor (company C) - work/services which in reality never have been carried out/delivered; and (ii) companies D, E and F are over-invoicing company B for goods and services delivered and the surplus or parts of it are then channeled back to company C.

- *Intentional misrepresentation and deception:* Country A grants a substantial amount of money to country B to finance a large natural resources management programme. Part of the funding is granted to support the management of a marine park around an island in country B, in order to protect coral reefs, ensure sustainable fishing practices and create new jobs for the local population. The local chief manager of the marine park, C, in collusion with his closest colleagues, create artificial expenses by over-reporting surveillance activities in the park, over-reporting seminar and per diem-expenses, and charging expenses for consultancy services which never have been delivered. The surplus is shared between C and his colleagues.

- *Favoritism, nepotism and clientilism:* Official A in the Ministry of Environment lobbies to get his former business associate B appointed as technical expert to the Executive Board of the Clean Development Mechanism under the Kyoto Protocol. At the same time, both A and B have ownership interests in carbon trading company C, where the Chief Executive Officer is their common friend D.

- *Abuse of information:* Official A in one of the government ministries has in-depth knowledge of a green energy program the government plans to launch in the near future. The programme consists of various financial and regulatory incentives which will be very beneficial for some industries and costly for others. One company, company B, is particularly well positioned - both technologically and in the market - to increase their profits as a result of this programme. Through his brother, official A establishes company C (together with investment company D) in a country known to be a tax haven/financial privacy jurisdiction. With the funding provided by company D, company C buys a substantial amount of shares in company B *before* the government programme is made public. When the programme is made public, the price of these shares increase considerably. Company C then sells its holding in company B, and official A and investment company D split the profit.

- *Abuse of discretion:* A, a technical expert on pesticides in country B, is also member of an international expert panel which decides which products to be placed on a list of officially approved pesticides. A large chemical producer, company C (in country D) has developed a new pesticide it wishes to introduce to the market in country B as well as in neighboring countries. One critical factor in this connection is to have the product approved by the expert panel where A is a member. Company C knows that A needs an operation which he cannot get in his own country, and makes the necessary arrangements for an operation in country D instead. In return, A uses his influence in the expert panel to have the product approved.

4.2.4 What could be possible red flags?

As mentioned in the introduction to this chapter, red flags are indicators of possible fraud and corruption. They are supposed to be warning signals to outsiders of possible fraudulent and

corrupt acts such as the examples presented in the previous section. Some of these warning signals may be quite obvious, whereas many others can be extremely difficult to detect. Hence, as with the scenario thinking on "who/how", the process of finding good indicators of fraud and corruption can be very challenging for the assessment team. Nevertheless, the more relevant and specific the red flags, the more useful they will be for the further assessments and choice of audit procedures.

Red flags can be divided into many different types and categories. In this Guide, one fundamental distinction made is between *generic* red flags, on the one hand, and *specific* red flags for the environmental and natural resource sectors on the other. . (Further examples on such specific flags are presented in chapter 5.)

As for *generic* red *flags*, one way to categorize these is to divide them into:

(i) general "tell-tale" signs;
(ii) signs of particular relevance for financial auditing;
(iii) signs of particular relevance for compliance auditing; and
(iv) signs of particular relevance for performance auditing.

(i) *General "tell-tale" signs:* These red flags refer to the general culture and ethos of the public agency in question. Some may be relatively intangible, such as an atmosphere of fear and/or stress, unquestioning obedience to superiors, and a general tolerance of unethical work practices. Others may be more concrete, such as a general lack of recording/documentation, senior managers that take on tasks which are unusual for officials at their level, inability for auditors to obtain access to key staff, and signs of illicit enrichment (for example, evidence of an insupportable standard of living). Others again may relate to a lack of specific control measures for dealing with fraud and corruption risks, such as a code of conduct, disciplinary actions and follow-up of incidents, whistleblower arrangements, etc.[95] Several of these signs may also be detected when scrutinizing the internal control measures of the government agency in question (see Chapter 3 also).

(ii) *Signs of particular relevance for financial auditing:* This refers to typical financial red flags such as significant over- and under-spending or excessive transfers of funds between programs made just before/at/after year-end, incomplete/ill-timed/irregular recording of transactions, missing documents, copies of documents instead of originals, documents which seem to have been altered. Or there might be more specific red flags related to government activities such as procurement (prices paid above market prices, split purchases, purchases just below the threshold level, etc.). Red flags in this category are further discussed in ISSAI 1240, in particular in Appendices 2 and 3 to the Practice Note and Appendix 3 to ISA 240.

(iii) *Signs of particular relevance for compliance auditing:* According to ISSAI 4000, paragraph 6, compliance auditing can be performed either as part of or separately from the audit of financial statements.[96]

(a) In this situation, the red flags are primarily related to lack of compliance with laws, regulations, administrative guidelines and the like, which more or less

[95] See Jones, 2004, Appendix 3, pp. 188-89 for a further description of general red flags.
[96] ISSAI 4000. Compliance Audit Guidelines – General Introduction. [Online] Available at www.issai.org/media(796,1033)/ISSAI_4000_E_Endorsement_version_June.pdf [Accessed on 1 February 2012], p. 3.

directly apply to financial statements and accounts, and transactions. Red flags in this category could be, for instance, unauthorized transactions or use of assets, non-approved budget adjustments, individuals with access to systems and records outside their usual authority, lack of compliance with grant requirements, signatures of senior officials on documents which normally are signed by lower-ranking staff, breaches of laws/regulations/procedures relating to procurements, or complaints received regarding procurement processes. (Red flags in this category are discussed in more detail in ISSAI 1240.)

(b) In principle, the red flags that show up when compliance auditing is done separately from financial audits could relate to a lack of compliance with *all* applicable laws, regulations, and procedures - those applying to the public sector in general, and those applying to specific audit entities. Red flags in the former category could be, for instance, breaches of regulations and other legislative instruments established to provide for *transparency* in a country's government, such as freedom of information legislation or administrative law. Red flags in the latter category, on the other hand, could be associated with breaches of regulations, procedures, programmes, etc. which set certain standards for *how* a particular government agency is supposed *to conduct its business*.

Closely related to both (a) and (b) is the question of *internal controls*, as these (among other things) are supposed to ensure a government entity complies with all applicable laws and regulations (ISSAI 300, paragraph 4.6).[97] Red flags here are associated both with lack/breaches of internal controls more generally, and with lack/breaches of control measures which deal more specifically with fraud and corruption risks (see more in Chapter 3).

(iv) *Signs of particular relevance for performance auditing:* According to ISSAI 3000, performance auditing is primarily focusing on the economy, efficiency and effectiveness of government activities and programmes.[98] To a large extent, the red flags relating to the *economy-* and *efficiency-aspects* are the same as the financial red flags mentioned in category (ii) and the compliance red flags mentioned in category (iii) above. Public procurement is a natural example in this regard. However, when assessing efficiency, there may be instances where performance auditing could be a more appropriate method to detect red flags than financial and/or compliance auditing. This is because the scope of these latter audit disciplines is usually narrower than in performance auditing. Thus, in order to detect anomalies that may indicate the presence of fraud and corruption, it is sometimes necessary to either compare similar types of activities, or analyze one activity in different periods, or to compare an activity/activities to - for instance - best practices or against a particular standard.

Red flags relating to the *effectiveness-aspect* are perhaps the most "unique" to performance auditing, as these refer to the output, outcome and impact of government decisions and activities. Red flags here could be associated with, for example: low quality and/or lack of delivery of public goods and services, government programmes which overlap/duplicate/counteract other connected programmes, lack of systems and procedures for

[97] ISSAI 300. Field Standards in Government Auditing. [Online] Available at http://www.issai.org/media(631,1033)/ISSAI_300_E.pdf [Accessed on 10 December 2010].
[98] ISSAI 3000. Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience. [Online] Available at www.issai.org/media(879,1033)/ISSAI_3000_E.pdf [Accessed on 1 February 2012].

monitoring/measuring/reporting the results of government programmes, lack of goal attainment, lack of intended impacts, or negative unintended consequences.



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When it comes to considering *the environmental and natural resource sectors*, the red flags are to a large extent the same as those outlined above (i-iv). This is because almost all criteria, procedures, methods, etc. relating to fraud and corruption auditing are *generic*. However, some examples of red flags in this sector could be:

- Apparent skewing/imbalances in the allocation of licenses, that is, that particular companies or other parties are awarded a substantially higher share of the licenses to use or exploit natural resources than other companies and parties;
- Environmental standards and requirements that particularly favor certain parties;
- Large sales or purchases of property and/or land just before new environmental legislation is adopted or major public investment programmes are announced;
- Apparent flaws, insufficiencies and poor implementation of environmental projects funded by public grants;
- Fish landing patterns which do not correspond to actual fishing patterns or which seem irrational from a fuel economy perspective;
- Inexplicable differences/peculiar patterns in enforcement, prosecution and/or sentencing practices in connection with breaches of laws, regulations, permits, etc. relating to environmental and natural resource management;

- Illegal hazardous waste from country A detected in country B, and/or illegal products of endangered species of animals or plants indigenous to country C detected in country D;
- Apparent weaknesses or deficiencies in government investment projects, for instance in the water and sanitation sector; and
- Unexpected and inexplicable environmental degradation, sudden increases in animal deaths and/or human health problems in locations close to industrial or waste disposal sites.

It must be emphasized that the further out the auditor follows the causal chain – from outputs to outcomes to actual impacts on the environment and/or natural resources - the higher the probability that observed or suggested red flags are affected by causal factors other than fraud and corruption. This means that causality between fraud and corruption and environmental impacts can be very difficult or even impossible to establish. At the same time, however, as long as it cannot be completely ruled out that such a link actually exists, red flags at the end of the causal chain may be relevant to auditors.

4.2.5 What has been done to address these risks?

Here, the assessment team may survey and assess what has been done to deal with fraud and corruption risks at the sector/agency level, cf. paragraph 29 in ISSAI 1315. Such activities may include inquiries of management and others within the entity, as well as inquiries of those charged with governance (i.e., ministerial or administrative bodies higher up in the reporting hierarchy) - cf. paragraphs 17-21 in ISSAI 1240.

As mentioned in Chapter 3, much can be done to prevent fraud and corruption within the environmental and natural resource sectors - and within other sectors - by addressing weak internal controls. Depending on their mandate, many SAIs may end their investigation after reporting on such weaknesses.

4.3 FRAUD AND CORRUPTION RISK ASSESSMENT SCHEME FOR THE ENVIRONMENTAL AND NATURAL RESOURCE SECTORS

To assist the auditors in their risk assessments, a risk assessment scheme to structure the various elements may be useful. Such a scheme, slightly modified to fit the environmental and natural resource sectors, is presented in Figure 4.3.

In each of the columns, the assessment team may write down the most important elements from the discussion. Starting on the left, in *column I,* the team may give a brief description of the stage in the environmental and natural resource value chain which is being assessed for fraud and corruption risks (WHERE), e.g., adoption of regulations, setting of terms, allocation of licences, etc. (see Section 4.2.1). Then, in *column II*, the team may give a brief description of the type of fraud and corruption risk (WHAT), i.e., bribery, influence-peddling, embezzlement, etc. (see Section 4.2.2 and Appendix A). *Note*: it is useful to remember that every stage in the value chain may be associated with a number of different fraud and corruption risks.

In *column III*, the team may provide a more thorough description of the act/method (the WHO/HOW) - who could be involved, and how the act could be carried out (see Section 4.2.3). In *column IV*, the team may describe the red flags that characterize the possible

fraudulent and corrupt acts in question (see Section 4.2.4). Then, in *column V*, the team may present a selection of those *internal controls,* at the sector/agency level, considered to be most important in respect of the particular fraud and corruption risk in question - provided that such internal controls actually have been implemented (see Section 4.2.5 and Chapter 3).[99]

[99] It should be emphasized, however, that the process of filling in the scheme is not as simple and straightforward as it may appear here. In practice, it will most likely not be possible to fill in the scheme solely on the basis of "desk studies", and the auditors also may expect to move back and forward in the scheme as they obtain new and additional information through further investigations, dialogue with the government entity in question, etc. According to ISSAI 1315, paragraph A1: "Obtaining an understanding of the entity and its environment, including the entity's internal control […] is a continuous, dynamic process of gathering, updating and analyzing information throughout the audit." Hence, although there may be strict and formal boundaries between regular audits and fraud and corruption investigations – depending on the mandate of the SAI in question – these boundaries can sometimes become more blurred in practice. As emphasized in ISSAI 300, auditors should therefore exercise due professional care and caution during the entire audit process, and always consult appropriate legal and other counsel when necessary.

Figure 4.3 Fraud and corruption risk assessment scheme for the environmental and natural resource sectors

FRAUD AND CORRUPTION RISK ASSESSMENT MAIN SCHEME

I. Fraud and corruption risk in the various stages of the value chain - WHERE	II. Type of fraud and corruption risk - WHAT	III. Fraud and corruption method - WHO/HOW	IV. Red flags	V. Internal controls implemented by management to address the risks of fraud and corruption	VI. Probability	VII. Possible consequences	VIII. Prioritization	IX. Audit procedures
This column is for a brief description of the stage in the value chain which is being assessed for fraud and corruption risks	This column is for a brief description of the type of fraud and corruption risk. One should try to give an adequate description of an act which involves the abuse of public office and/or funds to obtain an unjust or illegal advantage for the actor himself, his family, his business partners or others. Every stage in the value chain may be associated with a number of different fraud and corruption risks.	This column is for a more thorough description of the act/method. The auditor should give an accurate description of who is/are involved, and how the act is carried out.	This column is for a description of the features, or 'symptoms' that characterize the fraudulent and corrupt acts in question.	If the appropriate internal controls have been implemented by the government entity in question to address the risks of fraud and corruption, these controls should be described here.	This part is based on the assessment of probability done in the subscheme. The level of probability is considered a function of the fraud triangle, that is: 1. Incentive/pressure; 2. Opportunity; 3. Rationalization or attitude. An explanation of why the probability is believed to be 'high' or 'low' should be given.	This part is based on the evaluation of consequences done in the subscheme, where the impact on: 1. The environment and/or natural resources and, possibly, livelihood and/or human health; 2. The economy of the state; 3. The reputation of the Governement in general and of the state agency in particular - is assessed. Consequences considered most important are commented on here.	The prioritization between 'high' and 'low' is done in this column on the basis of the calculation and ranking done in the subscheme.	This column is for brief descriptions of possible audit procedures to follow up the risks identified.

4.4 ASSESSMENT OF PROBABILITY AND CONSEQUENCES, WEIGHTING AND PRIORITIZATION

When the team has suggested/identified possible fraud and corruption risks and red flags, and surveyed and assessed what has been done to deal with such risks at the sector/agency level (stages (a) and (b) in the risk assessment process), the time has come to assess residual risks[100] and their materiality (c). Here, the team may assess the *probability* that various acts of fraud and corruption can actually occur, and their possible *consequences* (columns VI and VII, respectively), and then *prioritize the* various risks identified, based on weightings of probability/consequences (column VIII).

4.4.1 Probability

Here, the team may assess the level of probability or likelihood that a person or persons (internal or external) could carry out a particular act of fraud and corruption. As mentioned in Section 2.3, the probability that each of the various acts of fraud and corruption in fact will be carried out is considered a function of the *fraud triangle*, that is: 1. Incentive/pressure; 2. Opportunity; 3. Rationalization or attitude (ISSAI 1240, paragraph A11).

The level of probability is weighted (as either "high", "moderate" or "low") in a sub scheme to the main risk assessment scheme (see Figure 4.4). *Column VI of* the main scheme is the place to set out an explanation of why the probability is believed to be high, moderate or low.

Figure 4.4 Sub scheme to the main scheme: Weighting - probability

WEIGHTING	
Probability	
HIGH	There is high probability that the act of fraud and corruption will be carried out.
MODERATE	There is moderate probability that the act of fraud and corruption will be carried out.
LOW	There is low probability that the act of fraud and corruption will be carried out.

4.4.2 Possible consequences:

Here, the team may evaluate possible consequences of the act of fraud and corruption in question, and comment on the consequences considered to be most significant or material in *column VII* in the main scheme. In the sub scheme the possible consequences are divided into the following three categories: 1. the environment and/or natural resources (and possibly livelihood and/or human health); 2. the economy of the State; and 3. the reputation of the Government in general and of the State agency in particular.

1. Environment/natural resources, livelihood and/or human health

[100] Residual risks are risks which still are considered to be present after the auditors have assessed the internal controls which already have been put in place to deal with fraud and corruption risks.

Here, the auditors assess possible environmental consequences and/or impact on natural resources, and possibly, livelihood and/or human health if the relevant act of fraud and corruption is carried out. As mentioned in Section 4.2.4, causality between fraud and corruption and environmental impacts can be very difficult, and sometimes impossible to establish. However, if the possible consequences are considered to be serious enough, they may still qualify as material in the risk assessment.

2. Economy
This is an assessment of possible financial consequences for the State if the relevant act of fraud and corruption is carried out.

3. Reputation
This is an assessment of the consequences for the reputation of the Government and the public sector in general, and the relevant State agency in particular, if the fraudulent and corrupt act is made public.

Another sub scheme to the main scheme is illustrated in Figure 4.5. According to this figure, the significance or materiality of the possible consequences in each of the categories 1-3 can also be divided into high (major negative impact/high materiality), moderate (negative impact/significant materiality) or low (little or no negative impact/insignificant materiality).

Figure 4.5 Sub scheme to the main scheme: Weighting - materiality of possible consequences

WEIGHTING	
Consequences	
HIGH	The act of fraud and corruption will have a major negative impact on (C1) the environment/natural resources, livelihood, human health; (C2) economy; and/or (C3) public trust in Government. The materiality of the potential damages is considered to be high.
MODERATE	The act of fraud and corruption will have a negative impact on (C1) the environment/natural resources, livelihood, human health; (C2) economy; and/or (C3) public trust in Government. The materiality of the potential damages is considered to be significant.
LOW	The act of fraud and corruption will have few or no negative impacts on (C1) the environment/natural resources, livelihood, human health; (C2) economy; and/or (C3) public trust in Government. The materiality of the potential damages is considered to be insignificant.

4.4.3 Weighting, calculation and prioritization

The ranking of the fraudulent and corrupt acts (methods) is done by adding the weightings from the assessment of consequences (C), and multiplying the sum with the weighting for probability (P). This can be formulated as follows:

Total ranking (prioritization) = P * (C1 + C2 + C3)

Possible numeric weightings for the categories high, moderate and low could be 5, 3 and 1, respectively. Figure 4.6 uses these figures to illustrate how the weighting and calculation could be carried out.

When prioritizing the various fraudulent and corrupt acts (methods) in the main scheme, *in column VIII*, it could be helpful - for simplicity - to divide them into high or low priority. This could be done, for instance, by deciding that all acts of fraud and corruption with a total sum (i.e., the sum after weighting and calculation) larger than 40 should be given a high priority in the main scheme, whereas the rest should be given a low priority. *Note*: the examples in Figure 4.4 are based on these figures.

Figure 4.6 Sub scheme to the main scheme: Weighting, calculation and prioritization

Probability (Column VI)	Possible consequences (Column VII)			Sum after weighing and calculation	Prioritization (Column VIII)
Incentive/pressure, opportunity, rationalization or attitude (fraud triangle)	Impact on environment/ natural resources, livelihood and/or human health	Economy	Reputation		
HIGH	HIGH	MODERATE	HIGH	Ex: 65 = 5 * (5 + 3 + 5)	HIGH
MODERATE	MODERATE	HIGH	LOW	Ex: 27 = 3 * (3 + 5 + 1)	LOW
LOW	LOW	MODERATE	LOW	Ex: 5 = 1 * (1 + 3 + 1)	LOW

4.5 AUDIT PROCEDURES

Finally, when the team has carried out stages (a)-(c) in the risk assessment process, the remaining task would be to provide brief descriptions, in *column IX*, of possible audit procedures to follow up the risks which are given a high priority in the assessment (stage (d)). However, if and to what extent, the procedures will be carried out depends on the mandate of the SAI in question. Moreover, such procedures also must be seen in close connection with the aspects of audit evidence, documentation and reporting (further dealt with in Appendix G).

Chapter 5 presents several scenarios from the environmental and natural resource sectors, along with possible red flags and suggested audit procedures. Some of these procedures and detection methods are discussed in more detail in Appendices C, D, E, and F.

Chapter 5:
Red flags and suggested audit procedures in selected scenarios

As mentioned in Section 4.4, when the audit team has carried out stages (a)-(c) in the risk assessment process and identified and assessed possible fraud and corruption risks, the next step would be to suggest possible audit procedures to follow up these risks, cf. column IX in the risk assessment scheme (Figure 4.1). Further details can be found in paragraph 89 of ISSAI 4200, paragraph 21 of ISSAI 1330, and paragraphs 28-33 of ISSAI 1240. However, if and to what extent, these procedures will be carried out depends on the mandate of the SAI in question.

Depending on the particular circumstances and the stage in the audit process, such procedures could either be integrated as part of the environmental audit in question or be carried out separately. Under any circumstance, however, when it comes to fraud and corruption risks in particular, due professional care and caution should be exercised during all stages of the audit process, cf. paragraph 4.7 of ISSAI 300. This also means consulting appropriate legal and other counsel when necessary. The importance of confidentiality when dealing with identified risks and/or suspicions of fraud and corruption should also be noted.

Furthermore, if it is confirmed that the fraud and corruption case in question does involve criminal offences, it should be noted that the procedures which prescribe *where, when* and *how* to report such matters may vary considerably from SAI to SAI around the world. It is therefore very important that auditors have good knowledge of the reporting procedures which apply to fraud and corruption cases in their respective offices. As a consequence of this variability, this aspect of the audit process has not been specifically addressed in the scenarios presented below. Examples of instances where it may be required for SAIs to contact the police or other relevant authorities are, however, described in Appendix E.

This chapter presents five fraud and corruption scenarios from the environmental and natural resource sectors. Possible red flags and possible audit procedures are described. Some of these procedures and detection methods are discussed in more detail in Appendices C, D, E, and F. The scenarios, which represent various stages or processes in the value chain, concern the following topics: 1. the legislative process relating to “land swaps”; 2. procurement in coal extraction; 3. allocation of public grants to tree planting; 4. initiation, approval and validation of a project under the Clean Development Mechanism (CDM); and 5. management of oil revenues.

As all the scenarios contain generic elements, the red flags and audit procedures described also could be relevant in other sectors and situations such as forestry, fisheries, water management and biodiversity (see also Section 2.1). Moreover, due to their generic character the scenarios may also be applicable outside the environmental and natural resource sectors.

The scenarios present one version of how the course of events could have been, and the red flags and audit procedures are selected accordingly. Hence, although the scenarios are partly inspired and based on real-life cases, they also contain purely fictional elements.

5.1 SCENARIO 1: THE LEGISLATIVE PROCESS RELATING TO "LAND SWAPS"

This scenario is based on possible fraud and corruption connected to the legislative process concerning the exchange of State-owned land with privately-owned land ("land-swaps"). Property/-resort-developers A, B and C are making donations (transfers to secret bank accounts, cash, gifts, etc.) to a coalition of political parties D, E and F. The donations are, among other things, used for canvassing activities, buying campaign material, and buying slots in radio and television. In addition, some of the Members of Parliament (MPs) in question also receive private benefits from the companies. In return, the MPs from parties D, E and F use their influence to get certain legal amendments passed in Parliament.

The proposed amendments permit large tax exemptions for developers of ski resorts, sale of State forests without proper justifications or criteria, and use of certain areas in contravention of international environmental obligations concerning conservation and protected areas. In addition, the proposed amendments also introduce a "grace period" of several months before a ban on forest swaps is supposed to enter into force, thus allowing further swap deals to be made.

The scenario is also illustrated in figure 5.1.

Possible red flags

Possible red flags in this scenario could be:

a) Procedural red flags:

- The proposal to amend the law in question is tabled at the latest session of the year;
- The proposal is prepared in very short time; and
- A proposal that is prepared and dealt with in a very non-transparent manner with no consultation or discussion in Parliament or publication on the Parliament's website is more vulnerable to fraud.

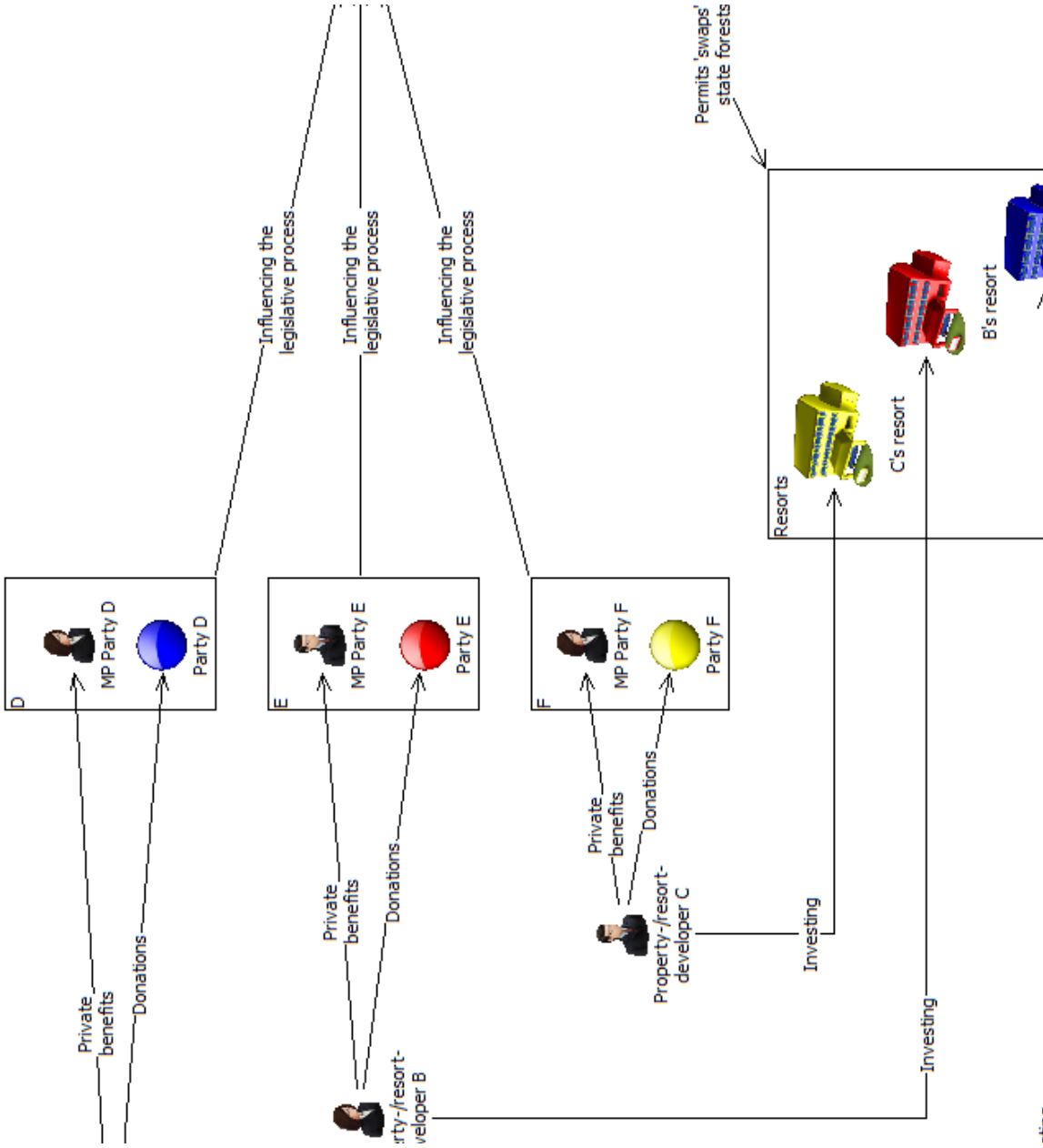
b) Red flags associated with results of the proposed amendments:

- A sudden rush of land swap deals made as a consequence of the grace period in the proposed amendments;
- An increase in sale of forest land suitable for/close to ski resorts owned by A, B or C;
- Companies A, B and C are generally among the main beneficiaries of the swaps and/or sales;
- Alterations in rules and regulations concerning the use of the areas in question - i.e. from forest to land cleared for property development - immediately/a short time after the deals and/or sales are made (implying collusion with local authorities); and
- In the longer term, loss of species/habitats in the areas in question in contravention of international environmental obligations.

c) Red flags associated with the donations:

- Inexplicable increases in the campaigning activities - and expenses - of parties D, E and F;
- Reports of vote-buying;

Figure 5.1 Scenario 1: The legislative process relating to 'land swaps'



- Signs of illicit enrichment among MPs from D, E or F; and
- MPs and their families/friends are frequent guests at resorts belonging to A, B and/or C.

Possible audit procedures

In this scenario, the following regular audit procedures could be done, depending on the mandate of the SAI in question:

- Legal analysis focusing on the consequences of relevant legislation, regulations and procedures relating to party and campaign financing;
- Document analysis of the reports from the relevant proceedings of the Parliament, asset disclosure records, and other relevant official documents - to check for possible anomalies;

- Regular/ “official” interviews with representatives of the parliamentary administration, representatives of authorities responsible for supervising the party/campaign financing system (if such supervision is not carried out by the SAI itself), representatives of authorities responsible for managing the land-swap system, etc. to inquire whether there have been/are any apparent flaws in the relevant processes;
- Analysis of the financial audit reports of political parties to check for apparent flaws; and
- Compliance audit of the proceedings in Parliament to see if there have been any breaches of relevant procedural rules.



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Depending on the mandate of the SAI in question, further audit procedures could also involve the following:

- Searches in the public property register to identify the beneficiaries of the land swaps. If the country in question does not have such a register, the records on land-swaps and/or sales of forests in the relevant State agencies could be examined, as these may provide the same information. Supplementary information includes media-reports or reports from Civil Society Organizations on specific swaps/sales;

- Field studies including the use of Geographic Information System/Global Positioning System-technology[101] to clarify and verify which areas have actually been swapped/sold;
- Comparison of the value of the areas that have been swapped/sold by the government with similar areas that have been sold on the open market. Or, alternatively, get an independent assessment of the value of the areas in question;
- Searches in business registers to find information on roles and relationships between individuals, companies and political parties, as a way of checking for possible conflicts of interests (see Appendix C);
- Searches in other registers, media reports, etc. to find signs of illicit enrichment among the MPs (see Appendix C);
- Searches in income and transaction data to look for possible indications of irregularities (see Appendix D) and
- Confidential/sensitive interviews with relevant sources within Parliament and inside/outside government to obtain information which may not be acquired through regular interviews (see Appendix E).

5.2 SCENARIO 2: PROCUREMENT IN COAL EXTRACTION

This scenario is based on possible fraud and corruption in connection with procurements relating to coal extraction. A, the Chief Executive Officer in the State-owned company B, receives undue benefits from C, the chairman of the board in contractor company D. More specifically, in connection with a share issue in company E, company D provides substantial financial support to A, allowing him to get a controlling majority in company E. In return, A uses his influence to extend the service contracts between companies B and D when they are open for renegotiation, instead of inviting tenders in the open market.

The scenario is also illustrated in figure 5.2.

Possible red flags

Possible red flags in this scenario could be:

- An anonymous tip saying that "something is wrong" in company B;
- Field studies in the local community where company B operates indicate that company D is involved in "almost everything" in this community (i.e., in addition to its main assignment of freighting coal for company B, D delivers a range of other services as well);

[101] See Appendix 2: Using GIS and GPS in Forests Audits, pp. 42-49, in INTOSAI WGEA, 2010. Auditing Forests: Guidance for Supreme Audit Institutions.

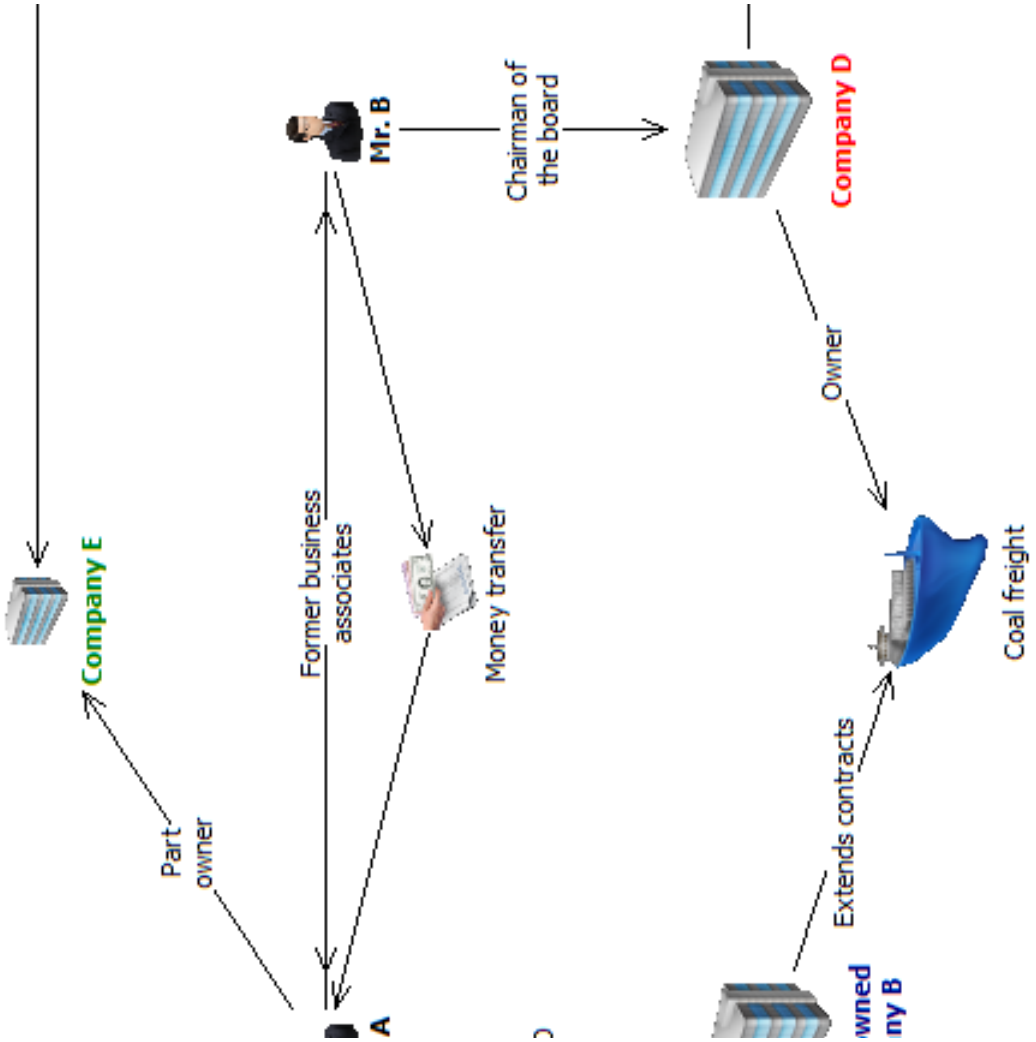


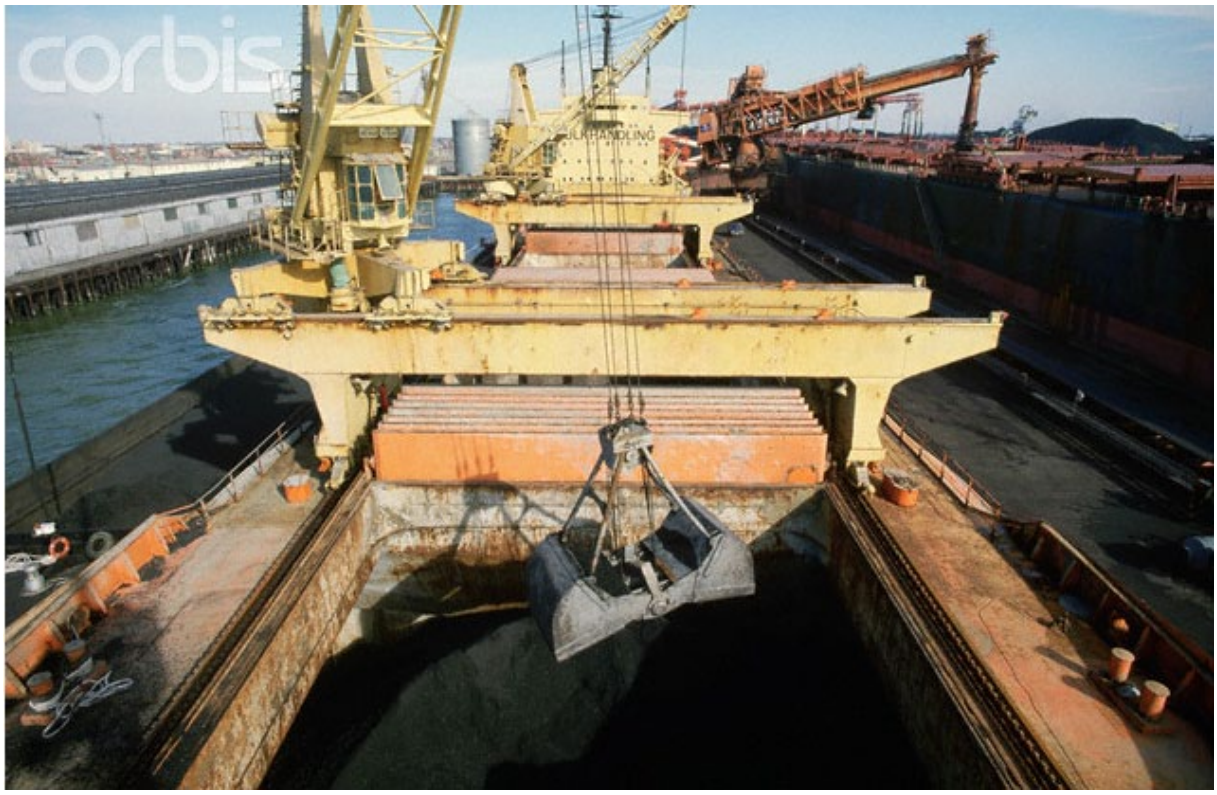
Figure 5.2 Scenario 2: Procurement in coal extraction

- According to the national database for public procurement, company B has never invited tenders for the freight and sale of coal;
- External reports commissioned by the Ministry responsible for the management of the government's interests in company B show that the contracts for the freight and sale of coal are considered to be unreasonably expensive, go on for too long, and are being renewed long before their expiry date; and
- According to media reports, the profits of company D have increased dramatically since they signed the contracts with company B.

Possible audit procedures

In this scenario, the following regular audit procedures could be done, depending on the mandate of the SAI in question:

- Document analysis of the external reports on the costs of the contracts for the freight and sale of coal;
- Searches in the national database for public procurement to clarify whether tenders have been invited or not;
- Examine the relevant records in the responsible Ministry, including among other things reports from board meetings, to clarify what the Ministry and/or the board have done to follow up the external reports;
- Regular/"official" interviews with representatives of the responsible Ministry to clarify what follow-up work has been done in relation to external reporting;
- A general study of relevant media reports; and
- Field studies in the local community where company B operates- as a way of looking for possible anomalies.



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Depending on the mandate of the SAI in question, further audit procedures could also involve the following:

- Searches in business registers to find information on roles and relationships between persons and companies, and historical information, that is, *what* happened *when* (see Appendix C). Among other things, this information could be used to enquire whether A and company D had business interests in the same third companies, such as company E;
- More focused searches in news archives (see Appendix C) looking at, for instance, whether there were relationships between A and people in company D - such as C - that were not reflected in the business registers;
- If searches in business registers had shown that both A and D had ownership interests in company E, analyze the annual reports and accounts for companies E and D to check for any conspicuous transactions between the companies (e.g., in connection with share issues, and changes of the ownership structure of company E in favour of A);

- Searches in other registers and income data to find indications of illicit enrichment for A (see Appendices C and D);
- Confidential/sensitive interviews with relevant sources within company B to get further information which may not be acquired through regular interviews, such as information on the tone at the top in the company (see Appendix E); and
- Collection of tips and confidential information through a confidential information channel (see Appendix F). As mentioned, the first red flag in this case was an anonymous tip saying that "something was wrong" in company B.

5.3 SCENARIO 3: ALLOCATION OF PUBLIC GRANTS TO TREE PLANTING

This scenario is based on possible fraud and corruption in connection with allocation of public grants. Civil Society Organizations (CSOs) A, B, C, D, E and F misappropriate government funds earmarked for a tree planting programme. They do this by providing misleading and false information when applying for their afforestation project grants. The grants are misappropriated in collusion with G, the head of H, the relevant State agency responsible for managing the funds.

The CSOs receive the grants in three part payments. The first payments are made immediately after project applications have been approved, while the second should be made after mid-term reports and financial statements have been submitted to agency H and progress has been verified. The third and final payments are made after financial statements accounting for the second payments and final evaluation reports are submitted to agency H.

Regulation requires government agency H to recover funds and blacklist CSOs that do not provide the mentioned documentation.

The scenario is also illustrated in figure 5.3.

Possible red flags

Possible red flags in this scenario could be:

- Grants given before or immediately after receiving project applications;

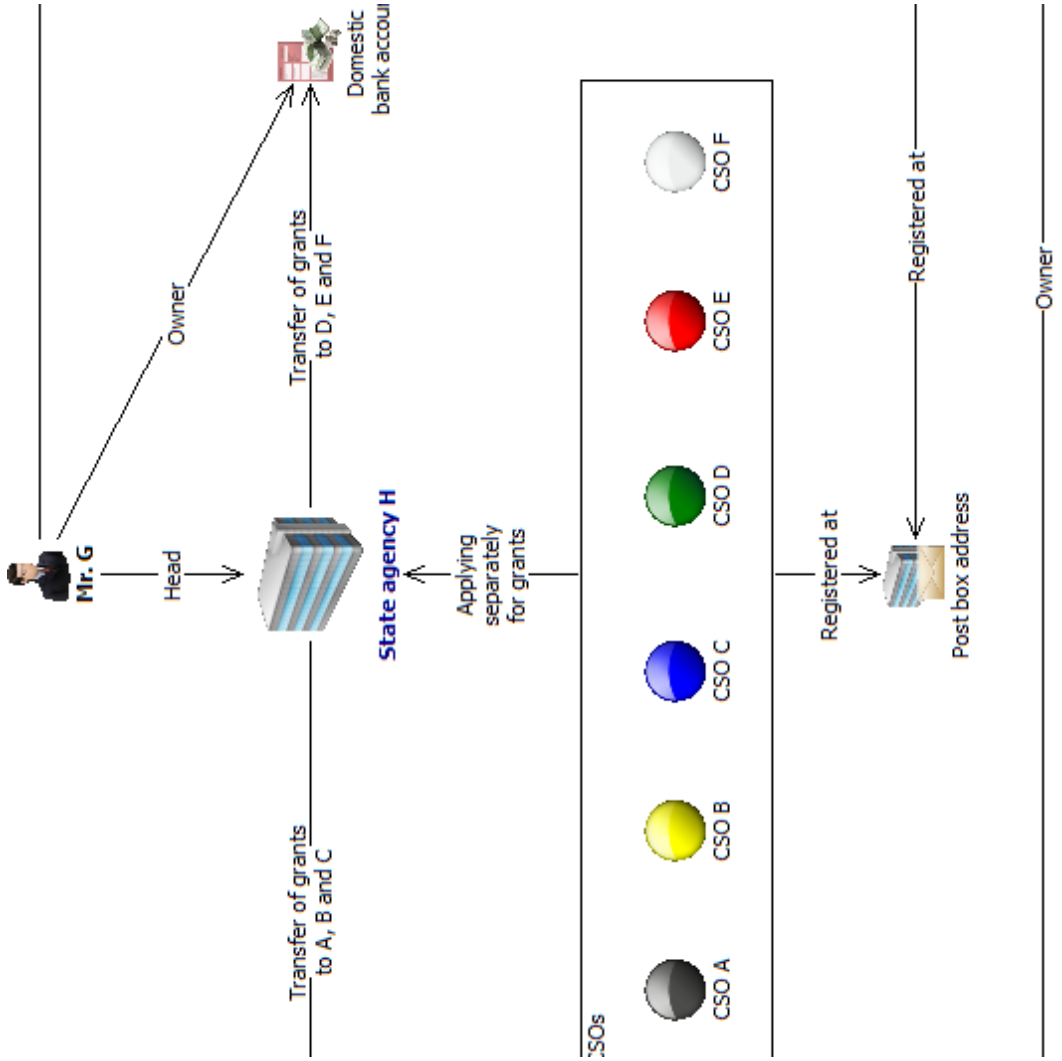


Figure 5.3 Scenario 3: Allocation of public grants to tree planting

- CSOs A, B, C, D, E and F have not submitted relevant documentation to government agency H after receiving the first part payment of the grants;
- Agency H has not initiated any correspondence with the CSOs in question and have failed to ensure recovery of the funds;
- No independent verification of afforestation activities;
- Agency H has not taken steps to blacklist these CSOs or initiate any other action - even after a third party evaluation has indicated misappropriation of funds;
- Agency H has not taken the necessary steps to generate sufficient demand for additional tree plantation projects; and
- In several instances, agency H has not released the second and final part payments to CSOs that *have* complied with the terms and conditions of the grants.

Possible audit procedures

In this scenario, the following regular audit procedures could be undertaken, depending on the mandate of the SAI in question:

- Compliance audit to inquire whether all applicants and their projects have been subject to the prescribed checks before grants were disbursed;
- Regular/"official" interviews with representatives of agency H to ask whether there have been any apparent flaws in the relevant approval and follow-up processes; and
- Comparison of different project applications to look for apparent similarities.



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Depending on the mandate of the SAI in question, further audit procedures could also involve the following:

- Transaction analysis (see Appendix D) of the disbursements made to look for, among other things:
    - Different CSOs with the same bank account number and/or address and/or phone number – may indicate possible collusion and deception;
    - Suspicious addresses;
    - Payments to foreign bank accounts;
    - Payments made before or right after the application has been received in agency H – this could indicate that there has not been any real and substantive processing of the application;
    - Bank account(s) belonging to G.
- Confidential/sensitive interviews (see Appendix E) with relevant sources within State agency H to find out if management has overridden internal controls when handling certain tree planting project applications;

- Searches in business and other registers, as well as news archives, to find information on possible relationships between G and any of the CSOs A, B, C, D, E and F and/or persons associated with any of these CSOs - as a way of checking for possible conflicts of interests (see Appendix C); and
- Searches in relevant registers and income and transaction data for G to look for indications on illicit enrichment (see Appendices C and D).

5.4 SCENARIO 4: INITIATION, APPROVAL AND VALIDATION OF CLEAN DEVELOPMENT MECHANISM PROJECT

This scenario is possible fraud and corruption in connection with the approval and validation of a Clean Development Mechanism (CDM) project under the Kyoto Protocol. Company A, which is a producer of refrigerant gases, develops a CDM project to destroy a very potent greenhouse gas - an unintended by-product of its manufacturing processes - by introducing a new cleaning technology. However, the project is not fulfilling the necessary criteria for contributions to sustainable development or environmental and health impacts. These flaws are not reflected in the Project Design Document (PDD) which is sent for approval to the State agency B, the country's Designated National Authority (DNA). The head of B, C, has a large ownership interest in company A, and ensures that the project is approved without any further enquiries.

Furthermore, the PDD is developed with the assistance of consulting firm D, which is a subsidiary of consulting firm E. The relationship between D and E is not known to the public. Firm E is the Designated Operational Entity (DOE) responsible for validating the CDM project. In addition to its role as validator, firm E also provides several other consulting and auditing services to company A, its most important client.

The scenario is also illustrated in figure 5.4.

Possible red flags

Possible red flags in this scenario could be:

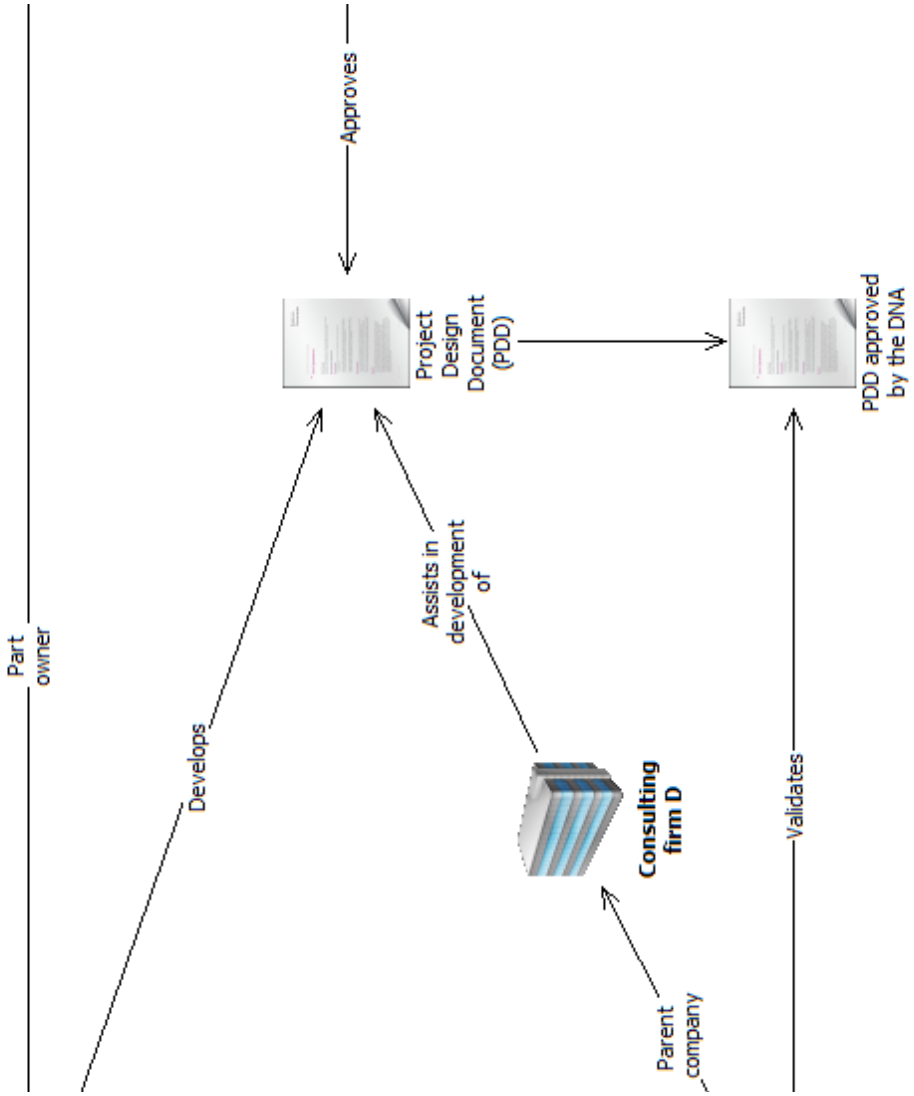


Figure 5.4 Scenario 4: Initiation, approval and validation of Clean Development Mechanism project

- Media-reports and reports from Civil Society Organizations (CSO reports) on complaints by locals living in the villages surrounding the production plant of company The complaints state that the villagers and the local environment have been adversely affected by the pollution from the industrial activities at this plant;
- Information that the accreditation of consulting firm E to verify and certify CDM projects previously had been withdrawn by the United Nations for a period, due to lax verification procedures;
- The PDDs for this project and for another CDM project in a different part of the country - both prepared by consulting firm D - seem to be identical in those parts which concern stakeholder consultations; and
- Official reports indicating that the CDM project, so far, had not been monitored by public authorities.



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Possible audit procedures

In this scenario, the following regular audit procedures could be done, depending on the mandate of the SAI in question:

- Document analysis of the relevant records and/or regular/"official" interviews with representatives in the responsible State agency to check if the information provided in the PDD has been verified, and to monitor the project after approval;
- Compliance audit to find out if the prescribed pre-checks (according to the national sustainability criteria for CDM projects - e.g., generation of additional jobs, provision of basic amenities, environmental impact assessments) have been carried out;
- Field studies and interviews with local inhabitants, biologists, doctors, veterinarians to:
    - See if the project has delivered as promised in respect of local employment generation, agricultural assistance or improved sanitation facilities, etc.;
    - confirm whether the local environment surrounding the plant shows clear signs of degradation, and whether crops show abnormal growth, as stated in the media and CSO reports; and
    - find out whether the health of local humans and animals has been adversely affected since the project started;
- Laboratory tests of local soil and water samples to examine if contamination has reached dangerous levels, and whether the chemicals involved match the pollutants produced by the local factory; and
- Comparison of the information provided in the PDD about stakeholder consultations with information from the interviews with local inhabitants, to check whether proper stakeholder consultations have been undertaken.

Depending on the mandate of the SAI in question, further audit procedures in this scenario could involve:

- Searches in business registers to check whether C has any ownership interest in company A, that is, check for possible conflicts of interest (see Appendix C);

- Searches in other registers and income data for C to look for indications on illicit enrichment (see Appendices C and D);
- Searches in business registers to reveal the actual relationships between consulting firms D and E (see Appendix C);
- Analyze the annual reports and accounts for company A and consulting firm E, as well as focused searches in news archives and other sources to see if there is a close relationship between these two companies and, if so, to what extent the latter is financially dependent on the former (see Appendix C); and
- Confidential/sensitive interviews with relevant sources within State agency B to find out if management has overridden internal controls when handling the particular CDM project (see Appendix E).

5.5 SCENARIO 5: MANAGEMENT OF OIL REVENUES

This scenario is possible fraud and corruption in connection with the management of the revenues from the sale of oil. A, the Chief Executive Officer of the wholly State-owned oil company B, uses his position to embezzle large sums of money from the sale of oil to foreign traders. Partly, this is done by selling oil at rates significantly below market prices to offshore trading company C, which sells the oil to offshore trading company D, which finally sells the oil in the open market. In addition, money is misappropriated through the payment of exceptionally high interest rates by company B on short-term advance payments (that is, short-term loans) from trading company C for purchase of oil. The profits are channeled into the bank account of company C. Both companies (C, D) and their accounts are in reality controlled by A. However, officially, A is not named as director of either company.

The scenario is also illustrated in figure 5.5.

Possible red flags

Possible red flags in this scenario could be:

- Company B is selling oil at prices significantly lower than official market prices;
- Interest rates and other costs associated with the short-term loans between company B and trading company C do not seem to be at a commercially justifiable level;
- Comparison of selling prices ($USD per barrel) for various oil sales during one year shows striking differences in the sales terms for various buyers of oil from company B;

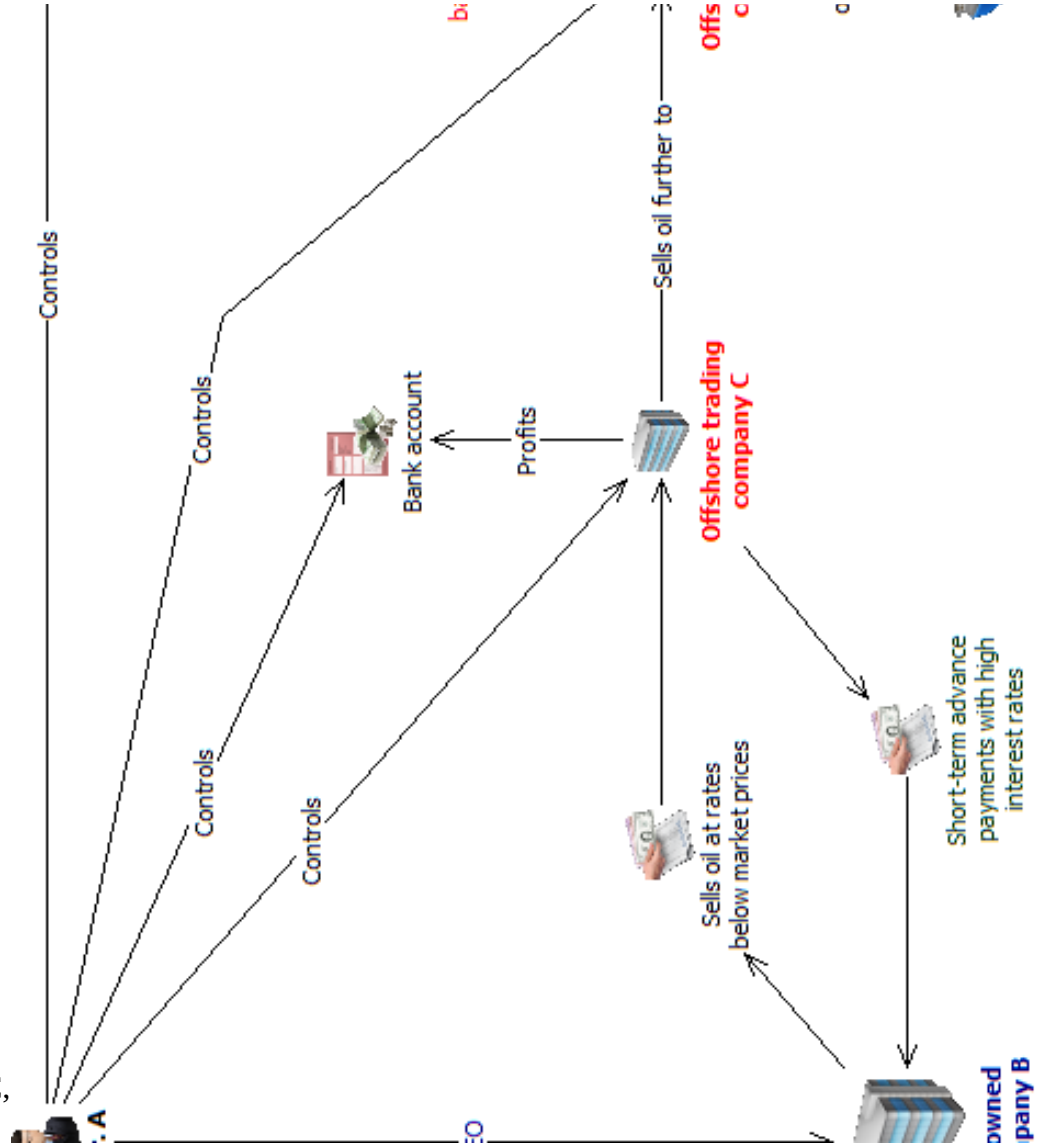


Figure 5.5 Scenario 5: Management of oil revenues

- Company C, oil trading;
- The external auditor of company B cites lack of access to bank account information and considers the company's financial statements to be uncertifiable; and
- Critical media and CSO reports on lack of transparency both in company B and in respect of the revenue flows between this company and the Treasury.

Possible audit procedures

In this scenario, the following regular audit procedures could be used, depending on the mandate of the SAI in question:

- General enquiry into the internal controls and accounting practices of company B looking at, among other things, governance and reporting structures, authorization and approval procedures, controls over access to resources and records, records management and documentation practices (see also Chapter 3 for further description of these procedures);
- Find out if a code of conduct is being implemented in the organization, and whether all top-level employees have been required to disclose all their incomes, assets, business interests, etc. - such disclosures may raise conflicts of interests;
- Comparative analysis of buyers and prices of specific shipments from company B to confirm whether or not there are any inexplicable differences;

- Further scrutiny of contracts with selected buyers to check for unwarranted differences in terms; and
- Comparison of the terms for the short term loans with the terms for similar loans in the open market.



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Depending on the mandate of the SAI in question, further audit procedures in this scenario could also involve the following:

- Transaction analysis (see Appendix D) to detect possible suspicious transactions both in and out of the company, combined with substantive testing of associated (if available) records and documentation;
- Searches in business registers, media archives, reports from CSOs and other sources to enquire whether there are any relationships between A and those who officially act on behalf of companies C and D (see Appendix C);
- Searches in relevant registers and income data for A, as well as other sources of information to find indications of illicit enrichment (see Appendices C and D);
- Confidential/sensitive interviews with relevant sources within company B to further investigate how contracts with buyers of oil were entered into and transactions were authorized, and to obtain other relevant information (see Appendix E);
- If possible, do due diligence of the relevant buying companies to, among other things, get information of their history, organization, ownership and governance structure, market relationships, etc.; and
- If possible - in cooperation with other authorities - acquire transaction data from the accounts of company C to investigate further where the profits from the oil sales ended up (see Appendix D).

Appendix A:
Various forms of fraud and corruption

As mentioned in Section 2.2.1, fraud and corruption can be divided into many different types or categories of acts and practices. Among the various typologies in use, a rather exhaustive one is provided by the United Nations Office on Drugs and Crime (UNODC)[102], and the presentation below is mainly based on this typology.

Bribery

For the purpose of this guide, bribery refers to the act of promising, offering or giving, to a public official - either national, foreign or in a public international organization - money, services or other benefits to persuade her or him do something in return. It also refers to the act of solicitation. This is when the public official asks for money, services, benefits, etc..[103] Bribery can take place at the lowest and the highest levels of government, and it can involve everything from "small change" to extraordinarily large side payments. According to UNODC, bribery is probably the most common form of corruption.[104] Also, bribery is probably what many first and foremost associate with the term "corruption".

According to UNODC, bribery can also be divided into various specific types. Two types are further elaborated below, as they illustrate the "grey zones" between acceptable, unacceptable and criminal behavior.

The first is trading in influence or so-called "influence-peddling". This is when government insiders, politicians or public officials sell or trade the exclusive access they have to decision makers or their influence on government decision-making. According to UNODC, influence-peddling must be distinguished from legitimate lobbying or political advocacy.[105] However, the boundaries between what is legitimate and acceptable - and what is not - are not always clear-cut and unambiguous. Influence-peddling takes place along a *continuum* ranging from acceptable lobbying through to criminal behavior.[106]

The second is offering or receiving improper gifts, gratuities, favours or commissions. This is central to influence peddling. Examples would be if lobbyists offer or provide various benefits to public officials or elected representatives - such as meals and entertainment, trips and other gifts - in exchange for the use of their political influence to benefit the former or his/her clients.[107] UNODC points out that such improper benefits are difficult to distinguish from bribery as links are always developed between benefits and results.[108] However, the perceptions as to what qualifies as reasonable and appropriate gifts, payments, etc. differ very

[102] According to UNODC, corruption can be divided into the following categories: 1. "Grand" and "petty" corruption; 2. "Active" and "passive" corruption; 3. Bribery; 4. Embezzlement, theft and fraud; 5. Extortion; 6. Abuse of discretion; 7. Favouritism, nepotism and clientilism; 8. Conduct creating or exploiting conflicting interests; 9. Improper political contributions. (UNODC, 2004, pp. 10-16). For further reading, see also, among others, UNODC, 2005, pp. 21-27, and UNODC, 2003, UN Guide for Anti-Corruption Policies. [Online] Available at www.unodc.org/pdf/crime/corruption/UN_Guide.pdf [Accessed on 22 February 2011], pp. 28-34.
[103] The full definitions of bribery of a) national public officials, and b) bribery of foreign public officials and officials of public international organizations are found, respectively, in articles 15 and 16 of the United Nations Convention against Corruption.
[104] UNODC, 2004, p. 11.
[105] UNODC, 2004, p. 12.
[106] McPherson and MacSearraigh, 2007, p. 201.
[107] Kupferschmidt, David, 2009. Illicit Political Finance and State Capture, International Institute for Democracy and Electoral Assistance. [Online] Available at www.idea.int/resources/analysis/upload/IDEA_Inlaga_low.pdf [Accessed on 22 February 2011], p. 35-36.
[108] UNODC, 2004, p. 12.

widely between various cultures. This form of bribery, therefore, can be difficult to address.[109]

Embezzlement

This is the misappropriation or stealing of money, property or other public assets by public officials who are not entitled to these assets, but have been entrusted with them through their position or employment. "Theft" is also associated with embezzlement, but it has a wider meaning than embezzlement, as theft also includes the stealing of property or other assets which have *not* been entrusted to the person in question.[110]

Extortion

In contrast to bribery, extortion or blackmailing involves gaining cooperation by using negative incentives such as threats to expose harmful information, or threats or use of violence. Depending on the particular situation, government officials and public servants can both commit extortion or be its victim. In some instances, the difference between extortion and bribery may only depend on the amount of coercion involved. It needs noting that by accepting a bribe, a public official also becomes much more vulnerable to extortion.[111]

Intentional misrepresentation and deception

This refers to the giving or receiving of misleading or false information to obtain an unjust or illegal advantage. In contrast to embezzlement, intentional misrepresentation and deception is used to induce the owner of money, property or other assets - here the State - to relinquish it voluntarily. It can be committed both internally (for instance, when public officials create artificial expenses) and externally (for example, when individuals, groups, or companies are receiving public funding on a false basis).[112] This type of abuse of public funds and/or office is perhaps what is most commonly associated with the term "fraud".

Abuse of discretion

Abuse of entrusted discretion for private gain may be involved in various cases of fraud and corruption in the public sector. For instance, a government official responsible for public procurement may abuse her or his discretion by purchasing goods and services from a firm where she or he has vested interests or by altering rules and criteria relating to the use of particular areas. The end result of actions such as these is that the value of their personal property increases. This type of fraud and corruption is frequently related to bureaucracies in which individual discretion is wide and the surveillance and accountability structures are weak, and/or rules and procedures are so complex that they undermine the effectiveness of the internal controls and accountability mechanisms that are in place.[113]

Favoritism, nepotism and clientilism

[109] Pope, Jeremy, 2000. Confronting Corruption: The Elements of a National Integrity System, TI Source Book 2000, Transparency International. [Online] Available at www.transparency.org/publications/sourcebook [Accessed on 24 January 2011], pp. 8-9.
[110] UNODC, 2004, pp. 13-14.
[111] UNODC, 2004, pp. 12, 14-15.
[112] See, among others, UNDP, 2010, p. 8; UNODC, 2004, p. 14.
[113] UNODC, 2004, p. 15.

In general, this form of fraud and corruption also involves abuse of discretion. However, this type of abuse is not initiated by the self-interest of the government official in question, but by the interests of relatives, friends, tribe or clan members, fellow party members, etc. For example, it might involve exploiting power and authority to gain jobs and positions for relatives - irrespective of their objective qualifications (nepotism).[114] According to UNODC, a number of States have not criminalized the conduct of favoritism, nepotism and clientilism.[115] Hence, similar to influence-peddling and the offering or receiving of improper gifts etc., this type of fraud and corruption also illustrates the "grey zones" between acceptable, unacceptable and criminal behavior.

Improper political contributions

Rather like other attempts to affect political and other important decisions by government officials, donations or other contributions to political parties take place along a long continuum. This continuum ranges from legitimate contributions to attempts at improperly influencing specific decisions by a party or its members in the present or in the future. Due to the many grey zones involved, this type of fraud and corruption has proved very difficult to deal with in practice. One way to prevent improper use of political contributions and to bring in a degree of political accountability is to put in place transparent disclosure requirements, so that both the donor and the recipient are known to the public. Another approach is to stipulate an upper limit for the size of contributions from individual donors.[116]

[114] UNODC, 2004, p. 15; UNDP, 2010, p. 8.
[115] UNODC, 2005, pp. 26-27.
[116] UNODC, 2004, p. 16.

Appendix B:
The "Code of Conduct" concept

The preferences and value judgments of public sector employees - and thereby their standards of conduct - are determined by their ethical values and personal and professional integrity. Public ethics are a precondition for, and support the confidence of the people in the public sector and are at the core of good governance.[117] Hence, since the 1990s, more attention has been given to the importance of ethical conduct in the public sector.

Consequently, measures to prevent fraud and corruption can be underpinned by more universal standards of ethics and behavior. These encourage high quality in public services, good relations between public sector employees and those they work for (that is, the people), as well as efficiency, determination and spirit. Such principles can also encourage a culture of professionalism in the public sector and also strengthen the expectation among the general public that the sector's standards are high. The principles should therefore ideally be reflected in written documents such as a Code of Conduct (CoC), and it is also advisable that this document is made public.[118]

In addition to the Executive branch of government, such ethical standards are also relevant for the Legislature[119], the Judiciary[120] and the Supreme Audit Institution.[121]

The main purposes of a CoC are to: (i) clarify basic expectations of individual employees or a group of employees, thereby helping promote basic values that act against fraud and corruption; (ii) be the basis for training employees, underpin the discussion of standards and, when required, be the basis for adjusting standards; and (iii) form the basis of disciplinary actions if employees contravene or fail to satisfy a stipulated standard.[122]

More generally, a CoC prescribes common standards of conduct that align with fundamental ethical principles such as independence, integrity, impartiality, transparency, accountability, justice, responsible use of public resources, diligence, loyalty towards the organization, and propriety of personal conduct. Mostly, these principles have their sources in legislation, delegated legislation or regulations, and contract law. Hence, a CoC will often draw most of its basic principles from existing legislation, and supplement it as appropriate.

But where necessary, a CoC can be "tailor-made", containing specific standards that apply to particular groups of employees. *Note:* it is important to make sure that any specific standards do not conflict with more general standards already applying elsewhere.[123]

Central elements in a CoC for public officials when it comes to fraud and corruption could be: 1. standards concerning impartiality; 2. standards concerning conflicts of interest; 3. standards concerning administration of public resources; and 4. standards concerning confidentiality.

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[117] INTOSAI GOV 9100, pp. 10, 17.
[118] UNODC, 2004, p. 136; INTOSAI GOV 9100, p. 18.
[119] UNODC, 2004, pp. 180-183; Pope, 2000, pp. 52-53. See also Inter-Parliamentary Union, 2001: Recommendation on the Role of Parliament and Supreme Audit Institutions in combating corruption. Approved at the Session on the role of parliaments and supreme audit institutions in the fight against corruption, held during the Second Global Forum on Fighting Corruption and Safeguarding Integrity, The Hague (Netherlands), 28-31 May 2001. [Online] Available at www.ipu.org/splz-e/hague01-rcm.htm [Accessed on 4 April 2012].
[120] UNODC, 2004, pp. 112-15, 119. Pope, 2000, p. 69.
[121] See ISSAI 30 Code of Ethics.
[122] UNODC, 2004, p. 133.
[123] UNODC, 2004, pp. 133-135.

1. Impartiality

Impartiality is important for both the proper and uniform conduct of public tasks and for ensuring the public have confidence in them. In general, the impartiality principle applies to any public employee who makes decisions. However, it is often the case that stricter or more specific requirements apply to more influential or powerful decision-makers, such as senior public servants, judges and office holders in the legislative or executive branches of government. In essence, impartiality demands that decisions are made on the basis of facts only, that is, without the possible influence of extraneous or immaterial considerations.[124]

2. Conflicts of interest

Among other things, the extraneous and immaterial considerations just mentioned may arise when a private interest of a public official conflicts with her or his public duty. Hence, a central element of a CoC is to address such conflicts. One general requirement in this regard is for public officials to steer clear of undertakings which might result in conflicts of interests. For instance, officials responsible for decisions which affect financial markets should be very cautious with their own personal investments. Another requirement is that public employees avoid conflicts of interest by disclosing partiality or prejudice in situations where they directly/indirectly can affect their own personal interests.[125]

A third requirement is that public officials should not accept gifts, favours or other benefits.[126] In more serious cases, where a direct link can be proved between a gift and a decision, bribery provisions in the penal code may apply. Usually, though, the link is more subtle. In practice, therefore, the safest measure is probably to have a general prohibition in the CoC about the acceptance of gifts, benefits, etc. - with exceptions only for very small gifts or gifts of symbolic value. In cases where government officials - in particular situations - nevertheless are permitted to accept gifts, the CoC can also stipulate that information regarding the type and value of the gift and the identity of the giver be disclosed. This enables, if needed, for the gift to be assessed independently in terms of its appropriateness.[127]

Finally, a fourth requirement is that officials disclose all their incomes, assets, business interests etc. which may raise conflicts. Often, this is reflected in provisions stipulating a general disclosure when officials are beginning their new job and on a regular basis after that. As part of this, there are also frequently provisions which prescribe that potential conflicts of interests due to officials' financial positions should be disclosed as soon as they become apparent. Central questions in this regard are, for example: Who should receive the disclosures, and to what extent should these be made public? When it comes to non-political officials, i.e., civil servants - at what levels of seniority should these also be required to disclose this type of information?[128] A good general rule is that the higher the level of the official, the more important it is that disclosure rules are put in place. The same argument applies when deciding on what to make public about officials' financial positions.

3. Administration of public resources

[124] UNODC, 2004, p. 136.
[125] UNODC, 2004, p. 137.
[126] See also Appendix A for a brief account of this type of fraud and corruption.
[127] UNODC, 2004, p. 137.
[128] UNODC, 2004, p. 137; Pope, 2000, pp. 187-88.

Officials responsible for managing public funds or assets may represent a particularly high risk of fraud and corruption. This is because they normally are in a position to allocate financial or economic benefits and to manipulate systems which are established to prevent or detect any irregular practices. Normally, these are officials who make decisions relating to expenditures, procurement of goods or services, management of public property or other assets - in addition to those responsible for the supervision and auditing of such officials.

Hence, stricter rules may be required for officials administering public resources, although with many of the same characteristics as the more general rules relating to conflicts of interests. In addition to rules which prescribe avoidance or disclosure of real or possible conflicts of interests, standards for this type of official may also focus specifically on maximizing the public benefits of any expenditures, while minimizing costs, waste and inefficiency.[129]

4. Confidentiality

Often government officials and civil servants have access to a broad spectrum of sensitive information - information which may be misused for fraudulent or corrupt purposes. Hence, a CoC should contain rules relating to confidentiality. Such rules may include, among other things, secrecy declarations which provide that sensitive information be kept secret unless otherwise required; classification systems to give guidance to officials on what should be kept secret or not - and how; prohibitions on the use or disclosure of confidential information to make profits or to gain other benefits; and prohibition on the use or disclosure of sensitive information for a suitable period after an official has left the public service.[130]

Implementation of a Code of Conduct

To be effective, a CoC also must be properly implemented in the organization in question. To achieve this, there are several ideal prerequisites. First, ensure the CoC adequately addresses the possible situations and aspirations of employees at all levels in the organization, and that everybody has a feeling of ownership of the CoC (for example, by enabling staff at all levels to be involved in its preparation).

Second, a CoC must be combined with an ethics programme that includes an effective implementation plan and a strong dedication to make sure that the plan is fulfilled. This may include a combination of both "soft" and "hard" measures.[131]

Soft and hard measures compared
Soft measures should include as many positive incentives as possible to ensure that every employee becomes aware of the CoC, and complies with it. Measures could include information and education schemes, and regular training on real life ethical dilemmas and on the steps every employee can take to make sure their colleagues also comply with the CoC.[132]

Hard measures, on the other hand, are aimed at effective enforcement. These measures often

[129] UNODC, 2004, p. 138.
[130] UNODC, 2004, pp. 138-139.
[131] Pope, 2000, p. 181; UNODC, 2004, p. 146; Dye, Kenneth M. (2007) Corruption and Fraud Detection by Supreme Audit Institutions, pp. 318-19, in: Shah (ed.), 2007.
[132] UNODC, 2004, pp. 146-147; Pope, 2000, p. 182.

refer to clear procedures and sanctions to be applied in case of breaches of the CoC. To ensure effective implementation, integrity seminars should have an emphasis on the consequences for employees who violate provisions of the CoC. Moreover, to ensure the disciplinary procedures are carried out in a fair and proper manner, it is advisable to set up tribunals or similar bodies to investigate complaints, adjudicate cases, and decide on and enforce appropriate measures. Finally, disciplinary procedures and their results should be transparent - to ensure that employees are fairly treated and to assure other employees and the general public that the CoC is being applied fairly and effectively.[133]

Thirdly, the CoC should be structured and written with clarity in mind. That is, it needs to be easy to understand, both for those who are supposed to comply with it (the "insiders"), and for the citizens they serve (the "outsiders").

Fourth, a CoC should provide guidance to employees on how the CoC should be interpreted in particular instances - so that breaches and disciplinary actions can be avoided. Consequently, it is advisable that consultancy mechanisms are in place, through a dedicated individual or body.

Finally, to improve effectiveness, it is usually a good idea to disseminate and promote the CoC widely, both throughout the public entity or sector in question and among the general public - so that everybody is aware of its contents.[134]

[133] UNODC, 2004, pp. 146-48.
[134] UNODC, 2004, pp. 135, 146-47; Pope, 2000, p. 182.

Appendix C:
Fraud- and corruption-related research[135]

In practice, fraud and corruption or forensic auditing often involves a broad spectrum of activities and methods which bear resemblance to the methods applied by both police investigators and investigative journalists. Fraud- and corruption-related research - whether this is done by searching certain online databases or performing general Internet searches - is a central part of this.

Among other things, this type of research has the following advantages:

- to a large extent, database and general internet searching can be carried out *in secret*, i.e., without involving the suspect and/or other persons;[136]
- this type of research does not necessarily require a great deal of resources; and
- information obtained from public registers is generally considered to be correct and updated.

In general, fraud- and corruption-related research can be divided into *1) closed source research;* and *2) open source research*.

1. Closed source research

Depending on their mandate and technical capabilities, many SAIs have access to various data bases which normally are closed to the general public. These registers usually contain (sensitive) information about individuals. From a forensic auditing perspective, the following types of data bases/directories - among others - are relevant:

National population register/directory of residents

A national population register normally contains basic information about a country's residents. Depending on the country in question, the population register may include information such as:

- personal identity number;
- family relationships (parents, siblings, children, married couples);
- changes of address domestically and abroad, mailing addresses and blocked addresses;
- changes of marital status;
- name changes;
- citizenship; and
- Working- and residence-permits.

These kinds of information can be used in many ways. For example, detailed information about family relationships can be found by combining details from the population register with data from other registers. Family relationships information can be used by auditors to confirm or reject possible suspicions about possible conflicts of interest. More specifically, it

[135] Where not otherwise stated, this Appendix is mainly based on the following guideline produced by the Office of the Auditor General of Norway: "Veiledning i bruk av transaksjonsanalyse til vurdering av risiko for misligheter", December 2011. Hence, the guidance provided in this Appendix is to a large extent based on experiences from Norway. Both the content of, and the access to various public registers/directories may vary a lot from country to country around the world.

[136] Note that fraud and corruption research may also involve offline searches in public and/or organizational archives. While such research can be performed discreetly, one must take into consideration that personnel working in the archives will often need to be consulted.

may confirm or reject suspicions that a government official is abusing her/his position by favouring members of her/his family.

National employer/employee register

An employer/employee register may assist the auditor to find information about present and previous employment for individuals and companies. Person searches may require personal identity numbers, whereas searches for companies may require business register numbers. Data from this type of register may, for example, be used to confirm or reject suspicions of possible conflicts of interest, such as former colleagues doing business with each other.

It should be noted that some countries may not have separate databases dedicated to storing employment information.

Other closed sources

To the extent that such information is available in the country in question, *transaction data* from the foreign exchange register, *tax returns* and supporting documentation, and *personal credit ratings* can be very useful for the auditor. Normally, however, access to such data may require specific requests to other control authorities such as the tax and customs authorities.

To get a full overview of roles and relationships, it is often necessary to combine information from various databases. Auditors should be aware that the use of closed source databases is regulated by national legislation. Therefore, it is likely that requirements about using and storing such information will vary from country to country and from register to register. Generally, the auditor must pay attention to data protection of all sensitive and personal information. Thus, auditors should exercise due professional care and caution, and consult appropriate legal counsel whenever necessary, cf. paragraph 4.7 in ISSAI 300.

2. Open source research

Many of the activities and methods used in forensic auditing are similar to the methods used by investigative journalists. As journalists normally do not enjoy the same access to registers and public records as SAIs and other control authorities, they often come up with quite creative ways of using open source information. Hence, investigative journalists may have a lot of knowledge and experience on efficient and effective online research, which may also be of value for public sector auditors. For instance, many countries have organizations that provide reports on methods applied in particular fraud and corruption cases. In addition, there are several international organizations, such as *The Centre for Investigative Journalism*, which also may provide a variety or resources, including links to other investigative organizations at a global, regional and national level, as well as guidelines on investigative online research.[137]

Below, open source research is separated into: *a) business register searches, b) national registers of property/land and movable property searches*, and *c) general Internet research.*

a) Business registers

[137] See www.tcij.org. Among other things, the following tool can be downloaded from this website: Dick, Murray, 2011. Investigative Online Search: An Introduction. Available on www.tcij.org/sites/default/files/u4/CIJ_Investigative_Online_Search_26_05_11.pdf.

Business registers normally contain key information on companies, their administration, board of directors and owners, and key financial data. Furthermore, they may also provide annual reports and accounts. The bullet points below contain some of the key elements included in such registers, as well as associated questions which may be relevant to ask when researching possible fraud and corruption (Note: although the bullet points mainly contain references to the procurement area - for example, purposes - the same information may be relevant to a number of other areas, such as sales and disposals, reimbursements and grants):

- *Shareholders, Chief Executive Officer (CEO) and Board of Directors:* Provides information on the administration, composition of the board and ownership in the company.

  After identifying key people in an organization, the next step could be to further examine the various roles and networks of these persons. For instance:

  - Do employees in the audited government entity have ownership interests and/or other roles in companies that are doing business with this entity?

  - Are employees in the government entity closely connected to people in particular companies through marriage, family, previous employment, etc.? (Note: getting such information may require access to national directory of residents and national employer/employee register).

- *Date of establishment:* Is the researched supplier company established just before, or shortly after the first invoice was sent to the entity being audited? If so, this may indicate that the company has been established with the sole purpose of siphoning off money from the government entity in question.

- *Date of liquidation:* If a supplier company continues to invoice a government entity after the former has been liquidated, there is a substantial risk that the “supplier” is being paid for goods/services which never have and never will be delivered.

- *Number of employees:* If a supplier company has few or no employees, while at the same time delivering goods and/or services at a level that implies a larger number of employees, it may be relevant to look for possible subcontractors and try to find out why the subcontractor is not known to the government entity.

- *Branch:* Does the stated company activity (branch) match the type of goods/services being supplied? If not, one could question the basis upon which the company was engaged in the first place.

- *Income and accounts:* Information from a company's annual accounts is often relevant in fraud and corruption research. First, the auditor should ask if approved accounts are at all available (in so far as the company is obliged to submit such accounts). Next, the auditor could inquire information about, for instance:

  - Shareholders
  - Board of Directors
  - Financial development

- Core activities
- Main income source
- Major expenses
- Major disposals.

In, for example, a transaction analysis of procurement data (see Appendix D), annual income may be compared to the total amount invoiced during the research period. If the total amount invoiced equals between 60 to 100 % of the annual income, this may indicate a dependent relationship between the company and the government entity.

- *Audit:* Has the (private) auditor at the supplier company presented a negative opinion? Is there a frequent replacement of auditors in the company? In jurisdictions where legislation allows small (limited) companies to choose not to have their accounts audited - has the company in question chosen this option? If the answer is yes to any of these questions, further inquiries by the auditor are normally called for.

- *Announcements:* These provide a historical account of changes of company name, board of directors, CEO, branch, business address and/or auditor, as well as information of liquidation, bankruptcy, mergers and divisions. Announcements may also provide valuable information to the auditor on roles, relationships and business interests.

Foreign business registers

Often, auditors need to follow the money flows to companies registered abroad. In such instances, the auditor should approach national business registers. However, the access to and the quality of company information may vary greatly from country to country. Furthermore, not all information is provided free of charge. In some instances, it may be costly to obtain company data.[138] In addition, there may be language challenges and significant differences in how jurisdictions are administered and organized. Hence, co-operation with SAIs in other countries may be very helpful when performing fraud and corruption research.[139]

b) National registers of property/land register and movable property (normally open source)

National property/land register

Among other things, a national property/land register normally provides information about the ownership of registered properties in a country. This information may be used to confirm or reject suspicions of possible illicit enrichment.[140] Combined with other information, details from this type of register (for example, buyer and seller details) may also confirm or reject suspicions on possible conflicts of interest in connection with sales of public property.

[138] See Radu, Paul Christian, 2009. Follow the Money: A Digital Guide for Tracking Corruption. Romanian Centre for Investigative Journalism. [Online] Available at http://issuu.com/kijf/docs/follow_the_money_web [Accessed on 11 July 2012]. The chapter on "Online Company Research Tools", pp. 27-48, provides information both on unified databases, i.e. databases which have data from different sources in various countries, as well as information on national business registers in several countries around the world.

[139] As an alternative, if the auditor knows the exact spelling of a key phrase or key phrases in the local language - and if necessary, the type of letters - she or he may perform searches using these key phrases and then translate the top findings through translator programmes available on the Internet. Although the quality of such translations may be rather low, they still may give the auditor a first indication as to whether she/he is "on the track of something" or not. If the material seems interesting, the auditor may then forward it to a professional translator so that it can be further scrutinized in the next round.

[140] "Illicit enrichment" refers to a substantial increase in the standard of living and/or the assets of a (former) public servant or government official which is significantly disproportionate to her or his known past or present legitimate income, and which cannot be sufficiently accounted for.

National register of movable property

This type of register may - like national property registers - provide information which confirms or rejects suspicions on possible illicit enrichment.

c) General research on the Internet

General Internet research includes everything from using search engines such as Google - combining various phrases and names of persons, companies, organizations, addresses, etc. - to searches in local media and branch journals/industry publications. When doing internet research in a foreign country, it is important to remember that local sources may be more accurate and informative than publications covering a larger region.

Some Internet search tools worth mentioning for forensic auditors include (i) *interactive maps* and (ii) *telephone directories*.

(i) Interactive maps such as Google Earth provide satellite images and street views which may be used, among other things, to check the authenticity of addresses. For instance, if a company has presented itself as being large, well-established and professional company - and it turns out the company's only address is in a small office building alongside a large number of other companies - this could well be good reason for suspicion and further inquiries. Moreover, the surroundings of the building(s) in question may also provide valuable information - do they correspond with the type of services/goods the company/organization/person is supposed to deliver, or with the operations which are supposed to be carried out in this area?

(ii) Telephone directories - both yellow and white pages - may also be useful. When researching a supplier company, for instance, searches in local and/or international directory services can provide information as to the availability of the company. If the company is not listed in any major directories, this can be a reason to question whether the company is genuine or not. Or, if the phone number of an organization receiving grants from/a company providing goods/services to the public entity being audited is registered at a different address than what appears from the official documents, this may also call for further inquiries. In both of these examples, it would be reasonable for the auditor to find out if any employees at the public entity involved in the grant/procurement are listed at the same address as the "unofficial" organization/company address.

In general, the following questions - among others - may be relevant to pursue when performing general Internet searches:

- Is the company in question well marketed?
- Is the company-/organization-address also a private address?
- How is the company/organization described/referred to in the media? (Negatively/positively/not mentioned at all?)
- Does the company/organization have its own website? If so, how does this website appear when it comes to information, transparency and professionalism? Is it regularly updated?
- Is the company listed on any sort of official "black list"/market warning issued by a financial surveillance (or similar) authority?

- Is the company/organization/person mentioned in publications in relation to legal proceedings?
- Does the information found on the Internet concerning companies/organizations/persons correspond with information found through other sources?

The value of this type of research will largely depend on the auditor's ability to find information efficiently, to understand what the information collected indicates, and to document it in light of the objectives of the inquiry. Finding information which indicates or, more rarely, confirms/rejects suspicions of possible fraud and corruption entails being able to foresee alternative scenarios and think creatively about what possibilities exist.

Hence, as with fraud and corruption risk assessments presented in Chapter 4, research is often best carried out by a team as opposed to by one auditor alone. This is because having a team makes it easier to share the workload. Also, a team can utilize a wide range of inputs in a way that one person working alone cannot - each team member will come with their own background knowledge, experience and skills.

Appendix D:
Transaction analysis[141]

Transaction analysis is a computer-assisted audit technique used to assess the risk of fraud and corruption in a particular entity. The technique is relevant for both financial and performance auditing. In financial auditing the technique may be used in all stages of an audit cycle.

Transaction analysis focusing on fraud and corruption aims to systematize transactions according to specific selection criteria that can represent "red flags" (that identify unusual transactions, unusual circumstances related to transactions, as well as unusual transaction patterns). As a consequence, such analysis can be crucial in detecting fraud and corruption.

Throughout the world, computer-assisted audit techniques are known as Computer Assisted Audit Tools and Techniques (CAATTs)[142]. CAATTs include a variety of computer-based tools and techniques for analyzing large amounts of data, with the aim of identifying irregularities. Experience has shown that CAATTs are crucial to improving and increasing the efficiency of audits, and in guiding them towards important risk areas.

Although there is a potential for increased efficiency, it pays to note that transaction analyses can often be time consuming and be technically challenging. So, it is often wise to bring in CAATT specialists early on in the audit process instead of later.

Having a *broad perspective* and the ability to see *"the big picture"* are critical success factors for effective transaction analysis. It is often tempting to begin substantial inquiries as soon as the first irregularities are discovered. However, if this is done too early, there is a risk that time and resources are spent on examining cases with low materiality and/or which are so-called "false positives". Hence, more thorough inquiries should normally be started after the transaction analysis is finalized, or possibly in parallel to the finalization of the analysis.

A transaction analysis can be carried out with minimal or no involvement by the entity in question. Hence, this technique is not only appropriate for risk assessments, but also for particular inquiries into possible fraud and corruption where it is desirable to analyze data without the entity or possible suspects being aware of this.

Areas which are suitable for transaction analysis are, among other things, procurements, sales and disposals, grants, salaries, refunds and inventories.

Use of software tools

The larger the number of transactions, the more beneficial it is to use computer assisted tools for the analysis. Depending on their access and technical infrastructure, transaction data can

[141] This Appendix is mainly based on the following guideline produced by the Office of the Auditor General of Norway: "Veiledning i bruk av transaksjonsanalyse til vurdering av risiko for misligheter", December 2011.
[142] See for instance the websites of The Institute of Internal Auditors (www.theiia.org) and the American Institute of Certified Public Accountants (www.aicpa.org).

often be collected by the SAI itself; in some instances, however, the data sets must be obtained through special orders to the entity in question.

Various software tools are available for auditing purposes, several of which can be used for detecting possible fraud and corruption. Irrespective of the software programme used, it is advantageous if the programme can import many different data formats. Generally, all sorts of electronic data can be systematized (not only transactions) according to the same methodology, but the selection criteria will depend on the area chosen for examination.

If a risk assessment scheme already has been filled out (see Chapter 4) for the entity in question, it may be useful to use this as a basis for the transaction analysis. Among other things, the scheme is supposed to include descriptions of possible methods for carrying out fraudulent and corrupt acts. Through a transaction analysis the auditor can look in more detail at whether the methods suggested in the scheme actually represent a real risk. Moreover, the auditor may also get an idea of which fraud and corruption methods appear to be most relevant.

Methods for extracting and systematizing data - using procurement data as example

The risk of fraud and corruption is often present in the procurements area. Examples of red flags which can be detected in a transaction analysis include:

- Breaches of controls and procedures;
- Private use of entity resources;
- Identification of close relations between employees and suppliers (conflicts of interests);
- Large payments to small businesses run by one person or a limited number of people;
- Payments to offshore companies and tax havens;
- Lack of transparency concerning particular suppliers; and
- Exceptionally beneficial terms for particular suppliers (as to deliveries, payments, etc.).

A transaction analysis uses financial data from processes such as Accounts Payable, Accounts Receivable, Travel Expenses and General Ledger. For procurements, it is particularly relevant to extract data from the Accounts Payable and possibly also from the General Ledger. Various selection criteria and the possible red flags these criteria are based on are shown in the following table.

Selection Criteria		**Purpose/red flags/what the auditor is looking for**
1	Sequential invoice numbers	• Suppliers dependent on the government entity for income • Employees favouring particular suppliers • Employees or people closely connected to them have interests in a company which is doing business with the entity • The choice of supplier is based on acquaintance or close relationships rather than professional competence and competitive tenders • Split purchases to avoid stricter rules and procedures applying to purchases above a certain threshold
2	Low invoice numbers	• Suppliers dependent on the government entity in question for income

		• Unusual suppliers • Newly set up suppliers
3	Unusual invoice numbers (letters, dates, etc.)	• Goods and services purchased from non-approved/unregistered suppliers • Procurements not in line with approved contracts
4	Lacking invoice number	• Goods and services purchased from non-approved/unregistered suppliers • Procurements not in line with approved contracts
5	Round sums	• Unspecified invoices • Invoices lacking supporting documentation • Fictitious invoices • Payments to “intermediaries”, consultants, “facilitators”, agents and external experts • Hidden bribes
6	Identical/similar information on the supplier (name)	• Suppliers invoicing for the same product/service from different companies • The same people are behind several - but apparently independent - deliveries under a large public procurement scheme • The need for procurement of external services is defined by external suppliers/consultants already working on contract for the government entity
7	Nationally registered branch of a foreign company and potential “PO Box companies”	• Hidden kickbacks • Hidden bribes • Money laundering • Payments to criminals • Payments to unknown recipients
8	Offshore companies and tax havens	• Payments to unknown recipients • Uncontrolled payments • Hidden kickbacks • Hidden bribes • Money laundering • Payments to criminals • Payments to agents
9	Large year-end transactions	• Rush payments • Uncontrolled payments • Payments registered within the wrong period • Available credit time not utilized • Fictitious invoices • Over-invoicing
10	Payment date before invoice date	• Unauthorized payment • Unusually close relationships between employee and supplier • Suppliers are paid for goods/services which have not been delivered • Fictitious deliveries
11	Early payment	• Exceptionally beneficial terms for particular suppliers; • Unusually close relationships between employee and

		supplier
12	Suppliers with two or more bank accounts	• Employees are channeling payments to themselves or an account which they control • Payments to third parties not identified in supporting documentation • Payments to accounts not specified in contracts/supporting documentation
13	Duplicate invoicing	• Forged invoices without corresponding delivery of goods or services • Financing of bribes
14	Double-payment (one invoice is paid twice)	• Unlawful payment which is deliberate
15	A large number of re-entries and corrections	• Invalid/unauthorized payments
16	Level of payment identical to or just below the critical threshold set for public procurement	• Split purchases to enable approval by unauthorized personnel • Split purchases to hide larger purchases from a single supplier
17	Entries on Saturdays and Sundays	• Unusual or uncontrolled payments
18	Entries during holiday season	• Unusual or uncontrolled payments

When the relevant data have been extracted by the software programme, it is advisable to export these data extracts to a spreadsheet (e.g., Excel) for further editing. Spreadsheet fields which are useful for further editing and analysis are, among other things:

- Supplier-number/supplier-ID;
- Supplier name;
- Supplier address;
- Supplier invoice number;
- Supplier invoice date;
- The entity's internal voucher number;
- The date of payment from the entity;
- Invoice amount; and
- Total amount for the relevant period.

In addition, a list showing the size and rank of all suppliers (from the largest to the smallest) should be extracted. In this context, the size of the supplier equals the sum of invoices issued during the period being analyzed. The list should contain:

- The internal ID-number and name of supplier;
- Total value of invoices per supplier;
- Total volume of invoices per supplier; and
- Supplier address and business (organization) number.

If possible and/or relevant the list also could include information on which departments in the public entity in question are receiving invoices from the respective suppliers.

Further analysis of the extracts and identification of possible red flags indicating fraud and corruption

In a transaction analysis 50-80 transactions are normally selected for further scrutiny. The number of transactions selected may vary depending on the size of the entity. The transactions are selected using professional expertise, in order to find examples indicating a high risk of fraud and corruption and weak internal controls. In addition, these examples are chosen to illustrate the different red flags which characterize the various data extracts.

Experience shows that it is hard to analyze data by studying it in electronic format only. Hence, to get a good idea of the various transaction patterns it is advisable to make printouts of the extracts from the spreadsheet, and place these in binders. Fields chosen for further analysis should ideally be shown as *one transaction along a single line* in an A4 sheet lying down. Furthermore, transactions which the auditor wishes to examine further may for instance be marked with a colour marker pen, so that it is easier to keep track of the most relevant transactions when examining the printouts.

Seeing how the various extracts connect to each other is important to an auditor's overall understanding of the entity's transaction patterns. Likewise, familiarity enhances identification and understanding - the more extracts an auditor sees the more likely it is that the auditor will detect important red flags. If the auditor in the analysis of round sums identifies certain transactions which are potentially interesting for further scrutiny, it will also be relevant to look at other indicators in other extracts to 'complete the picture'. Other extracts may for instance show that the rounded sums are just below the threshold where stricter rules and procedures apply, that they are paid during holiday seasons, and that the receiver has a Post Office Box address abroad.

At the same time it can be useful if more than one person examines the same extracts, or - as a minimum - that several people co-operate on analyzing them. This to ensure that important risk elements are identified, and that the transactions selected are relevant for the further work on assessing the risks of fraud and corruption.

When analyzing extracts it is important to identify the so-called "false positives", that is, findings on selection criteria which do not represent a potential risk of fraud and corruption. Normally, the extracts will contain far more transactions than will be relevant to examine further. One extract may, for instance, contain about 1000 transactions, although only 100 are shown to be relevant when it comes to the risk of fraud and corruption. And, these 100 transactions will, most likely, be spread over a much smaller number of recipients.

Further inquiries of red flags

Based on the examination and analysis of transactions, the auditor selects a few recipients for further inquiries. In these inquiries the auditor collects internal documents from the entity in question, as well as information from publicly accessible registers and other sources on the internet. In accordance with the "due care" principle (cf. paragraph 4.7 in ISSAI 300) all inquiries should be carried out discretely, and information gathered should be treated confidentially. If the involvement of one or more persons in the entity is needed to access relevant information, it is important that the auditor tries to avoid unwarranted suspicion and unsupported conclusions. If it is necessary to move an inquiry into an open investigation (e.g.,

interviews of informants and/or suspects), this must only be done after sufficient background material has been collated.

The sources used for transaction analysis and related inquiries are, among other things:

- Financial data from the accounting system of the entity (regarding recipients of payments and transactions);
- Copies of payment vouchers obtained from the entity (invoices with enclosures are obtained for procurements and revenues);
- Other information obtained from the entity (information regarding orders, contracts, routines, protocols, written correspondence, etc.);
- Publically accessible information on companies (see Appendix C);
- The national population register (see Appendix C);
- Employer and employee register (see Appendix C);
- The telephone directory and other information services (see Appendix C);
- General information on the internet (see Appendix C); and
- The public postal records of public entities.

Inquiries in connection with a transaction analysis may potentially comprise many different information sources. However, before the auditor has obtained a general view of the most important risks and possible weaknesses in the internal controls, the inquiries should primarily focus on the following elements:

- The basis for the transaction;
- Roles and ownership in companies ;
- Employment history (for example, to identify potentially close relationships between former colleagues who now represent supplier and customer); and
- The nature of the relationship between the public entity being audited and particular suppliers (for example, to identify misuse of inside information for potential bid rigging).

To ensure that available resources are used on high risk cases, in-depth inquiries should be carried out *after* having completed introductory inquiries. Hence, in the beginning, the auditor should try to avoid "digging too deep", and rather concentrate the efforts on: *1) assessing the internal controls of the entity;* and *2) identify cases which illustrate possible weaknesses in the internal controls*.

Further inquiries relating to procurements - selection of invoice

Usually, in inquiries of selected transactions it will be sufficient to obtain one invoice per supplier. However, the selection of the invoice should not be random, but based on knowledge regarding which red flags are relevant for the entity being audited. The invoice will assist the auditor by providing additional information regarding the transaction/supplier which cannot be seen from the financial statements.

The following questions may be relevant for the further scrutiny of an invoice:

- *Specification* on the invoice. What goods/services are being delivered? Is the delivery sufficiently specified?
    - Among other things, the auditors should look for the name(s) of consultant(s), number of hours used, type of item delivered, work carried out, etc.

- To what extent can the invoice inform the auditor about the *background* for the transaction?
- Does the information provided on the invoice comply with the *requirements* in relevant *legislation*?
- How does the invoice appear?
    - The appearance of the invoice may give an impression of the "professionalism" of the supplier
- Does the invoice contain references to persons, entities, orders and/or contracts?

Report on red flags

The results from the analysis and the inquiries should be summarized in a red flag-report. Such a report usually contains information on 50-80 transactions selected according to criteria such as those shown in the above table. Experience has shown that at least 50 transactions are required to gain a good insight into the workings of the entities in question, but that any more than 80 transactions is, in practice, too many for the auditor to deal with. The red flag-report should ideally be done in a spreadsheet like Excel, as this makes it easy to edit, sort and colour rows and columns.

First and foremost, the red flag-report is a tool for gaining a general overview of potential risk areas, possible red flags and results from inquiries. The report should indicate which transactions/cases should/must be followed up, and which risk elements seem to be most apparent.

To avoid rash conclusions and unjustified accusations, it is important to maintain an objective and precise description of findings in the red flag-report. A red flag-report contains information on:

- Details from the accounts (regarding recipient, relevant department in the entity, voucher number and date, amount of the relevant payment, and the total amount of payments in the period of study);
- The basis for the payment, such as an invoice;
- Payment patterns for the chosen period;
- Results from research in public registers;
- Other internal information from the entity (information regarding orders, contracts, routines, protocols, written correspondence, etc.);
- Results from more general research on the Internet;
- Prioritization in the audit:
    - **Red colour** indicates that the analysis has identified several red flags - thorough evaluation and extended inquiries are given high priority;
    - **Orange colour** indicates that the analysis has identified red flags - evaluation and inquiries are given priority;
    - **Green colour** indicates lower priority and suggests that introductory inquiries do not show a need for further follow up.

As with risk assessment schemes, red flag-reports tend to be "living documents", that is, documents that are supplemented and updated as new information is obtained. This ensures that the risk of fraud and corruption is approached in a systematic manner, and that accumulated knowledge on the internal controls of the entity is properly utilized.

Overall summary of the transaction analysis

A proper presentation of findings prompts further follow up of important risk areas, and also encourages dialogue on how individual findings should be dealt with in the further audit work. Hence, in the last phase of the transaction analysis an overall summary report should be made, which:

- Presents the overall purpose and scope of the analysis;
- Describes the analysis step by step (risks, data extracts, selection of transactions, inquiries, information sources);
- Repeats main observations and important risk areas;
- Provides examples (from the red flag-report) of the various risk areas; and
- Provides recommendations for further work.

Appendix E:
Confidential and sensitive interviews[143]

Interviews are a common and useful method for collecting data and obtaining audit evidence for financial, compliance and performance auditors. They can also be of great use in cases concerning possible mismanagement, fraud and corruption. Due to their sensitive nature, however, auditors are advised to be particularly cautious when planning and conducting interviews.

Both in cases where someone is reporting on possible fraudulent and corrupt acts carried out by *others*, and in cases where the one being interviewed may be involved in fraudulent and corrupt acts *her-/himself*, the situation can be very challenging for both the interviewer and the interviewee. For instance, people in the first category ("whistleblowers") may experience a loyalty conflict between their duty to report on possible misconduct, and their considerations for the colleague(s) in question. Or they may be afraid of possible persecution, dismissal or other forms of retaliation if they tell what they know. And people in the second category may also very quickly begin to feel the pressure if the interview focuses on their personal involvement in possible fraud and corruption, mismanagement and other illicit or improper conduct.

This can be very demanding for the interviewer, as the interviewee may show feelings and reactions which auditors normally do not experience in interviews. Moreover, confidential and sensitive interviews also may be difficult when it comes to getting the facts in the case. This is either because the interviewee tries to avoid answering the questions, or because she or he has a biased understanding and/or description of the facts. There may also be situations where the interviewee tries to take control over the interview or tries to manipulate the interviewer to reveal her/his own viewpoints and sympathies.

In general, confidential and sensitive interviews can be divided into planned and unplanned interviews.

1. Planned interviews

This refers to interviews with whistleblowers and interviews with people who may be involved in fraudulent and corrupt acts themselves.

To start with, irrespective of type of interview, it is important to note that many SAIs are mandated with investigative powers. That is, their interviews with public employees or others receiving public funding do not necessarily have to be voluntary - the people in question can be required to appear for interview even though they rather would be let off. This gives public sector auditors a particular responsibility for acting professionally and for showing respect during interviews that can be difficult and/or unpleasant for the interviewee.

Before the interview:

[143] Except from the last part on unplanned interviews, this Appendix is mainly based on the following guideline produced by the Office of the Auditor General of Norway: "Veileder for etisk utfordrende intervjusituasjoner", June 2010.

Before the interview, the interviewer needs to become well acquainted with the subject matter, and properly reflect on the purpose of the interview and the most central questions that need to be asked. In addition, if the interviewer is well prepared for possible emotional outbursts during an interview, she or he may be in a better position to deal with these outbursts in an appropriate manner.

In relation to the interviewee, they need as much certainty and predictability as possible regarding the interview and the most central topics. This can be done by, for instance:

- If possible, contact with the interviewee should be established some time before the interview (not immediately before). *Time and place* should be decided, and the *purpose* and the *main topics* of the interview should be communicated to the interviewee.

- Furthermore, the question of *participation* from both the SAI and the entity in question should also be clarified in due time. It is important to reflect on the *number of participants* in the interview. Experience has shown that there should be at least two participants from the SAI: it helps maintain focus through the entire interview, it can be a form of quality assurance, and this type of interview can be extremely challenging for one person alone to handle. On the other hand, fewer interviewers is easier for the interviewee to handle. This suggests that the "right" number will vary on a case-by-case basis.

  Generally, the most important thing is for the interviewer is to have the appropriate competence and sufficient knowledge regarding the subject matter. In some interviews, however, it may be advisable to also bring a *leader/manager* from the SAI as support, in particular, if the interviewee also is a leader/manager. At the same time, one should be aware that the presence of leaders/managers from both sides may create a more formal atmosphere, which could increase the risk that information is retained.

  In interviews with only one interviewee, it may be appropriate to allow her or him to bring an *advisor/counselor*; this may make the interviewee feel more comfortable. However, it should be noted that the presence of such support persons may negatively affect the quality of the interview. This could happen if, for instance, the support person in some way manages the interviewee, or if the support person is directly connected to the case, and/or will be themselves will be interviewed in connection with the case.

- Auditors should also think carefully about what type of *meeting room/facility* should be used for the interview. Large conference rooms and large physical distance between the interviewer and the interviewee(s) may create a psychological distance between the parties. This could make it more difficult to create trust and a constructive atmosphere for the interview.

- Also, it is important to *allocate sufficient time* for the interview, so that time is not a limiting factor if and when the interviewee provides information of a sensitive and confidential character. It is also advisable that this be communicated to the interviewee before the meeting.

At the beginning of, and during the interview

At the beginning of the interview, the auditor should aim at giving the interviewee *a "soft" start* and approach her or him in a manner which builds trust. This will make the interview

appear less harmful and reduce possible power asymmetries. Such a soft start can be established through a *well-prepared introduction* by the auditor. The introduction should, among other things, repeat briefly the basis for the interview. In this connection, it also may be emphasized that the role of the auditor is to describe the facts as objectively as possible, and not to interpret them. And, if the interview is supposed to be verified by the interviewee, it is advisable that this fact be communicated in the introduction, as this also may have a reassuring effect.

During the interview, it is very important that the interviewer *proceeds carefully*. If the interviewer appears too pushy, with too many direct and specific questions - especially at an early stage in the interview – this can be counter-productive. An overly pressured interview carries the risk of making the interviewee unnecessarily cautious, saying less than she or he would have otherwise done. Moreover, interviewees under pressure also may start looking for traps in the questions from the interviewer. The interviewee will then try to avoid these, rather than reflect on the answers they give (and compromising the quality of their answers in the process). Hence, it is important the interviewers *remain calm* during the interview, particularly when discussing difficult questions or when the interviewee begins to show strong feelings or reactions.

To a large extent, the tips and advice concerning the conduct of confidential and sensitive interviews are equally relevant for interviews with "whistleblowers" and interviews with people who may be involved in fraudulent and corrupt acts themselves. However, some aspects may be more relevant for the former than the latter category - and vice versa. These aspects are discussed below.

Interviews with whistleblowers

The following can be particularly useful to keep in mind when interviewing whistleblowers:

- To utilize the time available as efficiently as possible, suggest that the interviewee thoroughly reflects on what he or she wishes to convey to the auditor *before* the meeting. If the whistleblower is able to provide relevant *documentation*, she or he should also be encouraged to bring this to the interview.

- At the beginning of the interview the whistleblower should also be informed about the rules and procedures which apply for the interview in respect of *professional secrecy, confidentiality and anonymity*. This is a very important part of creating trustful relationship - which is crucial to getting high quality, relevant information. At the same time, however, it is also very important to be realistic and not promise the whistleblower more than the auditor and the SAI are able to deliver. It can be very unfortunate both for the interviewee and the interviewers if the former initially is promised anonymity or confidentiality which later is withdrawn.

  Depending on the country in question, the anonymity and confidentiality provided by the SAI may apply only as long as the case is dealt with by the SAI on its own. That is, from the moment a fraud and corruption case is reported to the police and comes under criminal investigation, the SAI in question may be required to hand over all their case material to the investigation and prosecution authorities. The SAI in question may also be required to hand over all their material to the police or the court through a court order, or the auditor responsible for the relevant interview(s) may be summoned as witness. Hence, in their communication with whistleblowers it is very important that the auditors have good

knowledge of the relevant laws, regulations and procedures which apply in their respective countries;

- To create and maintain and trustful and good atmosphere, it also may be tempting for the interviewer to show understanding and empathy for the viewpoints of the interviewee. If this goes too far, however, it entails the risk that the SAI in question later on will be criticized as being too biased in its work. Hence, in the interview, it is important for the interviewer to *maintain a good balance* between having *a trustworthy appearance* and being *objective and neutral*.

Interviews with people who may be involved in fraudulent and corrupt acts themselves

The following can be particularly useful to keep in mind when interviewing people who may be involved in fraudulent and corrupt acts themselves:

- It is very important that auditors, as much and for as long as possible, prevent suspicions from being thrown on individuals or the entity in general. To avoid the interviewee getting the feeling they are suspected of wrongdoing or in danger of being exposed, or that work colleagues think the same, it is advisable to carry out the interview *step by step* through several *exploratory talks*. With this approach it may be appropriate to have an introductory round with interviews or talks with several people within the entity in question. In addition to *shielding the main possible "suspect"* for as long as possible, this introductory round is a way of getting the best possible overview of the situation, including, among other things, mapping the central people and different aspects of the case.

- As already stated, when turning to particular individuals, it may be advisable to start confidential and sensitive interviews softly and proceed carefully. This is especially important when the interviewee may be involved in improper acts her-/himself. Hence, it is advisable to start with *open questions* and *what*- and *how*-questions, before turning to more *closed* questions or *why*-questions. This means that the interviewer first needs to try and sort out the facts. This could be done by starting with non-sensitive factual questions, before asking the interviewee for analysis and explanation.

  As discussed previously, it can be useful to start the interview with some *background-questions*. Furthermore, if and when the interviewee has started explaining matters, the interviewer should avoid interrupting too early, so that the interviewee can be allowed to *open up* in a pace that she or he is comfortable with.

- *Friendliness and respectful treatment* are important principles for all interviews, including interviews with people who may be involved in fraudulent and corrupt acts themselves. In practice, if the interviewee for instance shows clear signs of stress or anxiety, it could be useful to take a break to give the interviewee time to recover or calm down; this is seen by the interviewee as an acknowledgment that the subject matter is difficult to talk about. Another way of dealing with interviewee stress is to temporarily change the subject (with the hope of returning to the sensitive issues later in the interview). It is important to ask the interviewee whether or not she or he wishes to continue the interview when the interviewer sees that the former shows clear signs of strain.

- Generally, in cases of possible fraud and corruption auditors should *proceed very carefully*, so that they do not interfere with ongoing or potential future investigations and

legal proceedings (see, for example, paragraphs 4.7 in ISSAI 300, paragraph P21 in ISSAI 1240 and section 7.4 in ISSAI 4200). Among other things, it may be necessary for SAIs to contact the investigation and prosecution authorities when:

- They have a confirmed suspicion that the case in question involves criminal offences;
- The SAI wants to prevent further fraudulent and corrupt acts from taking place;
- There is a risk that evidence may be destroyed;
- There is reason to believe that the suspect will try to escape from investigation and/or criminal prosecution;
- There seems to be a need for searching the suspect's residence, room or repository; and
- There is a perceived need to seize assets the suspect has in his/her possession.

Still, there may be situations where the police have not yet been involved and the interviewee during the interview with the auditors is about to admit that she or he has been involved in a criminal offence. In such situations, depending on the national legislation and the mandate of the SAI in question, the auditors may be required to caution the interviewee, and inform the person that she/he has no duty to give evidence which later could be used against that person in a court of law, i.e., *self-incrimination.*[144]

So, in interviews where situations like this may arise, auditors should have a good knowledge of their mandate and the relevant national legislation, consult appropriate legal and other counsel, and also thoroughly consider the *tactical implications* for their own inquiries as well as possible investigations by the police.

2. Unplanned interviews[145]

This refers to interviews when individuals suddenly and unexpectedly approach the SAI in question, usually by phone, to report on possible misconduct, fraud and corruption in the public sector. Although such interviews cannot be planned in depth, some preparatory work is still possible. The following tips and advice may be useful for auditors to keep in mind if and when they receive this type of phone call.

Before the phone call

The auditor should be mindful of the main objectives - from the SAIs perspective - for this type of phone call:

- Receive and take note of relevant and material information;
- Endeavour to give the whistleblower a feeling of being heard and understood; and
- At the same time, explain the role and duties of the SAI for the whistleblower, so that she or he understands that she/he cannot expect the SAI to solve her/his "case" and/or receive feedback on the further processing of the information given.

When receiving a call

[144] See also Jones, 2004, Appendix 3, p. 190.
[145] This part is mainly based on another guideline produced by the Office of the Auditor General of Norway: "Telefonsamtale med tipser", August 2010.

The auditor should ask for and repeat the name of the caller. If it is a regular name, the auditor also may ask where she or he is calling from. Furthermore, the auditor should ask for the phone number or note it down if it shows on the phone display. The auditor should then present her-/himself and explain her/his role - and take control of the conversation. At the same time, the auditor should endeavour to stay calm - this type of conversation should not be rushed.

If required, the auditor should also explain the role and duties of the SAI, and explain the rules and procedures that apply in respect of professional secrecy, confidentiality and anonymity.

Lastly, the auditor should also inquire whether the caller also has contacted other parties regarding the subject matter.

Then, the auditor should allow the caller to tell her or his story, without interrupting too early, so that the latter can be allowed to explain the subject matter in a pace that she or he is comfortable with. In this phase, the auditor should mainly note down key words. However, the auditor may intervene if:

- the story is difficult to comprehend (too detailed, too incoherent, no "story line", too implicit);
- the information is not relevant for the SAI;
- there is something that the caller probably has misunderstood.

Eventually, it will be necessary to summarize the tip and this should be done together with the caller. The auditor should not be afraid to ask again about important matters - what are the most central elements of the tip?

- Does the tip really concern possible fraud and corruption? In this regard, the auditor should try to focus on:
    - *What* is happening/has happened?
    - *Who* are involved/behind?
    - *How* are the fraudulent and corrupt acts carried out?
    - *When* did this happen or is it happening in the present?

- Furthermore, the auditor should ask the caller what the information is based on (own observations, observations by others, assumptions based on observations, etc.).

- The auditor may also consider asking the caller if she/he could make a written summary of the key points and send this to the SAI, and - if possible - enclose relevant documentation.

At the end of the call

The ending of the call is important. A good ending makes the caller feel comfortable and satisfied with the response. The caller should not expect any further feedback, as long as the auditor does not indicate that she or he wishes to have a follow-up talk at a later stage.

It is also important to thank the caller for providing the tip, and emphasizing that tips from the public are an important source of information for the SAI.

Important to remember

- Like planned interviews, the auditor should not promise the caller more than she or he can deliver - whether this concerns the aspect of confidentiality and anonymity or the further follow-up of the case. The auditor must try to maintain a balance between having sympathy for the caller, on the one hand, and remaining neutral and objective, on the other.

- It is advisable to keep this list of tips and advice within easy reach, as well as brief texts on the role of the SAI and the general procedures for the further processing of tips from the public.

Appendix F:
Procedures for receiving and handling confidential and sensitive information

A very effective way of obtaining information can be to set up a confidential "hotline" where both employees and people outside the government agency in question can provide tips on possible fraud, corruption and other kinds of misconduct.[146] In addition, a hotline can also be a very effective *prevention* mechanism, as the mere existence of and reference to such a hotline can make employees believe there is high probability of being detected if they engage in fraudulent and corrupt behaviors. Moreover, by establishing and promoting a fraud and corruption hotline (allowing employees and others to report misconduct without fear of retaliation) the organization sends a strong message that it is sincere in its efforts to create an environment of ethics and integrity.[147]

Confidentiality is - as already indicated - is a fundamental prerequisite. That is, the reporting mechanism should be constructed in such a way that employees and others can report or seek advice anonymously or confidentially regarding actual or potential misconduct by others within or outside the government agency or entity in question. Furthermore, anonymity and confidentiality should also be clearly emphasized in all communications regarding this mechanism, so that whistleblowers can be assured that their reports and identity will be kept confidential.

Also, in addition to the technical arrangements, it is important that the organization in question has a whistleblower policy in place. This policy should make it clear that employees and others reporting misconduct do not have to fear retaliation under any circumstance, as they will receive the necessary protection. Just as critical as confidentiality, however, is to ensure that hotlines are not abused, that is, protecting the rights and reputations of individuals against false allegations. Both prerequisites - i.e. confidentiality and protection against abuse - necessitate, among other things, proper procedures for dealing with tips and competent and experienced interviewers.[148]

As an example of how this can be arranged in practice for SAIs wishing to receive external tips on possible fraud, corruption and other kinds of misconduct in the public sector, the procedures of the Auditor General of Norway for receiving and handling confidential and sensitive information - including a confidential hotline - are further described below.

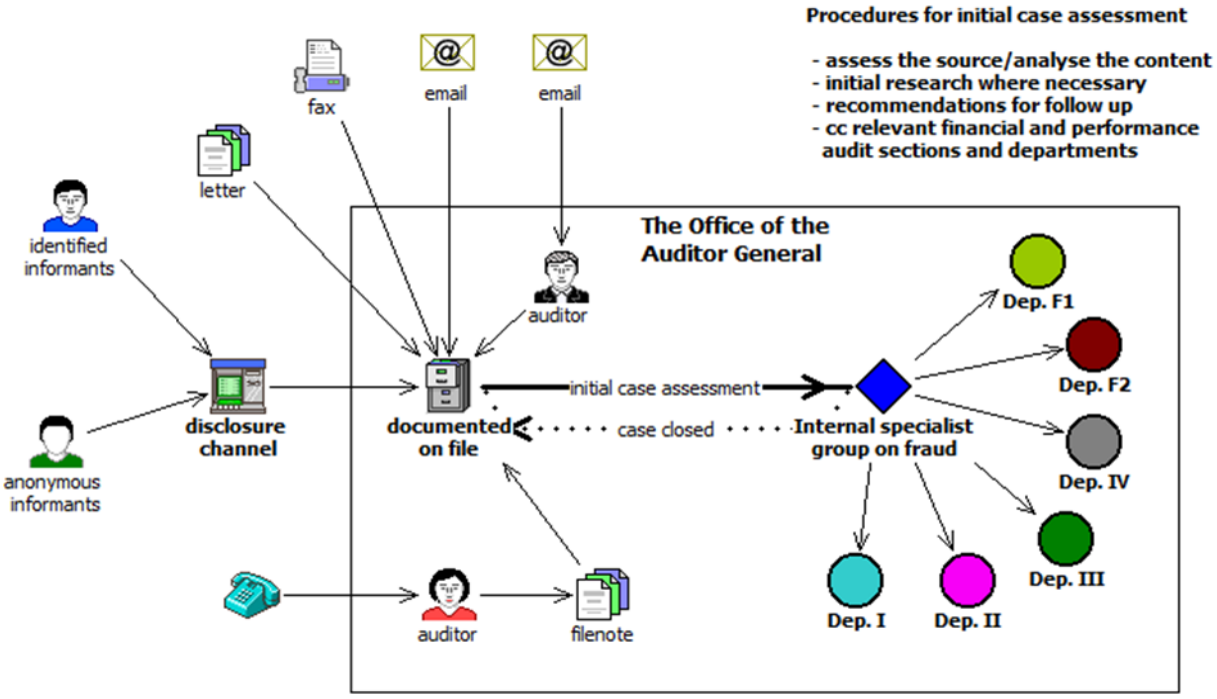
THE PROCEDURES OF THE AUDITOR GENERAL OF NORWAY FOR RECEIVING AND HANDLING CONFIDENTIAL AND SENSITIVE INFORMATION FROM THE PUBLIC:

[146] According to the 2010 Global Fraud Study, carried out by ACFE, tips were by far the most effective detection method in the period of study (2008-2009). Tips resulted in the detection of almost three times as many fraud cases as any other method. This is also consistent with the findings in ACFE's previous studies. Moreover, the 2010 study also showed that there was a correlation between the presence of fraud hotlines and an increase in the number of cases detected by a tip. Source: ACFE, 2010. Report to the Nations on Occupational Fraud and Abuse. 2010 Global Fraud Study. [Online] Available at www.acfe.com/rttn/rttn-2010.pdf [Accessed on 30 March 2011], pp. 16-17.
[147] ACFE, 2006, pp. 8-9; Dye, 2007, pp. 318-319.
[148] ACFE, 2006, p. 9; Dye, 2007, p. 319.

In 2008, as part of its efforts to prevent and detect fraud and corruption and other kinds of misconduct in the public sector, the Office of the Auditor General (OAG) established a confidential disclosure channel and adopted procedures for handling confidential and sensitive information from the public.

In addition to tips received through the disclosure channel, the OAG also receives information from the public through e-mails, letters, faxes and telephone. All tips are documented on file in the central record office of the OAG, before they are forwarded to the Internal Specialist Group on Fraud (ISGF), which also was established in 2008. The ISGF is responsible for the initial case assessment, before the case is further distributed to the relevant sections and departments in the OAG. This is illustrated in Figure G.1.

Figure G.1: The procedures of the Office of the Auditor General of Norway for receiving information from the public and for initial case assessment



The purpose of the initial case assessment in the ISGF is to ensure that all tips and cases are dealt with uniformly and professionally from the time of receipt. Furthermore, this also provides the OAG with even stronger assurance that relevant and concrete information on possible fraud and corruption is properly utilized in the regular audit work.

All tips are, as a minimum, assessed by two members of the ISGF. If the initial assessment suggests that the tip concerns possible fraud and corruption, the case is subject to further quality assurance before it is forwarded to the relevant section in the OAG. The assessments of the ISGF are always summarized in a separate note which is enclosed with the other documents of the case.

All tips and notes from the ISGF are forwarded to the responsible section, in both the financial and performance auditing branches of the OAG. This provides for greater awareness of tips concerning possible fraud and corruption, as well as better learning in the organization. The initial case assessment in the ISGF also provides for competence building among the members of this group.

At the same time, however, confidentiality is a fundamental premise for the handling and communication of all tips in the OAG.

Usually, the initial case assessment in the OAG consists of three steps: a) an assessment of the source (whistleblower) who has provided the tip/confidential information; b) an assessment of the actual content of the tip; and c) a recommendation on *whether*, and if so, *how* the tip could/should be followed up.

a) Assessment of the source

The purpose of this assessment is to get an idea of how reliable the information in the tip appears to be, and whether the information given also can be verified through independent sources. Possible motives of self-interest behind the tip, or whether the tip appears to be biased, are also considered. If the source/whistleblower is anonymous, however, the ISGF can only assess her or his trustworthiness on the basis of an assessment of the reasonableness of the content of the tip.

If the source is not anonymous, the ISGF also may recommend further contacts with the source, if this is thought to be beneficial for the further processing of the case.

b) Assessment of the content of the tip

In its assessment, the ISGF provides a short summary of the main elements of the tip, and puts emphasis on the essence of the problem described by the source. Emphasis is also laid on whether and, if so, how the tip is documented, whether there are references to further information, and whether the information can be verified through publically accessible sources and/or relevant registers which are accessible to the OAG. All information gathering carried out by the ISGF are summarized in the note, and relevant documentation from this research is also enclosed.

c) Recommendation on whether and how to follow up

On the basis of the assessment of the source and the analysis of the content of the tip, the ISGF gives a recommendation to the relevant section and department in the OAG. The recommendations can be divided into the following three categories:

(i) The case should be followed up and subject to further information gathering. In such cases the ISGF also requests the relevant section to report back on the results from these further inquiries. Normally, the ISGF also offers to provide methodological support to the section/department in question if this is required;
(ii) The information provided in the tip does not concern possible fraud and corruption, but is still considered to be useful as background material for the regular auditing work of the section/department in question;
(iii) The tip is not considered to be relevant for the OAG. The case is then closed by the ISGF.

Both in cases where the OAG have suspicions of possible fraud and corruption, and in cases where fraudulent and corrupt acts actually can be demonstrated, the OAG never concludes on whether fraud and corruption also has taken place in a *legal* sense. This must be confirmed by a court of law. In instances where the OAG has suspicions of serious criminal offences, it may

be most appropriate to forward the case directly to the investigation and prosecution authorities. Usually, however, it is left to the audited entity to decide on whether or not to report the matter to the police.

Appendix G:
Audit evidence, documentation and reporting

The audit steps and procedures which apply more generally to the gathering of audit evidence, documentation and reporting are equally important in cases concerning possible mismanagement, fraud and corruption. Below, these three stages in the audit process will be briefly described with a particular focus on fraud and corruption risks.

Audit Evidence

According to ISSAI 300, paragraph 5.1, "[c]ompetent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organization, program, activity or function under audit".

The specific audit procedures to be performed will, however, depend on the professional judgement of the auditor, as well as the identified criteria and the particular features of the subject matter. The procedures should also clearly reflect the risks identified and be carefully chosen.[149] In cases of possible fraud and corruption auditors should be particularly careful when gathering evidence, so that they do not interfere with ongoing or potential future investigations and legal proceedings.[150]

According to ISSAI 4200, techniques for gathering audit evidence may among other things involve the following[151]:

1. *Observation* - watching or observing a procedure or process when it is being performed.

2. *Inspection* - examining accounts, records and other case documents or tangible assets.

3. *Inquiry* - requesting information from persons who are considered relevant, both within and outside the public sector entity in question. Inquiries may vary from informal talks to formal written communications. Interviews of relevant persons, including experts, may also be part of such inquiries (see also Appendix E).

4. *Confirmation* (also a type of inquiry) - requesting replies directly from third parties concerning particular matters, without involving the audited entity.

5. *Re-performance* - independently performing the same procedures as already have been carried out by the audited entity. Re-performance can be carried out manually or through computer-assisted audit techniques.

6. *Analytical procedures* - including data comparisons, or studying variations or relationships which seem to be inconsistent.

In general, it is advisable to get *verbal facts and opinions* confirmed in writing, if possible. Such confirmations may for example relate to: balance owed, instructions sent out, warnings

[149] ISSAI 4200, paragraph 96; ISSAI 300, paragraph 5.2.
[150] See, for example, paragraphs 4.7 in ISSAI 300, paragraph P21 in ISSAI 1240 and Section7.4 in ISSAI 4200.
[151] These techniques are further elaborated in paragraphs 106-117 of ISSAI 4200. As to audits of financial statements in particular, supplementary guidance is also provided for in ISSAI 1500.

issued, work taken on, dates and times, etc. In addition, although they may seem trivial at the time they emerge, it can be useful to document other verbal facts being given during the ordinary course of events, as these may turn out to be more significant at later stages. To prevent possible suspicions from being known among individuals or within the entity in general, however, such inquiries may need to be done carefully and discretely.[152]

When possible and relevant, *photographs* may also provide valuable evidence. In that case, it may be advisable to use cameras which have a built-in time display.[153]

Documentation

According to ISSAI 300, audit evidence must be adequately documented. The documentation should include the basis for and the scope of the planning, work carried out, and the audit findings. The documentation should be sufficiently detailed and complete to enable experienced auditors with no prior knowledge of the audit to understand what work has been carried out to support the conclusions (paragraphs 5.5 and 5.7).

Structuring and systematization of documentation[154]

It is important for auditors to get their records and evidence properly organized. In many inquiries, this is often among the weak points and therefore it usually merits special attention. Moreover, it is also advisable that the routines and practices for structuring and systematizing audit evidence are as uniform as possible.

Among other things, it is advisable that auditors:

- Retain all relevant documents, hard copy printouts, etc. When it comes to documents from various registers containing information regarding particular organizations and/or persons, it is often useful to print out these documents instead of storing them electronically. This both due to sensitivity aspects (see below), but also because it will make it easier to juxtapose and analyze data gathered from different sources;
- Initial or password-protect and date all documents. As for original documents in particular, it may be critical to ensure that these are dated and even timed. Auditors should also ensure that the sources of evidence always are clearly stated, even when this it comes from an anonymous informant;
- Update and cross-reference all their audit evidence and working papers. It is advisable that the evidence and associated working papers have a quality and a format which make them understandable also for non-auditors, such as a police officer;
- Provide all their papers with a file and page reference, and have them listed in a file index;
- Ensure that all cross-references in the documents are easy to notice; and
- Depending on the volume of documents, organize them in binders.

Storage, safe-keeping and deletion of sensitive data[155]

[152] Jones, 2004, Appendix 3, p. 189.
[153] Jones, 2004, Appendix 3, p. 190.
[154] This part is based on "Veiledning i bruk av transaksjonsanalyse til vurdering av risiko for misligheter", December 2011, and Jones, 2004, Appendix 3, pp. 189-90.

It is important that all auditors involved have easy access to all files and documents relating to the case. However, in such cases there may be documents which contain sensitive information about individuals or other matters. Auditors should therefore pay attention to data protection of such information, and also be aware that the use and storage of sensitive and personal information may be subject to particular requirements under national legislation (see also Appendix C).

In practice, it may be under the discretion of the auditor or his or her leader to find the proper balance between accessibility and protecting the privacy of individuals or other confidential information.

Lastly, the auditor needs to consider what happens to information and data when it is no longer needed for a particular inquiry. A country's laws are likely to set out what to do in these circumstances (for example, deletion or destruction).

Reporting

In cases of possible fraud and corruption, SAIs may be required to report such matters to appropriate levels of management within the audited entity, to those charged with governance (i.e., ministerial or administrative bodies higher up in the reporting hierarchy), to the legislature, or to the relevant law enforcement authorities. The specific requirements for such reporting may vary, however, depending on the mandate of the SAI and national legislation[156] (see also Appendix E).

As to the public reports from SAIs, that is, the reports to the legislative or another responsible public body, individual anonymity is often the rule. Due to privacy considerations, protection of whistleblowers, etc. such anonymity may become even more important in cases of possible fraud and corruption. In some cases, however, full anonymity can be difficult to achieve. This may for instance be the case where there are references in the report to a specific position or title within the audited entity which there is/are only one or a very few of. Hence, in those instances where information in the report easily can be traced back to individuals, any publicizing of such information needs to be done very carefully.[157]

In addition, there may also be circumstances where the publicizing of specific information regarding fraud and corruption in the public sector may compromise ongoing investigations or legal actions. In such cases, it is important that SAIs consult with other relevant authorities, such as law enforcement agencies, to decide what can be publicized or not.[158]

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[155] Where not otherwise stated, this part is based on the following guideline produced by the Office of the Auditor General of Norway: "Saksbehandlingsregler - opplysninger om enkeltpersoner i mislighetssaker", 3 March 2011.
[156] ISSAI 1240, paragraphs P20 and P21; ISSAI 4200, paragraphs 126 and 130.
[157] "Saksbehandlingsregler - opplysninger om enkeltpersoner i mislighetssaker", OAG, 3 March 2011; "Veileder for etisk utfordrende intervjusituasjoner", OAG, June 2010.
[158] Dye, 2007, p. 320; UNODC, 2004, p. 105. See also ISSAI 1, Section16.3.

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