

Perspectives on Aid Control

- A case study of internal control in Zambian development NGOs

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The monitoring and control of development aid disbursements is constantly a hot topic. This thesis is a qualitative case study of the systems for internal control in civil society organizations operating in Zambia. It is focused on two donor organizations, Sida and the Global Fund, and their respective chains of partner organizations. These organizations are subjected to demands to follow the principles of both the COSO model and the Paris Declaration in their practice of internal control. In this study their systems are described and judged from these two perspectives. The applications of the perspectives come to very different conclusions regarding both organizations. The inconsistencies in the demands placed on the organizations point towards a dilemma in the practice of internal control.

Key words: Development aid, Zambia, Case study, Civil society organizations, Partnerships, Principal-agent, Internal control, COSO, the Paris Declaration, Sida, The Global Fund

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Preface

To carry out the field study that serves as a basis for this Master's thesis we arrived in Lusaka, Zambia in June 2009. Less than a month earlier a major corruption scandal had been uncovered within the Zambian government. The Ministry of Health, that receives substantial funding from both Swedish International Development Cooperation Agency (Sida) and The Global Fund (GF), had lost a total of approximately SEK 50 million due to extensive corruption and embezzlement during a period of one and a half years¹. Funds had disappeared into the pockets of corrupted government officials instead of being used in projects as they were intended to. Sida and The Global Fund were the two donors that took the hardest hit.

The scandal was widely covered by the Zambian press and a number of international newspapers, but received very little attention in Swedish media. One year later, after further investigations, The Global Fund announced in a press release that they would abort all future funding to The Ministry of Health as a consequence of the scandal².

Although our study is neither about The Ministry of Health nor foreign aid to government institutions in general, this scandal sheds light on the risks that are inherent to international development cooperation. Our study is by coincidence centred on Sida and The Global Fund, two of the main parties in the scandal, and focuses on the delicate relationship between aid donors and recipients. The study is concerned with how an aid organization can and should handle partner relations to limit the risks for similar irregularities to be repeated and make sure that the funds are used as intended.

¹ Press release from Sida, "Zambia reder ut förskingring inom hälsosektorn", 26 June 2009.

² Press release from The Global Fund, "Global Fund confirms freeze on cash disbursements to Zambia's Ministry of Health, grants to be transferred to UNDP", 16 June 2010.

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Acronyms

COSO	Committee of Sponsoring Organizations of the Treadway Commission
CCM	Country Coordinating Mechanism
CSO	Civil Society Organization
ED	Executive Director
FM	Finance Manager
GF	The Global Fund to Fight AIDS, Tuberculosis and Malaria
GM	Grants Manager
GNI	Gross national income
LFA	Local Fund Agent
NGO	Non-Governmental Organization
PD	the Paris Declaration
PR	Principal Recipient
Sida	Swedish International Development Cooperation Agency
SNAO	Swedish National Audit Office
SR	Sub Recipient
SwA	Swedish aid
TRP	Technical Review Panel
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
ZHA	Zambian Health Association

1. Introduction

Development aid is a topic that is constantly surrounded by many different debates emerging from wide questions such as “Does development aid work?” as well as more narrow questions dealing with for instance best practices in a number of fields related to aid distribution. In Sweden, a debate that has been particularly vibrant during the latest years is the debate on aid control – or more precisely, the alleged lack of aid control. This debate is the starting point of this thesis, which deals with the topic of *internal control³ in aid organizations*.

1.1 Background – The Context of the Thesis

1.1.1 The Swedish Debate

In the end of September 2007 the Swedish National Audit Office (the SNAO) published a report looking at the internal control in Swedish Non Governmental Organizations (NGOs) receiving funding from Sida. The report was made with the intention of answering the question “Is Sida’s control of aid transmitted through NGOs sufficient?” (SNAO 2007). One of the main conclusions of the report was that these NGOs did not have sufficient control over how the funds were put to use by the next levels of recipients. The report’s main critique was focused on what by the SNAO was regarded as the internal control system, ranging from Sida to the final recipients in the funding chain⁴ a system which Sida ultimately is responsible for. The findings of the SNAO report fuelled a debate on control of development aid and development aid in general in Sweden. However the SNAO report itself was also debated – the organizations receiving funding from Sida and other commentators pointed to what they considered to be several flaws in the report. A common view among those criticizing the SNAO report was that it greatly exaggerated the problems within the projects. A follow-up investigation made by a consultancy firm on the behalf of Sida⁵, while confirming a few of the findings of the SNAO report, came to the conclusion that many of the findings of the SNAO report were based on misinterpretations of information, misunderstandings

³ In consistence with the report from the Swedish National Audit Office (the SNAO) further described below, we use a rather wide interpretation of the term “internal control” and the internal control chain. Our interpretation of internal control – and how it can be separated from “external control” or just control – is further discussed later in the introductory part.

⁴ A picture illustrating this funding chain can be found on p. 16

⁵ Allegretto, *Utredning av misstänkta oegentligheter/fel i biståndsprjekt* (2008)

or just simply wrong. This latter investigation was however in turn put into question, accused of being partial, since it was ordered by Sida⁶.

1.1.2 The COSO Model

In the investigation preceding their report, the SNAO took a starting point in the COSO model. The COSO model is developed for the purpose of defining, specifying and analyzing internal control systems and holds a dominant position in this field (Haglund et. al. 2005). COSO is a shortening for “The Committee of the Sponsoring Organizations of the Treadway commission” and the COSO model was originally introduced in 1992 by the American Institute of Management Accounting together with the Financial Executive Institute, the aim being to create a foundation for mutual understanding in the area of internal control through the integration of various internal control concepts into one common framework (COSO 1994). The model sets forward certain ideals against which an internal control system should be judged⁷, and the SNAO based their conclusions in the report on comparisons against these ideals. Over the years the model and its definitions has gained a prominent position when it comes to systematically analyzing, mapping and judging internal control systems (Haglund et. al. 2005).

1.1.3 Development Aid as a Principal-Agent Dilemma – and Two Solutions

Whether exaggerated or not, the SNAO report did raise important questions regarding the current status of the internal control in organizations receiving funding from Sida. The report also brought to the fore wider questions regarding what amount of internal control an aid organization ideally should have.

How and to what extent recipients of development aid should be controlled is far from being a new question and the issue has been much discussed in debates on development aid over the years. In debates as well as in research, the issue has been connected to the general argument stating that a party responsible for the implementation of a task (the agent) often has a comparative information advantage to the party ordering the implementation of the task (the principal). It is further argued that asymmetric information in a contractual relationship such as this may result in a situation where the agent furthers its own interests at the expense of those of the principal – this is commonly referred to as the principal-agent dilemma (Aerni, 2007).

⁶ See for instance Krause (2008), http://captustidning.se/index_magazine.php?page=article&id=640

⁷ The COSO model will be extensively described later on in the thesis.

The relationships present in the context of development aid are however usually of a more complex nature than just a relationship between one principal and one agent. Distribution of development aid, whether through organizations or government agencies, is often more accurately described as many, linked principal-agent relationships (Ostrom 2001). In a research paper Philipp Aerni further explains this line of thought with regard to organizations:

“In project oriented development assistance the PAP (Principal-Agent Problem) appears not just once but twice:

- *Between the donor (principal) and the Organization involved in International Development Assistance (OIDA) (agent)*
- *Between the OIDA (principal) and local partner (agent) in the developing country.”*

(Aerni 2007)

In cases when a national agency for development assistance (such as Sida) is involved, this gives according to Aerni rise to further principal-agent relationships - this time between the tax payers (agents) and the national agency; and the national agency (principal) and the OIDA⁸ (agent) (Aerni 2007). The scenery is further complicated by the fact that recipient organizations often are funded by multiple donors, rather than a single one – there is a risk that donors give different, possibly conflicting, guidelines for the agent to follow. The complexity of this chain of relationships, including more than one principal agent relationship, might exaggerate the agency problems – each of these relationships offer the potential for problems related to the principal-agent dilemma to occur (Radelet 2006 and Paul 2006).

However, principal-agent relationships in a development aid context often deviate in yet another way from the school-book example of a principal-agent relationship. To illustrate what sets the development aid system apart, Svensson (2006) describes the mechanisms of principal-agent problems in a domestic public institution. In this context, he describes individuals to have dual roles as both customers of public services and citizens with rights to vote. Public and tax financed institutions work reasonably well in providing citizens with services as long as the individuals (the principals) get sufficient

⁸ This setting is very similar to that present when e.g. Sida transfers funds to Swedish NGOs, as showed in the picture above.

information and have the ability to sanction politicians (who are agents and principals), e.g. vote them out of office. This gives the politicians a strong incentive to monitor the public institutions (the next level of agents) and make sure the provision of public services is relevant and adequate. In development aid, the setting however looks different: the customers of the services – the beneficiaries in the recipient country – and those who have the ability to sanction the service providers – the taxpayers in the donor country – are two separate groups. The fact that these groups have diverse political powers and are geographically disconnected put severe constraints on the two mechanisms – information and sanctioning – that are needed to reduce agency problems. The donors (the principals) have very little information on how their money is being spent and what the outcomes of the foreign aid programmes that they finance are – and to collect this information is very expensive. Meanwhile, those who are directly affected by the interventions and have information, the beneficiaries, have no right to vote in the donor's country and have very little ability to influence the donors. Svensson refers to this as a *'broken feedback loop'* (Svensson 2006).

There exist a number of different proposed solutions to the principal-agent dilemma depending on factors such as the type of contract present between the principal and the agent and the setting in which they work (Perloff 2007). Among these different solutions, two general approaches can be distinguished: solutions based on a top-down approach and solutions based on a bottom-up approach. Svensson exemplifies the top-down approach when describing the concept of conditional aid, where the distribution of aid is tied to certain targets and controls of the achievement of these targets – the basic line of reasoning underlying this concept is that the Principal Agent dilemma could be solved by increasing the principals' (from this approach being the donors) oversight of the agents, i.e. by strengthening the top-down controls (Svensson 2006).

This view has however been contradicted by proponents of a bottom up approach, e.g. Aerni. Similarly to Svensson, Aerni makes the observation that the OIDs (the agents) are accountable to the donors (the principals) rather than to the beneficiaries of their "services". Instead of looking at this as a dilemma originating from lack of control, Aerni's main focus is on what he believes to be a dilemma based on incentives: the current setting means that the main concern of the OIDs is to satisfy the needs of the donors rather than the beneficiaries. Aerni further argues that this results in OIDs pursuing activities that "mirror the concerns and ideologies of affluent people in developed countries rather than the poor in developing countries" (Aerni 2006), a focus

that also spills over to the local partner. This focus, according to Aerni, ultimately results in suboptimal effects such as short-sightedness. Since donors prefer visible results, organizations that want to receive funding are more inclined to start new projects where results can be showed quickly rather than to maintain older ones. As a result of donors' increased focus on visible results, more unsecure projects such as the sponsoring of local entrepreneurs, appear less attractive to the organizations. A further sign of the shortsightedness is that, while evaluations during project periods often are frequent, there is less or no focus on long-run results.

In essence, Aerni's conclusion is that the current principal-agent setting in development aid - and the attempts to counter the principal-agent dilemma in this setting - ultimately leads to a top-down approach in development projects. The counter measures taken include strict selection criteria when deciding on a local partner and that donors (or the next level – the OIDs) clearly specify intended results and monitor project outcomes. These strategies have however, according to Aerni, proven to be ineffective – a principal can never hope to completely check the performance of the agent. Furthermore Aerni concludes that “good governance cannot be imposed from outside”. This leads him to call for “a change in the rules of the game” – i.e. a solution that, instead of trying to cope with the current principal-agent setting with e.g. demands for more control, changes this very setting. This would mean a setting where the beneficiaries assume the role of principals and where endogenous development, i.e. changes from within the society based in a strengthened “local sovereignty”, replaces the current exogenous development focus. Aerni explicitly refers to this as a “bottom-up approach” (Aerni 2006). The thought of a bottom-up approach with a strengthened local sovereignty is quite close to the ideals put forward in the Paris Declaration on Aid Effectiveness⁹.

1.1.4 The Paris Declaration on Aid effectiveness

In March 2005 an international agreement on the investment and management of international aid was made, which resulted in the Paris Declaration on Aid Effectiveness. The agreement was signed by 100 donor and developing countries and involved some

⁹ The Paris Declaration on Aid Effectiveness is sometimes referred to as The Paris Agenda. We will from now on refer to it as “the Paris Declaration”, “the Declaration” or simply “the PD”. When we use the actual document of the agreement as a source we will refer to it as OECD (2005), which is short for the reference: OECD (2005), *Paris Declaration on Aid Effectiveness*, document issued by participants at the Paris High-Level Forum, 28 February–2 March 2005, Paris.

landmark reforms on their cooperation to make aid more effective. The Declaration was the culmination of more than ten years of discussions in the development community and has been described as an unprecedented global consensus on the structures of aid delivery. Even though the Paris Declaration mainly is a contract between donor and recipient government, it has broad implications for all parties in development cooperation, including the civil society (Hauer 2006).

There were a number of issues in international aid cooperation that led up to the Declaration, e.g. a too large focus on the volume instead of the quality of aid, fragmentation on the donor side and insufficient ownership by recipients. In essence, the Paris Declaration was created to give the recipient countries more influence over their situation and larger responsibility for their own development. On the donor side, perhaps the most important reforms are that donors should align their support more specifically to each recipient and coordinate their interventions (Hauer 2006).

1.2 The Aim of the Thesis

Both the COSO model and the Paris declaration constitute standards against which the internal control of actors in the field of development aid could be judged. As mentioned above, Sida and organizations funded by Sida were judged against the criteria of the COSO model in the investigation made by the SNAO. Sida, and hence organizations receiving funding from Sida, is however also obliged to act according to the ideals put forward in the Paris Declaration, since the Swedish government has signed the agreement. In this thesis, we will parallelly apply the COSO model and the Paris Declaration when studying systems for internal control in two settings – organizations receiving funding from Sida and organizations receiving funding from The Global Fund against Aids, Tuberculosis and Malaria (the GF).

Whereas the ideals of the Paris declaration are in line with a bottom-up approach, the principles guiding a COSO assessment, e.g. assurance of compliance with regulations and laws, can be connected to a top-down approach. Since development organizations generally are supposed to take account of both standards in their work we find it interesting to apply them on the same organizations simultaneously – do the perspectives reach the same conclusions? If not, this would certainly point towards a potential dilemma for the organizations, since they are judged against both set of principles. Whereas the choice to apply the perspectives on an organization receiving funding from

Sida is motivated by the recent public debate in Sweden following the investigation of the SNAO, the choice of the GF is based on the fact that this organization was designed as a response to the strong critique of traditional aid programmes - the main founders of the fund wanted to create a new approach to development aid (Radelet 2004). The GF practices to a greater extent than most other donors what they denote as “Performance based funding”, which among other things implies that recipients should be able to show progress on pre-agreed upon indicators in order to receive continued funding.

The research questions of this thesis are:

How can the internal control systems used by the organizations be described from the perspectives of the COSO model and the Paris Declaration, respectively; and how do the systems used relate to the principles underlying these two perspectives?

How do the conclusions from the application of the COSO model compare to the conclusions drawn from the application of the Paris Declaration?

2. The Organizations and the Geographical Setting of this Study

2.1 About Zambia

Zambia is a landlocked country in southern-central Africa, which gained independence from Great Britain in 1964. It has a peaceful and democratic history in relation to its neighbouring countries and a very rich endowment of natural resources. Still Zambia is one of the poorest countries in the world with 64.3 percent of the population living on less \$1.25 per day and 81.5 percent living on less than \$2 per day (2000-2007; UNDP 2009b). Zambia has the seventh highest prevalence of HIV/Aids in the world, with 15.2 percent of the population between 15 and 49 being infected with the disease (2007), the life expectancy at birth is only 45.4 years (2008) and the under-five mortality rate is 141 per 1000 newborn babies (2009) (The World Bank 2009). Zambia is also a large recipient of aid and in 2008 the net official development assistance was 8.2 percent of GNI, which represents \$86 per capita (The World Bank 2009).

We chose to study organizations in Zambia in this thesis because Zambia is a typical recipient country of development aid in many aspects – it has great prospects for economic growth yet is overall very poor. The practical conditions for carrying out a field study with a modest budget are also favourable in Zambia. English is the official language and the infrastructure for transportation is relatively developed.

2.2 The Global Fund Funding Chain

2.2.1 The Global Fund

The Global Fund (GF) was established after a decision taken at the G8 summit in Genoa in 2001. Since then the fund, which is based in Geneva, has become the main source of funding for the fight against Aids, Malaria and Tuberculosis. To date it has granted US\$ 19.3 billion spread over 572 programs in 144 countries. The GF is a public-private partnership, meaning that it receives funding from both public and private donors. Likewise, the fund uses this money to fund both public and private recipients.

The recipients, referred to as Principal Recipients (PRs), are selected on a national basis. In a first step, before PRs can be selected, actors within a country wishing to

receive support must join forces and form a committee (a Country Coordinating Mechanism - CCM). The Committee then sends an application to the GF on behalf of the country as a whole. The GF provides funding for a specific time period of five years, referred to as a “round”. A new round is initiated and opened for applications from CCMs every year.

When the country as such has been approved for funding from a round, individual recipients within the country is nominated as Principal Recipients by the CCM, for subsequent approval by the GF. Principal Recipients often transfer the funds to SRs who implements projects or programs, it is then the task of the Principal Recipients to monitor and analyze the use of the funding.

Funding provided by the GF is “performance based”. performance based funding as a concept builds on the principle that all funding provided by the fund must be linked to a documented performance, corresponding to pre-agreed upon indicators listed in a in a Performance Framework and a Workplan/Budget.

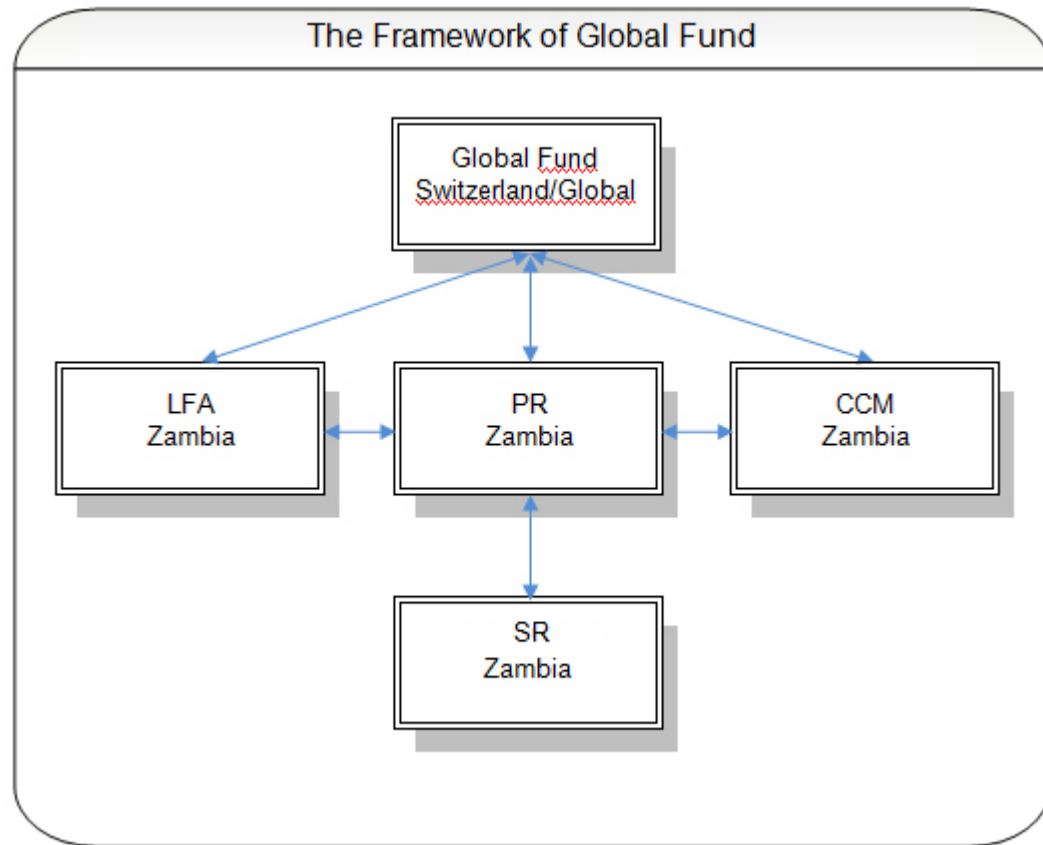
The GF achieves local presence at the country level through the contracting of Local Fund Agents (LFA) – one for each country - with the responsibility of monitoring how the Principal Recipients implement the funded activities. The LFA, contracted at the country level, should according to GF guidelines preferably be a major auditing firm with an office within the country or a in country nearby.

2.2.2 Zambian Health Association

Zambian Health Association is an NGO that serves as an umbrella organization for some of the health institutions in Zambia. ZHA is selected as a Principal Recipient (PR) of the Global Fund in Zambia. The members of ZHA together account for about 30 percent of the health care in Zambia as a whole and 50 percent in the rural areas; all in all, ZHA have 135 affiliates spread over the whole country. Some of these affiliates are Sub Recipients (SRs), i.e. receiving support from the Global Fund through ZHA; however funds may also be transferred to non-members. ZHA is one out of totally four PRs in Zambia.

2.2.3 The Sub Recipient

The Sub Recipient (SR) is described by the head office of ZHA as a strong partner when it comes to internal control. The Organization has four main donors, ZHA being one of them. The SR channelizes some of the funding to “SRs” of their own.



2.3 The Sida Funding Chain

2.3.1 Swedish International Development Cooperation Agency (Sida)

Sida has the status of a Swedish governmental public authority sorted under the Swedish Ministry for Foreign Affairs. Sida carries out its work independently within the frames provided by the Swedish Parliament. The overall goal for Sida is to “Reduce poverty in the world” (Sida: 2010) According to the directives from the Swedish Parliament some of Sida funding should be diverted for the work of Civil Society Organizations. These funds are channelized through what is referred to as Swedish Framework Organizations. A “framework organization” is an NGO based in Sweden that is specially selected by Sida, and has signed a long-term cooperation agreement with Sida. Currently, Sida has 15 framework organizations.

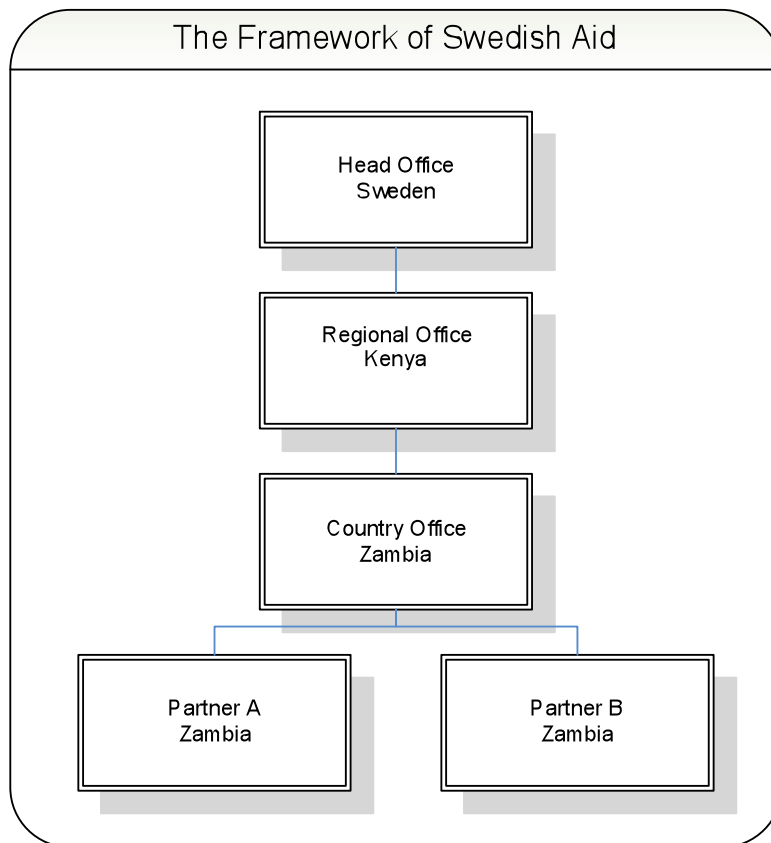
Sida has local presence in some of the countries with projects receiving funding that originates from Sida. This personnel is however not directly involved with the work or the control of the work carried out by the framework organizations (that usually have local presence) and their partners.

2.3.2 Swedish Aid

Swedish Aid (SwA), a Non-Governmental Organization, is since many decades a framework organization of Sida and Sida is the main donor of the organization. The organization mainly deals with topics connected to democratization, human rights, gender equality as well as economical- and social justice. SwA carries out their work through partnerships with locally based organizations; currently they channelize funds to hundreds of organizations all over the world. The organization has established local presence in many parts of the world through regional offices and (sorted under the regional offices) country offices. In Zambia SwA has a country office and several partners; we got the opportunity to interview these partners.

2.3.3 Partner A and Partner B

Partner A is described by the country office as a “strong partner” when it comes to internal control whereas Partner B is described as a “weak partner”.



3. Theory

3.1 What is “Internal Control”?

What is the difference between “internal control” and “external control” or just “control”? In a corporate context Jensen (1993) tries to separate internal control from external control. He identifies four “control forces” operating to resolve problems occurring due to a divergence between managers’ decisions and the decisions that would be optimal from a societal standpoint. Out of these four control forces, three are regarded as external: capital markets, the legal/political/regulatory system and product and factor markets. To these three external control forces, Jensen adds a fourth, internal one: The internal control system, headed by the board of directors – this system is described as closely related to the company board’s tools to ensure a good functioning of the firm, i.e. it’s governing of the firm.

The definition of internal control provided by the COSO model has since the introduction of the model in 1992¹⁰ reached a dominant position – in order to be able to evaluate the internal control of an organization, one first has to have a firm understanding of what internal control is; the COSO model provides guidance for both the purpose of definition and the purpose of evaluation. The definition (provided in full below) is similar to Jensen’s interpretation of internal control in the sense that it describes internal control as a process originating from an entity’s board; but more inclusive in the sense that it also highlights that all people within an organization has the ability to affect its internal control.

3.2 The COSO Model

The COSO Model defines internal control as:

“a process, effected by an entity’s board of directors, management, and other personal, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- *Effectiveness and efficiency of operations*
- *Reliability of financial reporting*
- *Compliance with applicable laws and regulations”*

(COSO 1994 p. 3)

¹⁰ The COSO model was updated in 1994, this version is used in the thesis

The COSO definition is meant to clarify *four distinct features of internal control*:

1. *Internal control is an ongoing process*, a series of actions, which ideally should be intertwined with the other processes of an organization. It is a tool for the management and is to be regarded as a means to an end, i.e. the fulfilment of the goals of an organization
2. *Internal control is accomplished by the people* of the organization. At the same time, internal control affects how people within the organization acts. Every individual has a unique background, different needs and different priorities and this will affect communication and performance within the organization. Internal control is a way to strengthen the recognition of responsibilities as well as the limits of authority, and to align the work carried out by people within the organization with the targets of the entity as a whole.
3. *Internal control can only be expected to provide reasonable assurance* due to a number of natural limitations, one obvious being the fact that controls are not for free – the relative costs and benefits of controls must be taken into consideration.
4. Every organization has a *mission* which motivates a number of *objectives*. The COSO model recognizes and divides objectives into *three categories*:
 - *Operations* — relating to effective and efficient use of the entity's resources.
 - *Financial reporting* — relating to preparation of reliable published financial statements.
 - *Compliance* — relating to the entity's compliance with applicable laws and regulations.The categories, while distinct, are to be considered overlapping, meaning that one objective may belong in more than one category.

(COSO 1994)

3.2.1 The COSO Components

According to the COSO model internal control consists of five components that together form “the COSO framework”:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

All these components are to be considered as interconnected; they form an “integrated system that reacts dynamically to changing conditions” (COSO 1994 p. 11). According to the COSO framework, ideally all these components are integrated as a natural part in the infrastructure of every organization. In the listing below, each component is described in more detail.

Control Environment

The Control environment is the foundation for all other components of internal control, providing discipline and structure. It is closely related to the culture of the organization when it comes to the handling of issues related to internal control. The COSO framework specifies the Control Environment by singling out the “Control Environment Factors” that shapes the control environment:

Organizational Structure

An organizational structure which promotes a good control environment *defines key areas of authority and responsibilities*. Furthermore appropriate lines of reporting should be established. The ideal organizational structure depends on the needs of the organization

Integrity and Ethical Values

The effectiveness of internal control is directly linked to the integrity and ethical values of the people, who create, administer and monitor them. Ethical behaviour and management integrity is to a large extent an effect of the “corporate culture”. Moral guidance should be provided and communicated, verbally and in writing, throughout the organization from top management

Commitment to Competence

This refers to the fact that persons within the organization should have the right competence for their task; this should be ensured by top management. There may be a trade-off between the necessary competence level and the extent of supervision,

Board of Directors or Audit Committee

These functions sets the tone of the control environment

Assignment of Authority and Responsibility

The component is closely related to “Organizational Structure” however more focused on individuals and teams. Also deals with the trade-off between decentralization and control

Human Resource Policies and Practices

This is closely related to the commitment to competence, including hiring, education and training of employees.

Management’s Philosophy and Operating Style

Management's attitudes towards e.g. risks and reporting

Risk Assessment

Risk assessment concerns the identification and analysis of internal and/or external risks that might stand in the way of achieving the objectives of the organization. The risk assessment forms a basis for an analysis determining how the risks should be managed. Due to the changing nature of some risks, special forward-looking mechanisms are needed to identify these risks. The process of risk assessment may be more or less formalized, but should be in place in every organization.

Control Activities

Control activities are the *policies and procedures* which help ensure that management directives are carried out. Policies establish what should be done and procedures implement the policies. The control activities ensures that the risks identified in the previous step are addressed and hence serve to counter, minimize or eliminate these risks; they can be focused on results or routines. There are control activities at all levels and in all functions in the organization. Common control activities are:

- Top Level Reviews

- Information Processing
- Physical Controls
- Performance Indicators
- Segregation of Duties

Information and Communication The information system of an organization produces formal as well as informal reports on how well the organization's objectives are met; this information makes it possible to run and control the organization. Every organization must capture and identify relevant information relating to both external and internal events. This is however not enough – the information also must be communicated in an effective way. Communication within the organization must occur in a broad sense, through and within all levels of the organization as well as with external parties such as customers, shareholders or suppliers.

Monitoring Monitoring is a way to ensure that the internal control system operates effectively– the quality of the systems performance should be assessed over time. There are basically two general types of monitoring (which may be combined) – *ongoing monitoring* and *separate evaluations*:

- **Ongoing monitoring** is closely connected to the operations and, if in place, occurs automatically. Examples of activities are e.g. regular management and supervision – an informed manager will probably be able to spot if a report deviates significantly from his or her knowledge of the operation.
- **Separate evaluations** should depend on the risk assessment and the efficiency of the ongoing monitoring – if the ongoing monitoring is working properly, less separate evaluations will be needed.

If deficiencies in the internal control system are found, these must be reported upstream; serious matters should be handled by the board and the top management. In short: the fulfilment of the organizations goals is dependent on a working internal control system; monitoring makes sure that the internal control system works as intended.

(COSO 1994)

3.2.2 Roles and Responsibilities within the COSO Framework

The COSO-framework states that the management of an organization has the ultimate responsibility for ensuring a working internal control system in the organization, with the CEO being the most important individual given the integral part the holder of this position plays in creating a good control environment. However in the COSO-model the responsibility for the internal control system cannot be limited to the leading positions of the organization – “internal control is, to some degree, the responsibility of everyone in an organization” (COSO 1994 p. 95). Furthermore the framework identifies external parties such as regulators and external auditors that might contribute to the achievement of the organization’s objectives and provide information which helps internal control. These external parties are however generally not to be held responsible for the internal control in the organization.

3.3 The Paris Declaration

3.3.1 The Principles of the Paris Declaration

The commitments that the donor and recipient countries made in Paris 2005 are organized around five key principles. These are presented and further explained below.

Ownership: “Partner countries exercise effective leadership over their development policies and strategies, and co-ordinate development actions.” (OECD 2005 p. 3) The recipient country¹¹ takes the leading role in both developing and implementing development strategies. These strategies should be shaped through a broad consultative process and encourage the participation of civil society and the private sector. The donors should respect the recipients’ ownership and support their capacity to exercise it (OECD 2005). To strengthen the recipients’ ownership clearly represents a shift of power in the aid relationship. This new ownership structure also means that the recipients will be held accountable for outcomes to a larger extent than previously was the case (OECD 2009).

Alignment: “Donors base their overall support on partner countries’ national development strategies, institutions and procedures.” (OECD 2005 p. 4) To increase aid effectiveness the recipient countries’ capacity must be strengthened and designed to be sustainable. Local systems and procedures is a general concept, but among other things it includes institutions for financial management, auditing, evaluation and monitoring. To

¹¹ Recipient country and partner country are the same. We will coherently refer to this as “recipient country”. Just “recipient” is a broader concept that also refers to other organizations beside the government that receive aid, including NGOs.

support development of local capacity the donors should use the recipient countries' systems and procedures, and play a facilitative role in the continuous process of strengthening these functions (OECD 2005).

Harmonisation: "Donors' actions are more harmonized, transparent and collectively effective." (OECD 2005 p. 6) A large threat to aid effectiveness according to OECD has been the excessive fragmentation of aid at all levels. Donors need to coordinate their activities and harmonize their procedures and routines for better joint outcomes. The harmonization principle states that common arrangements need to be implemented regarding planning, funding, monitoring, evaluation, reporting etc. Donors should cooperate also to reduce the number of separate field missions to relieve some of the pressure that these cause on recipients (OECD 2005).

Managing for results: "Managing resources and improving decision-making for results" (OECD 2005 p. 7). This principle states that the achievement of results should be the focus for all aspects of management and a continuous collection of information is necessary to support the decision making (OECD 2005). To put the results in the centre is a principle that the Paris Declaration has in common with a number of other international initiatives. In practice this type of management requires a large number of procedures to be implemented and work together, including human resources, evaluation functions, connections between evaluation and planning, measures to encourage leadership and accountability etc (OECD 2009).

Mutual accountability: "Donors and partners are accountable for development results" (OECD 2005 p. 8). Finding ways to support accountability is a reoccurring issue in development cooperation. This principle pushes for shared accountability between donors and partners (OECD 2005).

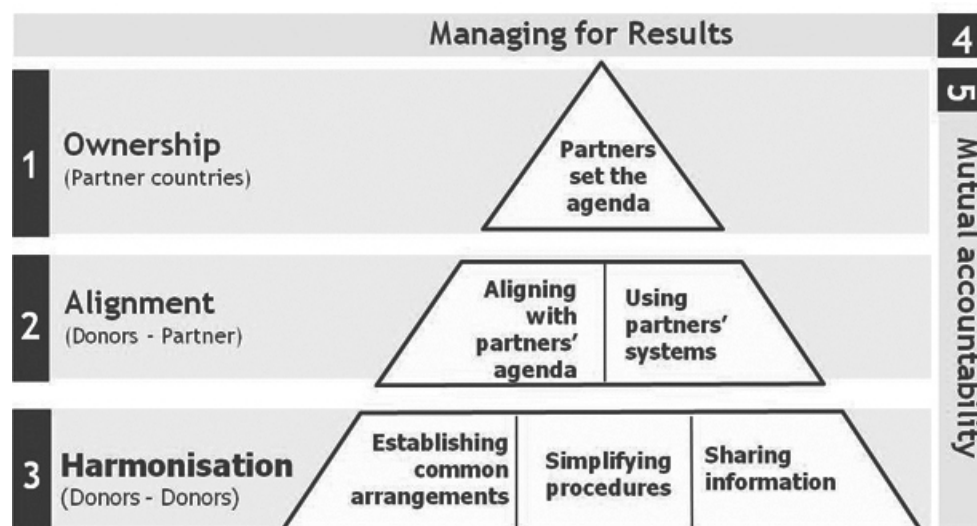


Fig 1. The Aid Effectiveness Pyramid (OECD 2006 p. 52)

3.3.2 The Relations Between the Principles

The first principle – Ownership – is central and superior in relation to the other principles (OECD 2009). In the long run, what actions the recipients take are much more important than what the donors do to achieve development outcomes, according to the Declaration. The principles are interrelated and the ownership principle affects the following two, alignment and harmonization, to a large extent. If the recipients take command and own their priorities and strategies, it is more likely that the donors will align to the recipients' decisions and use their systems and procedures, and even support the process of strengthening these. At the same time, if donors align their support to the recipients this creates stronger incentives for the recipients to develop their own systems. Hence, real and effective leadership by recipients can potentially create virtuous circles. A shift of power to the recipient is in this context according to OECD one of the most critical reforms. Additionally, there is also the possibility that while donors align their procedures to the recipients' systems they simultaneously become more mutually consistent and coordinated, which is what the third principle, Harmonization, calls for. Although it should be noted that harmonization can be achieved as an independent initiative from the donors' side, without a strong leadership from the recipients (OECD 2009).

We have chosen to focus on the first three principles of the Paris Declaration in this theoretical review and in the rest of the thesis. This choice makes our study more coherent and gives it a necessary delimitation. The first three principles are older and

more rooted in the aid community, which among other things implies that there is more material and more research performed on these principles (OECD 2009). The first three principles are also very interlinked and create a coherent whole (see the pyramid in figure 1 and OECD 2009).

3.3.3 Interpreting the Paris Declaration

The Paris Declaration is however not a static law. It is the product of a continuous global debate and lessons learned throughout the area of development cooperation over many years. It relies heavily on previous work and contains many of the core conclusions reached at the previous high-level forums in Monterrey 2002, Rome 2003 and Marrakech 2004 (OECD 2009). Adjustments and comments regarding the Paris Declaration have also been put forward at the follow-up meeting in Accra 2008.

The original text of the Paris Declaration (OECD 2005) that declares the consensus reached in 2005 is largely a vague statement and it does not elaborate on the meaning of the principles (Hauer 2006 and AG-CS 2008). This creates a considerable scope for interpretations, especially since the Declaration intends to cover all major aspects of development cooperation (Foresti et al 2006). For an example of how the Principles can be interpreted to other areas see Foresti et al (2006) which offers an interpretation of what the Declaration means for human rights practices.

To fit the principles of the Declaration with the topic of this thesis two interpretations need to be made of the original statement. First, the government-to-government approach in the Declaration needs to be shifted to a broader perspective where the principles also include civil society. Second, the Declaration needs to be viewed from an internal control point of view and principles for how donors and partners should design their systems need to be established. The interpretations that we have made are mainly based on guidelines that DAC or advisory groups created by DAC have given.

3.3.4 The Paris Declaration and Civil Society

The civil society fills a fundamental role in every vibrant democratic society and represents a crucial complement to other avenues for citizen participation and discourse, according to OECD. DAC defines Civil Society Organizations (CSOs) as “all non-market and non-state organizations in which people organize themselves to pursue shared objectives and ideals” (OECD 2009, page 124). For example community-based

organizations, farmers' associations and environmental groups.

CSOs are also very significant sources of aid. There is a shortage of accurate data in this area, but conservative estimates by the OECD-DAC Secretariat suggest that the CSO-raised funding for development purposes from DAC countries is close to USD 20 billion per year (Official development assistance (ODA) is USD 100 billion) (OECD 2009). In addition, CSOs also serve as channels for up to 10 percent of ODA, e.g. funding from Sida via CSOs with frame agreements.

However, CSOs have only been involved in the preparatory process for the two High-Level Forums in Rome and Paris to a very limited degree. The civil society has not been invited to play any significant role in the process, and as result, the Paris Declaration is restricted to guidelines mainly concerning development cooperation between donors and recipient country governments (OECD 2009). Many CSOs have pointed out that their considerations and role in the development process are largely ignored in the Declaration (CCIC 2006).

In order to acknowledge the great importance and influence that civil society possesses and as a reaction to the lack of involvement in the previous High-Level Forums, the Working Party on Aid Effectiveness (an international partnership hosted by the DAC) created the Advisory Group on Civil Society and Aid Effectiveness (AG-CS) in January 2007. The group was founded before the Third High-Level Forum in Accra 2008, to come up with adjustments of the agreements for involvement of civil society (OECD 2009).

DAC found that much could be gained from involving civil society in the international development aid agenda. Among the arguments for promoting involvement of the civil society were that the CSOs themselves need to be effective as aid donors, aid recipients and partners. In these roles they are exposed to the same difficulties and challenges as governments and multilateral agencies (which were the original main focus of the Declaration) in achieving aid effectiveness, which makes the core principles of the Declaration also relevant for CSOs (OECD 2009).

Among the assignments given to the AG-CS was to come up with official recommendations for CSOs on how to interpret the individual principles in the Paris Declaration. For the first three principles that we have chosen to concentrate on, the AG recommends the following (AG-CS 2007 and AG-CS 2008):

Ownership: This is the most fundamental principle in the Paris Declaration (OECD 2009). The expression used in the Declaration is “country ownership” which implies a

narrow and central ownership by the recipient country government. The AG recommends a transition to the broader and more involving concept of “local and democratic ownership”, which emphasizes also ownership by local citizens, communities and CSOs. For our framework, the broader description of ownership implies that the local recipient CSOs should “exercise effective leadership over their development policies and strategies...” (The Paris Declaration on Aid effectiveness, 2005, page 3). The key according to the AG-CS is ownership that is widespread and deep-rooted. It should include all who are involved or affected by the different stages of the programs, i.e. the planning, design, implementation, and monitoring. They conclude that what is needed is an “understanding of ownership that is broad-based and derives its legitimacy from democratic participation.” (AG-CS 2008 p. 13)

Alignment: Alignment is concerned with the donors’ adjustments to the recipients’ systems and procedures. The interpretation of this principle follows in the same tracks as above (AG-CS 2008). The principle should not only cover central government but also CSOs. According to the AG-CS it should be understood “broadly to mean respect for local and democratic priorities” (OECD 2009 p. 127). They recommend that the alignment should be with the developing country *counterparts*, i.e. partner organization, and partner government or local community. The local systems in the recipient country should be used and strengthened and the local needs should determine and influence the design of the support.

Concerning both Ownership and Alignment, AG-CS concludes that the principles imply a general shift of control and authority downwards in the hierarchy towards the final recipients and the beneficiaries (AG-CS 2007). They give two examples of how “local” ownership and alignment could be interpreted: “CSOs from Northern countries often work with host-country CSOs and are likely to understand local ownership and alignment in terms of the priorities identified by their Southern CSO partners” (AG-CS 2007 p. 15) and “Within a country, CSOs may be directly involved in supporting development at the community level, and may think of local ownership and alignment in terms of participatory approaches and mechanisms to ensure that local priorities and processes are respected” (AG-CS 2007 p. 15). This implies that CSOs can contribute to ownership and alignment in their own way through solidarity with the priorities and needs of their partners and constituencies.

Harmonization: Like for the official aid donors, coordination and harmonization are important for CSOs acting as donors or as channels for aid. The main point is to reduce

the administrative burden for the partners and let them focus on the implementation and strategic concerns. The most important grounds on which the harmonization principle is resting are that it reduces dispersion, duplication of effort and several other transactions costs. An often-repeated example of the duplication of effort is multiple reporting, i.e. different donors posing different demands on recipient organizations for reporting back on their activities and results. Hauer 2006 argues that the harmonization principle, if appropriately followed in CSOs, will lead to simplified and more coordinated demands on reporting.

It should be noted that concerning the Harmonization principle, the AG-CS also gives recommendations that are critical to the message in the Declaration, even if interpreted in a broad sense (AG-CS 2008). Although they acknowledge the grounds that the principle is defended on they argue that harmonization comes with a cost of its own that need to be put forward. For CSOs, inappropriate application of the harmonization principle could lead to stifled initiatives, hampered innovations and lack of diversity in development efforts. They conclude that there is a need for a new conceptual framework that recognizes the need for balance concerning this issue. However, the risks that the AG-CS is concerned about are mainly related to democracy issues and lack of plurality in the civil society. Hence these issues are less severe regarding internal control and other technical aspects of development cooperation.

There have also been arguments put forward meaning that the original principles of the Declaration, mainly regarding government to government relations, and the extensions concerning CSOs are interrelated in practice because the frame organizations are affected by their funders, the government institutions (Hauer 2006). The review of Swedish frame organizations in Hauer (2006) concludes that many organizations perceive that their efforts towards increased harmonization are hampered by their funders who have large influence over their routines. As long as the government aid agency (e.g. Sida) does not manage to harmonize their demands with other donors, the CSOs that will pass on these demands will expose their partners in the South to unnecessary burdens.

This result highlights the idea that the organizations providing or channelling funding are interdependent and that successful harmonization calls for efforts all along the donor chain.

3.3.5 The Paris Declaration and Internal Control

The second interpretation that is needed for our purposes is the extension of the PD to

cover internal control, monitoring and reporting practices. The most clear and extensive guidelines in these areas were given by the task force set up by the DAC of the OECD after the conference in Monterrey in 2002. The task force was set up to look at how aid can be delivered more effectively through simplifying and harmonizing donor procedures. The message from the Monterrey conference, three years before the historic signing of the Paris Declaration in 2005, has a lot in common with the agreement in Paris and can be seen as a preparatory work of the Declaration (OECD 2009). At the Monterrey conference it was concluded to call on development agencies to intensify their efforts to:

“Harmonise their operational procedures at the highest standard so as to reduce transaction costs and make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the recipient country” (OECD 2003 p. 3).

As stated before, our use of the Paris Declaration is centred on the first key principles: Ownership, Alignment and Harmonization.

The task force paid particular interest to the issues of systems for monitoring and reporting. They view these as a critical function for effective aid delivery and summarizes some of the core purposes of monitoring and reporting as: Effective lesson-learning, offer assurance that funds are used for agreed purposes and assurance that projects are being implemented as planned (OECD 2003), which is to a large extent in line with the purpose of internal control according to the COSO model. To fit the guidelines from the DAC task force on internal control with the recommendation from the AG-CS concerning interpretations of the PD (see above), we have chosen to replace the concept “partner country” with “partner” in general.

In the effort to adjust monitoring and reporting practices after the principles agreed on during the conference for increased aid effectiveness, the task force identifies two main problem areas. First, the systems for monitoring and reporting have often been designed to meet donors’ information needs rather than to support the priorities of partners. Second, the duplicative structures and demands for monitoring and reporting burden the already scarce capacity resources of the partners. The DAC task force concludes that these two issues impair the partners’ abilities to rely on useful, timely information for their own development strategies and burden their administrative capacity.

To deal with these identified issues, the DAC task force gives the following guidance

concerning monitoring and reporting (OECD 2003):

Ownership and Alignment. The systems for Monitoring and Reporting should be owned and managed by the partners. Leadership by the partners when discussing these routines with their donors is critical. The ownership and the leadership of these mechanisms should secure an appropriate involvement of the partners. Donors should work with partners in a participatory approach to strengthen local capacity. Donors should rely on the systems owned by the partners; the demands regarding information that they make should be aligned with the partners' capacity and be appropriately timed to guarantee that they do not overburden the systems for monitoring and reporting. The systems should be geared towards satisfying the interests and information needs of the partners.

Harmonization. Donors should harmonize their demands and rely on a single procedure for reporting and monitoring. This means that the partners should only need to distribute reports in a single format on their project and programme activities to their different funders. However, it's important that the single report contains the information needed by all parties involved in the cooperation - the key stakeholders, the partner organization itself and its donors. The same goes for the monitoring procedures.

Alongside the coordination, the donors' requirements should also be simplified to not overburden the partners' systems. The number of donor missions and reviews (field visits and on-site verifications in the CSO context) need to be reduced and coordinated. The visits at partners should be "rooted in a mutually understood need to facilitate learning and comply with accountability purposes" (OECD 2003 p. 57).

When the information is collected it's important that it is readily available for all involved in the cooperation. Transparent and available systems for sharing the monitored information reduce costs and are crucial for decision-making in the different organizations.

3.3.6 The Indicators Used in the Monitoring of the Paris Declaration

The monitoring and evaluation of the implementation of the Paris Declaration is an important element of the agreement and clearly is in line with the principles Managing for Results and Mutual Accountability. The donor and partner countries agreed to hold each other accountable for making progress against the stated targets in the Declaration by continuously monitoring the implementation¹².

¹² For more information on the indicators and the monitoring of the implementation of the Paris Declaration see:

To facilitate the monitoring of the implementation, a set of indicators connected to the different principles in the Declaration, have been developed and alongside each indicator a target has been set that should be reached within a certain time frame (OECD 2008). As described in the monitoring and evaluation literature indicators can, besides facilitating monitoring, play an important role in specifying and making general and sometimes vague goals more concrete (See for example UNDP 2009a). This is mainly also what the indicators from the Declaration provide to our theoretical framework.

Translating the indicators to our context of internal controls in CSOs is not particularly straightforward. Many of the indicators are solely concerned with government-to-government cooperation, e.g. “Aid flows are aligned on national priorities” (percent of aid flows to the government sector that is reported on partners’ national budgets) and “Aid is untied” (percent of bilateral aid that is untied) under the alignment principle. Of the three principles that we have chosen to examine, especially the last two, alignment and harmonization, are given some important specification through the indicators; the ownership principle is only represented by one single indicator.

According to the indicators the alignment principle can in short be described as twofold. First, the principle calls for rigorous and broadly accepted administrative systems implemented in the partner organizations, i.e. a well-developed capacity. Second, the donors should align their practices and requirements to these systems and use the partners’ procedures in for example the collection of information. Regarding the first aspect of the principle, the systems do not necessarily need to be completely and fully implemented when the alignment begins. In that case they need to have a *reform programme* on how to achieve this, according to the indicators.

The harmonization principle also proves to have somewhat of a dual nature, according to the indicators. Simplified, the first aspect of harmonization, that usually is in focus, calls for harmonization to mitigate burdening demands on partners, e.g. multiple reporting and uncoordinated field visits. The second aspect emphasizes the benefits the donors can get from harmonized systems. Economies of scale can arise in coordinated procedures, information can be shared and learning can be supported between the organizations. The second aspect of harmonization can hardly be achieved without active participation and initiatives on the donor side. This aspect of harmonization is mainly aimed at their benefit and not the partners’.

4. Methodology

4.1 Data Collection Method

4.1.1 Case Study

This thesis is a qualitative case study of internal control in civil society organizations in Zambia and Sweden. As previously described, we have focused on two aid distribution chains: one originating from Sida and one from the GF. A case study can be defined as an “in-depth study of a single person, event, community or group” (Kalof et al 2008; p. 194). But case studies can also be done based on more than single instances; multiple cases can be analyzed to be able to make comparisons or establish commonalities (Kalof et al 2008). In this study, we include multiple organizations and we follow two different chains where the organizations are interdependent and involved with each other through partnerships.

The case study as a research approach has a long history and was predominant at the beginning of modern social science (Given 2008). Given (2008) describes the case study by contrasting it to another main research approach, the large-*N* survey. The case study has proven to be very successful in developing new theoretical innovations while the large-*N* studies can confirm new theories and control the empirical scope of them. Hence, case studies are usually associated with induction while Large-*N* studies are associated with deduction. Even positivists admit that a strong comparative advantage in the case study method is the depth of the research (Given 2008). The narrow focus enables a thorough data collection and empirical completeness.

The downside of the depth is naturally the lack of generalizability – the breadth of the study, which is one of the main limitations of the approach (Kalof et al 2008). Findings based on only one, or a few, cases cannot generate generally applicable conclusions.

Although the focus in a case study should be on one, or a few, instances, Given (2008) states that the boundaries surrounding a case study are not fully clear. Some scholars have advocated for keeping the case study approach even when the number of instances reach up to 60 (Given 2008). There is a tension between research with high number of instances and good prospects for generalization, and research with only a few cases that can be studied in-depth (which normally is regarded as the core of the case study methodology). This contradiction is also a classic conflict between qualitative and

quantitative research. Our study calmly rests in the end of the spectrum with low number of instances and where the possibility of an in-depth exploration is secured.

Another strength of the case study method is that the in-depth analysis enables us to use multiple data collection techniques to collect information about the case (Kalof et al 2008). These include observation, interviews, and archival data. Our data collection, which will be further explained below, rests mainly on in-depth interviews with the representatives for the organizations and examination of internal documents that the organizations produce. The multiple source approach also opens possibilities for triangulation.

Lastly, we like to put our field study in the context of different types of case study research. Denzin and Lincoln 2000 distinguish between three different types of case studies – *intrinsic*, *instrumental* and *collective*. A case study is intrinsic if the researcher, first and last, wants to know more about a particular case. How well it represents other cases or how well it embodies a particular problem or conflict is of less importance. It is the case itself, with all its characteristics and context, which has attracted the attention of the researcher. In the instrumental case study, the case is examined mainly to draw insights regarding a particular theory or make generalizations. The particular case chosen is of secondary interest; it is a mean to attain more information about our issue. Hence, the case facilitates our understanding of something else. However, even in this approach the case is investigated in depth and data is collected extensively and from different sources. In the last type of case studies, the collective, there is even less interest in a particular instance. It can be described as an instrumental case study that is expanded to multiple cases. The cases chosen may be similar or dissimilar and they are chosen because the researcher believes that understanding them will lead to better understanding of theory, and perhaps also conclusions that can be applied to instances outside the sample of cases chosen.

Although Denzin and Lincoln 2000 acknowledge that case studies often do not fit neatly in one of the categories, it appears to be clear that our study is collective. Our approach does not start in the particular cases; it is not their characteristics and contexts that motivate the study but the issues of control in aid organizations. Our aim of the study, as explained above, is to describe how different systems for internal controls can be scrutinized from different perspectives. However this does not imply that the particular organizations and the choice of these are not important. The choices rest on

the rationale described above – that we believe that examining them has the potential to provide valuable knowledge in our issue area and serve the purpose of the study.

4.1.2 Data Collection

As mentioned previously, the main sources that we have used for the data collection are interviews with organization representatives and internal and external documents from the organizations, requested by us. The documents that we will include in the study are typically guidelines and steering documents that are disseminated from donors to partner organizations regarding internal control routines, and external pamphlets where the organizations communicate their standpoints and values to the public and donors.

The main source to the empirics is the in-depth interviews that we have conducted with key personnel at different levels and with different functions in the targeted organizations. The in-depth interview is defined by Kalof et al (2008) as a “serie of mostly open-ended questions used to obtain detailed or descriptive information from study participants“. The purpose is to learn about a topic in detail and from the individuals’ own perspective and in their own words (Kalof et al 2008). In-depth interviews are generally referred to as semi-structured (Given 2008). With the semi-structured setup the researcher has some control over the direction and content of the interview, yet the participants are free to elaborate and approach the topic in their own way. In semi-structured interviews the researcher uses predetermined open-ended questions and can use a variety of follow-up questions or probes to obtain more information in areas of particular interest (Given 2008).

Open-ended questions do not have a limited number of possible answers and allow for the participants to decide how to answer the questions (Kalof et al 2008). This type of question can be both regarding concrete information – e.g. “what policy documents do the donors use?” – and of more narrative character – e.g. “how would you present your organization?”. It is important to make purposeful open-ended questions; too broad questions with loosely defined context can result in unfocused material that is strenuous to structure (Given 2008).

We have developed a general interview guide consisting only of open-ended questions that we used in conducting all interviews (see appendix 1). Although some of the questions are rather specific, it should still be seen as merely a guide for the topics and areas of interests. Due to the comprehensiveness of the topic and how the many aspects of internal control manifests themselves, being flexible as interviewers and asking

improvised follow-up questions on certain topics that the interviewees touch upon is essential. Furthermore, in most interviews specific questions for each organization have also been developed in response to the answers we have received from cooperating organizations in previous interviews.

Although the in-depth interview is one of the most common methods of data collection in qualitative research there are a few inherent risks in the method (Given 2008). It can be dangerous to rely solely on this method since the outcome of this type of interview depend to such a great extent on the participants' ability to recall and articulate views and experiences; and also the ability of the researcher to ask the "right" questions. We have applied triangulation, which is one of the advantages of case studies, to deal with this vulnerability. We have made several interviews with many different representatives at different levels and with different functions regarding the same instances and we also use other methods, such as document reviewing in our data collection.

All participants played the mixed roles of informants and respondents, which implies that they gave us information on hard facts regarding the routines for internal control, as well as telling us about their views, opinions and experiences. Each one of the interviews took place at the offices of the organizations and all participants agreed to be audio recorded. The responses were subsequently transcribed for the analysis and this is in accordance with recommendations from Kalof et al 2008, who argues that constant note-taking during in-depth interviews can be distracting for the participants. Furthermore, we find it necessary to have the interviews recorded for further analysis in different stages of the analysis. In most cases it has been the transcripts rather than the audio recording that have served as our primary data source for the analysis. The interviewees have mostly been staff members that the organizations themselves have recommended as suitable for answering questions regarding their system for internal control. Almost all of the interviewees belong to the management of the organizations.

Systems for internal control and aid control in general are sensitive subjects in the sense that results of audits and other evaluations of the robustness of the internal control can have impact on the future of the organizations, e.g. regarding funding and donor relationships in general. We are aware of these issues and consider it to be of crucial importance to be diplomatic and sensitive in all our contacts with the representatives for the organizations. However, because of the sensitivity of the subject, we also consider interviews with staff in the field that can relate to the systems from different perspectives

to be a superior method. It would naturally be difficult to get to know the true workings of the internal control by only reading official documents or conducting interviews at the top management level.

Because of the sensitivity of the subject and the position of dependence that the partner organizations are in it is also very important to guarantee their anonymity – both of the organizations and the individual personnel. This is as important for them as it is for our purposes – that the interviewees can speak freely and be honest are conditions for being able to get non-biased information.

4.2 Data Analysis Method

4.2.1 Content Analysis

In the analysis made from the perspective of the Paris Declaration we have used the data analysis method *Content Analysis*, which is defined by Kalof et al 2008 as a “technique used to analyze written, visual or spoken text; the goal is to systematically classify words, phrases and other units of text into meaningful categories” (p. 195). The method has also served as a source of guidance and inspiration for the analysis that is made from the perspective of the COSO model.

The method has historically been most common in quantitative research but there are today two types of content analysis: Manifest coding and Latent coding. The former is usually a quantitative strategy that includes counts of whether something occurs or not and how often; whereas the latter is the analysis of the meaning of text, usually in a more implicit way, which is a qualitative strategy and the method that we will apply in this study (Kalof et al 2008). Latent coding is commonly used to analyze a wide range of data, e.g. interview transcripts, recorded observations, narratives, responses to open-ended questionnaires and speeches (Given 2008). We use this method chiefly to structure and analyze the transcripts from our in-depth interviews.

Latent coding is an interpretive method that involves a close reading of the text. The researcher needs to acknowledge that the text is open to subjective interpretations and is context dependent. Content analysis is useful for identifying both conscious and unconscious messages in a text, i.e. a close analysis should be able to not only acknowledge what is explicitly stated by the participants but also what is implied by their statements and the way they describe the organizations (Given 2008). We find this method to be very suitable for our objectives. Since our topic is sensitive and the relations between donors and partners can be fragile, a diplomatic tone and sometimes

evasive descriptions made by the participants are not uncommon. Hence, we need to listen carefully and seek to interpret also vague statements to be able to paint a picture of their relationships that is as complete and true as possible.

At the same time, the interpretive nature of the method and the possibilities to investigate tacit messages could threaten the stringency of the method and make it more flexible than desirable (Given 2008). There are a number of techniques that can be used to lower these risks. Those that we have applied are for example: conducting iterative analyses, seeking negative or contradictory examples, seeking confirmative data through triangulation and providing supporting examples for the conclusions that we have drawn. Furthermore, we are two persons that have carried out the data collection and the analysis. To seek agreement between different researchers on the content identified is helpful to improve trustworthiness and credibility (Given 2008). We also strive to make our analysis as transparent as possible so that the reader can evaluate the robustness of our findings.

Kalof et al 2008 also argues that the direction and strength of messages in a text are also aspects that latent coding should capture – for example if the statements are negative or positive and to what degree. This is something that we use extensively in the PD analysis, where we consequently intend to map and analyze the criticisms of various aspects of the systems for internal control and compare these among each other.

4.2.2 Coding and Coding Frames

In the process of using the content analysis method one needs to develop a *coding frame*, which is a well-defined set of rules or criteria on how to systematically analyze and characterize the text into a set of themes or categories (Kalof et al 2008).

The themes and their explicit rules may be identified before the data collection and analysis or emerge as the work proceeds (Given 2008). With regard to the Paris Declaration, we have developed the coding frame with a combination of these techniques – we recognized a few “core-themes” that related to the three first principles of the Paris Declaration, but we have also repeatedly adjusted and especially expanded our criteria over the course of the transcript reviews. With regard to the COSO model, as a starting point we have treated the COSO framework as a coding frame ready to be applied to our interviews, which is consistent with how the COSO model usually is applied in practice¹³. We have however (as will be described in the next section) made

¹³ For instance in the SNAO investigation referred to earlier in the text.

minor additions to the original model. It is usually less straightforward to develop reliable rules in latent coding compared to manifest coding because latent coding requires more interpretation and judgment (Kalof et al 2008). However in our case the Paris Declaration and the COSO model have provided us with frameworks of predetermined categories and some criteria that we can rely on.

Given (2008) also highlights that it is good practice in the labelling of themes and rules to use a language consistent with that used in the text. Because of this we also found it necessary to revisit the definitions and also use multiple descriptions for the same concepts, e.g. “coordination of practices” refers to the same activities as harmonization.

The aspects of content analysis and especially latent coding that Kalof et al 2008 points out as advantageous and disadvantageous for the method chiefly relate to the types of text used (e.g. magazines, news papers and official documents). One issue in latent coding is that the researcher might make different interpretations of text compared to the interpretations that the targeted audience of the text makes – e.g. a researcher studying messages in adolescent magazines would interpret the text differently than the adolescent groups. But an advantage of using these types of text is that the researcher’s role in the data collection is unobtrusive – the data that is being analyzed is already there.

Since our study is based on interviews conducted by us and the transcripts made from these interviews, our text is different and we see rather the opposite pros and cons. The data collection method that we use is clearly obtrusive to a certain extent but we escape the issues of discrepancy between interpretations because as interviewers we are the target group.

4.2.3 Our Application of the COSO Model

We initially got interested in the COSO-model as a way to study internal control in aid organizations when reading the SNAO report regarding Sida’s funding of aid through Swedish NGOs - the SNAO has been using the model in many of their reports, including this one. The SNAO application of the COSO model has served as a source of guidance¹⁴ for our application of the model since being an example of how to apply the COSO model in a development aid context. However, since the SNAO application also is adapted with the aim of fitting in a specific Swedish context, whereas we also include an international organization (the Global Fund) in our thesis, our main point of reference

¹⁴ We were given access to the material underlying the SNAO-report as well as got the opportunity to discuss the report with one of the auditors behind the report

when it comes to the components of the model, remains the original COSO model. With regard to format, the SNAO application of the COSO model deviate from the original framework by adding a sixth component, named “Overall control functions”. This component is closely related to what is already included in the control environment component in the original COSO model and in order to stay closer to the original, generally applicable model, we have chosen not to include this “extra” component added by the SNAO. We have however chosen to extend the Control Environment component with a factor that is not explicitly taken into account in the original COSO model but taken into consideration by the SNAO, namely how the interaction between the various organizations in the chain affects the control environment of these organizations. We look upon this factor as a necessary addition that makes the COSO model more relevant in a development aid context such as ours.

The SNAO application of the COSO model takes its starting point in the COSO framework (1994), but also takes account of the “Enterprise Risk Management” (ERM) framework (2004) which was introduced by COSO to supplement the original COSO framework. In our application we have not used the ERM as a first hand source; this framework is however to some extent indirectly taken into account through our use of the SNAO application as a source of inspiration for our COSO application.

In their study of how and to what extent the COSO-model is applied in US listed companies, Gupta and Thompson (2006), while recognizing that the COSO model holds a dominant position in the field, also notes that the model is lacking sufficient guidelines on how it should be used to assess/analyze internal control. It is explicitly stated in the COSO framework (1994) that the determination of whether a particular internal control system is “effective” will be based on a subjective assessment of the presence and workings of the five COSO components. As mentioned above we have used the SNAO investigation as one source for how to apply the COSO model; however, for further methodological advice we have also consulted personnel at PwC with great experience in applying the COSO model.

As mentioned above, the content analysis method has served as further guidance for our COSO analysis, providing a scientific methodological base, which otherwise to a large extent is missing in applications of the COSO model. We have treated the COSO components as coding frames, and applied these frames to our empirics (this is also consistent with the SNAO application of the model). The matrix included below lists how we initially have sorted our empirics. This first sorting and interpretation includes

direct citations and is in this way similar to the empirics below that relates to the Paris Declaration. However, for reasons of limited space and in order to save the reader time, we have chosen to leave out this first sorting from the thesis¹⁵ and instead include a more straight forward presentation, excluding citations and references. This is consistent with how the SNAO usually presents its COSO applications. This compact presentation is however still arranged on a level by level basis for every component, similar to the matrix below.

In the first sorting we have sorted our empirics under the following five headlines with subheadings:

1. Control Environment ZHA/SwA¹⁶ level

The organization and its culture

Comprising the following control environment factors:

- Organizational Structure
- Integrity and Ethical Values
- Management's Philosophy and Operating Style
(excluding attitude towards risk, instead included below)

HR and employee training

Comprising the following control environment factors:

- Commitment to Competence
- Human Resource Policies and Practices

GF (Sida) and ZHA (SwA) – Influence and Interaction

This is an addition compared to the original COSO model, made with regard to the SNAO investigation cited above.

Division of duties and handling of SRs (Partners)

Comprising the following control environment factor:

- Assignment of Authority and Responsibility

¹⁵ We will be happy to share this material upon request.

¹⁶ With regard to SwA, having one more level in the chain than the GF, the same categories are used for the country office. The only exception is regarding the control environment, where the category "Sida and SwA – Influence and Interaction" is treated only at the top management level, instead the category "visibility of Sida" is added. The main aim in the country office sections is to study the extent to which the country office acts in line with the intentions of the top management.

Attitude towards risk

Comprising the following control environment factor:

- Management's Philosophy and Operating Style

SR/Partner Level

Transmitted culture

Visibility of previous level actors

2. Risk Analysis

ZHA/SwA level

Risk identification and management

SR/Partner Level

Not investigated since outside the scope of this thesis

3. Control Activities

ZHA/SwA level

General - Policies

Initial Controls

Continuous Controls

SR/Partner Level

Transmitted Control Documents

The Control in Practice

**4. Information and
Communication**

ZHA/SwA level

Upstream Interaction

Downstream Interaction

SR/Partner Level

Interaction with previous level actors

5. Monitoring

ZHA/SwA level

Ongoing monitoring

Separate Evaluations

SR/Partner Level

Monitoring in Practice

4.3 Conceptual Lenses

Our first aim in this thesis is to study internal control in organizations, applying two perspectives separately. In doing this we are influenced by the method put forward by Allison and Zelikow in their book “Essence of Decision: Explaining the Cuban Missile Crisis” (1999). The basic thought underlying this method is that perception is dependent on perspective – answers arrived upon when studying a question/phenomenon will depend on which “conceptual lens” that is applied. Allison and Zelikow explain: “explanations, predictions and evaluations are inescapably theory based” (1999 p. 7). From this follow that “the truth” will depend on the perspective/perspectives applied and that an analysts has a lot to gain information-wise from parallel applications of different conceptual lenses – this is a way to notice factors that otherwise not would have been taken into account, as well as recognizing the flaws and virtues of the perspectives applied (Allison and Zelikow 1999).

4.4 Whose Internal Control do we Study?

The main focus of this thesis is the internal control in organizations receiving funding directly from Sida or the Global Fund. It is however not unlikely that the internal control of organizations receiving funding to a large extent is affected by demands from their major donors. Even though demands for e.g. reporting could be looked upon as external control, these demands may very well have implications for, and make up a part of, the control within the organization (Sjöblom 2008). A central theme to study when looking at internal control in organizations receiving funding from major donors is, following this line of reasoning, the extent to which they live up to demands and follow instructions from the previous levels. This is consistent with the COSO objective of “Compliance with applicable laws and regulations” in the sense that this is demands that the organizations are obliged to follow. This is also one of the starting points of the SNAO investigation cited above.

5. The COSO Analysis of Swedish Aid (SwA)

5.1 Swedish Aid – COSO Observations

5.1.1 Control Environment

SwA is a much decentralized organization and the top management has defined the tasks and responsibilities for each level. To lead the work of the organization the top management has created a number of steering documents

The policy document of SwA entails the guiding ethical values, the vision and the mission of the organization. This document is handed to every new employee and is integrated as a part of the internal education. Through the policy document top management strives to make the organization more uniform – to create what they refer to as like-mindedness within the organization. Top management has furthermore formulated their view on corruption and communicated this view to lower levels of the organization through documents, internal education and the web. While top management acknowledges that there are many risks that may affect the organization, they also note that some risks must be accepted and that the work with minimizing risks must be subjected to a cost-benefit analysis.

The Planning, Monitoring and Evaluation manual (PME manual) is the main steering document for the internal control of the organization. The PME manual entails guiding instructions for all the controls and routines to be performed by the different levels of the organization and the partners during a project cycle. The top management of SwA has an ongoing dialogue on control issues with Sida, and the PME manual is adapted to include the demands from Sida. With the PME-manual top management sets a minimum standard for the internal control of SwA, i.e. top management allows the actual implementation of the internal control to deviate from the instructions in the manual, as long as the deviation does not result in a comparative weakening of the internal control. It is mainly up to the regional offices in dialogue with the country offices to decide how and to what extent the instructions in the PME-manual are to be implemented. Currently the top management has initiated a process with the aim of making the implementation of the PME manual more uniform between the regions, noticing that some regions are better than others at handling this work.

The main tasks for the head office of SwA is policymaking and to provide quality assurance of internal controls. All regular tasks related to partners and potential partners are the responsibility of The country offices, overseen by the regional offices. This includes tasks such as partner selection, ethical guidance, making sure that the internal control systems of partners fulfil the demands in the PME-manual and to analyze the reporting of partners. Until recently the country office in Zambia was however lacking personnel with financial expertise. The financial reports of partners were to be checked by the Country Manager; she however states that she did not understand the reports; it was more a matter of getting the partner to believe that they were being checked upon. Now a Financial Manager with proper education has been hired.

The Zambian country office has communicated the values and visions of SwA to both of the partners interviewed. SwA has signed Basket Funding Agreements¹⁷ with both of them. Partner A (the “strong” partner¹⁸) always have this kind of arrangement with donors and hence never adapt their reporting and guidelines to the demands of individual donors – it is up to the donor to judge whether their systems for internal control are up to standards. Partner A and SwA have however been discussing issues related to internal control; Partner A refers to this as a process of helping the country office to develop its system for internal control. Partner B (“weak” partner) explains that their other donors have refused to sign Basket Funding Agreements with them. SwA did not place any separate demands on the internal control before agreeing to basket funding, Partner B and SwA have however had discussions regarding internal control. Partner B is very appreciative of the cooperation with SwA and the flexibility of SwA regarding demands for control and reporting formats.

5.1.2 Risk Assessment

SwA does not perform formalized assessments of risks at the head office; risks are however analyzed when making the strategic plans. The top management relies on their collective experience of various possible risks when constructing the Control Activities, there are no formal link between the control activities and the risks analyzed in the strategic plan. Risk Assessment is included in the PME-manual as a task for the country

¹⁷ Instead of receiving funds for specific projects or programs that are accounted for separately, the funding from different donors is put in the same “basket”. The contributions of different donors will support the same interventions and the partner send back aggregated information to the donors where they cannot see exactly how their money has been spent but that their funds contributed to the common budget and made certain projects possible.

¹⁸ As explained in the introduction, SwA agreed to let us interview one partner regarded as “strong” in terms of internal controls, and one “weak partner”.

office to perform when assessing potential partners and as a task for the partners to include in their applications for funding; these minor assessments however generally do not affect which control activities are used in the process of checking up on the partner.

5.1.3 Control Activities

Most of the Control Activities of SwA are listed in the PME-manual; an administrative handbook is currently being developed at the head office in order to ensure a more uniform way of handling the controls.

SwA put much effort into the identification of suitable partners and has control activities in place to ensure that “the right” partner is chosen. Top management considers careful partner selection being its best way to minimize risks of e.g. embezzlement. Before opening up operations in a new country a consultant should be hired to identify partners that live up to a “like-mindedness” criterion. After this a final selection process is to be initiated, where the country office overlooks and evaluates the operations of potential partners and their systems for internal control. Every new partner also has to undergo a try-out period of one year with more frequent check-ups, before a long-term agreement may be signed.

Most of the continuous Control Activities in place serve to make sure that partners perform agreed upon tasks and that objectives are met, hereby reducing the risks for corruption, fraud and inefficiency. Important Control Activities at this stage are the receiving and analyzing of yearly narrative reports and biannual financial reports; this is combined with the yearly auditing which should be performed by a certified public accountant. These partner-related Control Activities are generally to be executed and documented by the country office.

The activities related to partners’ reporting should also according to guidelines from the top management be combined with activities where personnel from the country office visit the partners, inspecting their operations in the field and tracking the numbers in the reporting. The guidelines furthermore clarifies that it is the task of the country office, with the support of the regional offices, to continuously make sure and control that partners have the necessary systems in place and the adequate administrative capacity to handle the reporting requirements from SwA. To accomplish this every partner should regularly receive training on the demands from SwA and how to adhere to them; this might be done by the regional office or the country office.

When it comes to payment routines, these are closely connected to the continuous controls. A partner cannot receive a new payment until their reports for the previous period have received clearance from the country office, the payment must also be cleared by the head of the regional office. Payments are then done directly to the local partner from the head office in Sweden.

The Zambian country office if possible uses the PME-manual as a starting point for their control activities – they however do not feel that the manual contain all necessary information. Until a year ago they had not been given any procurement guidelines and hence tried to create their own guidelines. The country office regularly performs the continuous control activities listed above. The Country Manager however points out that the office until the recent hiring of a Financial Manager was lacking competence to analyze financial reports and follow up on the numbers through physical checking.

The partners interviewed are virtually unaffected by SwA when it comes to their policies and procedures for internal control and hence the control activities they perform. This also goes for their reporting. Since signing a Basket Funding Agreement, SwA is not in a position to directly influence the reporting of the partners. It is mainly the task of the country office to make sure that the minimum demands in the PME are adhered to within the partners' systems for internal control and reporting. SwA has the opportunity to discuss issues regarding internal control and reporting at partner meetings. Both partners interviewed have been visited in the field by country office personnel; they have also attended workshops held by the regional office. The outcomes of these workshops have however not been communicated within the partner organizations. Both Partner A and Partner B experienced that the controls were more frequent during the first year; they also had to submit documents on and explain their systems for internal control to the country office. However, out of the two, only Partner A was visited by personnel from the country office at this stage of the process.

5.1.4 Information and Communication

Interactions between the levels generally occur in a hierarchical way i.e. top management interacts with the regional offices that in turn interacts with the country offices. Direct contacts between the head office in Sweden and the country office in Zambia are therefore rare – top management generally only communicates to the lower levels of the organization through the regional office and through written documents.

All reports made by lower levels (including partners) are registered in a Project Handling System (PHS), making them easy to access for everyone within the organization. The country office generally receives the reporting from partners on time; however there have been some problems with this when it comes to the weak partner (Partner B) interviewed.

There is a lot of infrastructure besides the PHS in place for communication between the country office in Zambia and higher levels of the organization. In recent years, direct communication has been made easier through access to internet and Skype at the office. However information from the top management in Sweden is still often only received as written documents or at meetings with the regional office. Information from the top management on routines and rules do not always reach, alternatively are misinterpreted by, the country office. For instance, the country office has clearly misunderstood the internal training program. The country office refers to this as a three step program; however, only two steps are according to the top management formalized. Furthermore the country office feels that some written instructions are missing out or should be made clearer. As mentioned previously SwA did not have procurement guidelines in place until 2009; and the country office still feels that these new guidelines need to be made clearer.

Both Partners interviewed feel that the communication with the country office runs smoothly and that they receive all information necessary. Since signing a Basket Funding Agreement, the partners feel that they do not have to consider separate information on reporting and internal control from SwA; not having any specific reporting obligations to SwA also reduces their need for communication significantly.

5.1.5 Monitoring

For the ongoing monitoring SwA relies on the yearly audits by certified public accountants and analyses of partners' reporting plus activities such as field visits performed by the country offices and/or the regional offices. Furthermore analyses of these reports are also done at head office. The reports from the regional offices, besides discussing the numbers, also deal with administrative capacity issues and other challenges for the partners. The regional office in Kenya bases these reports on information from the country office and workshops for Zambian partners held by regional office staff. Top management receives and reads all these different kinds of reports, thereby taking part in the monitoring activities.

The top management considers “the guaranteeing of quality” as one of the main task for the head office. Apart from the ongoing monitoring top management also monitors through separate evaluations. The top management arranges “global meetings” where Regional Managers from all over the world get together and discusses their use of the PME-manual and issues that they have regarding the PME-manual. Based on these discussions the PME-manual is revised.

5.2 Swedish Aid – COSO Analysis

The internal control system of SwA is very much shaped by the fact that SwA has a Control Environment characterized by decentralization when it comes to assignment of authority and responsibility between the different levels of the organization. The top management has created ethical guidelines as well as steering documents incorporating the demands from Sida to guide the work of the lower levels of the organization. However, lower levels are in many cases left with a considerable freedom to adapt the steering documents as they find necessary. This is particularly true when it comes to the Control Activities which generally are adapted by the regional offices to fit the regional context. While regional adaption might contribute in making the Control Activities of SwA more efficient by taking local conditions into account, there is a risk that the demands from Sida might be lost on the way. The top management has indeed noticed that some regions are better than others when it comes to adapting the manuals and has initiated a process in order to make the application of the manuals more coherent between regions, hereby reducing the flexibility and strengthening the internal control.

Since it is the country offices, with some guidance from the regional offices, that carry out the Control Activities in the field, the efficiency of the internal control system of SwA is to a large extent dependent on that the country offices has the right competences in place in order to be able to adequately implement the Control Activities. The country office in Zambia has until recently been lacking financial expertise and state themselves that this has resulted in that they have not been able to carry out the Control Activities as intended. This raises serious questions regarding whether the country office has been able to secure that the demands from SwA (and Sida) are met by the partners.

The country office has agreed to enter into Basket Funding Arrangements with both the partners interviewed. The partners interviewed look upon the signing of these kinds of agreements as a confirmation from SwA that their internal controls and reporting

systems fulfil the demands from SwA and hence the demands from Sida – they consider it to be the responsibility of the country office rather than themselves to control and make sure that they live up to the demands from SwA. The fact that the country office has been lacking proper competence raises issues regarding their capability of handling this responsibility.

Although having identified various risks that might affect the possibility of reaching the objectives of the organization, these are not systematically connected to the Control Activities. This is not to say that the Control Activities created by the top management are insufficient, it is however possible that a closer integration between the Risk Assessment and the Control Activities could strengthen the internal control system of SwA and make it more efficient.

There are examples when the hierarchical communication within SwA has resulted in misunderstandings or failed completely. The country office has as exemplified not fully understood the structure of the internal training system of SwA. Furthermore, the fact that the country office created their own procurement guidelines rather than communicating with the regional office or the head office, raises some question marks regarding whether the internal communication is effective. It is however worth noting that the staff at the country office considers the current level of communication to be sufficient.

There are procedures in place to monitor the internal control system of SwA. The most central function for this is the yearly audits, carried out by certified public accountants. The procedures carried out within SwA however to a large extent rely on the information collected by the country offices – the competence topic discussed above is consequently an issue here as well.

The overall picture of the internal control system of SwA is that the top management has created the necessary policies and procedures. Also the transfer of guidelines and demands works well within the organization. The weaknesses/inefficiencies that have been identified are to a large extent connected to capacity issues at the country office in Zambia. Since being a decentralized organization, a lot of responsibility is delegated to the country offices – a responsibility combined with a considerable freedom in the choice of how to implement agreed upon tasks such as Control Activities. Against this background the fact that the country office in Zambia has been lacking the necessary capacity definitely points toward a serious weakness of the internal control system – a precondition for an efficient Control Environment is that

persons within the organization have the right competences for their tasks; this has not been the case in Zambia. At the time of the interview however, the country office had recently doubled its staff from two to four. The hiring of the Financial Manager, with experience from similar work in another organization, will probably in time strengthen the internal control of SwA; the internal control of the organization today is however still negatively affected by work carried out during the years when this competence was not in place.

5.2.1 Identified Inefficiencies

Control Environment	<ul style="list-style-type: none"> • The head office have created the necessary steering documents, incorporating the demands from Sida, but in practice have little control over the actual implementation of these documents – there are in fact no guarantees that the demands from Sida are met. • The country office in Zambia has until recently lacked necessary capacity in order to be able to carry out the Control Activities as intended and this still affects the Control Environment negatively.
Risk Assessment	<ul style="list-style-type: none"> • Risk Assessments are not formalized by the top management, neither are they integrated as a natural part of the work of the top management but rather performed “Ad-hoc”. There are hence no formalized connections between identified risks and the Control Activities
Control Activities	<ul style="list-style-type: none"> • Although created in order to address risks, Control Activities are not directly integrated with the Risk Assessment. • There are indications that the country office has not fulfilled their tasks connected to the Control Activities according to directions from the top management, primarily as a result of lacking capacity. • The reporting from partners are not based on guidelines from SwA

Information and Communication

- There are examples when the hierarchical communication has resulted in misunderstandings. The lack of direct communication between the top management and the country office puts a lot of responsibility on the regional offices to transfer information from head office to the country offices; apparently this has not always worked out as intended.
- The demands from SwA (and Sida) are not always formally communicated (i.e. through written guidelines etc.) to the partners we have interviewed. The partners do not feel that they have to adhere to the demands.

Monitoring

- The monitoring of the internal control system of SwA relies too heavily on the yearly external audits. The monitoring carried out by the country office has suffered from the lack of adequate capacity.

6. The Paris Declaration Analysis of Swedish Aid (SwA)

6.1 Ownership

6.1.1 Empirics

“SwA is a highly decentralized organization”, explains the Vice President at the SwA head office in Stockholm. Almost all communication with the partners goes through the SwA country offices. One of the reasons for having a decentralized organization structure is to come closer to the partners, the Vice President explains. The field visits at the partners’ offices, one of their core control mechanisms, are carried out by the SwA country offices and require local presence.

This account is supported by the statements given by representatives at the SwA country office in Zambia. “It’s the land office that knows the partner, they have the overall responsibility for choosing and controlling the partners”, states the manager for the country office. She explains that the regional office, located in Nairobi, Kenya, needs to formally accept a new partner, but in practice, it is not “a big thing”. If the regional office would not approve some decision, the country office would hear about this very early in the process. Reports and statements from the country office is the main information source for the regional office. “So there is a large responsibility at the country level”, concludes the country office manager.

The Vice President at the head office states that the process for choosing partners is one of SwA’s primary control mechanisms. They emphasize the importance of long-term relationships with their partners. All partners are more thoroughly monitored initially during a one-year trial period while those “who pass through the eye of the needle”, as explained by Vice President, and become real partners are rewarded with a gradually increasing degree of trust. They have partnerships that have lasted for twenty years; and ten-year long collaborations are not rare. That they have an initial trial period of more rigid control is also supported by Partner A in Zambia. “I think they must have checked

us extra the first period. First we had a two year contract, then a three year contract”, explains the Financial Manager at Partner A.

The Vice President explains that even though their organization is very decentralized outside observers are often surprised by how homogenous the culture within the organization is. “But this is something that we have to work hard on all the time”, he adds. “We look for like-mindedness when we search for partners”, he states and they choose partners who “share our understanding of the problems in the world”. The Vice President explains that there is “a strong identification” among partners and staff, and this is something that he thinks permeates the organization all the way down the chain.

Both partners to SwA, Partner A and Partner B, that we interviewed, apply a basket funding arrangement in the partnership with SwA. This means that instead of receiving funds for specific projects or programmes that are accounted for separately, the funding from different donors is put in the same basket. The contributions of different donors will support the same interventions and the partner send back aggregated information to the donors where they cannot see exactly how their money has been spent but that their funds contributed to the common budget and made certain projects possible.

The organization Partner A exclusively applies the basket funding arrangement with all its donors, while the other one, Partner B, only has received acceptance about this from SwA and one more of its donors. “Money should be put together. That’s the way we work here. If the funders are interested in funding our budget, our activities, we know best where to apply these resources. We are strong advocates of basket funding, which should have one report (...)” states the Financial Manager of Partner A. He continues: “We have no separate reporting for SwA, all the money is put together, we do not have a separate account for SwA’s money. We report the overall picture; they cannot identify their own money”. The basket funding arrangement is a requirement on Partner A’s side when initiating a new partnership with a donor and all their donors accept the setup. The Financial Manager also adds that they have never had a problem with this arrangement in their relation to SwA; they have never complained on only receiving one aggregated report and not seeing specifically what activities their money is spent on.

The other partner to SwA, Partner B, that only applies basket funding for two of its donors, wishes that more would accept the setup. “What we are trying to push for now, is to push the partners into basket funding. So that we only have one account to run. So that in the end of the year, we just come up with one audit”, states the managing director of Partner B. He explains that they have had several meetings with their donors to make

them accept to have their funds mixed with others’, but they have encountered strong resistance. “All the partners were like: We want to see where our money go!”, tells the managing director.

As stated previously, it is important to keep in mind that the two partners differ significantly in terms of internal control. Partner A is regarded by the representatives at the SwA country office as a model organization when it comes to internal control, while Partner B has not developed an as appropriate and complete system as Partner A.

6.1.2 Analysis

According to the Paris Declaration donors should promote and support a shift in ownership downwards in the aid distribution chain, towards the final recipients. This implies that local CSOs working directly with beneficiaries should exercise ownership instead of the donor organizations. The ownership is both of development strategies and operations, and the systems for monitoring and internal control.

It is evident that SwA at the top level at the head office sees the benefits of having strong and independent partners. The decentralized organization is developed both to come closer to the partners in the partnership and control, and to take advantage of the local knowledge, experiences and capacities. This is acknowledged by the country office, which confirms the high degree of responsibility that is given to them. The decentralized culture is mostly referring to the different branches and segments of SwA itself but in the interviews with the partners it is clear that the decentralization spills over to them, i.e. the power and responsibilities are not only shifted down to regional and country offices but also to the partners that SwA operates through.

Clearly in line with the ownership principle SwA benefits from the fact that the local partners know the needs of beneficiaries, the conditions and workings of the local context better and hence give a high degree of responsibility to their partners. The result is according to the head office a mutual respectful and beneficial partnership.

That the head office mentions the process of choosing partners as a control mechanism is an emblematic feature of the organization. They prioritize long-term relationships built on like-mindedness, common understanding, and identification. When they describe their opinions about internal control and partnerships it is gradually more evident that they apply the rationale that if they can find partners that share their values and overall strategy, and also are trustworthy, less control and direct management is needed. This is an interesting logic which has important consequences for many aspects

of how the organization functions. There is an implicit prioritization of trust over control here that permeates their partnerships.

In line with the decentralization, the emphasis of choosing the right partners and the emphasis of mutual trust in the partnerships over rigorous control, is the arrangement of basket funding. As this arrangement is described by SwA's partners, it represents long-reached and extensive local ownership. Partner A indicates that they are independent to a large degree; they set the agenda and determine their operations. They also emphasize that they are in a better position to collect information about needs among the beneficiaries and how they can be met in the best possible way.

It is also evident that the partners consider basket funding as a highly desired setup. Partner A positions themselves as strong advocates of this type of partnership and can even reject funding offers from donors that would not accept it. Partner B, on the other hand, are caught in the middle with two donors accepting basket funding but most do not. They have direct experience of what the lack of ownership, power and control leads to and are strongly discouraged by it. They have made efforts to convince all donors to accept the setup, but have not been very successful.

6.2 Alignment

6.2.1 Empirics

There are three control mechanisms that SwA uses to continuously collect information from their partners, explains the Vice President at the SwA head office. These are the financial report, the narrative report and the field visits. Regarding the level of internal control in general the Vice President declares: "To make sure that we have the suitable level is a delicate balancing act; for us the partnership is important (...) but we are at the same time obliged to make demands, it is also good for them. It is important that they feel that this is something that they can benefit from themselves, so the dialogue with our partners is very important". The pressure that makes them feel "obliged" to make demands and control their partners comes from Sida, one of SwA's core funders.

The SwA head office representatives are critical against too strict controls and say that it is very likely that making their system more rigid would not lead to any substantial improvements in terms of risk reduction and fewer incidences of irregularities. They emphasize that SwA is an aid organization working in troublesome geographical areas and needs to acknowledge the high risks that their projects are subjected to. "This is such

a risky type of business. We are talking about countries that are among the poorest and most corrupted in the world”, the Vice President declares. They prefer to have a system that minimizes the negative impact of irregularities and improves the possibilities for their staff to learn from mistakes rather than having controls that attempt to mitigate all imaginable risks. They also state that SwA naturally has to terminate its collaborations with partners that do not comply with their conditions or if irregularities are revealed.

They state that they are happy that the trend of demands of increasing levels of controls now seems to have reversed. They claim that Sida now seems to be working more towards holistic solutions, incorporating the whole system of internal controls instead of looking at details, and applying international standards instead of using their own specific requirements. “There is a type of flexibility, it is not about survey forms but about an attitude. To find a system that is suitable for us as an organization and where the donor also receives the information it needs”, the Vice President concludes.

The country office gives a similar description of the internal control practices but they are not as positive to the accommodating and flexible aspects of the system as the representatives at the head office. Regarding if they perceive that the demands SwA makes to their partners can be burdening they reply that it is rather the opposite. “It would be very strange if the demands were even lower”, the Country Manager states. The Financial Manager admits that she is a bit biased in this question since she has previously worked for an NGO funded by the Global Fund. “But compared to those requirements, this is nothing”, she explains. However, they add that they see the requirements as only a minimum and that they are free to adapt the system and make sure that the internal control system represents good management.

Regarding the routines and procedures covering activities of the country office they perceive these as sometimes too loose as well. They give the example of buying a truck for the office that is written off during three years. They ask rhetorically what happens with it when it is worthless according to the books. Who will own it then? They think the procurement and accounting guidelines are unclear regarding this and see it as only an example of the instances where the guidelines and controls are vague.

There are situations where the country office has rejected reports and demanded revisions. This has happened when narrative reports have not described activities that correspond to what was previously outlined in the work plan. But the Country Manager describes these instances as no major problems and “just a matter of presentation”. The representatives at the country office argue that they try to visit every partner at least once

a year. But during these visits the focus is not on the financials, but more on the activities and the general progress. They demand to receive financial reports from their partners every six months.

The country office also gives an account of a quite unstable control environment – many of the routines and practices used were implemented less than one year back. Before they had recruited the Financial Manager, they did not have anyone who could appropriately carry out on-site validations of financial reports during field visits. “I don’t think we were very good at the physical checking. But now there will be more of that. The checking was before more of the [narrative] reports and giving feedback on that”, explains the Financial Manager.

The Country Manager also tells about a fraud case that was recently revealed in one of their partners. They consider this partner as one of the more “weak ” in terms of internal control. “That is one of the two weak ones that we suggested that you visit. We are in the process of aborting because some money was stolen in the partner organization by staff. (...) The money had been stolen over a three-year period”, explains the Country Manager. It was not revealed in the audits but the partner organization sent a letter to the country office and explained what had happened. “I think it has to do with the actual partner organization and the system for internal control that they have in place”, explains the Financial Manager. They add that there was collusion between the person in the staff and someone at the bank, which made the bank statements look proper. The partner’s internal control system lacked a clear distribution of responsibilities. The person was allowed to do withdrawals independently without verification from anyone else in the organization. “The problem was that this person was doing everything alone, he made the requests and he went to the bank, and presented everything. That was the major problem”, states the Country Manager.

The Financial Manager at Partner A gives an account along the same lines as Partner B regarding the control. He declares that the requirements on information and reporting practices are lower from SwA compared to their other funders. Some of Partner A’s other donors send their own private audits, but SwA relies on the external audit that is done once a year. The only time they have received a visit from SwA to verify the reports, according to the Financial Manager, was two years after their partnership began. This also goes against the claimed average by the country office of one visit to every partner per year. They rarely receive any feedback from SwA, and see that as positive

signal – an evidence that they are pleased with the activities and the information that they receive.

As described under the ownership section, both partners apply a basket funding arrangement in their partnerships with SwA. This arrangement has consequences for the reporting and monitoring of partners. “We have a standard report that is accepted by all these partners. We have made it simple so that everybody can accept it. We show exactly how we are spending the money and SwA has been happy with that”, explains the Financial Manager of Partner A. He also says that they do not follow the reporting guidelines from SwA simply because they have a funding arrangement where twelve different partners contribute to their budget. He continues: “What we have done is that... sometimes these donors come with their own format - we say no! This report is adequate enough”. Partner A follows general guidelines for their controls that all partners, including SwA, find satisfactory. They have their own manual, and SwA has not been involved in the development of it.

As stated previously, SwA put large emphasis on the process of choosing the right partners. But regarding the internal controls the partners do not need to have the complete capacity developed initially. “We say that they don’t have to be completely perfect and have all the systems in place. But because the requirements are so high today, they must have some kind of basic level. They have to be registered and there are a few criteria that they have to fill”, explains the Vice President of SwA.

Partner B was described by representatives at the country office as one of the organizations that do not have a satisfactory system for internal control in place yet. This was specifically pointed out in relation to Partner A, which they regard as a model organization in this respect. The Executive Manager of Partner B acknowledges that their financial management system is not thoroughly developed yet. “It is still not perfect”, he states. The computer software that the organization uses for accounting is newly installed and the staff is in the process of learning how to use it. He explains that SwA is willing to provide training for the finance software and other types of assistance in the process of getting the internal controls in place.

The executive director also states that the field visits at their office made by the donor organizations also play an important role in the support. Plan, another donor that in turn is also partly funded by Sida, comes every quarter and does an internal audit. From these Partner B can get continuous feedback on their activities instead of only receiving one report in the end of the year. The manager claims that he gets a lot of

useful information about his organization and the progress of operations during these visits and also plenty of advice and guidance that is helpful.

As described previously, the head office believes it is important to be close to the partners and acknowledge their needs. Partner B is clearly satisfied with the management of the partnership by SwA. The managing director states: “I really like the partnership because whenever we have an issue, or if they have an issue, we sit down and discuss. That is very good, we really speak out our minds as partners, they do not influence on what we should do and how we do it, we just agree on the programs. If they think what we are setting out to do is good they send us the money, if they think it’s outside their objectives they will say this one we cannot fund because of a, b, c”. He also explains that the communication with SwA is better and easier compared to many other organizations because it is so small and he can get hold of the SwA Country Manager almost whenever he needs.

Also at the country office the level and type of communication is perceived as very good. There is almost no communication between them and the head office; all go through the regional office in Nairobi. They emphasized that there is a high degree of accommodation on feedback, e.g. feedback given by the country office on changes in the PME handbook. “The PME handbook can we give feedback on during the regional meetings, feedback on what we think is not working“, explains the Country Manager. She continues: “There is a large geographical distance but it seems like everything works like any other multinational organization with close communication between the different parts, a lot of discussions on the internet, very open atmosphere, but this is pretty new. Internet is new and also Skype is very new. But this works well”.

An issue that a large amount of attention is devoted to by one of the partners, Partner B, is the issue of late or unpredictable disbursements from many donors. The other partner of SwA, Partner A, never even mentions the issues of late or unpredictable money transfers from SwA or any other organization.

The late disbursements made from several donors to Partner B inhibits implementation and burden their administrative routines to a large extent, according to the Executive Manager. But SwA is considered different in this respect, and most of the time they disburse the money on time: “What we have seen and I have experienced is that when SwA has the money within their control, it will be transmitted in the shortest possible time. But if they have to get authority or ask the regional office it takes a bit of time”, explains the Executive Manager.

SwA also proves to be more flexible and show a higher degree of understanding compared to Partner B's other donors. The late disbursements from the other donors sometimes come together with requirements on deadlines for reports that are not adjusted according to the delay in disbursements. This setup is clearly a major obstacle in Partner B's perspective. "Because of the short period, sometimes we are not able to monitor", explains the Executive Manager and continues: "What matters to the donors? Is it carrying out the activities for the sake of reporting or are we looking for impact on the ground? Because I found a complete mismatch with the principles of our organization. Because no matter how much or how little we get, what matters in the end of the day, is the impact that we create on the ground. But I think this has not been addressed...". On the question if SwA is different compared to this organization the Executive Manager replies: "No, no, no, SwA isn't like that. Because also with SwA, we could indicate if we received the money very late, we could indicate that, looking at the contractual period, the money has come a bit late, so we could accomplish activities after maybe a given period of time instead, and they are able to accept that". SwA understands the practical conditions, is more reasonable and has a less rigid system. The executive director concludes that the behaviour of their other donors can have very bad consequences: "To continue this trend with some donors where we keep receiving the funds late and are expected to carry out activities still within the same period, that is not constructive and I don't think it's helping the beneficiaries either. "

Another difference between SwA and many other donors is that they make an agreed yearly disbursement at one single time, while others make two disbursements a year. This is a control mechanism to lower the stake if the money is not used as intended, but according to Partner B it creates a lot of extra burden. "I don't even know why they want us to be receiving this money biannually. If we agree for example that the budget for 2009 is 2000 dollars. Why don't we get the 2000 in the beginning of the year?" explains the Executive Manager and he adds: "With SwA they give us the whole amount." Considering the delays and the rigid reporting requirements it is understandable that the biannual setup worsen the administrative burden.

Partner A works under the same premises: they receive biannual disbursements and are demanded to report every six months, new funds are disbursed conditioned on that the donors receive a satisfactory report for the previous period. But on the contrary Partner A does not see any issues with this setup.

Partner B has received complaints from the internal audits regarding the lack of verifications in some instances. It has mainly been a question of small scale procurement. “We spend most of the money on programs in rural areas. You can not get proper receipts when buying cabbages or chickens, or other things that’s bought locally within the community”, explains the Executive Manager and he describes that one solutions that was proposed was to “get one of the senior traditional leaders to acknowledge that they have received that money and so on”. Similar complaints or inquiries have not been made by SwA.

6.2.2 Analysis

The alignment principle in the Paris Declaration states that donors should base their support on partners’ own development strategies, institutions and procedures. The partners’ capacity should be strengthened and to support this process the donors should contribute to the continuous capacity building and use the partners’ systems and procedures. The demands regarding information that the donors make should be aligned with the partners’ capacity and be appropriately timed to guarantee that they do not overburden the systems for monitoring and reporting. The systems should be geared towards satisfying the interests and information needs of the partners.

It is clear that SwA takes pride in the selection of partners and regards this as a key operation in their organization. When SwA chooses its partners they do not require that they have complete and fully developed systems for internal control initially. They state that they do not have to be perfect, but at least have “some kind of basic level”. As an example of what this basic level entails they mention that the prospective partner organization has to be formally registered. This seems to be a quite low pre-requisite, even considering the red tape a registration implies in a country like Zambia. Instead of full capacity SwA focuses on making sure that the partner shares their mindset, approach and understanding of the world.

The low requirements in terms of capacity that SwA sets for initiating a partnership are reflected in the interviews as well. The partner that SwA picked for us to interview based on its overall low capacity and unsatisfying controls, Partner B, also admits that it does not have the appropriate systems in place yet. This is significantly apparent in the relation to Partner A, which both according to themselves and SwA has a rigorous system for internal control. Additionally, the discrepancy in capacity between the two partners is indicated by the fact that Partner A manages to use a basket funding

arrangement in all their partnerships and rejects donors that would not accept it. While Partner B has not had the same success in this ambition, SwA has given them their blessing to exercise the freedom that basket funding entails.

It is indicated by Partner B that they receive support in the capacity building from SwA regarding some issues, e.g. the financial software. But there is no indication of a concrete plan, formal or non-formal, regarding measures to enhance capacity in the partners. It is also interesting how the Executive Manager at Partner B points out the field visits as an important part of the support. Field visits for verification of information disseminated from the partners are regarded by most partners that we have met as a necessary evil. Something they have to accept because their donors need to verify their reports. Partner A for example never receives any feedback from SwA but does not regard this as problem; they rather appreciate the freedom that it gives them. Partner A show a higher degree of independence and imply that they have nothing to learn from SwA as an organization.

Partner B on the other hand highly appreciates the field visits made by their donors, especially those performed by other donors than SwA. Partner B indicates that they would like SwA to come and visit more often and refers to other partners that come regularly, once every quarter, to do internal audits and give feedback on their financial status. They state that they get advice and feedback on their operations, as well as information on progress. To receive guidance from donor organizations is clearly a constructive type of support that can enhance knowledge and procedures, and hence capacity. But the need of these field visits in Partner B, and especially the need for information on progress in operation and for financial data, also indicate a serious lack of ability within Partner B to carry out these procedures on their own. The dependence that they show also go against the alignment principle. Instead of developing local capacity the thorough field visits rather increase dependence. Donors should align their demands to the local systems, but instead they use their own routines and carry out most of the monitoring.

According to the Paris Declaration the full capacity does not need to be in place for a donor to initiate a partnership but there needs to be a realistic plan of how it will be strengthened in the future. The capacity development is something that should take place preferably in a collaborative manner between partner and donor. What is striking about the partnership that SwA has with Partner B is the low ambition and initiative to strengthen the capacity even though it is clearly acknowledged that the level of capacity is

too low. SwA sees the lack in capacity but does not regard it as a pressing issue. Hence SwA prioritizes the “soft” values, like like-mindedness and identification, over well-developed capacity, but also over future prospects of capacity development.

It is not only the capacity in one of SwA’s partners that is low. There seems to be an inconsistency between the overall ideas and objectives expressed by the head office and the reality of internal control at the country office, where procedures for internal control are perceived as indistinct and too loose.

The head office talks about internal control in terms of a balance with controlling and making demands on one side, and having a good partnership on the other. The latter, which they seem biased towards, involves focusing on the needs of partners and having a good dialogue. The head office describes how they are “obliged” to make demands regarding control, and that this pressure comes from Sida. It suggests that the controls used by SwA would be less extensive without this pressure.

They are clearly critical against too strict internal controls and they doubt that making their system more rigid would make much of a difference. They state that there needs to be a stronger acknowledgement of the risks that exists in the countries where SwA operates and suggest that building control systems that are intended to be fault-proof is built on unrealistic presumptions. Instead they want to see a system that limits the negative impacts when the inevitable irregularities occur. SwA evidently has, on the head office level, a pragmatic and flexible view of internal control. Their reasoning is in line with the alignment principle’s focus on benefits for partners and the issues with hampering control measures.

On the country office level, they don’t express any similar sympathy for less rigid controls. They request more clear demands and guidelines from the higher level. In their descriptions of their control routines of partners, there are a few aspects that are lacking, e.g. the routines to verify financial information. The instances when SwA has had complaints on reports sent from partners it has always been on the narrative report and it has mainly been a matter of presentation. The SwA country office is also the only organization that openly, though reluctantly, describes a current fraud case that had been revealed in one of their partners.

The complaints that Partner B has received from other donors but not SwA regarding the lack of verification on small-scale procurement in some rural areas tells us something about their internal control. Instead of insensible demands these complaints rather reflect consciousness and carefulness, especially since the other donor had come

up with a practical and flexible solution to the problem. That SwA never even had mentioned it goes well in line with the claimed lack of routines in SwA to verify financial reports.

The overall impression is that the control exercised by SwA is not very strict and that they do not possess the capacity themselves to give sufficient support to enhance the capacity in their partners.

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We showed above that the characteristics of a basket funding arrangement have the potential to generate far reaching and extensive local ownership. This arrangement also has important consequences for alignment. Partner A applies this arrangement exclusively and rejects donors that would not agree with their terms, e.g. one report format that is sent to all donors.

Both partners express that the general requirements from SwA are lower compared to those of their other donors. They never request a specific format of the reports or other information, they don't have their own private audits, and visits to Partner A are very rare etc. To some extent the ownership can generate alignment. As explained in the theory section, when strong and independent partners dictate the terms and the donors follow, a type of alignment appears. This is true in the case with Partner A.

What is worth noting is that SwA accepts basket funding for both their partners, including Partner B despite its low capacity. Basket funding represents a large shift of responsibility and ownership to the partner and also a reliance on their procedures and systems. To follow the alignment principle fully this arrangement has to be combined with a sufficient capacity development to secure that the partner has the ability to take the responsibility that in this arrangement rests on its shoulders. SwA's same approach to both organizations, with clearly very different administrative and internal control capacity, points to that SwA does not have high requirements before relying on the partner's systems. That SwA is one of only two donors in Partner B that accepts basket funding points in the same direction.

The level of communication necessary between donor and partner is dependent on the needs and level of capacity in the partner. There is a large difference between Partner B and Partner A, where Partner A appreciates their independence and the very low interference from SwA while Partner B is very positive to the feedback that they can get,

the close contact they have with the country office and the accommodating responses that they get. There seems to be an important element of openness and mutuality in the relationship between SwA and Partner B. Something that they do not experience with many of their other donors. They feel that they can be honest and they appreciate the trust that is given to them by SwA.

The country office emphasized the high degree of accommodation on feedback that the response from higher levels entails. Also there, there seems to be a respectful attitude downwards in the organizational chain and an open atmosphere. The mutuality, openness and accommodation seem to be expressed all through the organization. However many of the communication tools that the country office described that they use today have been very recently implemented. Before they used Skype the communication looked very different.

To achieve alignment the communication between donor and partner is important and the donor needs to understand what the information needs of the partner are, what capacity it has and what needs to be developed. Understanding and accommodation of partners' needs are crucial. All this seems to be well functioning in SwA, both at the country office level and in the partners.

SwA is also considered to be successful in the punctuality of disbursements. One of the issues that Partner B devotes a lot of attention to during the interview is delayed disbursements. Many organizations repeatedly send out funds much later than agreed, which inhibits implementation and burdens Partner B's administrative routines. Furthermore, many of these organizations have rigid demands that are not adjusted in response to the delays, e.g. deadlines for reports are not moved even though implementation is postponed due to late disbursements. These conditions are described by Partner B as very difficult to work under.

In this context, SwA is described as almost a model organization. The most important thing does not seem to be that SwA never disburses funds with a delay, because that occasionally happens, but that SwA has a more practical and flexible approach to their internal control system. Partner B expresses that SwA has a better understanding of the conditions that they work under and are ready to adjust requirements in a demanding situation. That SwA also accepts to have annual disbursements instead of biannual also indicates their accommodating approach.

The predictability of disbursements is essential for partners to be independent and carry out operations according to plans and the agreements they have made with their

donors. Ownership and alignment fail if the donors do not manage to make the disbursements that they have promised without delay. That aid disbursements are released according to agreed schedule has its own indicator under alignment in the monitoring framework.

However, it is necessary to note that Partner A never mentions any issues with delays in funding or the biannual disbursements as hampering. Even though Partner A does not face the same set of donors as Partner B, it can be suitable to look at the opinions expressed by Partner B regarding demanding donors critically, especially in the light of their capacity issues. It is difficult to judge what is due to their lack of capacity to fulfil requirements and what is due to requirements being too high. All disbursements are made on the condition that the reporting for the previous period has been accepted – this is applied in both organizations’ partnerships. Low capacity to produce reports in time that are sufficient and accepted by the donors could be a contributing factor to the problems. It should also be kept in mind that Partner B who has low capacity is facing high and varying demands because of no basket funding all the way through, while Partner A with high capacity is facing less burdening demands.

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The Declaration does not state exactly under what circumstances a donor should align to a partner and to what degree. There is clearly a large element of judgment when a donors needs to determine what partners to take on, how much capacity development it needs, how this can be achieved, and how the alignment should be carried out. The capacity development regarding internal control and the alignment are two integrated processes. Aligning to insufficient capacity naturally entails a number of risks. Whereas a too low degree of alignment burdens partners and inhibits their prospects to develop their own capacity for controls. It takes insight and judgment in the workings of the partners to strike the balance between the conflicting objectives of control and capacity development.

The empirics suggest that SwA easily takes on partners with the “right soft values”, such as mindsets, attitudes, ambitions etc., and takes less consideration of their capacity to exercise control and provide information. This approach becomes even more troublesome when keeping in mind that capacity development does neither seem to be a strong point in SwA nor a priority. Hence they take on partners with too low capacity in

relation to their ability to help develop it. At the same time SwA shows a strong ability to align their demands of information and their procedures to their partners, irrespective of their capacity. This implies that SwA follows the second, but not the first aspect of the alignment principle, as described in the theory section.

6.3 Harmonization

6.3.1 Empirics

“For partners that are only partly funded by SwA, coordination can be an issue (...) there was one example with a partner that had four different audits, but that was extreme”, explains the Country Manager of the SwA country office. Usually the demands are very similar between donors and if not they try to adjust. But it is usually not SwA that demands more, according to the country office. The office manager states that there are no formal guidelines on how to coordinate between donors (check the PME) but it is rarely a problem, neither for them nor the partners.

Regarding the coordination of SwA’s requirements the representatives at the head office refer to improvements in Sida’s audit instructions that are followed by organizations that receive funding from them. That they nowadays use international audit standards and not specific requirements is a very positive change in their opinion. “And that is also connected to – What is the benefit for the partner? And in the spirit of the Paris Declaration. When you have multiple donors targeted towards one partner you want to make it easy for the partner. It doesn’t become very simplified if Holland, Sweden and Germany have their own audit requirements outside what is considered as good auditing principles internationally”, explains the Vice President.

Partner A applies a basket funding arrangement with all their donors and as shown in the empirics above they have never experienced any major issues with requirements or procedures that are not coordinated. The Financial Manager of Partner A states that “separate demands would be a problem” and that they simply cannot adjust their system to single donors, and obviously they do not have to either. He also repeatedly adds that their donors are usually very satisfied with the arrangement that they have.

In contrast to Partner A, Partner B does not have a basket funding arrangement for all their partners. The executive director describes their situation: “the trend has been that each funding partner (donor, our remark) has its own reporting format in terms of narrative report and also financial report. So we were subjected to these different

reporting formats but then at the end of the year we would get an auditor to come and do a consolidated audit. But this has been a problem because at one time we thought that a consolidated audit would do, but then other cooperating partners came and said, of course it wasn't SwA: okay it's good with a consolidated audit, but we would like to see a specified audit for our resources. We were forced to invite the auditors again to break this down to individual audits". Beside the separate audits, many of Partner B's donors require quarterly reports as well that specify how their disbursements have been used and what activities they have supported.

As described previously, Partner B tries to encourage their partners to accept a basket funding arrangement to avoid the issues and burdens of multiple reporting, but they have not been as successful in this as Partner A. The managing director describes the reaction from their donors on the proposition to implement a basket funding arrangement: "All the partners (donor, our remark) were like: We want to see where our money go to! So again we had to invite the auditors to do a second audit, which was quite expensive. In 2007, we had the first meeting for the partners, and the idea was to try to convince them to put the money in a basket. And it was quite difficult". Partner B would clearly like to move over to basket funding since it costs less and mitigates many administrative issues, but they face resistance from the donors' side.

6.3.2 Analysis

The harmonization principle calls for donor actions that are more harmonized, transparent and collectively effective. The donors should support common arrangements to coordinate their routines and demands. This will reduce the administrative burden for the partners and let them focus on the implementation and strategic concerns.

The overall impression is that themes that are related to the harmonization principle are conspicuous by their absence in the interviews with SwA and its partners compared to themes related to the other principles. When they were brought to attention it was consequently in references to problems with other donor organizations. The country office mentions coordination issues very briefly and acknowledges that problems can arise but they have not experienced many difficulties in this area and do not see it as a pressing issue. This is mainly due to the fact that SwA is not the organization that makes demands that are outside what is already demanded by other organizations. Partner A states that problems would arise if their partners had not accepted the basket funding arrangement but SwA has never been critical to their routines. The other partner, Partner

B, acknowledges the issues and has experienced problems with multiple auditing and reporting to some extent. These are due to the lack of harmonization and many of their donors do not accept a basket funding arrangement. But the managing director emphasizes that these problems only appear with those donors that do not accept basket funding. He repeatedly portrays SwA as somewhat of a model donor in terms of harmonization.

The only level of the organization where the ideas of harmonization are discussed in a broader and more initiated perspective is at the head office. Even the Paris Declaration and its message are discussed explicitly at the head office by the Vice President (which is the only instance in all interviews where the Declaration was brought up). He discusses the importance of simplifying and harmonizing demands and focusing on the benefit for partners in the spirit of the Paris Declaration. Clear statements that indicate an orientation and understanding for the principle and also the aspiration to implement these ideas in practice. Even though the consciousness and the emphasis on harmonization issues varied through the organization, it is evident in all interviews that SwA does not have issues related to the lack of harmonization. The problems that the harmonization principle has been developed to mitigate, such as multiple reporting and uncoordinated field visits, were never brought to attention with SwA as the guilty party. Instead, SwA was repeatedly mentioned as the big exception that never made any additional demands that would burden the partners' administrative capacity. For example Partner B discussed the multiple reporting and audits and concluded with the statement: "but never with SwA".

These seemingly successful outcomes bring attention to questions on the background and how the high level of harmonization is achieved in SwA. Normally measures to harmonize are described as responsibilities on the donors' side. The donors that fund the same organization should cooperate to come up with appropriate common arrangements for monitoring and reporting that all can accept and that provides the information that they need.

SwA seems to have a largely passive role in the harmonization. The head office states that they think the principle is important and should be followed, but there is no account at any level of the organization of active measures taken to harmonize routines with other donors. Both Partner B and Partner A repeatedly states that SwA is never the organization that objects to basket funding, or that set specific requirements diverting from those set by other donors. It seems that it is the obedient position taken by SwA

that leads to harmonization. This goes well in line with the findings regarding ownership and alignment that SwA is accommodating and prioritizes the needs of its partners. The ownership of both strategies and systems is largely shifted to the partners and SwA set comparably low requirements on reports and accept the routines that the partners have developed. SwA does not have any specific demands regarding reports or field visits that need to be streamlined with the demands of other donors. Put differently, SwA is utterly harmonized simply because there is nothing to harmonize.

However, as described in the theory section, harmonization does not necessarily need to be initiated on the donor side. It is claimed, based on OECD DAC's description of how the principles are interrelated, that strong compliance with the first two principles, ownership and alignment, has harmonization as one of its natural consequences. A shift of power to the partners and donors' alignment to their systems and procedures make the donors more mutually consistent and coordinated – hence harmonization.

We have showed previously that the basket funding arrangement is very consistent with both the ownership and the alignment principle. In the case of SwA it is evident that letting the partners dictate the terms for cooperation to a large extent and determining how internal control should be carried out mitigates a lot of the administrative burden that is common in similar partnerships. Partner A has clearly shown that they only intend to distribute one single report that contains all aggregate financial and programmatic information on their activities to all donors and those who cannot accept that arrangement can look for partnerships elsewhere. Also Partner B, which does not have a capacity as developed, still gets the acceptance from SwA to use basket funding.

It seems that SwA is highly harmonized not due to the active measures taken but to good compliance with the first two principles. The type of harmonization that evolves this way is a form of partner-driven harmonization and is evidently strongly supported by SwA. The setup has been successful - the common issues of multiple reporting, diverse requirements and large number of field visits to verify the same information are completely absent in SwA's partnerships.

It is important to point out also that there is nothing in the harmonization principle that states that the organization has to have a certain level of control and certain systems or practices in place, as there is in the alignment principle. This implies that SwA can be completely harmonized although they make far too low demands on control.

Additionally the statements made by the head office accounts for a conscious and well-thought strategy, which makes it difficult to argue that the harmonization appear simply due to passiveness. We also find the statements regarding the Declaration made by the head office as somewhat emblematic since SwA is an organization that proves to have high level of compliance with the principles in the Declaration in general.

As explained in the theory section, the process of harmonization is twofold according to the Paris Declaration. It calls for both mitigating burdening demands from the partners and facilitating information sharing and learning between the donors. Not a single statement in the interviews indicates that the harmonization in the latter meaning is fulfilled. The aspiration and action to cooperate with other donors to develop their procedures collectively and share information are not visible in SwA at any level. This observation is also in line with the overall conclusion that the harmonization in SwA is largely achieved by the partners.

7. The COSO Analysis of Zambian Health Association (ZHA)

7.1 Zambian Health Association – COSO Observations

7.1.1 Control Environment

Zambian Health Association is a member based umbrella organization consisting of about 140 health facilities and community based programs. The organization is a co-operation organization for its members; however, in cases when funds are transferred, the organization also assumes the role of a controlling body.

ZHA primarily channelizes funds from the GF to selected members – Sub Recipients (SRs). Non-members may become SRs but in practice this is rare. All members of ZHA must formally agree to the “shared values” of the organization; these values are also included in the Grant Manual, a ZHA-specific document which all SRs receive. There are separate manuals guiding the work of ZHA, as well as to some extent the work of their SRs, during the implementation of activities funded by the GF. These are collectively referred to as “implementation documents”¹⁹.

The implementation documents serve as the main steering documents for e.g. internal controls and describe in a detailed manner how the organization should handle procedures such as procurement and monitoring and evaluation. The implementation documents are prepared by ZHA but are subjected to, and must fulfil, the demands from the GF. To accomplish this ZHA has to a large extent copied the forms, policies and guidelines of the GF when making their own. ZHA, as a Principal Recipient (PR), formally bears the full responsibility for its own internal control; the GF is however in many ways directly involved in this work through the Local Fund Agent (LFA) who serves as an independent observer of the structures and reporting of ZHA. For instance, the implementation documents are to be looked over and approved by the LFA at the beginning of every grant. Guidance in the documents that apply to the SRs of ZHA should be forwarded to them and is expected to be strictly followed – ZHA assumes a

¹⁹ The implementation documents includes the Performance Framework, Budget/Workplan, Monitoring & Evaluation-plan and Procurement- and Supply Management Plan.

controlling position vis-à-vis the SRs. SRs are handed a financial manual including the demands of the GF.

All regular tasks related to the administration, monitoring and evaluation of the GF-funds is handled by the secretariat of ZHA. To be able to handle the grants in accordance with the demands from the GF, ZHA initially had to increase and develop their capacity – this included putting systems, functions and manuals in place as well as hiring or, in some cases, borrowing qualified personnel to the secretariat. The GF was very much involved in this process; the fund encouraged ZHA to include “capacity needs” in the budget attached to their GF-application and the fund then did earmark financial means for this purpose. ZHA used the systems of the GF as a starting point for the development of their own and some of the procedures affected by the capacity development, such as the selection system used to find appropriate SRs, is now more or less a replica of that in use by the GF. Since 2008 the secretariat has an HR-policy in place to facilitate the recruitment of qualified personnel.

The top management of ZHA is generally positive to the performance based funding²⁰ applied by the GF, which guides all the work and reporting of ZHA as well as the reporting demands ZHA puts on its SRs. The top management considers the performance based funding to have positive implications for their internal control; according to the top management the concept of performance based funding includes much more than just checking that the target numbers for the performance measurement indicators (“impact indicators”) are reached. One issue raised by the top management is however the heavy workload resulting from this system for funding.

The SR is a member of ZHA and has accepted and signed a member’s agreement listing the values of ZHA. As a member, the SR has participated in discussions and been directly involved in decisions at the yearly summits regarding e.g. what the values of ZHA should be and the overall functioning of ZHA. Before initiating the funding, ZHA helped the SR to take measures to accomplish an up-scaling necessary in order for the SR to be able to handle the funding from ZHA in accordance with the demands from the GF. This up scaling included personnel training and procurement of equipment such as new computers. Furthermore the SR had to hire more personnel in order to live up to the standards of the GF.

The top management of the SR is of the opinion that the concept of performance based funding is not strengthening the internal control of neither the SR nor ZHA, since

20 “Performance based funding” as a concept is described on p. 15

it is too number-oriented. The top management states that the GF and ZHA are not really interested in the actual work carried out by the SR, they just notice the reported numbers on various indicators - indicators which according to the top management of the SR do not always accurately capture the “real” results of the work of the SR.

7.1.2 Risk Analysis

ZHA uses what they refer to as a “risk based approach” within their programs. This approach entails identifying the risks that might affect the organization and its work and putting in place mitigating factors to counter these risks. The risk analysis is however not directly connected to the Control Activities - the Control Activities are clearly closer connected to the demands from the GF.

7.1.3 Control Activities

The Control Activities to be performed by ZHA during the implementation of a grant are listed in the implementation documents mentioned above. ZHA has developed one separate M&E-plan for each disease programme and every round. The M&E plans provide the overall guidelines for collecting data, analyzing data and assessing data quality. The plan also lists the impact indicators that ZHA is supposed to report on to the GF. The indicators are in general numerical and every indicator should be matched against an agreed-upon target listed in the performance framework. The indicators used in the performance framework for a disease may change from one round to another.

Regarding initial controls, ZHA has tried to replicate the system for selection of PRs in use by the GF and applies this when selecting their own SRs. Firstly, ZHA advertise for SRs - the organizations interested in receiving funding are expected to submit proposals. The proposals are then reviewed by the Technical Review Panel (TRP) of ZHA. The TRP consists of both ZHA personnel and external consultants specialized in different fields related to the funding, i.e. it includes monitoring experts, medical experts etc. The organizations that, based on their proposals, are recommended for funding by the TRP are visited by technical teams of ZHA that carry out field appraisals looking at aspects such as management, accounting, staff and overall capacity. The technical teams can either approve the organization for funding, or identify certain areas that must be dealt with before the funding is initiated – as mentioned above, ZHA themselves assist their recommended applicants in the building of capacity if found necessary.

Most of the continuous control activities carried out by ZHA relates to the concept of performance based funding. ZHA must report to the Global Fund on agreed upon indicators in the performance framework every quarter in order to keep on receiving funding. This in turn means that ZHA has to receive and review reports from their SRs every quarter, on the very same indicators agreed with the Global Fund. SRs do not receive a new payment until they have handed in the reporting for the previous quarter. The continuous controls should according to the guidelines also include activities where personnel from functions such as M&E and the internal audit department at ZHA visit the SRs in the field – this should be done every quarter.

The LFA is involved in the continuous controls, performing quarterly verifications on the programmatic (operational) as well as the financial reports provided by ZHA, before these are sent to the GF. The LFA also adds to the reporting its opinions on whether ZHA adhere to the agreed upon guidelines listed in the Implementation Documents. On a yearly basis the LFA visits the SRs of ZHA, verifying the reported numbers and the programmatic achievements on the SR level.

The SR has, in line with the intentions of ZHA, been provided with a financial manual, which includes guidelines adapted to the demands from the GF. The SR has also received more specific reporting instructions. For ZHA, as well as for all other major donors, the SR prepares individually tailored reports, i.e. the SR reports in accordance with specific instructions from the donors. The reporting instructions from ZHA however stand out from the instructions from other donors in the sense that they as a consequence of the system with performance based funding are much more number oriented.

The SR had to send a proposal to ZHA in order to be considered for funding. When the proposal was accepted, ZHA visited the SR to do a field appraisal of its internal controls in place – these were matched against the demands of the GF and subsequently changed if found necessary. From the onset the SR had to report to ZHA on a monthly basis; this, in combination with demands from other donors²¹ however resulted in a massive workload for the SR, constantly having to communicate with the donors and their auditors. Against this background ZHA agreed to quarterly reporting, which is the current standard. The reporting of the SR is closely connected to the indicators that ZHA shall report on to the Global Fund in the quarterly reporting. As mentioned above, the SR does however not feel that the reporting in a fair way is capturing the work

²¹ Donors who generally only demands quarterly reporting

carried out by the organization since being too number-oriented. According to the SR, ZHA personnel only rarely visit them to check up on their reporting. When it comes to LFA visits, the SR has been visited on a yearly basis (when the LFA is carrying out its on-site data verifications on behalf of the GF).

7.1.4 Information and Communication

The funding system of the GF obliges the PRs to have frequent interactions and information-exchanges not only directly with the GF, but also with the Country Coordinating Mechanism (CCM) and the LFA. This creates a lot of extra work, and hence a lot of personnel resources at ZHA are needed to meet the obligations. ZHA considers this extra work to be an unnecessary burden.

With regard to the LFA, the communication is mostly one-way, i.e. the LFA reports its findings from control activities and monitoring tasks directly to the GF; it is then the task of the GF to get back to ZHA. Due to this setting, a lot of information gets lost on the way. The setting also significantly delays the information flow – it usually takes approximately six to eight months before ZHA receives feedback from the GF based on findings of the LFA. The direct communication between the GF and ZHA on other issues however mostly works well. The representatives of ZHA generally can get in touch with the GF whenever they feel that this is necessary and have the opportunity to raise issues e.g. regarding the guidelines and the mechanisms of the fund. ZHA can also receive guidance on how to handle these issues at partnership forums arranged by the GF. These meetings also provide an opportunity for the PRs to influence the routines of the GF, this is however often a very slow process.

ZHA's communication with SRs often coincides with member activities such as member meetings; ZHA however also holds separate meetings, review meetings, for the SRs. As noted above, the SRs are to be visited in the field every quarter by representatives of ZHA. ZHA also communicates information through the written guidelines and reporting sheets.

The SR uses many channels, such as internet, phones, member meetings and visits, for their communication with ZHA and generally finds it easy to get in touch with them when they have issues to discuss. ZHA primarily communicates information on internal controls to the SR through written guidelines and reporting sheets. Representatives of the SR feel that they get the opportunity to influence ZHA at member meetings; one example mentioned is when the SRs collectively convinced ZHA to change the

frequency of the reporting from monthly to quarterly reporting. ZHA mostly get back quickly when the SR has asked questions. When problems, such as late/no replies, occur in the communication between the SR and ZHA this often can be traced back to weaknesses in the communication between the GF and ZHA – e.g. when ZHA must await the actions/answers from the GF on a particular issue. The SR does wish for a more direct line of communication with the GF.

7.1.5 Monitoring

The LFA plays an important role in the monitoring of ZHA's system for internal control. With regard to the ongoing monitoring the LFA contributes on primarily two occasions. Firstly, when the LFA performs its quarterly verifications of the reporting from ZHA – this provides an opportunity for discussions on the reporting and for comparisons of the numbers in the records of ZHA to those put in the report. Secondly, the LFA takes an even more direct approach to the monitoring task when performing their On-site Data Verifications (ODVs), an activity that is performed on a yearly basis. During the ODVs the LFA visits the SRs of ZHA and verifies the numbers at this level too; this provides the LFA with an opportunity to take a closer look at the systems for internal control in place at the SR level and interview managers on issues related to the internal control of the SR. The interviewees compare the function of the LFA to that of an internal audit department. ZHA also however, in addition to the LFA, has an internal audit department of their own and every quarter personnel from this department and/or M&E-personnel visit the SRs in the field, checking and discussing the reporting. The LFA also performs separate evaluations of the internal control system of ZHA; this is done primarily on two occasions: at the beginning of every new grant the internal control system of ZHA is assessed against the standards of the GF and two years into the grant the same process is repeated.

As with other findings of the LFA, the findings from the different monitoring tasks performed by the LFA are not reported directly to ZHA – the LFA reports to the GF. It is then the GF who gets back to ZHA on the, according to the GF, most important issues raised by the LFA. ZHA representatives do not feel that the monitoring performed by the LFA helps strengthening the internal control system as much as it could – since the GF do not report all the findings of the LFA, a lot of useful information is lost on the way. As mentioned above this also results in significant delays before the information reaches ZHA.

The SR to a great extent relies on audits for the monitoring of their systems for internal control. The SR contracts their own auditor who performs a yearly audit getting back with observations and remarks directly to the SR. However the SR also considers the work being done by the LFA an audit. Regarding the work of the LFA, the SR shares the opinion of ZHA, i.e. the SR does not feel that they receive enough feedback from the check-ups carried out by the LFA. The same issue is however also raised regarding the audit carried out by ZHA's external auditor – the SR would like to receive feedback from this audit. The SR has notified ZHA about both these issues. The internal audit department of ZHA has however carried out audits during the grant and from these audits the SR has received feedback.

7.2 Zambian Health Association – COSO Analysis

As an umbrella organization, the cooperation between ZHA and its members at its starting point is based on voluntariness from both parties – members must agree to the values of ZHA but otherwise functions as entities of their own. When transferring funding ZHA however, much due to demands from donors, must assume more of a controlling position. Given its starting point as an umbrella organization, the internal control of ZHA is to a large extent shaped by external demands. As a main donor, the GF has to a great extent directly influenced the internal control system of ZHA.

The Control Environment of ZHA is e.g. heavily characterized by demands from the GF – as shown in the COSO-observations the GF has directly influenced the number, the qualifications and the functions of employees at the secretariat. Furthermore, the GF has influenced the procedures the secretariat performs in its work of leading ZHA and controlling SRs of the organization. The direct influence of the GF is particularly visible when it comes to steering documents – the fact that the top management of ZHA has created separate steering documents (the implementation documents) for the handling and implementation of the GF grant are obvious examples of this direct influence. That the steering documents to a great extent are inspired by or even copied from GF documents, and must be approved by the LFA before the grant period, further signalizes the direct influence of the GF.

The GF and its influence are also very visible at the level of the SRs. ZHA do transfer a financial manual and reporting sheets of their own, adapted to demands and instructions from the GF. More importantly however, the GF, through the LFA, has the

ability to directly control that the work carried out by the SR lives up to the standards of the GF – the LFA works as a safeguard for this purpose at the ground level. Another sign of the dominant position of the GF throughout the whole chain is the fact that the interviewed SR states that it is being evaluated against the standards of the GF; ZHA seems to be looked upon as a tool for this purpose rather than an entity with standards of their own. All in all, the direct influence of the GF has obvious merits from a COSO standpoint; it clearly reduces the risk for misinterpretations being forwarded from one level to another hence safeguarding compliance.

As a construction, the performance based funding system put in place by the GF appears to be a good way to strengthen the internal control, providing clear points of reference for the Control Activities when making sure that money is spent as agreed upon and hereby satisfying the compliance objective of COSO. This is combined with a strengthening of the reliability of the reporting by frequent checkups on the reported numbers, hereby satisfying the reliability objective of COSO. According to the top management of ZHA the performance based funding has indeed resulted in a strengthening of the internal control through its wide focus, not only looking at achieved numbers, but also other factors. This is however contradicted by the view of the SR. The SR states that the performance based funding system is too number-oriented, largely ignoring what by the SR is perceived to be the real outcomes of the funding as long as the numbers are right. This point towards a risk that the performance based funding may be falling short of providing assurance for the effectiveness and efficiency of operations. Furthermore, although ZHA on a regular basis do perform a Risk Analysis, there is a possibility of strengthening the connection between the Control Activities and the analysis – the control activities are today more closely connected to the demands of GF than the risks identified at ZHA (of course there may be some overlapping).

The extra workload for the PR due to demands for communication with and reporting to the GF, as well as the many different bodies put in place by the GF, to some extent can be motivated from an internal control perspective. For instance, clearly it is positive that more than one person reads the reporting – overlapping may be a good thing. The merits must however be weighed against the costs of the extra work necessary. ZHA feels that the workload that comes with the grant from the GF is not fully motivated by the virtues of the control. The question one must ask from a COSO-perspective is whether the multiple reporting and interaction can be motivated as a mean to provide reasonable assurance for the fulfilment of the COSO objectives; this is clearly

not the opinion of ZHA and indeed it seems as the heavy demands on reporting goes beyond the demand for reasonable assurance established in the COSO model. The fact that information about weaknesses identified by the LFA and reported to the GF takes a long time to reach ZHA, or in some instances does not even reach ZHA at all, illustrates a further inefficiency in the information system.

Many functions, to a great extent overlapping, performs monitoring intended to make sure that ZHA's system for internal control is working as intended. Apart from the delay in feedback to ZHA discussed above, the monitoring system seems very strong. In this context one however must also consider the costs of monitoring – is it motivated from a cost perspective to, for instance, have the SR “audited” three times (counting the work of the LFA as an audit)? Also on this point the internal control system violates the reasonability criteria.

The overall picture of the internal control system of ZHA is that most of the policies and procedures in place to a large extent are directly influenced by the Global Fund. Taken together, the policies and procedures give the impression of forming a tight safety net against fraud and corruption. The SR however raises the issue whether the system is really capturing the right things which might indicate that the system has flaws when it comes to achieving the COSO goal of “effectiveness and efficiency of operations”. Another issue raised by both the top management of ZHA and the SRs is the heavy workload resulting from the policies and procedures. Still, when it comes to ensuring that the activities that have been agreed upon between the GF and ZHA really are performed, the internal control system seems effective.

7.2.1 Identified Inefficiencies

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| Control Environment | <ul style="list-style-type: none"> • Even though performance based funding as a concept seems very suitable for the assurance of compliance to guidelines and reliability of reporting, our interviews raises doubts regarding whether its application actually results in the intended outcomes for the internal control when it comes to assuring the efficiency of operations – the PR and the SR have as shown above differing opinions on this matter. |
| Risk Assessment | <ul style="list-style-type: none"> • ZHA do carry out Risk Assessments on a regular basis, there are however possibilities to strengthen the connection between the identified risks and the Control Activities. |

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|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Control Activities | <ul style="list-style-type: none">• According to the SR, the Control Activities do not capture the “real” effects of its work, since being too number oriented. |
| Information and Communication | <ul style="list-style-type: none">• According to the demands from the GF, ZHA must interact and report to three different organizational bodies. This means a lot of extra work for ZHA – work that does not seem to be fully motivated by the virtues of the interaction and control.• The reporting structure, where the LFA reports to the GF and the GF informs ZHA, results in significant delays of information – sometimes the findings of the LFA does not even reach ZHA at all. |
| Monitoring | <ul style="list-style-type: none">• The many overlapping monitoring functions, although contributing to a stronger system for internal control, may not be motivated considering the costs involved. Certainly, three audits is hard to motivate from a cost perspective. |

8. The Paris Declaration Analysis of Zambian Health Association (ZHA)

8.1 Ownership

8.1.1 Empirics

The Executive Director at ZHA explains that they were at first unsure if they had the appropriate capacity to become a Principal Recipient under the GF. But they were informed that their needs of capacity would be assessed and met continuously and in cooperation with the GF. The state of their capacity when becoming a Principal Recipient was not the most important. The Executive Director (ED) of ZHA recalls: “In the early days of the GF they were asking: ‘What are your capacity needs?’ When we were doing our work plan and budget we were encouraged to include our capacity needs as well. We were encouraged to employ the people that we felt that we needed on the positions that we needed to meet the fund. (...) We needed to look internally and see that we had the capacity in terms of internal control. So we started revising our accounting manual and proposal, guidelines... we did a lot of things to strengthen our capacity.” This went on for the first 2-3 years, explains the ED.

The Grants Manager (GM) at ZHA emphasizes that the changing of internal controls and improvements of capacity has been an ongoing process and they have received continuous support from the GF. He explains in more detail what improvements they have made: “One of the first things that were done in terms of internal controls was to make sure to have the right people in the right places. That was part of the capacity building. To make sure you had recruited enough people, for example in the accounting department and the programming department. So you have a segregation of duties, you don’t have the same person carrying out so many different programs. Apart from that we had to look at revision of various manuals: transport guidelines, procurement guidelines etc.”

On the question on what the GF’s involvement in this capacity building looked like, the ED replies: “They provided the money, the funding...” The GM gives a slightly different picture: “It has been twofold. Because from the one side there are certain things that we wanted to do to get to an optimum level to manage the GF resources, then there

is the demands that come in from the GF and from other partners. (...) So you end up trying to address both needs, at the end of the day”.

ZHA also works very closely with the GF in the planning of the capacity building, and their routines and practices are transmitted to ZHA as a Principal Recipient. “Most of the things you pick up in the standard terms and conditions in GF grants, you find most of the things documented there [in the ZHA-guidelines]”, explains the GM. The ED explains that it is good to use their standards and routines to harmonize within the organization and have one standardized way, especially in relation to their SRs. The GM also sees the benefits of cooperating with a large organization: “They [the GF] have a lot capacity, a lot of resources, so they have definitely done a lot of research. You’re looking at documents, which are brought up as best practice. And that are being used in the other organizations. So you ask yourself: ‘Why reinvent the wheel?’”, explains the GM.

There are a number of routines and procedures that ZHA has taken from the GF (for example the system for choosing partners, see below). According to the GM, they usually need to make some adaptation but can then use these for the whole of the organization, not only in relation to the GF.

ZHA has a robust system for choosing partners to fund. In the process of selecting new partners, ZHA uses what they call a Technical Review Panel (TRP), which they have completely replicated from the GF, according to the GM. “Our TRP contains different technocrats from within here (ZHA) but we also include external people from e.g. USAID to come and sit at that panel. And then we would have asked people to submit proposals – they submit proposals that are being reviewed. After being reviewed they are recommended for funding, or not recommended for funding or recommended for field appraisal”, explains the GM. After the review and if that is recommended, their technical teams will carry out a field appraisal where different aspects of the prospect organization will be scrutinized, for example: Management, government, internal control, accounting, capacity, people on the ground, qualifications, past history of implementing programs. Some that are identified as “weak” in terms of capacity can still be recommended if they have the right conditions. Then ZHA assesses what capacity improvements that need to be made to make sure that these are carried out before funding begins.

According to the SR of ZHA that we have interviewed, ZHA made a very thorough assessment of their administrative system and systems for internal control before accepting them as Sub Recipients. This process was managed and planned by the GF but operationalized by ZHA. The ED of the SR describes that ZHA came “to go through

and look at the controls that we have, the systems that are in place, and they name what the GF is asking for. And they came and we had a meeting here with all our staff, (...) checking the documentation, the reporting, everything! Including the finances, the different accounts that we have, the financial system that we have, they checked that as well.” After the comprehensive assessment, ZHA did not have any comments or complaints worth mentioning and they announced that the SR had qualified to become a Sub Recipient. They were overall satisfied with the system for internal control that the SR already had in place. “So the next stage was to sign an agreement, between them and us”, the ED recalls.

The Finance Manager (FM) also emphasizes that they did not need to make any improvements to be accepted as Sub Recipients; all the systems and procedures were already in place. “No, no, no, as a matter of fact sometimes we thought that they had stolen our system [laughter]”, said the FM tongue in cheek.

The FM describes that the fact that they at the time for the assessment made by the GF had a well worked out capacity for internal control has a lot to do with that they previously had a partnership with UNICEF, which was very demanding. “Before ZHA came on board, we worked with Unicef. And their way of preparing reports was quite demanding. (...) They pay attention to every small detail, every little signature, every piece of paper, all the supportive documents that it has to have, they give everything serious attention”, explains the FM. He also states that the GF has never been as demanding when it comes to internal control as them.

But he considers that the hard work and the high requirements they were forced to live up to in the long run has been rewarding. They now have higher capacity and a robust system for internal control, according to the FM. This was beneficial when they initiated the partnership with the GF, because they did not need to change anything in their organization. “So when it came to working with ZHA that discipline had already been established in us. As a matter of fact sometimes we have said that what ZHA transferred to us was something we were already doing. So it wasn’t anything different from what we were already doing. I think our experiences with Unicef, as much as it might have been demanding, it was only a period of time until I thought that it was worth it”, explains the FM.

The most important change that occurred after the partnership with ZHA and the GF started was a scaling up. The new donor provided the necessary resources to expand the organization and its activities. “The GF has helped us in a way, because there was a

scaling up (...). We had to increase on the activities, we were not creating new programmes, we were just scaling up of what we were doing. And we opened up new areas so the coverage was widened”, explains the ED of the SR.

She emphasizes the technical aspects of the support from the GF; that they did not interfere with their priorities or created any new programmes. “What the GF did for us was to help us to scale up. The changes that were made were in terms of computers, we had documentation improved a lot...”, the ED states and continues “we were provided with computers in all the offices, we have about five office computers. Which was great on our part, and then at the same time, also in terms of capacity building, there was a lot of training that was done, by the GF.” The ED agrees that the changes had occurred even outside a partnership with the GF, only they had the resources to achieve them. “It was not pushed onto us”, she explains.

They experienced a lot of demand and pressure from the GF during this period, especially in terms of holding the internal control on a satisfactory level in spite of the extensive scaling up that was undertaken. The scaling up had put the internal controls under stress and the problems of high personnel turnover, which is inherent to the organization (a large part of the staff consists of youths temporarily employed), became more visible. “We had a lot to do! We had a lot to do because we were scaling up, and when you are scaling you have more activities, and when you look at the people that we are working with, the young people, this is a youth organization, and the turnover is high. Today they complete school and they will be free for one year, waiting to get into college, when they enroll college they will have less time. So you have less people to implement the programmes”, explains the ED. The massive scaling up also entailed many new partners that the SR started partnerships with, i.e. partner organizations that receive funding from the SR. The large number of new partners was resource demanding since all needed to be trained, learn the systems and procedures used in the SR and get acquainted with what they were doing.

To respond to these demanding conditions, the SR developed a basic financial manual that would make it easy for newly recruited staff to quickly grasp the organization’s standard routines and procedures. “Our system does not have to depend on the person that is there, but people will have to follow what is already laid down, written guidelines. It is just a matter of orienting”, explains the FM.

8.1.2 Analysis

According to the Paris Declaration donors should promote and support a shift in ownership downwards in the aid distribution chain, towards the final recipients. This implies that local CSOs working directly with beneficiaries should exercise ownership instead of the donor organizations. The ownership is both of development strategies and operations, and of the systems for monitoring and internal control.

The prominent impression when examining ZHA, the Principal Recipient directly under the GF, and the SR, the partner to ZHA, is that capacity is paramount within the GF. To have partners with well-developed administrative systems, skilled staff, and the necessary equipment to appropriately monitor received funds is strongly prioritized. In practice, this is done through a sophisticated and thorough assessment of all new partners and their possible needs in terms of capacity development. Subsequently, a rigorous and detailed process takes place to make improvements in the capacity, which the GF leads and supports the partner organizations through.

The representatives at ZHA were informed about the GF's view of capacity at an early stage. The capacity in the partners to the GF is assessed and continuously developed in response to the needs. Both representatives see the development as an ongoing process where they receive support and guidance from their funder, the GF. Also, the SR gives an account of a very rigid and extensive assessment of capacity before becoming a partner. We note that both representatives are overall highly content with the partnership with the GF regarding capacity issues.

As described previously in the theory section the ownership principle implies a rebalancing of influence from donors to partner organizations. This can be facilitated by having independent and strong partners, both strategically and in terms of systems for internal control, lower down in the hierarchy. Local capacity can be a good mean to stimulate solid ownership in the partners. An increased ability to monitor and analyze operations, to work out strategies and to develop as organizations in general can possibly nurture their independence. The involvement from GF's side in the continuous enhancement of capacity is however a delicate issue. The contributions of a donor to the planning, managing and implementation of the capacity development has consequences for the relations to its partners and how the partners develop. Hence, the influence of the donor on the capacity development has consequences also for the level of ownership that is exercised by the partners.

The issue is inherently dual. High local capacity *can* create conditions for local ownership but if the capacity is mainly developed by the donor, and to mainly serve the interests and needs of the donor, the local ownership is likely to be undermined. In this case, it does not matter if the capacity development is advanced and extensive, the added capacity will still be owned by the donor organization.

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The ED of ZHA emphasizes that the GF brought the financial means necessary to make the changes in capacity possible. While the GM gives a more balanced picture and describes the process as ‘twofold’ – that they have to pay respect to both their own needs for internal control and the demands from the GF regarding what aspects of the system needs to be developed. Although both representatives describe their cooperation on capacity issues in diplomatic and somewhat vague terms, they are overall positive to how it is implemented.

Both representatives at ZHA assure that they work very closely with the GF in the capacity development and that they benefit from the knowledge and already existing routines that their funder provides. They give many examples of best practices that are transmitted to them. These are suitable both for being appropriate in themselves and because of standardization – having the same procedures throughout different partner organizations naturally has advantages for the donor.

Both ZHA and the SR are evidently satisfied with this exchange. They see how their organization grows and benefits from the cooperation. The GM of ZHA asks rhetorically why they should exert effort and spend resources to ‘reinvent the wheel’. It seems that the procedures and practices that they want can easily be provided by the GF. Nothing is mentioned about unwanted changes or a development of their system that is not desirable. Although they have a far from all-positive picture of the GF as a donor in general, regarding the support to capacity development that they provide nothing negative is mentioned.

Both organizations describe that after initiating the partnership with the GF, their organizations have been scaled up with the support from the GF. SR assures that the GF did not interfere in this process and mainly provided the means to make it possible, similarly to the ED at ZHA. They even state that the changes would have happened even if they had not have had the partnership with the GF, which naturally is positive from an

ownership perspective. They describe how the GF was demanding and had tough requirements during the period of extensive scaling up but mention this as something necessary rather than troublesome or excessive. The solution with the internal financial handbook, as a response to the high staff turnover also indicates a certain degree of independence that SR exercises in this process and that the organization takes own responsibility for the internal control.

Since all principles of the PD have been developed to shift the control and ownership to the partner and alleviate excessive burdens that the donors cause, it is difficult to criticize a setup that the partner defends. However that the representatives at the partners are content with the collaboration in the capacity development does not automatically imply that the ownership principle is fulfilled.

According to the PD, local ownership does not benefit from a setup where the donor has a very strong role in the capacity development and de facto determines the architecture of the system. As stated previously, the role played by the donor in the process can undermine local ownership. The message that comes across regarding the GF is mixed. Even though the dominating role played by the GF is a warning sign, the overall impression is that there exists a mutually respectful cooperation in the capacity development that supports local ownership.

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The GF and ZHA have a very rigid and lengthy procedure for choosing new partners (the procedure is transmitted from the GF to ZHA as a part of the capacity development). In relation to the procedure used by SwA, this procedure is highly technical and thorough. As concluded above, the GF takes a lot of pride in the capacity development, and this remains in focus also in the process of choosing new partners. To be selected, a partner does not have to be fully equipped and developed initially, but the process of assessments and subsequent development is mandatory and crucial. That they also take on organizations with weaker administrative capacity and internal control indicates that they trust their procedures for capacity development and the results of it.

The SR, which was chosen through this process, also confirms that the procedure is comprehensive. The GF was mainly satisfied with their level of administration and internal control and did not see the need for any acute changes in terms of capacity, besides scaling up what was already there. The SR was a strong and sophisticated

organization in terms of capacity at the onset already, which is mainly due to their specific donor history (e.g. UNICEF).

It is important to note that this is the only organization we have interviewed on the partner level under the PR. The SR was also specifically chosen by ZHA themselves as a successful partner. Unfortunately we don't have any material from a partner with less developed capacity. We can only speculate about what the capacity assessment and development look like in partners with truly weak capacity when they are picked up by a PR. But it is likely that it is different and it is reasonable to believe that the dependence on the GF – their control and their procedures for capacity development – is larger in these cases, with weakened local ownership as a consequence. We have no information regarding what the state of ZHA was at the moment they were chosen in relation to other organizations that are recruited as PRs.

Ownership is the broad and superior principle in the PD, which is strongly connected to the other two principles that we analyze. In this analysis, most point at that the GF manages to stimulate local ownership in the capacity development and the process for choosing partners, even though some warning signs are visible. However, there are many factors that affect the degree of ownership that the partner organizations exercise and we will come back to these and how they can undermine the local ownership in the analyses below.

8.2 Alignment

8.2.1 Empirics

The internal structure of the GF revolves around the LFA, which is a key characteristic of the GF's architecture for internal control. The purpose of the LFA is dual; it is both to monitor their system for internal control and to monitor whether transactions are legitimate by sampling in different areas. The GM of ZHA says that the LFA helps ZHA to maintain and improve their system for internal control. "It's basically the same as internal auditing, both financial and programmatic. What they look at in terms of data is much more than an external audit", explains the GM of ZHA.

The main limitation that the representatives for ZHA see with the LFA is the lack of communication and appropriate channels for feedback from the institution. "Whatever problem they might find, weaknesses or strengths, they will not feedback to us. They will

feedback directly to the GF. So whatever feedback we hear is from the GF”, explains the GM.

The majority of the data collected and feedback that is processed by the LFA is never shared with the ZHA. “The current setup doesn’t help us so much. If for example the LFA reports 10 items to the GF, the GF tells us only 2 or 3 items”, explains the GM. The GM argues that there is a lot of potential benefit here that is lost because of the indirect communication between the LFA and the PR.

There is also a considerable time lag in the feedback from the LFA that comes through. “If the LFA does a verification for a particular period, and submit it to the GF, it takes six months, or eight months, for the GF to get back to us, on what happened maybe eight months ago. You can imagine if you did something wrong, it means that you have been doing it wrong for an additional nine or eight months”, explains the GM and the ED continues: “Sometimes you get feedback on information that you provided eight months ago - you have already forgotten what the question was!” This inefficiency in the system could be avoided if the LFA could share its findings directly with the ZHA. The structure inhibits direct contact between the LFA and ZHA, which results in many communication failures.

Although both representatives for ZHA are very critical to the system for internal control and specifically the LFA setup, it is not the idea with the LFA in itself that is the problem – it is the structure of it and how it works. They believe the recommendations that ultimately come from the LFA are generally sensible. They do verifications both in the beginning of a grant and after two years. These “naturally help us in finding weaknesses and what performances that can be improved”, explains the GM. He also says that there is “an element of direct communication with the LFA”, but nothing that is formalized. If they could have closer contact with the LFA, the system would be much more effective. The GM concludes that the LFA do help them in the sense that “they keep us on our toes” and “We know that we will hear from them every quarter”, he explains.

Similarly to ZHA, also the SR has several complaints on how the LF works. The SR has been audited by the LFA many times. Since the SR receives funding from ZHA, to review ZHA the SR also needs to be reviewed. The ED sees a number of unmotivated issues in the cooperation. Like with ZHA, it circles around communication and the routines for distributing feedback. “They come to look at our books and have questions here and there. And the only thing that we don’t receive is feedback from the audit that

has been done. 'They don't even say that it is okay', explains the ED. She continues: "I think I had a meeting with them here to say that I think this time we need a report really, because we need feedback, we need to know how we are working and our system, if at all we have weaknesses within the system, so that we can improve on what you want, and to work according to what you say, and the principles of accounting and everything."

The ED sees a need for feedback; that it could be beneficial for the organization. "It would be nice to be given feedback. Both positive and negative, it helps. (...) maybe to change we need someone to come up with suggestions. I believe that would be helpful for an organization like ours", she explains. However the auditors say that it is not their duty to give feedback and if they have any suggestions they should turn to ZHA, but ZHA does not seem to have the information either. The problem is, according to the ED, that the GF and ZHA request only one consolidated auditing report, covering all the SRs together, since that is the only information that they need. The ED has expressed a wish to receive the information and feedback that is regarding the SR specifically, but without any positive results.

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Something that is reoccurring in the interviews with the representatives for the SR are the descriptions of a quantitative focus in the internal control system of the GF. The ED states that the GF sticks out in relation to their other donors both in the quantitative focus and the overall high information requirements. "When it comes to the GF, they are more into numbers (...)", she explains.

The ED sets their requirements in relation to the others' that use other reporting techniques: "I give you an example of [a donor], if you are reporting to them, the first six months, all they need is just a one page report, and it is in a table format, which is very simple. They will just ask how many people that you have reached; and if not, the reasons why. That's it. (...) Then when you come to [another donor], their reporting is more on the narrative part. You have to look at the objectives, how you managed to work within the objectives during that period. So it is a bit different as well."

The ED describes that there is a very close connection between the finance and programming department; the target that they are supposed to reach (handled by the programming) is connected to a specific sum that they receive (finance). The narrative aspect of reporting is not emphasized in the requirements from the GF.

Another aspect of the reporting requirements of the GF that is not connected to the quantitative focus per se, but that is related to it, is the high targets (e.g. the number of people that must be reached by a certain intervention). Each disbursement is connected with certain targets. The SR thinks that the requirements in terms of quantitative targets are set unrealistically high and lead to deprived quality in their operations. “They give you a very high number and less money (...) you compromise on the quality. Because your interest is based on numbers. And the numbers that they give are sometimes just too big. And with the little money that you have”, explains the ED of the SR.

Beside the high targets that the GF states in the partnership agreements, how interventions will be designed to reach the targets is completely up to SR. This setup where established requirements are combined with independent planning and management of the interventions is favourable, according to the ED. The problem is the unrealistic demands of what numbers they are expected to deliver.

The second problem that the SR sees with the quantitative focus is the lack of impact assessment in the requirement of control from the GF. According to the ED there is too little concern with what the effects of their interventions really are and the overall and long run change that the support from the GF, through the SR, can contribute to. She describes the GF as very different compared to other donors in this respect. The SR's other donors want to focus on a certain group of beneficiaries and record how their situation changes over time.

She also emphasizes the possibilities for continuous learning when interventions are thoroughly evaluated. She describes the routines with other donors: “With other partners (donors; our remark), when a project ends, after three years, in the last year they will ask if we can do an impact assessment, to assess whether the money has made an impact, the GF has not made that.” On the question if she thinks that this will happen in the future she responds: “I don't know, I hope they will. Because it is good to know how the money that they are giving is really helping people.”

The FM agrees that the quantitative focus gives lower attention to the effects of the interventions. In general he thinks that the GF has a superficial perception of results and do not consider how a project is received and what it really leads to. “I think their idea of what to call behavioral change campaigns are mainly about beating drums in the streets, and as long as some people hear those drums, you don't care about what those drums mean to them. It could have been just some dancing. As long as hundred people

attended it's okay, but you don't know to what extent the message came through", explains the FM.

The FM is even critical to the outcomes of many of the projects of their own that the GF has funded. "If we strictly are going to go to all the places and critically look at the people that have received these programmes, look at those people's awareness, I think what would come out would not be much", explains the FM. The main reason for the unsatisfactory outcomes is that the GF does not take into account that behavioral change is a slow process and the interventions must be planned on a longer-term basis. Many of the activities that they support are of a very temporary character.

The FM is also critical to the quantitative indicators that the GF wants the SR to provide information on. "The template of reporting is just about: (...) how many of those people did you reach, but what came out of it is not evaluated", explains the FM. He states that they also want to evaluate their own work and justify their interventions. To some extent they also do evaluations on their own to serve these purposes, but it would help if the GF supported these efforts, concludes the FM.

The FM explains that in their other partner relationships there is an equal interest to do impact assessments and to justify their expenditures and interventions. "All [partners] are moving towards impact assessment, to justify the expenditure, which is very good. (...) There is an interest among the partners for impact." But this is not seen in ZHA. The FM explains that one of the reasons that ZHA does undertake impact assessments is that they instead depend upon the nationwide evaluation that is regularly carried out, but he thinks that it is not suitable to only turn to this report to see what the contributions to development that ZHA has made. "I think ZHA also has to take into consideration that ZHA is a separate entity from the whole nation. It also has to justify its existence, in one way or another. (...) they should be able to see, our work, the people we have given resources, it is working and why is it not working. I would call it a bigger crime to have worked five years and not look back at what we have done", explains the FM.

He also states that the lack of impact assessments have been motivated by ZHA by saying that those kinds of assessments have a very long term focus and therefore have to be undertaken in the future. The FM however thinks that those kinds of statements are evasive and that the funders do not want to be held accountable.

The FM sees critical issues in not having thorough follow up of the results on higher levels. The organization needs to have mechanisms for continuous learning to be able to improve the planning of future interventions, and warns that it will lead to the repeating

of previous mistakes. “It is like driving without any direction. The accomplishment is not there. And you would only be able to improve on what you are doing if you can look back and say what has worked and what has not worked. If you are going to work in the next five years without looking back, you will make the same mistakes that were there before. You continue worsen the situation and probably end up spending where it is not even needed”, says the FM.

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The representatives for the SR seem satisfied with the communication with ZHA in general. “Communication has been very good, on both sides. We can’t complain (...) I think it is on both sides, we communicate and they also”, explains the ED. They have also many different channels through which they communicate, e.g. e-mail, phone or visits (both organizations have their offices in Lusaka).

The ED states that ZHA is very good at responding fast if the SR sends a request regarding something. She also states clearly that they only have contact with ZHA; never directly with any part of the GF. “So anytime you make an appointment with the Executive Director, the door is open, you can go there and discuss. If you tell them you need something they will advice you. And then every year we have the annual council, where we go as member, and where we also express ourselves”, explains the ED. According to the ED they feel that they express their take on different proposed changes and that their opinions and ideas are taken into account when decisions are made. “We also sit in the advisory committee, so that has also helped us in a way as a partner. Where we also represent other youth groups when it comes to that kind of meetings, where you advice but also give ideas here and there”, explains the ED.

Regarding the reports they also perceive that they get sensible feedback from ZHA and that they have a good and beneficial dialogue. “When ZHA receives this report they will give feedback. If they are not happy with one or two areas, they will be able to tell you: there is something missing with your report can you just work a,b,c,d. So they will give you that kind of feedback so that you can work on it. And when we have worked on it, you submit it. If it’s okay they will tell you that: everything is okay”, explains the ED.

An example of good communication and accommodation from ZHA is the adjustment of funding periods. Before the funding periods were not harmonized between the donors, but after suggestions from SR this was changed. “They had

different funding periods which created problems for us in terms of reporting (...) we took that up and discussed. Everyone agreed that we end in June and start in July, same period for all partners”, explains the ED. She says that this is something that was much appreciated and the change was based on their initiative. “It came from us. It was good, because we told them how difficult it was to not have the same funding cycle”, she concludes.

The finance manager confirms that the change in reporting periods made by ZHA was due to their feedback. He says that the coordinated setup makes their reporting easier because “you just make one report, then you structure it according to the different partners, it is the same information”, explains the FM.

All contact that they have is with ZHA. The ED explains that one of the reasons they have the meetings for SRs is to make it possible for them to give feedback on changes and express their views. “When they have something new then there is a discussion takes place. Because whatever is being discussed we have to relate it to what we are doing. And with the GF, they didn’t come to create new activities and new areas, it came to focus on what we are doing already”, explains the ED.

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The biggest risk that that the ED perceives in the organization is reduced funding; that the GF will not disburse as much money as they need to continue their operations. “When we started we had a lot of money, we were given a lot of money, because we were scaling up and that was how the money was being used. Beside that it was said that the more you work, the more money you get, that was the principle in the GF (...) We had to close some of the areas and stop some of the funding to some of the groups”, explains the ED. The Principle used in the GF that she refers to is Performance based funding, which implies that the levels of future disbursements should depend on the results that the organization has achieved previously. But according to the ED the funding did not continue to be performance based all through their partnership. “They didn’t prove that point really. In the beginning yes. But as we were working, four years is a long period, that principle was not followed”, explains the ED.

The Executive Director emphasizes the stress that is has put the organization under, especially regarding the newly started partnerships with smaller youth organizations that they have initiated as a part of the scaling up. They are now forced to abandon some of

these without any good reason. Since the SR does not have any direct contact with the GF the reasons behind this development are obscure to them. In their contact with ZHA they have received the explanation that ZHA has not received any more funds that they can allocate to SR. “The reason that we got is that this is what they were getting as well (...) That’s what we have been told”, explains the ED.

Additionally to the small disbursements and the unjustified reductions, the ED describes how the disbursements from the GF regularly are delayed. “At the same time, (...) they don’t give you the money when it is supposed to come. You are supposed to get your funding in January, you get it in May. And when you get it in May, they expect you to write a report even for the period that you didn’t get any funds”, she explains. Hence, although the disbursements are made later than agreed, the GF still expects SR to carry out the activities during the planned period and report before the original deadline. “Within four weeks you are supposed to implement and finish all that you have planned for the whole quarter”, the ED states. This put the programming under serious stress. “It affects our programming because for the first two or three months there are fewer activities. And then during the last month, there is so much to do... And you have to call everybody, no sleeping, and implement everything because you have a deadline”, explains the ED of the SR.

The FM confirms the issues with late and unpredictable disbursements from the GF and describes it as frustrating. He also notes that the changing of reporting periods and less frequent reporting has not made the situation any better in terms of punctuality. “The money will come in the third month of the quarter. And that money has to be finished within the same month, it is meant to be used within that same quarter. That in itself really throws you of balance, in terms of implementing. It doesn’t take into consideration proper planning. And it is just about getting the money, getting it done with”, explains the FM.

In the late funding there are the same issues with communication and lack of satisfying explanations. The SR only has contact with ZHA, which only refers to the fact that they themselves haven’t received any funding, and hence don’t have any to pass on. The ED says that she thinks that there are discussions regarding these issues between ZHA and GF, but no information, if there is any, is passed on to the SR. “All we receive is: ‘we haven’t got the funding yet’”, she concludes.

The SR sees some major problems with the structure for communication and feedback. These are evident in the issues of late funding. They wish that they could have

direct contact with GF, instead of having all communication go via ZHA. “The communication is between ZHA and the SR. (...) I wish that the GF would not use ZHA to come to us. But that they would find a way to come directly to Sub Recipients. That would be good”, the ED explains. The information that the SR can get and the influence that they can have is affected negatively by this isolation. According to the ED, ZHA has contact with the GF and have the possibility to discuss issues with them. “ZHA meets with other country mechanisms or whatever they call them. They meet and discuss and maybe they communicate with the GF. So for us it is the SR and ZHA, it ends there. And ZHA can then communicate with the GF”, says the ED.

The level of communication and how much influence the SR can have over these issues seems to be a touchy topic in the interview with the ED. Although she describes many aspects of the partnership that affects their work negatively and issues that are not dealt with by ZHA or the GF, she argues that it is working. On the direct questions if she wishes that SR had more influence, she diplomatically replies: “It’s a partnership. And in a partnership we have equal say. So the other person doesn’t feel that you are stepping on them”. However she admits that it is very annoying to not receive any satisfying explanations to the repeatedly delayed disbursements and that it is a problem for both parties.

8.2.2 Analysis

The alignment principle in the Paris Declaration states that donors should base their support on partners’ own development strategies, institutions and procedures. The partners’ capacity should be strengthened and to support this process the donors should contribute to the continuous capacity building and use the partners’ systems and procedures. The demands regarding information that the donors make should be aligned with the partners’ capacity and be appropriately timed to guarantee that they do not overburden the systems for monitoring and reporting. The systems should be geared towards satisfying the interests and information needs of the partners.

In the ownership analysis we concluded that the GF is an organization that strongly prioritizes high capacity in their partners and possesses the means for appropriate capacity development if necessary. The extensive efforts of the GF to prioritize capacity and support their partners in the process of capacity building are also well in line with the alignment principle, or more specifically, with the first part of the reform that the principle calls for.

The ownership and the alignment principle are to a large degree intertwined. Capacity and to what extent local partner organizations have systems for internal control that the donors can rely on is covered by both principles. As described in the previous analysis, capacity is necessary to achieve local ownership. Capacity is also necessary to make donors able to confidently align their procedures to the partners. As also described in the SwA alignment analysis, the principle can roughly be divided into two parts according to the indicators²². First, making sure that capacity is sufficient in the partners and second, subsequently aligning to the local procedures when the capacity is in place. Hence rigorous capacity is a condition for far-reaching and successful alignment.

The devotion to capacity development in the GF, and the positive results in their partner organizations, indicate that there is a good soil here for fulfilment of the alignment principle. However, capacity by itself does not lead to alignment. The importance lies in how the interests and needs of the partners are taken into account and if the capacity facilitates alignment to the organizations or not. These issues will be dealt with below.

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The independent LFA is a form of internal audit institution, which is employed by the GF to monitor their partners – both the systems in themselves and individual transactions. This is evidently a robust and ambitious feature of the internal control. However, many instances in the empirics point to that the institution is mainly designed and implemented to serve the interests of the GF, which works against the alignment process. We will show specifically in a number of points below how the setup of the LFA goes against the PD.

It is important to note that neither ZHA nor its SR see any issues with the general idea of the LFA or the notion to prioritize independent and rigorous control mechanisms. On the contrary, the partners repeatedly state that they want to have their systems scrutinized and receive feedback on their internal control in order to develop. Many instances indicate that there is a strongly rooted culture of control awareness and prioritization of continuous development of the systems in all the organizations that we have interviewed. However, the structure of the LFA and how the system is implemented does not serve these collective interests.

²² Reliable local systems is found in the first indicator under the alignment principle.

ZHA and its SR, that both are subjected to the control carried out by the LFA, give a rather coherent picture of the downsides of the system. The first point of criticism, is that the majority of the information collected and feedback that is processed by the LFA is never shared with the partner organization. The LFA carries out field visits and make thorough analyses of each partner, but only a fraction of the results and the important recommendations they make for improvements reach the actual organizations that they scrutinize. The ED of SR describes how the information on all partners under one PR is aggregated in a consolidated report, which can give ZHA general information about the internal control in their partners, but the SR does never find out what the LFA has to say about their organization. However also ZHA presents equal criticism – that only a small fraction of the information is shared with them although they are the PR with a natural responsibility for the partners that they contract.

The second point of criticism revolves around the timing of the information. The representatives at ZHA argue that the workings of the LFA are slow and that the feedback reaches them many months after the actual observations are made, which often impedes the implementation of the necessary changes. The partners' frustration over not receiving full and appropriately timed information on their systems show an unmistakably positive attitude to internal control.

The representatives at ZHA conclude that the main thing that the LFA provides to their organization is that it constitutes a threat. Because of the limited and deficient communication with the institution, ZHA does not perceive that they can learn much from the information they receive from the LFA. Although being subjected to this threat and having their routines regularly scrutinized make them exert effort to keep their systems in shape, it does not reflect a mutual partnership. It is alarming from an alignment perspective that the institution does not have a stronger element of learning to serve the development of the internal control in the partners.

Hence, taken all together, the image of an institution that mainly serves the donor and not the partners emerges. As described above, this lies in the information that is forwarded, how it is presented and the timing of it, and clearly works against the alignment principle of the PD. That threat and control (over learning and development) is suggested as the overall purpose of the LFA also goes against the prioritization of the partners' needs, which the alignment principle advocates.

What kind of information the donor requires from the partner is an important aspect of the partnership and can have consequences in many different areas. The alignment principle emphasizes that demands should be adjusted to the partners to make sure that they are not overburdening and that the information required primarily serves the interests and needs of the partners. The characteristics of the requirements from the GF that both organizations emphasize strongly is the quantitative focus, which implies that the partners are obliged to report on quantitative indicators as opposed to qualitative indicators and very little or nothing in terms of narrative reporting is required. This sets them apart from many other donors according to ZHA and the SR.

Both organizations are critical to this rigid focus. Reporting numbers could naturally have the advantage of clarity and measurability and perhaps objectiveness; but the risk is that it becomes superficial and does not give the whole picture. This is the main point of criticism that the partners present – the low relevance that the monitoring has when there is a strict quantitative focus.

Many of the representatives bring up the little or non-existent attention that is paid to effects in their criticism. Many of the statements made by the representatives, most notably by the FM of the SR are strongly critical of the GF's take on impact assessment. They argue that the GF has a superficial perception of results and that they make neither efforts nor requirements to thoroughly evaluate the long run impact of their interventions. To not carry out monitoring that the organization perceives as beneficial and relevant goes against the alignment principle and naturally has bad consequences for learning and the overall development of the organizations. This is also supported by the fact that the SR carries out their own monitoring, beside what is required, to obtain information about effects to facilitate learning.

Although this obviously is severe criticism and the low awareness of impact concern in the GF is striking, it needs to be mentioned that these kinds of evaluations are no simple procedures. Distinguishing causalities and assessing long terms effects of interventions are not straightforward to carry out. So even with the appropriate awareness and endowment of resources the issues in this area are not automatically solved.

Another aspect of the quantitative focus, that does not have to do with the indicators per se, but that also shows a low level of alignment in the partnership is that the required targets that the partners are intended to obtain are not regarded as

reasonable and not based on insight in the workings of the organizations' projects. It is emphasized that the requirements (in relation to the budget) simply are not realistic. This type of gap in the alignment can make the partners focus solely on the reported indicators and not the general effects of the interventions and lead to lower quality.

The design of projects and the strategies used are however solely determined by the partners. As long as they deliver the requested results, how they obtain them is up to each organization. This implies a possible element of ownership that the partners exercise in their operations, but this local ownership needs to be taken with a grain of salt. Although they design the project and outline their own strategies completely independently, when the indicators and targets are imposed on them, they are likely to not have much wiggle room. So the ownership that they gain through freedom in the planning risks to be undermined by the fact that they are tied to deliver numerical targets that they do not perceive as either reasonable or relevant. Hence the quantitative focus can have major consequences for what types of operations the organization plan to implement. This notion is supported by the FM of the SR when he states that many of the GF funded projects have no results orientation.

It is evident that there is a large gap between the GF and its partners regarding how monitoring should be carried out. There is a separation of opinion regarding what information is relevant. According to the alignment principle it is important that the local needs and priorities are met, which implies that the rigid quantitative focus goes against the principle. According to the PD it is reasonable to believe that the partner organizations have better information about the inner workings of their projects and the intended results. Hence the partner is in a better position to plan how their projects should be monitored. That the GF works against the local expertise and enforces their rigid reporting requirements goes against both the ownership and alignment principle.

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Communication is a delicate problem in the GF that reveals a number of issues within its structure. The SR is overall content with the communication with ZHA – they get fast responses and there are many channels through which they can communicate. They perceive that they get sensible feedback and that they can express their opinions freely. Their opinions are also often accommodated and the contact between ZHA and SR in

general seems to be active and well functioning. This mutuality and good communication is very positive from an alignment perspective.

The SR does however not have any contact directly with the GF. This characteristic of the communication seems to be the root of a number of serious issues in the partnership, which also is perceived as a large problem by ZHA. The deficient structure for communication is brought to attention in areas of reduced and delayed funding among others.

The SR perceives that the level of funds that they receive from the GF (via ZHA) is subjected to unpredictable and unreasonable changes. They argue that the level is not performance based as it should be according to official statements by the GF and they never receive any satisfactory explanations or information about the negative changes in funding. The second problem is the delays in the disbursements. The SR argues that the funding from the GF regularly arrives late. On top of this the GF expects their partners to complete their activities and follow deadlines as if the funds had reached them in time. These aspects of the cooperation naturally put the programming in the partners under large stress.

The SR solely communicates with ZHA and the communication between ZHA and GF is not satisfactory. The GF makes the decisions and passes on information to ZHA very scarcely. The only information that they receive from ZHA is that they do not receive any more money because ZHA has not received any more from the GF, which is a circular argument.

The sudden changes and the lack of communication with the original source of the funds – the GF – is a sign of lack of alignment to the partners and it obviously has negative consequences for the operations of the organizations. It also inhibits local ownership since the unpredictability and lack of information makes it more difficult for the partner to act independently and plan their operations. The partners get locked in and become isolated in a near Kafkaesque situation.

It is indicated that the balance of power between the partners and the GF, and whether these problems are taken seriously, is a delicate issue. Although the ED of SR claims that it is a mutual partnership where both sides have an equal say, the reality that she and many other representatives describe is a much more tilted power balance. The communication is so deficient that information about changes regarding the partnership rarely reaches them and the partners are forced to adjust their operations and align to the donor instead of the opposite. Hence, the partners do not only have a very limited

influence regarding these major issues, the limited communication and information gives the partners a hard time even adjusting to the negative changes.

When considering the extent of local ownership and the alignment of the donor in the hierarchy of organizations below the GF it is necessary to take into account the overall structure of the GF with its global mandate and lack of local representation (regional or country offices or any equivalent). In such a type of large and centralized bureaucracy rigid and standardized procedures appear as no surprise. This is a radical contrast to the overall structure of SwA and Sida. It appears to be clear in the interviews that the GF is the hub in the partnerships. Both ZHA and the SR are not so much connected to each other along a chain below the GF but both are rather connected directly to the hub. The GF is very visible and influential in both organizations. The SR refers to them just as much as they refer to ZHA, which is their de-facto partner. The GF appears to be influential even in the small issues that both organizations face. Many routines and procedures (e.g. the process for choosing partners) are planned and managed by the GF but operationalized by ZHA. The power and control still lies with the original source of the funds. This description also fits well with the deficiencies in the structure of communication between the GF and its partners and the frustration that it causes.

Although the GF manages to develop strong capacity in its partners, which is one of the conditions for successful alignment, there are ample instances showing how the GF fails to take the interests and needs of the partners into account and align their routines and procedures. Hence, one of the conclusions regarding the fulfilment of the alignment principle in the GF is that they follow the first but not the second aspect of the principle (according to the indicators), which is the opposite to how the systems in SwA relate to this PD principle. Furthermore, many of the routines and requirements made by the GF undermine the local ownership that is achieved through the strong prioritization of capacity. The conditions that the partners have to work under (the lack of communication and information, the arbitrary funding, the rigid quantitative focus in the monitoring etc.) impede realization of both the ownership and the alignment principle.

8.3 Harmonization

8.3.1 Empirics

Both our interviewees at ZHA and at the SR devote a great deal of time describing the strain that the issues of multiple reporting create for them. The GM of ZHA describes that the multiple reporting requirements are “creating so much confusion” and the ED refers to the extra work that it leads to as the “most hideous” aspect of GF’s system for internal control. They mention three different institutions that have demands for regular reporting to account for the funds disbursed by the GF: The CCM (Country Coordinating Mechanism; our remark), the LFA and the GF itself. “It’s like we are reporting to three different people – intensely! (...) And for me, I don’t think we need that”, explains the GM. “You feel like you are reporting to three different organizations, for the same kind of work”, continues the ED. Additionally, every institution has their own financial committees and monitoring and evaluation committees and these institutions have their own separate requirements. ZHA describes the demands as rigorous and well founded. They consider the GF itself as the most crucial institution to report to and to be able to reach them on short notice is vital, since that is the only institution that ZHA has direct communication with.

The SR, that reports to ZHA and its other donors, is also subjected to multiple reporting requirements and regards it as a major issue in the organization. The Executive Director of SR explains: “I think each project, each partner, has its own way. So sometimes you get confused because you go to one partner, they will tell you: this is our template, this is the way you are supposed to report. And then you go to another partner, and they have their own way. So normally, it is different what a partner is requesting us to do, (...) they have their own way of reporting in different areas. Even ZHA, they have their own way of reporting. It’s the same data that you have, but when you put it down you put it in different ways (...) So we have four different types of reports”. To conclude she states: “Looking at all this, it is a lot of work.”

The formats of reporting are clearly something that the donors stick to rigorously. The ED also describes a situation where a donor wanted them to change the reporting format used in relation to that donor retroactively. “There was a time when we had received something from [a donor] when they changed the whole system and they wanted us to go back as far as 2003 and change all the reports that we had submitted”, she explains.

Since the different reports that they have to prepare put such a stress on their capacity, the SR has also made efforts to make their four major funders harmonize their reporting demands. “There was a time when we suggested that we should have a partners meeting, where all the partners would come together, and we could agree on *one* way of reporting. It didn’t work (...) they say: for us this is the way you are supposed to do it. And this other person will say: but this is the way we want to do it. Maybe you make a mistake here or there and they will return the whole report and say: you didn’t follow our template! So can you please make sure that you do it right”, explains the ED.

The main reason for the specific and uncoordinated requirements from the donors that the SR has been given is the international character of the sector. Most donors work with organizations in many different countries, and the donors themselves are located in different countries. The donors want their partners to harmonize to minimize the effort for them. “There are other countries that they are working with as well. So they want to use the same template to all organization in all countries”, states the Executive Director.

In spite of the resistance the Executive Director still considers there to be a chance for change in the future. “Given an opportunity we would like to change it. We haven’t given up on it and we talk about it every time we meet the partners. The only drawback is that we don’t meet at the same time, we can’t make sure that everyone is in Zambia (...) It is a bit difficult”, she concludes.

However the financial manager of the SR has a more understanding and cooperative stance to the different reporting formats that they face. He emphasizes the fact that their donors have in turn themselves donors, whose requirements and guidelines they need to follow, implying that different reporting formats is sort of an inevitable consequence of the structure of the donor system that they depend upon. “[The donors] also have an obligation to report to their stakeholders, those that they receive money from. In a way they already have a system in which they make their reports. And to make their work easier they also transfer that same system down to those that will be implementing”, explains the finance manager.

The Finance Manager also tones down the actual strain that the multiple formats puts on their resources, the extra administrative burden that they cause. Although there are different reports and different formats that need to be produced, this is mainly a matter of presentation and emphasis. “Presentation will differ slightly, depending on the areas. Some will want to have some details highlighted, while others put those as not highlighted, which makes it a little bit different”, explains the Finance Manager.

The finance manager sees significantly larger issues in the non-harmonized auditing routines and especially the multiple field visits that the many audits from different donors lead to. "Each partner will come with their own auditor. What it means is that almost all the time you have somebody who comes to look at the books and auditing. That is quite alright, it is good for the organization. But it is too much, with very short intervals. It is not possible for people here to do their work effectively, because all the time they are busy trying to help them. Instead of having time to reviewing and assessing the progress that we are doing", explains the Finance manager at SR.

8.3.2 Analysis

According to the Paris Declaration, the harmonization principle calls for donor actions that are more harmonized, transparent and collectively effective. The donors should support common arrangements to coordinate their routines and demands. This will reduce the administrative burden for the partners and let them focus on the implementation and strategic concerns.

Issues related to low degree of harmonization are prevalent in both ZHA and SR, although there are differences between the organizations and a certain divergence in the descriptions made by different representatives. The representatives at ZHA do not mince their words in their description of the lack of harmonization and the administrative burden that it causes for their organization. The duplicable reporting requirements that ZHA faces from the GF deviates from other systems that we have encountered in this study and represent a strikingly high degree of disharmonization.

The problem of disharmonization typically refers to what arises when more than one donor to a single partner make separate and uncoordinated demands which duplicates the required effort that the partner has to exert. But the GF differs from other donors in the sense that it uses three different institutions to facilitate the monitoring of their partners, each with different procedures and separate demands. Hence, multiple requirements are made to satisfy only one single donor, with excessive administrative burden as effect. This unique setup goes against the third principle of the PD and clearly takes the issues of disharmonization to another level.

While ZHA suffers from the effects of disharmonization within the same donor, the SR is subjected to the more typical form: ZHA/GF being unharmonized with other donors to the SR. When looking at the empirics as a whole it points at that ZHA faces larger and more difficult issues of disharmonization than the SR. This is showed by the

strong wording in the description by ZHA compared to the ditto in the SR, the fact that they face many institutions only in the GF, and the de-emphasis put on these issues by the FM of the SR.

It is also interesting to note that ZHA and the SR, that formally have a relationship as donor and partner, both face issues of lack of harmonization in their respective funders. Thus ZHA subjects SR to requirements that are burdening in the same sense as the treatment they receive from the GF. Much point at that the problems of disharmonization that the SR perceives partly originate from the GF. Although ZHA is the closest donor to SR, and their official funder, it is evident that the GF has strong influence over the design of the requirements also on the Sub Recipient level. ZHA does likely not have any options but obeying the overall structure and pass on the requirements that the GF set.

Hence similarly to the Alignment analysis, we conclude that another organizational structure than the typical hierarchy is applicable to this cooperation where the GF is the influential core and all the partners, both those who receive funds directly (Principal Recipients) and those who receive funds indirectly (Sub Recipients), are directly affected by the procedures and requirements of this central donor. The relation between the partners is of less importance. Partly because of this structure, it is reasonable to believe that ZHA is both the victim of unharmonized demands and at the same time passes on similarly problematic requirements.

Unlike the coherent and strong arguing from the representatives at ZHA, in the SR there are different opinions about the importance and the negative effects of disharmonization. The FM of SR emphasizes that lack of harmonization is both logic and understandable since also the donors of SR have donors of their own that they need to obey. This leads to the fact that rigid and unharmonized demands are transmitted through the system down to the partners, according to the FM. The system is so expansive and all organizations are interrelated that it is unreasonable to blame one single actor.

Also this can be interpreted in support for the argument that the GF exercises control over the system as a whole. Hence ZHA should not be blamed for the disharmonization that the SR is subjected to. It is necessary to see beyond the immediately closest funder, and consider what role GF plays in setting the requirements for SR. It is likely that the GF is the influential actor that shapes the whole system.

A reason for the specific and uncoordinated requirements from the donors that the SR has been given is the international character of the sector. Most donors work with organizations in many different countries, and the donors themselves are located in different countries. The donors want their partners to harmonize to minimize the effort for them; a reversed harmonization in relation to what the PD calls for.

Naturally also donor organization would benefit from having their cooperating organizations adjust and harmonize their routines but this line of argument, that is found in the interviews to explain the setup of the GF, goes straight against what is advocated by the PD. The partner is historically the weaker party and normally exposed to a larger number of cooperating organizations. The PD was partly instituted to tilt the power balance in favour for the partners and make the donors ease the administrative pressure that they had put on them.

The second aspect of harmonization, noted in one of the indicators of the PD, is that the donors to the same partners should harmonize also to share and collect information more efficiently. There is nothing in the interviews that indicates that this does or does not take place. But because of the unawareness of the capacity issues of harmonization and the few efforts that are made to accommodate the partners' wishes and change the situation, it is reasonable to believe that little is done in this area as well. The GF gives the impression of having their own rigid, extensive and advanced system, and that they would benefit from information collected by other donors is unlikely to happen.

Looking at all this together, it shows that the harmonization principle is, among the three analyzed of the PD, the least applied in the GF. The problems are severe in both ZHA and the SR even though they appear to be a lot worse in ZHA. The way that the GF is structured with requirements from three different institutions takes the issues of multiple reporting to another level. These are requirements to serve a single organization. This together with the fact that the organization doesn't seem to take any measures to harmonize with other donors, give a dark picture of the harmonization in the GF and ZHA. Furthermore, the image of the GF as a dominant donor from the previous analysis, is enforced in the alignment analysis. The GF is important for their partners in relation to other donors, which creates a skewed power balance and certain incentives not to harmonize.

8. Conclusions

8.1 Conclusions – Separately Applying the Perspectives

8.1.1 Applying the COSO Model on SwA

The analysis from the perspective of the COSO model is in many instances critical of the system for internal control within SwA. One of the core issues identified is the discrepancy regarding the consciousness as well as the application of internal control between the different levels in the organization, most notably between the head office and the country office. The head office has shaped the control environment by making decisions regarding the design of the system and the appropriate procedures that need to be carried out by certain parts of the organization in order to keep the internal control at a desirable level. What seems to be a recurring problem is however that the procedures created and communicated by the head office are not used by the country office in practice. Apparently, the organization lacks the capacity (i.e. trained staff, tools and other resources) on the country level, necessary to handle the responsibilities distributed by the head office. The low capacity on this level also means that the continuous monitoring of the system, that is essential according to the COSO model, cannot be carried out appropriately.

In conclusion, the appropriateness and suitability of the decisions made on the highest level are of little importance since guidelines and requirements made are not adhered to and the system for internal control is not implemented as intended throughout the organization.

8.1.2 Applying the Paris Declaration on Swedish Aid

The analysis from the perspective of the Paris declaration has generally a positive view of the internal control of SwA. The PD analysis highlights the high degree of local ownership and the little burden SwA creates for its partners. Apart from a few flaws, the overall impression is that SwA complies well with the first three principles of the Declaration. In general, the organization has a pragmatic and flexible view of internal control with focus on the benefits to the partners and they adjust their routines to not hamper the administrative capacity of the partners, which strongly concurs with the Declaration. The PD analysis emphasizes that SwA is a highly de-centralized organization and that this fact leads to a downward-shift of decision-making and

responsibility. Following this structure, the process for selecting partners is highly prioritized in the organization. They regard the selection of robust and trustworthy partners for long-term relationships as more important than rigid and extensive control mechanisms. The shift of responsibility and the confidence in the partners fully concur with the ideals of the Declaration.

However in the analysis it is also argued that the low degree of capacity for internal control in the organization is a problem and that the support for capacity development is insufficient. However, the otherwise so common issue of lack of harmonization in aid cooperation is almost non-existent between SwA and its partners. SwA has generally an accepting approach to its partners and the low level of demands and controls possess little threat to overburden the partner organizations. These aspects of SwA's approach to internal control lead to acknowledged compliance with the Declaration. It is however noteworthy that a substantial part of the fulfilment of the requirements is rather due to passiveness and lack of complex and rigid systems than active and insightful actions taken in compliance with the Paris Declaration.

8.1.3 Applying the COSO Model on Zambian Health Association

The analysis from the perspective of the COSO model results in a rather positive view of ZHA's system for internal control. One of the core points derived from the COSO analysis is that the internal control of ZHA to a large extent is directly influenced by the GF. ZHA is the coordinating body that channels funds to its members that function as independent entities, whereas the GF serves as the superior controlling body that basically shapes the internal control system for the whole chain, all the way down to the SR level. The routines and procedures transmitted through the implementation documents and different templates, generally either originate from the GF or are individually approved by the GF. The capacity requirements set by the GF are high but the fund also provides the means to facilitate and support the necessary capacity improvements.

The cooperation with the GF has led to raised competence within ZHA on a broad level and has also increased the segregation of duties within the organization. From a COSO model viewpoint, the setup between ZHA and the GF is generally favourable - the fact that there is a strong institution in the top that designs a rigorous and extensive system for internal control and subsequently makes sure that it is adequately

implemented throughout the different levels clearly seem to increase the possibility of reaching the goals of the COSO model.

There is however aspects of the internal control system that looks less favourable when measured against the standards of the COSO model. The analysis identifies the issue that the benefits of the internal control system may not justify its high costs and efforts - many of the controlling routines instituted by the GF are overlapping and the burden that they create for the partner organization seems in some cases unreasonable in relation to the benefit of the control. Furthermore, there are indications that the reporting on agreed indicators may not be able to capture the real effects of the funding.

In the COSO analysis it is also concluded that the LFA is a valuable element of GF's system, which facilitates monitoring of the system for internal control that is robust and independent. However, there is an obvious lack in the communication between the LFA and the controlled organizations where only a fraction of the vital information from the audit-like checkups reaches the partners, which reduces the efficiency of the internal control.

In conclusion, according to the COSO analysis the GF has developed a rigorous system for internal control and possesses the means to make sure that it is implemented throughout the chain. However they experience problems related to inefficient overlapping of routines, monitoring procedures that are considered irrelevant and lack of communication between the controlling institutions and the fund recipients.

8.1.4 Applying the Paris Declaration on Zambian Health Association

The judgments made from the perspective of the Declaration are generally critical to the GF/ZHA and their way of practicing internal control. The PD analysis concludes that the GF is the superior party in the partnerships. The dominance and influence of the GF is considered to be one of the key features of the cooperation and a strong factor behind the design of the system for internal control. The PD analysis describes the ZHA as more or less an extension of the GF and argues that the relationship between the GF and its partners undermines local ownership, which is the first and most important principle in the Declaration.

The PD analysis considers the high level of capacity in GF/ZHA to be impressive but argues that the lack of partner ownership, of both the processes to develop capacity and the capacity itself, is a problem. With no local ownership it does not help if the

capacity is high and rigorously implemented. The lack of ownership is mainly due to the dominant role played by the GF, according to the PD analysis.

The analysis concludes that the system for internal control is designed primarily to serve the interest of the GF and does not take into account the needs or conditions of the partners, which is against the principles of the Declaration. Furthermore, the PD analysis identifies the multiple and unharmonized control institutions governed by the GF as a core issue since it puts the partners under unreasonable pressure. The analysis concludes that the high degree of disharmonization is yet another negative aspect of the system that can be derived from the strong dominance of the GF.

In conclusion, the pessimistic view of the GF/ZHA that the PD analysis has is much due to the hierarchical aspects of the organization and the rigid control system that originates from and is imposed by the GF at the top of the chain. Also the lack of alignment to local practices and priorities and the non-existent harmonization of demands and requirements contribute to the problematic picture depicted by the analysis.

8.2 Conclusions – Comparing the Perspectives

So far, we have described and evaluated the systems for internal control in two organizations, separately applying two different perspectives (also referred to as “conceptual models”). In this section our aim is to compare the conclusions reached from the applications of the two perspectives. As mentioned in the introductory part of the thesis, development aid organizations are generally presumed by donors to follow the principles in both perspectives when carrying out their work. With this in mind, contradictions between the two perspectives could point towards inconsistencies in the demands placed on the organizations.

With regard to SwA, the decentralized structure of the organization is a central theme in both of the analyses; however, depending on which of the two perspectives that is applied, different effects of the decentralization are highlighted. In the COSO analysis, as a result of the COSO method’s emphasis of hierarchical control (one of the model’s main objectives being compliance), the decentralized structure is primarily highlighted as a source to the little de-facto power and control that the head office of SwA possesses vis-à-vis lower levels of the chain. This is in turn looked upon as a weakness of the internal control system of the organization, since it increases the risk that guidelines and

rules formulated at the highest level (or by Sida) are not adhered to throughout the funding chain. The application of the PD, on the other hand, highlights the decentralization as an intended and constructive action, which is based on trust and shifts the power and responsibility downwards in the chain. According to the PD perspective, this shift is something that all parties in the aid relationship will benefit from in the long run. In this way, the fact that the applications of the different perspectives end up in different conclusions relates mainly to the emphasis of rigid and effective top-down control in the COSO model and the corresponding lack of this in the Paris Declaration as a result of this perspective's bottom-up approach foundation²³. Although the analysis from the PD perspective is critical to a few instances of the internal control system, the overall conclusion is that the system is satisfactory. This conclusion is definitely challenged by our application of the COSO model, which shows many weaknesses in the internal control system. Differences aside, the applications of the perspectives however have some common ground in the critique against the low level of capacity in place at the country office.

With regard to ZHA, what can be referred to as the “direct influence” of the GF is a recurring topic in both analyses - the analyses to a large extent identify the same features of the organization as key and draw a similar picture of the various aspects of the system for internal control. But nonetheless the two analyses judge the features differently and come to very different conclusions. From the perspective of the COSO model, the direct influence mainly has positive implications for the internal control of the organization, more or less guaranteeing compliance, i.e. top-down control. The analysis from the perspective of the COSO model however also recognizes that the burden the demands from the GF pose for ZHA and its SRs, may not be completely justified by the virtues of the control. The application of the PD perspective reveals similar concerns regarding the burden of the demands but also criticizes the direct influence on other grounds. The direct influence is seen as effectively undermining the first and most important principle of the Paris Declaration, the local ownership. Although the analysis recognizes benefits with the high capacity for internal control within ZHA, it concludes that the system for internal control is designed primarily to serve the interest of the GF and does not take into account the needs and the conditions of the partners – a clear violation of the bottom-up ideal. The PD analysis is critical to this aspect of the organization and sees the monitoring of irrelevant indicators, which is also brought up in the COSO analysis, as a

²³ As discussed in the introduction and further discussed below.

consequence of this. Furthermore, the PD analysis identifies the many and un-harmonized control institutions put in place by the GF as a core issue since it puts the partners under unreasonable pressures to handle demands from all these institutions. The analysis concludes that the lack in harmonization is yet another negative aspect of the system that can be linked to the strong dominance of the GF.

The perspectives, although applied to the same organizations, clearly results in very different conclusions. Whereas the applications of the perspectives identify both negative and positive aspects of the internal control systems in both organizations, in a choice between the two systems, the system in place in ZHA would clearly be the preferable one from the perspective taking its starting point in the COSO model. From the perspective building on the Paris Declaration, the opposite conclusion is reached – the system in place in SwA is clearly more in line with the ideals of this perspective.

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As touched upon above, the conclusions and resulting choices from the two perspectives can be linked to their respective theoretical foundations – the perspectives indeed do regard different aspects as “the most important” ones. The perspective of the COSO model, which is consistent with a top-down approach and presupposes hierarchical principal-agent relationships from the top (donor level) to the levels further down the funding chain, reaches its conclusions by to a large extent ignoring factors such as local sovereignty. By taking factors such as this one into account, which is done in the application of the PD perspective – a clear indication of its strong connections to the bottom-up approach – an opposing conclusion is reached. The application of the PD-perspective, on the other hand, largely ignores factors taken into account by the COSO model, such as top-down control.

8.2.1 Which of the Perspectives gives the “True” Picture?

None of them - and both. As is made clear by for instance Allison and Zelikow (1999)²⁴, “the truth” to a large extent depends on which perspective one apply. In this way both perspectives provides valuable insights regarding the two internal control systems, each perspective noticing aspects that the other one often disregards. But what is equally clear from our applications is that the perspectives often do not complement each other as

²⁴ Further described in the introduction.

much as they contradict each other. Despite this, the organizations are still supposed to take account of and act in accordance with both perspectives – clearly a very difficult, if not impossible, task given the fact that the principles underlying the perspectives give conflicting guidelines regarding how internal control should be practiced. The fact that organizations, with severe consequences in terms of public trust etc., might be judged against one of these perspectives without taking the other one into account – as exemplified by the SNAOs investigation of Sida (applying the COSO model) – makes this observation even more troublesome. The application of the COSO model only tells one side of the story. This observation shows the need of a broader debate when it comes to internal control in aid organization, taking into account the fact that some demands actually may be incompatible.

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11. Interviews

The Sida chain

<i>Level</i>	<i>Interviewee</i>	<i>Date</i>	<i>Location</i>
Head Office of SwA	Vice President (VP)	June 15, 2009	Stockholm, Sweden
	Accounting Controller (AC)	June 15, 2009	
Zambia Office of SwA	Country Manager (CM)	June 25, 2009	Lusaka, Zambia
	Financial Officer (FO)	June 25, 2009	
	Programme Officer (PO)	June 25, 2009	
Partner A	Financial Manager (FM)	July 10, 2009	Lusaka, Zambia
Partner B	Executive Director (ED)	July 20, 2009	Monze, Zambia

The Global Fund chain

<i>Level</i>	<i>Interviewee</i>	<i>Date</i>	<i>Location</i>
Head office of ZHA	Executive Director (ED)	July 13, 2009	Lusaka, Zambia
	Financial Manager (FM)	July 13, 2009	
Sub Recipient	Executive Director (ED)	September 3, 2009	Lusaka, Zambia
	Financial Manager (FM)	September 3, 2009	

Appendix I. Interview guide

Interviewee: _____
Title/Function: _____
Organization: _____
Date: _____

Present our thesis and purpose with the interview

Internal control. Sida and the GF. Definition of internal control. What the system for internal control looks like. Examples of questions we like to bring up: What are your routines, what are your experiences and opinions of the system, what you think work well and not so well.

General on their organization

What is your role in the organization? (Background, function, responsibilities etc.)

How would you present your organization? (Areas of intervention, core activities etc.)

How many and what partners/donors? (Partnership histories, partners' significance, partner relations in general etc.)

General on internal control

Can you tell us something about what your internal control looks like in general?

What activities do you see, that are used to lower the risks for corruption and fraud? Which are the most important?

Specific questions for partners

What demands or requirements do you see from you donor?

What policy/steering documents do they use? (Or handbooks and manuals that cover the internal control in the organization.)

What are your opinions in general about the systems that your donors use for internal control?

How do these systems relate to the systems of your other donors?

If you could make any specific changes to the systems, what would you like to change?

Can you give us a few examples of good experiences of the partnerships and a few bad ones?

Can you describe how the partnership was initiated? What was the assessment and selection process like when you became a partner?

Control Environment

What do you perceive as the overall objective of the organization? Its values?

How is this message communicated? (Staff training / Policy documents)

How is your organization affected by its donors?

Risk Assessment

What risk areas do you see? Corruption and fraud?

How are these analyzed and evaluated?

Are there any formal processes for analyzing and evaluating risks?

Information and Communication

What does the systems and routines for communication between the organizations look like? How do you stay in contact with your donors/partners?

What channels are there for internal communication?

How would you describe the possibilities for you to give feedback and to affect the design of the systems?

How does the donors inform you about changes in the guidelines?

Monitoring

How is the system for internal control monitored? Internal auditing?

If there are issues with the system, how are these brought to attention?

As described in the Method section, this should only be seen as a guide for the interviews. Due to the comprehensiveness of the topic and how the many aspects of internal control manifests themselves, being flexible as interviewers and asking improvised follow-up questions on certain topics that the interviewees touch upon is essential. Furthermore, in most interviews specific questions for each organization have also been developed in response to the answers we have received from other (partner-) organizations in previous interviews.