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Behind The Books

A case study on how government agencies hold their aid-funded projects accountable for accounting errors.

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Abstract

This thesis investigates how government agencies funding nonprofit organizations (NPOs) seek to ensure accountability for accounting errors arising during the agreement period. It specifically explores navigating the complexities of enforcing financial accountability in nonprofit partnerships. This study draws on seven in-depth interviews with employees from the Swedish International Development Cooperation Agency (Sida). Using Bovens' (2010) three-stage-accountability framework, the study identifies the mechanisms that Sida employs to identify, assess, manage, control and scrutinise accounting errors by the NPOs they fund. The thesis highlights the importance of preventative mechanisms in enforcing accountability within fund-receiving organizations, fostering transparency and ex-ante control. Furthermore, the study suggests that the degree, nature, and effectiveness of accountability mechanisms depend on the extent to which donors are both willing and able to hold nonprofits accountable for their errors. In particular, the level of organizational expertise significantly influences the scope and strength of these accountability efforts.

Keywords: Accounting Errors, Nonprofit Organizations, Accountability

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1. Introduction

1.1 Background

Central America has long been plagued by scandals involving accounting fraud, financial mismanagement, and a widespread lack of transparency. The intersection of weak regulatory oversight and entrenched corruption has created an environment where financial misconduct is both pervasive and difficult to control. Central America's reliance on nonprofit organizations (NPOs) to address gaps left by weak state institutions only exacerbates the challenge, as these organizations are often subject to the same vulnerabilities and oversight failures. This raises the question: is Central America stuck in a cycle of financial misconduct, or can stronger accountability drive NPOs toward greater transparency and responsibility?

NPOs are at the forefront of social development, driving progress by addressing societal challenges, empowering marginalized communities, and advocating for sustainable change where governments and markets leave needs unfulfilled (Gronbjerg 2001; Lecy & Van Slyke, 2013). There are over 10 million NPOs worldwide, collectively processing over \$289 Billion in funding in 2023, with the sector projected to grow at a compounding annual growth rate of 4.53%, and reaching \$345.32 Billion by the end of 2029 (MMR, 2024). Due to this extraordinary growth, the pressure by stakeholders has increased (Ortega-Rodríguez et al., 2024). Hence, improving nonprofit accountability and fiscal responsibility is one of the critical challenges facing the sector (Benjamin, 2008).

NPOs receive funding from diverse public and private sources, which can vary considerably across regions: in the US, government contributions account for nearly 80% of funds received by nonprofits, whereas globally, they make up only 33% (MMR, 2024). In Sweden, the Swedish International Development Cooperation Agency (Sida) serves as the primary governmental agency responsible for funding NPOs and advancing social development objectives. Given the significant role of government agencies as both key stakeholders and stewards of public funds, previous literature has emphasized the need for research on NPOs' upward accountability to these entities (Lee et al., 2023; Urquía-Grande et al., 2022). By relying on external funding from governmental and international agencies, NPOs must operate under distinct financial structures. Government-funded NPOs are thus held to higher standards of accountability, requiring strict compliance with financial disclosure norms

(Harris & Neely, 2021). Expanding research in this area can thus enhance transparency and efficiency in how government funds are allocated and utilized (Gee et al., 2023).

Accounting errors that violate the strict rules imposed on government-funded NPOs can undermine financial reporting integrity, leading to severe consequences for both donors and fund-receivers. While extensive research has examined the causes and prevalence of accounting errors in NPOs (Burks, 2015; Trussel, 2003), there is a significant gap in understanding the prevention and implications of such errors, more specifically, how NPOs are held accountable for their errors by their donors. Empirical studies assessing the role of accountability in preventing misconduct have been notably scarce (Ito & Slatten, 2018; Lamothe et al., 2023). Furthermore, research on accounting errors in NPOs has almost exclusively been of a quantitative nature (eg. Lu, 2015; Okten & Weisbrod, 2000; Trussel, 2003; Yetman & Yetman, 2006).

This lack of effective oversight and accountability mechanisms has often led to misuse of funds and perpetuates a cycle of financial mismanagement. In 2021, for instance, the Central American Bank for Economic Integration provided \$600 million to the government of El Salvador to distribute to NPOs, of which only around \$20 million was used for its intended purpose (OCCRP, 2023). This highlights the need for research on transparency in NPOs, including a wide variety of mechanisms for NPO accountability, as supported by previous literature (Brennan & Solomon, 2008; Dewi et al., 2019; Urquía-Grande et al., 2022). Hence, weak financial oversight, accountability mechanisms, and insufficient controls over financial transactions enabling fraud and fund misallocation make studying accountability in Central America's nonprofit sector highly relevant (OCCRP, 2023).

1.2 Research Question

Despite the merits of previous research findings, several topics about accounting in publicly funded NPOs are left unaddressed. The present study aims to provide an in-depth qualitative understanding of how government agencies enforce accountability in the NPOs they fund, with a particular focus on accounting errors. More specifically, this study examines the accountability mechanisms that regulate NPOs, ensuring compliance at all stages of the financial reporting process- before, during, and after reporting. Thus, the research question follows as:

How are government-funded nonprofit organizations held accountable for their accounting errors by their donors?

1.3 Contribution

This study contributes to the existing literature by demonstrating mechanisms for mitigating and handling accounting errors in NPOs, thereby reinforcing financial integrity, safeguarding public interest, and ensuring the responsible management of government funds. Specifically, we apply Bovens' (2020) three-stage framework of accountability to analyze the process through which government agencies oversee and regulate NPOs in Central America. Hereby, we produced two distinct contributions. Firstly, our empirics reveal that for accountability to be effectively applied, mechanisms must be implemented throughout all stages of the NPO funding cycle. The study highlights that accountability is not merely a retroactive tool, but a process embedded even before errors occur. Therefore, the study particularly emphasizes the importance of preventative mechanisms in fostering accountability and good financial conduct in NPOs. To achieve this, donor organizations should establish comprehensive due diligence and pre-funding evaluation processes, where information regarding actions and finances can be questioned and subjected to scrutiny. Secondly, the study shows how external and contextual factors can influence the effectiveness of the accountability mechanisms applied in the NPO funding cycle. External factors such as the level of employee expertise or the fear of reputational damage on the side of the donor may influence how, and to what extent, accountability mechanisms are enforced. Hence, this study contextualizes accountability in the nonprofit sector, helping to bridge gaps in oversight, financial transparency, and regulatory enforcement in government-funded NPOs.

1.4 Limitations and Delimitations

This study focuses exclusively on the accountability mechanisms between government-funded NPOs and their respective donors, specifically government agencies. Privately funded NPOs (those not receiving funding from government sources) are outside the scope of this research, as our objective is to examine how government agencies ensure financial accountability in organizations that receive public funds. The empirical basis of our findings is a case study of Sweden's funding activities in Central America. While we believe our conclusions have broader implications in other contexts, we acknowledge that accountability mechanisms can vary across different governments and regions with

country-specific policies and institutional frameworks. Our intention is to make sense of the case study at hand, in a way that allows its findings to contribute to other cases based on shared theoretical characteristics rather than specific situational contexts. Additionally, the research does not seek to evaluate Sida as an organization, nor does it aim to assess its development, operational effectiveness, or past handling of accounting error cases. It does not intend to critique nor commend Sida's approach but rather to describe its role in maintaining financial accountability. Furthermore, the underlying motivations or causes behind fraudulent activities in NPOs are outside the scope of this study.

2. Literature Review

2.1 Accounting in Nonprofit Organizations

The non-profit industry plays a vital part in supporting our society beyond borders, regimes, gender or nationality. It plays a fundamental role in creating more equitable and thriving communities and addressing social needs where local governments fail. NPOs are a means through which the interests of citizens are represented by the state (Guo, 2007). The purpose of NPOs is not to generate financial surplus, but to use their revenue to maximize the fulfillment of their social mission (Agyemang et al., 2019).

NPOs' funding sources are typically private donors (private funding) or government grants (public funding). Private funding is often much higher in revenue volatility as it is affected by overall economic trends and varies with the stock market (Froehlich, 1999), whilst public funding represents one of the most stable funding sources for NPOs (Froehlich, 1999; Brudney, 2007; Lu, 2015). Additionally, the benefits of NPOs' relationships with government agencies extend beyond just direct funding support (Galaskiewicz et al., 2006; Suarez, 2011), as success in obtaining government resources can increase an NPO's legitimacy and credibility with other potential donors (DiMaggio & Powell, 1983; Nikolic & Koontz, 2008). Moreover, by carefully selecting specific projects, the government ensures that supported initiatives uphold high-quality standards, and prevent them from being driven in undesirable and counterproductive directions (Froelich 1999; Weisbrod, 1997).

However, receiving funding from government agencies implies comprehensive reporting and compliance demands that frequently diminish nonprofit autonomy, contribute to

bureaucratization, and create accountability conflicts (Froelich, 1999; Stone et al., 2001; Rosenthal, 1996; Sontag-Padilla et al., 2012; Suarez, 2011). In each country, differing principles are applied for how NPOs must report back to government agencies (Keating & Frumkin, 2003), even though there is high-quality financial reporting guidance for governments and other public sector entities provided by the International Public Sector Accounting Standards Board (IPSASB): the international accrual-based accounting standards (IPSAS). The IPSAS are based on the accrual accounting principle and the International Financial Reporting Standards (IFRS), but deal with public sector-specific financial reporting issues that are not dealt with in the IFRS (IPSASB, n.d.).

Governments' wide adherence to these principles could have significant benefits in achieving consistent and comparable financial information across jurisdictions. However, the IPSASB recognizes the right of governments and national standard-setters to establish their own accounting standards and guidelines for financial reporting in their jurisdictions. The current diversity in national practices presents challenges for NPO transparency and oversight, including fragmented frameworks, inconsistent treatment of NPO-specific transactions, inadequate disclosures, and overlapping reporting requirements from funders (IPSASB, n.d.). Therefore, the need to reinforce transparency and accountability in financial reporting arises largely from the absence of universally accepted international standards for NPOs (Crawford et al., 2018).

The primary tool for NPOs to demonstrate responsible financial conduct to their stakeholders is through annual reporting (Crawford et al., 2018). NPOs are under growing pressure to enhance transparency, with reporting serving as a key tool for stakeholder trust. This is particularly crucial since NPO performance is challenging to compare, as they are established without standardized objectives and profits are not a bottom-line measure of success in managing resources (Zainon et al., 2013).

Unlike for-profit financial reporting, which prioritizes shareholder value, nonprofit financial reporting aims to ensure responsible management of resources and illustrate their nonfinancial impact to stakeholders (Kearns, 1994). The primary use of accounting in NPOs is thus in "*navigating legitimacy*" (Goddard, 2021, p.3), especially in the eyes of its funders (Goddard, 2021). However, this hinges on funders knowing how to interpret this financial information. Keating and Frumkin (2003) argue that few stakeholders can conduct "*performance*

assessments of nonprofits and make informed decisions about future support or participation” (p.4), and thus NPOs’ future economic success depends largely on improving their internal accounting decisions and external financial reporting systems.

The financial reporting process begins with the organization’s operational activities, which are recorded in the internal accounting system to ensure systematic documentation of financial transactions. Periodically, financial statements are prepared and disseminated as part of the organization’s disclosure practices. These disclosures are subject to oversight and monitoring—either internally or by external auditors and regulatory bodies—to verify that activities align with contractual obligations, accounting records accurately reflect those activities, and disclosures meet established reporting standards. Stakeholders analyze these financial disclosures to assess organizational performance, which informs their decisions about continued support and participation. As these decisions carry financial implications, stakeholders can influence future organizational activities. This creates a feedback system in which an NPO’s sustainability and perceived legitimacy are shaped not only by its programmatic achievements but also by the integrity of its internal accounting and the transparency of its financial communication (Keating & Frumkin, 2003). The stakeholders’ involvement thus aims to ensure transparency, accountability, and informed decision-making regarding the organization’s financial health and performance. This is of particular importance since over the past decade, *“concerns have been raised about the accountability of nonprofit organizations”* as major financial scandals have come to light (Keating & Frumkin, 2003, p.3).

From this point forward, any reference to NPOs in this paper specifically refers to NPOs receiving government funding.

2.2 Accounting Errors in Nonprofit Organizations

NPOs report errors at a rate that is 60 percent higher than that of publicly traded corporations, and almost twice as high as that of similar-sized for-profit corporations (Burks, 2015). The nonprofit error rate is 6.1 percent in comparison to that of for-profit corporations at 3.8 percent. Financial errors are thus a prevalent and well-documented occurrence within the nonprofit sector (Archambeault & Webber, 2018; Buabeng, 2020; Greenlee et al., 2007; Lauck & Brozovsky, 2018). Furthermore, Buabeng (2020) reports that one-sixth of all reported cases of financial misconduct are associated with NPOs. This is due to the structural

features of NPOs, such as the nonreciprocal nature of contributions, which create unique opportunities for fraud (Holtfreter, 2008). According to Archambeault and Webber (2018), the average annual fraud loss to NPOs is around \$27.9 million.

While the types of accounting errors that occur may vary based on intention, existing literature highlights various accounting errors in NPOs, such as expense misreporting, financial statement fraud, or unintentional misstatements (Yetman & Yetman, 2006). Revenue and accounts receivable errors are the most common, followed by misclassifying net assets and errors related to expenses, prepaids, or payables. Misreported financial statements often show a lower surplus margin, less deferred expense, more depreciation allocated to programs, less deferred revenue, and shifts in program-spending ratios (Trussel, 2003). In general, errors often stem from failing to recognize items that should be reported (Burks, 2015). Within financial statement fraud, common schemes include check tampering, billing fraud, expense reimbursement fraud, fictitious vendors, payroll manipulation, and cash theft (Snyder et al., 2017).

Financial misreporting, with the deliberate intention to do so, can be classified as accounting manipulation. According to the American Institute of Certified Public Accountants (AICPA), accounting manipulation can involve acts such as: *“Falsification, manipulation or alteration of accounting records, misrepresentation in, or intentional omission from, the financial statements of events, transactions, or other significant information, intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosures”* (Trussel, 2003, p.618). There are many incentives for accounting manipulation, where a majority is contingent on the relationship between the donor and the receiving agency. Donors often require complex reporting requirements to be upheld, adding pressure to NPOs. This pressure to maintain funding eligibility creates strong incentives for financial manipulation, as NPO funding depends heavily on performance (Smith, 2010). With many NPOs competing for limited funding, they must vie for funders, intensifying this dynamic (Trussel, 2003). Hereby, the type of funder and the NPO’s home country can shape its reporting behaviour (Ball et al., 2000). NPOs from countries with a weak rule of law are 42 percent less likely to correct or admit to accounting errors, compared to those from countries with a strong rule of law (Srinivasan et al., 2015).

Besides national culture, corporate culture also reflects the organizational tone and the control environment (Appiah, 2015; Buabeng, 2020; Frazer, 2016; Tunji, 2013). Therefore, leaders of NPOs are partially responsible for addressing fraud, by direction and establishing an anti-fraud environment that discourages individuals from engaging in fraudulent practices in the workplace (Buabeng, 2020). Leaders should also strive to institute adequate internal control systems to protect the organization's assets from fraud, as most fraudulent activities can be attributable to a lack of these control mechanisms (Buabeng, 2020; Lauck & Brozovsky, 2018).

On the other hand, accounting errors can also be due to unintentional, random errors by bookkeepers (McDonald & Goodman, 2020). The strongest evidence supporting the argument that most errors are unintentional is the roughly even distribution between net asset overstatements and understatements in nonprofit organizations, in contrast to the predominance of overstatements typically observed in corporations (Burks, 2015). Studies (see Keating et al., 2008; Krishnan & Yetman, 2011; Yetman & Yetman, 2006, 2012) note that these inaccuracies in reporting are frequently attributable to the lack of expertise of those who are managing the organizations' financial records or the absence of the resources to do a better job.

Close to no NPOs admit to accounting errors as intentional manipulations or irregularities. A reason for this is related to the severe consequences for the NPOs. Accounting manipulations lead to a loss of legitimacy for the NPO, which can decrease funding, reduce donor support, and create distrust from beneficiaries and society, which provide the essential lifeline for many NPOs (Ortega-Rodríguez et al., 2024; Samkin & Schneider, 2010). Additionally, the loss of legitimacy may damage employee morale, organizational reputation, and business relationships (Buabeng, 2020). Interviews with nonprofit board members suggest that the value of error-free financial reporting derives less from the decision usefulness of the information and more from demonstrating that the organization is competent and trustworthy (Burks, 2015).

To reduce accounting errors, NPOs could enhance their accounting systems to more effectively collect information from the operating environment and identify recognizable events, particularly given the high incidence of errors of omission. Complementary corrective measures may include providing comprehensive staff training to improve event recognition,

establishing formal procedures for communicating these events to the accounting function, and implementing regular reviews to ensure timely detection and reporting of recognizable events (Burks, 2015). However, studies conclude that further steps are necessary to ensure proper financial oversight of the nonprofit sector. The responsibility for this oversight cannot be left to the federal government but should be shared by donors, who can request audits and evidence of suitable administrative controls put into place before making contributions to an organization. Research suggests that as large donors and capital sources demand more financial information, the likelihood of financial manipulation decreases, serving as an important external oversight mechanism (McDonald & Goodman, 2020). For examining financial oversight, using clear accountability mechanisms can provide a structured framework for understanding how to monitor, control, and reduce accounting errors.

While the technical and procedural improvements outlined above are essential for reducing accounting errors, there remains a notable gap in the literature regarding how nonprofits are held accountable for such errors by their donors. Although prior research has largely focused on identifying the causes and frequency of accounting errors in NPOs (Burks, 2015; Trussel, 2003), less is known about the preventive role donors play through their demands for transparency and how this external accountability influences organizational practices. By viewing accountability as an integral component of financial governance, organizations can better assess the effectiveness of their corrective measures and ensure that transparency and accuracy are embedded within their reporting practices.

2.3 Theoretical Framework: Accountability as a Mechanism

Accountability plays a crucial role in shaping how NPOs approach financial oversight and error reduction. By integrating mechanisms of accountability into their controlling practices, donor organizations can establish clearer structures for detecting and addressing discrepancies while reinforcing transparency and trust among stakeholders. Accountability is not merely an abstract concept but rather a structural mechanism guiding and controlling behavior, playing a crucial role in safeguarding organizational objectives (Roberts & Scapens, 1985). Particularly important in the relationship between accountability and task is the extent to which the task undertaken can be verified- to which performance can be observed, and thus a complete contract can be written to induce the behavior management desires (Honig & Pritchett, 2019). As Peecher et al. (2013) suggest, in accounting, the discourse on

accountability revolves around accountability as a formal intervention designed to direct the actions of organizational members, manifesting itself through evaluations, justification requirements, and repercussions for failure to meet set expectations (Asare et al. 2000; DeZoort et al. 2006). By imposing such formal structures, organizations can enhance decision-making, maintain control over performance, and promote desired behaviors among their members.

Bovens (2010) argues that in prior research, both historically and semantically, the concept of ‘accountability’ is closely related to accounting, in its literal sense of bookkeeping, reporting, and auditing (eg. Keating & Frumkin, 2003; Verbruggen et al., 2011). Instead, Bovens’ (2010) study revises and extends this definition, arguing that accountability also involves the exchange of information, scrutiny, and judgment within a structured relational framework between an actor and a forum. Bovens (2010) presents accountability as a relationship where the actor and forum, who can be either an individual or an organization, take the form of a principal-agent model, where the forum delegates authority to the actor, who is then held accountable for their actions. This is particularly pertinent to our empirics, as accountability extends beyond the mere analysis and use of financial statements and reports. The case organization exhibits a complex social and relational dimension in its operations and approach to accountability. In this regard, we contend that Bovens’ (2010) relational framework offers a comprehensive and nuanced understanding, facilitating a more accurate analysis of our empirical material.

The framework of accountability proposed by Bovens (2010) includes three main stages. The first stage involves the actor’s (NPO’s) obligation to inform the forum (donor) about their conduct. This phase- *assessment*- involves the provision of various types of data related to task performance, outcomes, and procedures. The stage sets expectations for both parties about conduct and procedure. It establishes a system of transparency by providing access and a structured process through which the forum can assess the actor’s behavior. According to the author, a lack of transparency leads to information asymmetry, where those in power control information and limit external scrutiny. Therefore, by requiring actors to disclose information, accountability mechanisms prevent situations where decision-makers operate without oversight. Bovens (2010) further argues that the obligation to report on actions not only provides transparency but also creates a psychological burden on the actor, knowing that their conduct is subject to scrutiny.

The second stage- *answerability*- involves the forum's ability to question and interrogate the actor, assess the adequacy of the provided information, and question the legitimacy of their actions. This stage ensures that accountability extends beyond simple reporting, fostering dialogue and scrutiny. The forum's capacity to interrogate and judge is essential for upholding transparency and integrity within organizations. As noted by Bovens (2010), accountability involves a relationship where the actor must explain and justify their conduct, the forum can pose questions and pass judgment, and the actor may face consequences. The importance of this stage is reinforced by Ackert et. al. (2019), highlighting that it can lead to a reduction in opportunistic reporting. Finally, the third stage- *judgment*- involves the forum's evaluation of the actor's conduct. This may involve approving financial reports, rejecting policies, or publicly condemning certain behaviors. In cases of non-compliance or misconduct, the forum may impose sanctions. Some argue that accountability can be established solely through reporting, justifying, and debating, without the need for sanctions (Mulgan, 2003; Strom, 2003, as cited in Bovens, 2010, p.952). However, the mere possibility of judgment and consequences often encourages more responsible behavior within organizations, and thus Bovens (2010) argues that it should be included in the definition, see Table 1. We will present our case company's practices in a similar manner, according to Bovens' (2010) stages of accountability, as this creates a detailed understanding of what each stage entails, and how they each contribute to enhancing accountability within organizations.

Stage	Bovens' (2010) Definition
Assessment	<i>"It is crucial that the actor is, or feels, obliged to inform the forum about his or her conduct, by providing various types of data about the performance of tasks, about outcomes, or about procedures"(p.952)</i>
Answerability	<i>"There needs to be a possibility for the forum to interrogate the actor and to question the adequacy of the information or the legitimacy of the conduct" (p.952)</i>
Judgement	<i>"The forum may pass judgement on the conduct of the actor. It may approve of an annual account, denounce a policy, or publicly condemn the behaviour of an official or an agency. In passing a negative judgement, the forum frequently imposes sanctions of some kind on the actor" (p.952)</i>

Table 1: Bovens' (2010) definitions of the three stages of accountability

Akbik (2022) describes Bovens stages as “*analytically distinct phases*”, or a “*heuristic device*” helping organise research on accountability (p.38). These stages impact the operationalization of accountability, in which accountability in an organization can be evaluated in a series of steps- steps which we will apply to our case study to analyze our empirics. In this sense, the framework will guide the structure and interpretation of the data. According to Akbik (2022), evaluating accountability mechanisms in an organization “*starts by examining the presence or absence*” of Bovens’ (2010) three stages of accountability within that organization (Akbik, 2022, p.38). Next, the assessment of accountability entails zooming in on the individual stages in order to form an investigation of accountability procedures within each stage and their functioning- evaluating the adequacy of the mechanisms and their impact on organizational accountability. The first stage reveals whether the partner organization is required to report on its actions, finances, or outcomes, and whether it actually does so in practice. The second stage evaluates whether the donor has the capacity and willingness to question, probe, and seek clarification- essentially testing the quality of answerability mechanisms. Finally, the third stage shows how the donor responds to the partner’s actions. Akbik (2022) argues that accountability failure results from an inadequacy in the balance of mechanisms which can only be fixed if the right balance of mechanisms is found for every context (Akbik, 2022; Bovens, 2010). The balance of mechanisms is dependent on two factors: the balance between different types of mechanisms (e.g. preventative or detective) and the balance between cost and benefit of the amount of mechanisms.

3. Method

3.1 Research Design

The present study employs a qualitative single case study to analyze the publicly funded nonprofit industry. This methodological choice is particularly valuable for capturing the informal, discursive, and often unrecorded dimensions of accountability interactions- which require interpretive methods to uncover and analyze (Akbik, 2022). A case study was chosen to offer a deeper and more nuanced exploration of accountability practices within NPOs compared to quantitative studies, despite the method being criticized for its limited generalizability and reliability (Dubois & Gadde, 2002; Vaivio, 2008). Given the inherent limitations in generalizing international NPO accountability- shaped not only by divergent

accounting standards but also by culturally specific accountability norms, power struggles, and decision-making biases- we maintain our focus on Central America and on a single case study, ensuring that our conclusions remain contextually valid. Instead of studying multiple cases, a single case study allows a deeper understanding of how different actors perceive and enact accountability (Vaivio, 2008). It further facilitates the examination of how accountability is enforced in practice- through formal procedures, informal relationships, and responses to errors. As Dubois and Gadde (2022) argue, “*case studies provide unique means of developing theory by utilizing in-depth insights of empirical phenomena and their contexts*” (p.55), and where learning from a specific case, shaped by its environment, should be seen as a strength rather than a limitation.

The study adopts an abductive research approach. This methodology allows continuous movement between empirical observations and theory, where hypotheses are formed and reformulated on a repeated basis. This is an iterative research approach, in which an evolving framework directs the empirical data. Empirical observations can uncover unexpected yet significant issues, prompting further investigation through interviews or other data-gathering techniques. Meanwhile, the complexity of the subject requires continuous adaptation to incorporate new insights, perspectives, and emerging trends (Dubois & Gadde, 2002).

3.2 Data Collection

3.2.1 Case Selection

Sweden, and therefore a Swedish government agency, offers a unique opportunity for this study due to its exceptional transparency in financial reporting, making documents publicly accessible for analysis by its citizens. In selecting a case, we sought to explore a context distinct from the extensively researched nonprofit landscape of the United States: developing countries, particularly those with more unstable financial systems and higher levels of corruption. Hence, Central America offers a compelling contrast to Sweden’s approach to mitigating risks in high-exposure regions.

Sweden’s engagement in Central America is largely facilitated through the Swedish International Development Cooperation Agency (Sida). Since Sweden only has one embassy in Central America- the Swedish Embassy in Guatemala- our focus hence aligns with Sida’s involvement in the region through its operations in Guatemala. Finally, our choice of Central

America is also shaped by practical considerations, particularly language constraints and our personal connection to the Swedish Embassy in Guatemala. Spending time in Guatemala at the embassy prior to the start of the study- attending events organized by the embassy- allowed us to build personal connections with the employees at Sida. This facilitated openness and honesty in interviews to come. Additionally, our proficiency in Spanish enabled direct interviews with Sida representatives, ensuring depth and quality in our research.

3.2.2 Primary Data

3.2.2.1 Semi-Structured Interviews

The study was undertaken through in-depth qualitative interviews. To allow for a fair and nuanced gathering of empirical data, several key stakeholders across Sida were interviewed. Our initial contact was established through the Swedish Embassy in Guatemala, which referred us to the controller at Sida Guatemala. The individual referred us to the employees at Sida and facilitated introductions to them. The interviewees consisted of differing positions and expertise, with a mix of backgrounds from local employees to Swedish staff posted abroad. Due to Sida's small number of employees in Guatemala (and having interviewed all employees from Sida), we are confident to have avoided any bias effects, like chain-referral sampling, in choosing interviewees. To strengthen our research foundation and decide on our research question and lens, our meetings in Guatemala with Sida employees helped us refine our research focus and prepare for the subsequent months of data collection. Throughout the process, we maintained continuous contact with the controller, who assisted in identifying relevant financial statements and advised us on how to request documents from the Swedish Embassy. We reached out to all individuals we interviewed via an introductory email, outlining the purpose of our thesis and their potential role in the study. Following our visit to Guatemala, we met the controller again in Stockholm for an official interview before proceeding with the rest of our interviews online due to geographical constraints.

The sample of interviewees included 5 employees at Sida, which consisted of the controller, an analyst, the head of development, and two project managers. Additionally, 2 follow-up interviews were undertaken with the controller resulting in a total of 7 interviews with Sida employees. For further detailed insight regarding the interviews, see Appendix 1. In addition to formal interviews, we maintained ongoing communication with Sida via text and email, receiving further clarifications and supporting documents.

3.2.2.2 Interview Technique

The interviews were made using a semi-structured approach, combining a predefined interview guide with flexibility for open-ended exploration (see Appendix 2). A structured framework provided the foundation for discussions, while unstructured elements and follow-up questions allowed for deeper probing when necessary, as suggested by Ryan et al. (2002). This approach facilitated a more comprehensive understanding of participants' reasoning and yielded richer insights while maintaining a coherent line of inquiry. Furthermore, it allowed a degree of comparability between the interviews, which is particularly useful for qualitative studies (Leavy, 2020).

Questions were also tailored based on the interviewee's background and specific role responsibilities. The interview guide was carefully tailored for each Sida employee to account for variations in their knowledge and areas of expertise. This approach enabled the collection of detailed and comprehensive information across different aspects of the organization and its operations. Nevertheless, all employees were asked a set of basic questions covering various aspects of Sida's operations in order to elicit their personal perspectives. The interview guides were continuously refined throughout the data collection process to align with the abductive research approach (Dubois & Gadde, 2002).

Five out of seven official interviews were conducted via Skype and Microsoft Teams, with both authors present, and were recorded and transcribed for accuracy. Depending on the interviewee, interviews were conducted in Swedish, English, or Spanish. We deemed this to be suitable to avoid negatively impacting the quality of the dialogue and the interview results due to language constraints. In line with GDPR, all participants signed a consent form that informed them about their confidentiality and handling of their personal data. We believe that confidentiality- not processing any personal information beyond job title as well as keeping singular statements anonymous upon request- is an important aspect in obtaining a transparent perspective from the respondents.

3.2.3 Secondary Data

The secondary data we used in our study are Sida's internal documents, donation guidelines, and criteria, as well as the publicly available financial reports. We primarily used these sources of secondary data to obtain a broad understanding of Sida's preventative risk

strategies, due diligence processes, and accounting principles used to evaluate and assess NPOs. Specifically, we used the external documents prior to the interviews to not focus on areas that were already explicitly stated in the publicly available documents. We utilized the internal documents to deepen our understanding of the processes through which government agencies oversee and regulate NPOs. However, we want to emphasize that the secondary data has primarily been used to complement the empirics stemming from the semi-structured interviews. The internal documents received from Sida will not be disclosed in the references for the sake of confidentiality.

3.3 Data Analysis

The data analysis was conducted continuously throughout the research period and between interviews in order to identify themes and areas for further exploration in subsequent interviews. Following each interview, recordings were transcribed and thematically sorted to structure the findings. Thematic sorting was also applied to selected quotes, which helped to refine the direction of upcoming interviews and contributed to the development of a coherent analysis. Additionally, the interview data was organized in accordance with Bovens' (2010) three-stage framework, which enabled a systematic application of our theoretical lens during the formal analysis. Although we initially approached the interviews with a preferred analytical lens in mind, early findings revealed that the data could be more effectively interpreted through an alternative perspective, prompting us to adjust and extend our analytical framework accordingly several times. Moreover, the analytical process also included the thematic categorization of the external and internal documents, including general requirements, due diligence assessment checklists, and financial reports. Field notes taken during the interviews were reviewed to supplement the transcripts, and all audio recordings were revisited multiple times to ensure the accuracy and completeness of the transcriptions. Finally, prior to the formal analysis, the interviews conducted in languages other than English were translated to maintain consistency across the dataset.

During the interview and analysis process, the trust developed with participants during our time in Guatemala allowed for more open and detailed accounts, which, in turn, facilitated a deeper and more contextually grounded interpretation of the data. This provided a more coherent linkage and interpretation of the findings through the chosen theoretical lens, which we then sought to clearly illustrate in the analysis presented to the reader.

4. Empirical Findings & Analysis

4.1 Introduction to Sida

The Swedish International Development Cooperation Agency is a government agency representing Sweden's interests in foreign policy and international relations related to international development assistance policies (Sida, 2025). The agency is subordinate to the Ministry of Foreign Affairs (Utrikesdepartementet) and is “*primarily involved in bilateral assistance, designing and implementing programs across various geographic and thematic areas*” (Sida, 2025). These programs are “*revised approximately every five years*” to adapt to shifting priorities and emerging global challenges (Sida, 2025). Sida works closely together with Swedish embassies in 48 countries around the world. They are divided between: countries with long-term development cooperation and countries with humanitarian aid. In Central America, specifically Guatemala, both categories apply. In 2024, Sweden’s humanitarian assistance totaled EUR 758 million (Government Offices of Sweden, 2024). Sergeev (2021) notes that “*the Agency implements approximately 33% of all funds through non-governmental organizations. As a result, it is NPOs that become one of the main funding channels for Sida’s spending*” (p.3). This distinguishes Swedish aid from official aid in many other European countries- which largely act through national organizations operating in the recipient country (Sergeev, 2021). It also places a heightened responsibility on Sida to engage ethically and transparently, as they utilize Swedish government funds, and need to ensure that the invested money is handled by the NPOs with good financial conduct. Employees at Sida suggest that “*many of the NPO partners that [they] have [at the Guatemalan office] are very responsible and they're used to cooperating with the embassy- so they know what the expectations are*” (Program Manager 2).

4.2 Accounting Errors in Sida-Funded Projects

Interviewees indicate that Sida continues to encounter instances where funded organizations exhibit accounting errors within their financial reporting processes. These errors can be divided into three distinct categories: unintentional accounting errors, intentional fraud and financial misconduct, and systematic and regional challenges.

Within the category of unintentional errors, a significant issue is the misallocation of direct costs, as highlighted by the Controller. The main reason for these types of errors is that many

organizations lack expertise in financial reporting. This lack of expertise is particularly evident in the difficulties some organizations face in maintaining balanced financial statements, with some even resorting to manually balancing their reports. Additionally, many attempt to maximize their budgets without following pre-established guidelines. Some errors can even be attributed to information asymmetries between Sida and third-party non-profit organizations (NPOs). In certain cases, Sida provides funding to intermediary NPOs, which in turn distribute resources to smaller, more local organizations. However, the general guidelines and agreement requirements are not always effectively communicated to these downstream actors, thereby increasing the risk of misreporting and non-compliance.

However, interviews reveal that intentional errors are much more common than unintentional mistakes. Sida's Controller highlights that one of the biggest indicators of financial misconduct is *"if everything in a budget is executed as planned"*, with zero variance between budgeted cost and actual cost. That is *"too good to be true"* (Controller), and usually a result of intentional reporting manipulation. Additionally, *"one of the common errors is double charging"* (Controller). Double charging occurs when an organization receives funding from multiple donors for the same project and allocates the same costs, such as salaries, to each donor without their knowledge, effectively charging multiple sources for a single expense. This often happens in NPOs managing multiple funding streams from various agencies, including public and private sector donors. Additionally, unauthorized activities and costs, particularly related to travel, are also a frequent concern, as illustrated by the example: *"in one case [an NPO] booked [a trip for] 30 people to another country on December 26th. Why would they all need to travel then? That's suspicious."* (Controller).

There are also several region-specific challenges to Central America that directly affect accounting practices. For example, *"in Central America, there's a lot of conflict of interest-where personal relationships often override merit-based selection in recruitment decisions"* (Analyst). The Analyst also revealed that *"nepotism is often seen as normal rather than unethical."* Procurement fraud is therefore a region-specific issue frequently encountered, which has direct accounting implications, as it involves awarding contracts to family or friends without due process. The Controller noted an example where an NPO awarded procurement contracts to their family members, concealing their connection by changing their last names in the supporting documents.

Accounting errors are more prevalent in Central America because of weaker preventive controls and financial systems. However, the challenges depend on the type of organization. A program manager at Sida mentioned that “*small NPOs face additional struggles, such as weak institutional capacity and leadership, lack of rotation in key roles, and overreliance on external funding*” (Program Manager 1). Conclusively, these financial irregularities highlight the need for stronger oversight, clearer financial guidelines, and rigorous auditing to ensure accountability in NPO funding.

4.3 Applying Bovens’ Framework of Accountability

According to Akbik (2022), the evaluation of organizational accountability starts with the examination of the presence or absence of Bovens’ (2010) stages. Accordingly, the analysis of Sida’s accountability procedures begins with an examination of the presence of the three stages outlined in Bovens’ (2010) study.

Interviews revealed that Sida’s engagements in Central America are grounded in a pragmatic approach to risk: rather than striving to completely eliminate it, the agency acknowledges its inevitability and prioritizes diminishing it through targeted risk management strategies. As the Controller explained, “*the best way to eliminate risk is to avoid it entirely, but this is impossible, so in many cases, we must take calculated risks instead.*” Accordingly, risk management constitutes a central element of Sida’s accounting and financial control practices and the way in which they hold NPOs accountable for their accounting errors.

Sida operationalizes its risk management strategy through the IAMC structure, which consists of four interrelated steps: Identification, Assessment, Management, and Control of risks. In the identification phase, potential issues or warning signs are recognized. The assessment phase then involves evaluating the potential severity and implications of these risks. Management refers to the development of mitigating measures and internal controls to address identified risks, and control encompasses the ongoing monitoring and evaluation of partners’ conduct.

This structured approach to risk management aligns closely with the three stages of accountability according to Bovens (2010). The identification and assessment stages correspond to the *assessment* stage of Bovens’ (2010) framework, while the management and

control phases parallel the *answerability* stage. While the IAMC framework appears primarily oriented toward the first two stages of Bovens' (2010) accountability model, interview findings suggest that the Swedish agency also employs practices aligned with the third stage: *judgement*. Although Sida does not explicitly define these mechanisms as part of its formal accountability approach, we argue that they functionally contribute to the sanctioning of NPO behaviour, thereby reflecting a more comprehensive accountability process than the agency itself articulates. Overall, Sidas' practices in the lens of Bovens' (2010) framework not only illustrate how accountability can be structured in practice but also demonstrates how risk governance is embedded within broader accountability processes.

Hence, based on interviews with employees from Sida, the agency's accountability mechanisms can be categorized into the three stages highlighted by Bovens (2010). To assess partners' error risk, Sida employs thorough project selection, due diligence, internal controls, and compliance measures. These preventative mechanisms correspond to Bovens' (2010) *assessment* stage of accountability. To manage and control the risk of error during the contractual period, Sida reviews reports, analyzes budgets, and conducts field visits and spot checks. This analysis and scrutiny of financial and non-financial information during the year constitute part of the *answerability* stage of Bovens' (2010) framework. Lastly, interviews identified mechanisms aligned with the *judgement* stage of Bovens' (2010) framework, encompassing the consequences that follow financial misconduct, from initial investigation to sanctions.

However, according to Akbik (2022), a comprehensive evaluation of externally enforced accountability within an organization necessitates a more detailed analysis of each individual stage of the accountability process. Accordingly, the following section provides a detailed account of the mechanisms employed in each stage of the accountability process, including their functions, interactions, sequencing, and frequency. The section assesses the effect of each mechanism, its placement within Bovens' (2010) stages of accountability, and the extent to which each stage contributes to enhancing the overall accountability of NPOs.

4.4 Creating Accountability Through Assessment

4.4.1 Project Selection and Due Diligence

Every project that Sida funds goes through a similar process. Organizations contact Sida for guidance on the possibilities of cooperation, which they send to a program manager, who assesses whether it aligns with Sida's strategy (Program Manager 1). If a program manager supports the idea, it is escalated to senior staff. Upon approval, the partner submits a detailed strategy, work plan, and budget, followed by an external institutional capacity audit to assess the organization's ability to manage resources, meet governance standards, and achieve its goals.

Partners must additionally send Sida a 3-6 year strategy on their mission and vision. Here they propose a multi-year framework, broken down and divided into yearly plans. They outline activities, their outputs, and desired results (see Appendix 3). These activities are then quantified into a proposed budget- *"detailing expected costs such as salaries, travel, activities, and overheads"* (Controller), which are reviewed for feasibility. During budget reviews, several key factors are taken into account to determine whether a proposal is approved or rejected. A major consideration is the proportion of funds allocated to personnel costs, as excessive spending on salaries may raise concerns: *"if a partner proposes hiring excessive staff- communication specialists, Facebook managers, social media experts- we scrutinize whether these roles are necessary to achieve their mission"* (Controller). Whilst there are no strict salary specifications, *"it could be problematic if salaries exceed 40% of the total budget. Then they are hiring too many people. We want to do something good, but we don't want all the money stuck in salaries."* However, each case varies, and if proper justification is provided, cost allocations can differ significantly- it just *"raises questions"* (Controller).

Another critical factor is the overhead limit; organizations are expected to keep overhead costs within reasonable boundaries. When an NPO proposes a cost, Sida benchmarks this to similar NPOs that they fund. *"Let's say if an NPO proposes a 15% overhead cost, I will compare it to established organizations. If these organizations budget for only 7-8% overheads, this raises questions"*, explained the Controller. Program managers also assess whether budget lines for items such as rent and electricity are appropriately categorized under

overheads to avoid double charging. Generally, back-and-forth discussions take place to refine the budget.

A thorough risk assessment is then conducted by the controller, including a thorough due diligence process and a budgetary analysis. The due diligence includes an organizational analysis, following the controller's assessment checklist, including topics like: general information on the NPO, internal controls, accounting, cash management, partner management, audits and audit resolution, record retention and access, and technical capacity. Additionally, several further documents need to be submitted (see Appendix 4).

NPOs' submission of detailed information and annual plans to Sida serves multiple accountability-enhancing functions. By promoting transparency within the donor-recipient relationship, information asymmetry is reduced. The process functions as a screening mechanism, effectively acting as a sieve to filter out potentially untrustworthy or fraudulent actors. The requirement to disclose specific plans also creates a form of ex-ante control, as it narrows the operational scope of the NPOs; once intentions are formally declared, deviation becomes more noticeable and thus riskier. In sum, this mechanism contributes to accountability by establishing clear expectations, improving oversight, and reinforcing trust.

4.4.2 General Compliance Requirements

Sida has compliance requirements that NPOs must adhere to, which outline a structure for financial reports, eligible expenses, and budget preparation. These conditions serve as a mechanism for Sida to oversee each organization's accounting and enforce accountability without excessive administrative costs. Their reporting requirements include three different reports: narrative reporting, financial reporting, and audit reporting (Sida, 2023). For the purposes of this study, narrative reporting will not be examined.

Financial reporting requirements include a number of conditions, such as budget comparability, consistency in currency use, and clear explanations for major budget deviations, among other things (see further requirements in Appendix 5). Sida requires the submission of an Income Statement (P&L Account), a Balance Sheet, a Cash Flow Statement, a Statement of Changes in Equity, and Notes to the Financial Statement. There are however no requirements on the use of accounting principles, *“but 95% of organizations use the accrual accounting system”* (Controller).

Audit reporting requires the submission of a management letter, an audit opinion, and the audited financial statements. Sida further requires the auditor to use the International Standards on Auditing (ISA) when auditing Sida-financed projects, and the adherence to the ISA 800/805. Overall, these general conditions are adjusted for each individual organization and are then stated in their contracts (Sida, 2023). If a partner *“does not adhere to required financial practices before the agreement period, we request budget revisions before proceeding”* (Controller). Sida provides an extensive set of compliance regulations designed to help organizations work efficiently and in alignment with its standards. This information is clearly outlined not only in contracts but also in reporting documents, essential for the effectiveness of Sida’s preventative controls.

4.4.3 The Effect of Preventive Mechanisms

The pre-funding process lays the groundwork for good financial conduct in NPOs. It creates the opportunity, during the *assessment* stage, to detect financial mismanagement and to enforce accountability in later stages of the funding process. By providing information- key financial and operational data that will be available for scrutiny- NPOs subject themselves to an initial layer of oversight. This element of scrutiny reinforces anticipatory compliance: actors understand that their information can be questioned and, if deemed inadequate or illegitimate, may lead to negative consequences. Additionally, it creates a consensus on the expected conduct of the organizations, establishing clear parameters within which they are expected to operate. As the Controller summarises:

“Preventative controls in the internal control world are the most beautiful ones. They are like a ‘password’ that someone can't access and change something unauthorized. If you do not utilize preventative controls and only apply detective controls, it can be very difficult later. If someone deleted something, you can never find it again through detective controls, but a preventative control could have not given the access to delete anything in the first place. Detection in the control world is the most difficult thing. Therefore we apply preventative controls, which is the best type of control in 99% of cases (Controller).

While preventative mechanisms are essential for minimizing fraud, the Controller noted that *“in every organization, there are loopholes.”* which means no system can entirely eliminate

risk without incurring excessive administrative costs. This tradeoff between risk reduction and administrative costs is a key consideration for Sida. As the Controller suggests, the “*cost of controls should never exceed the benefits they bring*” (Controller). For instance, segregation of duties- ensuring that two individuals handle a task instead of one- reduces the risk of misconduct. However, increasing this to three individuals further minimizes the risk, as two people could collude, but such a measure may not be cost-effective. The key is to implement internal controls that are strong enough without becoming unnecessarily burdensome. However, this balance between cost and benefit applies not only to preventive mechanisms but also to detective mechanisms and, more broadly, to any accountability mechanism implemented within organizations. Akbik (2020) supports this conclusion, advocating for the importance of finding the right balance between the types of mechanisms for every context in order to avoid accountability failures. Some preventative controls, however, are non-negotiable. As the Controller explains, “*there are certain controls you cannot skip, such as verifying whether a partner is listed in an EU-sanctioned list.*” Even with strong preventative mechanisms in place, their effectiveness ultimately depends on adherence and enforcement. It is not just about having the right mechanisms but ensuring they are properly applied.

Sidas's emphasis on preventative mechanisms is evident in the significant portion of its activities dedicated to oversight- monitoring projects, conducting due diligence, performing financial analysis, and implementing various forms of surveillance and risk assessment. This comprehensive approach stems from Sida's responsibility to act with the highest standards of accountability, as it functions on behalf of the Swedish state. As a government agency, the funds it allocates originate from taxpayers and, by extension, the Swedish public, leading them to be subject to constant and rigorous evaluation. Each year, Sida invests hundreds of millions of euros, making prudent financial management and accountability both institutional obligations and ethical imperatives. Given Sida's direct representation of the Swedish government abroad, upholding that trust also reinforces confidence in the government itself. Overall, Sida's emphasis on preventative mechanisms reflects a strategic effort to minimize the occurrence of accounting errors from the outset, thereby reducing the likelihood of subsequent repercussions or reputational consequences.

4.5 Creating Accountability Through Answerability

4.5.1 Financial and Audit Reporting

Once a project is approved, funds to the NPO are disbursed in phases. The initial disbursement is made upfront, but subsequent funding in the following years is contingent upon the submission of financial and narrative reports. At the beginning of every year in which funding is continued- around January or February- organizations submit their plans for the coming year. This includes an operational plan and a budget outlining all planned activities and expenses for the year. Since every transaction must be documented, this process establishes a high level of transparency in how funds are utilized, making recipients aware that any discrepancies or errors are detectable.

NPOs may request changes in their budget throughout the year to meet evolving needs. They are allowed to adjust their spending within an existing budget line and are generally free to do so without prior approval. However, if they intend to reallocate funds between different budget lines, they must submit a formal request for approval to Sida. Typically, *“there are set thresholds, such as allowing adjustments of up to 10% within a budget line before requiring further authorization”* (Program Manager 2). NPOs must be able to justify these changes and submit a revised budget reflecting the modifications, which enforces an aspect of answerability. Salary increases are generally not permitted, as *“changes should be aimed at achieving project objectives and goals”* (Program Manager 1). Other key scenarios in which the budget change is not approved is when the changes are not aligned with the project objectives, if the request is solely for salaries or administrative costs, if the NPO has a poor performance record, or if there is a lack of transparency or indications of irregularities. However, if the change is warranted and will advance the results of the project, budget changes are approved.

Another major *“red flag”* in financial reporting is the approval of budget revisions at the very end of the fiscal year (Controller). For instance, if a budget revision for 2023 is requested for approval on December 29th, it raises serious concerns about financial transparency and proper planning. Budget adjustments should be anticipated and proposed in advance, not submitted as a last-minute request to retroactively justify expenditures. If such a revision is approved, it suggests an attempt to manipulate financial reports under the guise of operational shifts rather than ensuring accurate financial management. Because timely budget revisions are permitted,

it enables NPOs to adapt to changing circumstances while still being held accountable for significant reallocations. This interaction enables donors not only to monitor financial activities but also to exert and enforce accountability throughout the reporting cycle, rather than relying solely on retrospective corrective measures.

After every year of funding received, in March or April, NPOs must hand in their financial statements from the previous accounting year. This includes two types of documents, financial reports (audited) and narrative reports. Financial reports will include either semi-annual or annual financial and progress reports. There are a few key aspects that Sida focuses on when assessing these reports: the first check is comparing the statements to the pre-approved budget submitted at the beginning of the funding year. This entails analyzing the budgeted costs in comparison to the actual cost of activities recorded. While an exact match between budgeted and actual expenditures may raise suspicion, it is not necessarily a ‘red flag’ when expenditures pertain to salaries, as these can be precisely planned in advance. However, strict oversight is applied to overhead costs, where even a minor excess, such as *“exceeding the budget by a single Swedish krona, would result in ineligible expenditures”* (Controller). Financial reports therefore play a critical role in holding organizations accountable by tracking progress, identifying irregularities, and assessing the efficiency of financial management, thereby enabling timely interventions, adjustments, and informed decisions about the future of the agreement.

Sida’s program manager or controller also conducts a variance analysis to identify discrepancies between the approved budget and actual expenditures, as well as to detect significant deviations across funding years in multi-year projects. In addition, they assess the legitimacy of expenditures to ensure that funds have been allocated in accordance with their designated, budgeted purposes. As the Controller explains, they *“check financial reports against the original approved budget because partners sometimes make unauthorized revisions. Partners also might do some creative accounting by hiding excess costs under unrelated categories to avoid detection.”* This systematic review of financial reports ensures that recipient organizations must be able to explain their actions, regardless of whether their financial conduct is inappropriate.

At any point, the controller or the program managers can classify costs that were not used according to the initial budget as ineligible: *“So, let's say if they had budgeted 5 million for salaries, but they spent 6 million instead, I will say 1 million is ineligible. Then they will say*

'I'm sorry' and they will start crying" (Controller). This also demonstrates that some NPOs may perceive accountability rules as largely theoretical or negotiable, operating under the assumption that deviations will be tolerated or absorbed by Sida due to Sweden's broader financial capacity. This underscores the importance of having clear mechanisms for NPOs in order to demonstrate that such deviations will be both detected and penalized.

Sida additionally requires their financial statements to be audited. NPOs are most often allowed to choose any audit firm they prefer, but Sida mandates that they need to be approved certified public accountants. Sida's approach to audits is as follows: *"audits are a requirement, but they are not a guarantee that nothing is wrong. Auditors can say they reasonably assure [good financial conduct], but never that they absolutely assure it. Audits focus on sample transactions, which means fraud can still go undetected if it is strategically hidden"* (Controller). This illustrates the importance of donors maintaining their own internal accountability and monitoring mechanisms, rather than relying solely on external audit assurances.

4.5.2 Spot Checks

Financial spot checks are an important part of the post-funding evaluation process for NPOs. These checks are typically carried out by the controller, the Quality Assurance Unit, or, in some cases, an external audit team. The purpose is to review specific aspects of the NPO's financial systems, identify areas for improvement, such as better financial management or handling of funds, and ensure the proper use of funds. During a spot check, the controller examines whether the organization is complying with its internal administrative procedures, which are presented at the start of the partnership. The review focuses on areas such as procurement processes, resource allocation, hiring practices, and supporting documentation like receipts or bills.

When Sida enters into new contracts with NPOs, after the disbursement of initial funds, these NPOs are observed extra carefully. To detect any fraudulent or strange activities in new contracts, they can ask for cash flow statements a month into the agreement. The Analyst noted that *"if you wait until later and only check their financial statements after a year in their official reports, they have time to cover up anything they don't want us to see. So we surprise them and apply preventive controls rather than failing with detective ones."*

Essentially, a financial spot check functions like a targeted, smaller-scale audit, assessing whether the NPO follows the agreed-upon criteria and procedures. This process complements the annual external audit, providing additional oversight to detect irregularities and ensure financial accountability. While audits may take a broader retrospective view, financial spot checks serve as a crucial detective mechanism allowing for immediate feedback and correction, filling the accountability gap between disbursement and final reporting. Spot checks, however, function as a complement, and not a replacement for annual audits. Often, the knowledge that these kinds of checks are in place to detect errors can create a deterrent effect, encouraging NPOs to maintain high standards of financial conduct to avoid the repercussions of detection.

4.5.3 Field Visits

Sida's engagement with NPOs extends beyond formal reporting, as the program manager actively provides feedback, shares ideas, and offers input to strengthen the partnership. Sida also organizes training sessions on topics such as gender equality, environmental issues, and anti-corruption, to which partner organizations are invited. These sessions aim to strengthen partners' capacity and ensure alignment with the embassy's standards and values.

Throughout the year, Sida conducts field visits to detect potential corruption or financial mismanagement, as these issues are often difficult to uncover through reports alone. Both program managers and the controller participate in these visits, each with a distinct focus. Program managers primarily review processes and activities implemented by the organization. Field visits also provide an opportunity for Sida staff to engage with employees at all levels, fostering open communication. These close relationships create an open communication channel and help ensure that employees feel comfortable reaching out to Sida if any concerns arise. The Analyst highlighted that *“during field visits, you get to know people, and these visits build confidence and trust over the years, which means there's a larger probability that they will tell you if something bad happens.”*

In parallel, the controller conducts spot checks during field visits to assess financial management and ensure that practices align with agreed-upon standards. By verifying project activities on-site, the controller performs risk assessments and project validations. The controller highlighted that *“field visits are a key part of risk management. For example, if they*

say they distributed 1,000 kits, I will check the recipient list." The controller also mentioned that *"simply showing up unannounced helps maintain accountability and deter mismanagement."* These spot checks include reviewing attendance at events, assessing spending practices, ensuring equipment is used appropriately, and identifying any discrepancies. For instance, *"sometimes, partners claim they held a meeting with 500 attendees. So I check the meeting minutes and attendance sheets"* (Controller). The controller's presence during field visits provides deeper insights into the organization's day-to-day operations, revealing potential issues beyond what financial statements show. For example, the Controller noted: *"once, a project manager who was earning \$1,000 per month was driving a Range Rover... that's a red flag. It's unrealistic that a person earning \$1,000 can afford to drive a Range Rover."* These factors serve as potential warning signals, helping to identify discrepancies and ensure financial accountability. After each field visit, Sida provides feedback to partners, discussing challenges, successes, and lessons learned. If any irregularities or concerns are identified, the embassy arranges a follow-up meeting with the partner to address the issues.

4.5.4 The Effect of Detective Mechanisms

Akbik (2022) argues that evaluating accountability mechanisms in an organization entails assessing the adequacy or inadequacy of the respective mechanisms in the stages of Bovens' (2010) accountability. When employees were asked whether they believed Sida's preventative and detective mechanisms to uphold good financial conduct were appropriate, answers varied. *"Overall, Sida has good control functions, and the right amount of them"*, the Head of Development noted. On the other hand, the Controller believed that: *"While our detective and preventive mechanisms are effective, no system can entirely prevent fraud."* - meaning there could always be ways to improve the accountability mechanisms. The Controller, during interviews, often mentioned his sceptical view towards NPOs' conduct. This could be attributed to his negative experiences with NPOs' misconduct during his time at Sida. This is contrasted by one of the program managers, who mentioned that they had not had any personal experience with financial misconduct. The program manager believed that *"most of the Partners that [they] have are very responsible and they're used to cooperating with Sida"* (Program Manager 2).

Additionally, the differing levels of experience of employees are reflected in the way they approach accountability and the extent to which they investigate or apply detective mechanisms. For example, an employee at Sida who would like to remain anonymous for this quote said: *“I personally don't look very much into the finances- I'm not strong on the administrative side of the financial administration aspect.”* Interviews revealed a similar example where certain employees did not look into financial information that partners had sent because they lacked confidence in analyzing financial information. Instead, they forwarded the documents for the controller to analyze. Additionally, an interviewee mentioned that each past controller interpreted Sida's responsibilities differently. Some limited their oversight to the organizations Sida directly contracts with, while others, like the current controller, choose to monitor more closely- including sub-partners- which strengthens fraud detection and improves overall accountability. This goes to show that personal experiences and expertise strongly influence the detective mechanisms that are implemented in the conduct of NPOs. The Head of Development exemplified this: *“It's extremely important to have a very knowledgeable controller, and employees in general, who are willing to go to the countryside and do everything possible to detect errors.”*

Detective mechanisms, while not designed to prevent issues, play a critical role in ensuring that any problems that do arise do not go unnoticed. By enabling corrective actions both during and after the financial year, such as field visits or financial report analysis, these mechanisms foster ongoing dialogue and learning, allowing for timely interventions if issues arise. They support the principle of *answerability*, as they ensure that organizations can explain and justify discrepancies when detected.

This stage of accountability is where the initial detection of financial mismanagement or procedural errors takes place. As the Head of Development noted, *“if financial irregularities are not monitored, it creates a risk that will eventually escalate into a larger problem”*. If issues go unnoticed during the assessment phase, there will be no investigation and serious underlying problems can remain hidden. Therefore, the thoroughness and effectiveness of the initial assessment mechanisms are vital. However, the assessment stage is not necessarily just a midpoint in the accountability process, it can also serve as the final step if no issues are identified. In this sense, it acts as a critical gatekeeper: when no irregularities are detected, there is no need for further investigation or corrective action.

Although Bovens' (2010) accountability framework outlines three distinct stages, some processes and functions within donor organizations that exert external accountability often exhibit overlap between these stages, with certain mechanisms operating across or corresponding to more than one stage. We would argue that this overlap arises from the cyclical nature of accountability, rather than it being a strictly linear process, mirroring the iterative characteristics of the NPO funding cycle. For instance, the first two stages of accountability, *assessment*, and *answerability*, may be revisited multiple times before the third stage, *judgement*, is ever initiated. Throughout the funding contract, there is a continuous flow of information exchange between donors and recipients, and donors may also request additional information, corresponding to the *assessment* stage, which is then subject to scrutiny and examination, thereby engaging the process of *answerability*- a cycle which may be repeated many times over according to necessity.

4.6 Creating Accountability Through Judgement

4.6.1 The Repercussions of Accounting Errors

Financial mistakes at Sida are linked to clear and direct repercussions, but consequences are handled depending on the type and severity of the error. If unintentional errors are made, these are assessed based on the materiality of the mistake. If the issue is material and the financial statement therefore provides an untrue view of their operations, the NPO will be asked to submit a restatement. On the other hand, if the mistake is deemed immaterial, NPOs will be asked to prepare an adjustment to their statement, as well as inform the auditor who has reviewed the reports to reflect this adjustment in the audit report.

To avoid conflicts, maintaining open communication with the NPO is essential, and regular follow-up ensures the project remains on track. In reaction to small issues that may arise, Sida tries to find individualized solutions to de-escalate the mistakes. For example, if a project is delayed for justifiable reasons, Sida allows amendments to the agreement, including the reallocation of funds based on a solid work plan. In situations where additional funds are required to meet critical objectives, supplementary funding may be considered. However, while striving to maintain flexibility and develop tailored solutions for organizations, they must rely on their professional judgment and skepticism to accurately assess each situation. The Controller at Sida mentioned an example:

“One time, a partner guaranteed that they would use a specific accounting software to record their transactions during the year. However, at the end of the year, there were no transaction records. When confronted, they answered that ‘they had recorded everything on one computer and that their ex-employee, who became angry with them, took all the records’”.

Another time, during a confrontation with a partner, they had said: *“Oh last time it rained a lot and I have saved all my records in this home and now everything is gone”* (Controller quoting an NPO partner), making excuses in order to evade the obligation of submitting accounting records to Sida. These types of challenges may arise, requiring a thorough analysis of the situation. In these cases, in accordance with the agreement, Sida retains the right to request reimbursement when supporting documentation is not provided. However, the *judgement* process must also consider the financial capacity of the organization. For instance, if a small organization is required to return a substantial amount, such as one million SEK, *“they may never be able to find that 1 million again”* (Controller). This exemplifies that for some small organizations, once the funds are spent or misused, they likely won’t have the financial reserves or alternative sources to recover or repay that amount. In such cases, Sida analyzes whether the ineligible expenses have contributed in some way to achieving the project's intended purpose. Based on this evaluation, they may decide to partially excuse the ineligible expenses. However, if the cooperation is nearing its end, or if trust has been significantly eroded, Sida may choose to discontinue the partnership entirely. This, as Program Manager 2 explained, is because *“ultimately, the relationship [between Sida and their partners] relies heavily on mutual trust, and in certain cases, if eroded, [Sida] may therefore decide to close the door on further collaboration.”*

When larger, more material accounting errors arise, Sida applies stricter measures. One of the most common errors involves organizations reallocating funds between activities without prior approval, thereby disregarding the approved budget and the approved activities. For instance, *“if an organization initially allocates 5 million SEK to Activity A but later shifts an additional 1 million SEK from Activity B to Activity A, the total expenditure remains unchanged; however, we cannot allow these expenses- so they are rendered ineligible”* (Controller). As a consequence, the organization would be required to repay the misallocated amount. This exemplifies a sanction, in accordance with Bovens' (2010) framework. Sida does not approve ineligible or incorrect expenses, often resulting in a back-and-forth dialogue with the organization to address discrepancies and ensure compliance with financial

regulations. The same applies when parts of the budget remain at the end of the year and NPOs try to keep any remaining money as earnings- this goes against Sida's guidelines- and the money needs to be paid back.

4.6.2 The Investigation Process

No matter the materiality, size, or intention behind the error, whenever a suspicion of financial mismanagement arises, employees at Sida who are responsible for the case need to report it to the Sida investigation board. Even if *"it is just a suspicion, [they] have to report it immediately to the investigation unit, who provide [them] with advice on how to manage the case. Sometimes the board is involved too"* (Program Manager 2). The investigation board then provides assistance and guidance on how to proceed and intervene on the issue, depending on the sensitivity and gravity of the case. In cases where the top management of the NPO is not involved in the suspected issue, Sida's Controller can address the issue directly with the NPO, however, as in most cases, where the *"top management is involved, [they] suspend funding immediately"* and an official investigation is launched (Controller). The process includes interviews with key personnel, a review of accounting records, and collaboration with external investigators. After the investigation, which may take several months, a detailed report is produced- and if there is assurance of fraud committed, funding is suspended indefinitely.

4.6.3 The Effect of Implementing Consequences

The final *judgement* stage plays a crucial role in enforcing accountability among NPOs by ensuring that any financial discrepancies are detected, addressed, and linked to clear consequences. As stated by Program Manager 1, *"at any stage, if something appears problematic, we may suspend funding or request additional clarifications."* In cases of serious misconduct, Sida may inform other donors within the broader funding network, thereby escalating the repercussions. If an NPO has multiple funding partners and Sida communicates evidence of fraud or financial irregularities, these donors may also initiate their own investigations and, in some cases, terminate their support. This stage reinforces the message that accountability is not just a procedural expectation but a condition for continued partnership. By calibrating responses based on severity, materiality, and organizational capacity, Sida ensures accountability is fair, not just punitive. Further, Sida considers the intention behind mistakes. The Controller exemplifies this by stating: *"you can make a*

mistake, but when there is intention involved, it becomes fraud. And fraud is the definition of an intentional mistake.” These calibrated responses enhance both financial integrity and trust, making the *judgement* stage a critical mechanism in the overall accountability framework for NPOs.

However, despite scrutiny and detection of financial mismanagement and accounting errors, organizations often continue engaging in similar practices if funding remains unaffected. When confronted with an accounting error, rather than correcting their approach, some organizations attempt to replicate the same behavior through alternative methods in subsequent years. For instance, if an organization is found to have improperly spent the remaining budget at the end of the fiscal year to avoid returning unused funds to Sida, it may attempt a similar strategy in the following year by reallocating the funds to a different expenditure to evade detection. This may indicate the need to reapply the full accountability process, encompassing all stages of *assessment*, *answerability*, and *judgment*.

This final *judgement* stage is essential for upholding financial integrity and serves as both a deterrent and a learning opportunity for NPOs, thereby contributing meaningfully to the broader accountability framework for NPOs. Even the mere existence of consequences also serves as a powerful deterrent against intentional financial misconduct, particularly for smaller organizations that are heavily dependent on Sida as their sole source of funding. For such organizations, the stakes are high, as even a single instance of financial mismanagement can threaten their operational survival.

5. Discussion

Through the lens of Bovens’ (2010) three-stage-accountability framework, we have identified and examined the mechanisms that Sida employs to identify, assess, manage, control, and scrutinize accounting errors by the NPOs they fund. This has revealed a system for reinforcing financial integrity, safeguarding public interest, and ensuring the responsible management of government funds. As previously mentioned, accounting error literature has long recognized the use of ex-post controls, such as corrective measures in reducing the prevalence of errors in NPOS, as well as the mechanisms for identifying the causes and frequency of accounting errors (Burks, 2015; Trussel, 2003). However, literature has paid less attention to how nonprofits are held accountable for such errors by their donors, with a particular emphasis on the preventive role donors play through their demands for transparency

and how this external accountability influences organizational practices. The discussion of our findings is hence structured into two parts and aims to critically engage our empirical material in relation to the existing literature. First, we examine the importance of preventative mechanisms for accounting errors within NPOs and highlight their central role in the accountability process. Second, we consider how our findings contribute to accountability research in accounting, by expanding on Bovens'(2010) framework of accountability, proposing that external factors influence the ways in which donor organizations exert and maintain accountability over NPOs in the face of accounting errors.

5.1 Preventative Mechanisms as a Form of Accountability

In line with previous literature, our findings indicate that audits and financial reports are an important part of the enforcement of accountability in NPOs. For example, Burks (2015) emphasizes measures of how to detect accounting errors in NPOs that have already happened, which lead to corrective or punitive consequences. Similarly, McDonald and Goodman (2020) emphasize the use of corrective measures in ensuring financial accountability and integral financial reporting- a consensus among extant literature. Essentially, existing literature therefore highlights mechanisms to hold NPOs accountable after an incident of accounting errors has occurred, using detection and punishment. However, our findings extend this view by arguing that such measures represent only a limited subset within the broader landscape of accountability mechanisms. Sida emphasizes the need for preventive mechanisms to ensure transparency and financial integrity throughout the funding process. For example, by asking NPOs to disclose key financial and operational data in the pre-funding stage, NPOs invite scrutiny that fosters anticipatory compliance and clarifies expected standards of conduct. Hence, we contribute to the findings of Lamothe et. al (2023) by *“examining the efficacy of preventative accountability mechanisms”* and showing that *“these structural aspects matter in mitigating misconduct”* (p.107).

Furthermore, in the Sida-NPO relationship, prevention is not just technical- it reflects a relational form of accountability- by allowing and fostering dialogue, understanding, and flexibility in the accountability process. Hence, we contribute to Bovens' (2010) study with the insight that accountability is not solely a matter of Sida holding NPOs responsible for their actions; rather, it is institutionalized as a shared process- defined as *“how Sida and partner organizations commonly monitor the Sida-financed initiatives”* (Sida, 2023). This framing positions NPOs as active participants in the accountability process, thereby

enhancing their awareness of preventative mechanisms and reducing incentives to commit accounting errors.

For Sida, monitoring a funded initiative is a shared responsibility between the agency and its partner organization. Partners are required to have established methods, routines, and tools in place to oversee the implementation of their program or project- referred to as the “*contribution*” (Sida, 2023). Sida emphasizes that monitoring and adaptation should be an integral part of contribution management, not merely a way to fulfill reporting obligations. Adaptations are expected to be based on lessons learned throughout the project. While Sida shows understanding when errors occur unintentionally or due to limited knowledge, they also expect partners to learn from mistakes and make necessary adjustments. Ultimately, the cooperation partner is responsible for implementing the contribution effectively, managing risks, ensuring transparency, reporting irregularities to Sida, and overseeing compliance when funds are passed on to other actors (Sida, 2025).

In addition, our findings demonstrate that the relationship between government agencies and NPOs- and their collaborative efforts to establish accountability throughout the funding process- is also deeply shaped by external factors. In this way, the next section will extend the work of Ball et al. (2000) and Bovens (2010) by highlighting how external influences affect accounting practices, operational dynamics, and accountability interactions between actors.

5.2 Contribution to Accountability in Accounting

Bovens’ (2010) study offers a compelling framework for establishing and enforcing accountability within organizations, delineating mechanisms across all three stages- *assessment*, *answerability*, and *judgement*- that together provide a comprehensive system for monitoring, controlling, and promoting sound financial conduct. Bovens’ (2010) and Akbik’s (2022) studies argue that the evaluation of the application of accountability mechanisms is a binary matter of implementation or omission, particularly that the “*evaluation of accountability will start by examining the presence or absence of the stages*” (Akbik, 2022, p.38). However, our findings illustrate that the application of accountability exists along a spectrum, reflecting the extent to which an organization is willing, and able, to detect and penalize accounting errors. Sidas' practices therefore demonstrate that the accountability process is susceptible to external influences. Our findings show three factors that influence how donors hold NPOs accountable for accounting errors.

Firstly, Sida shows how the effectiveness of accountability mechanisms is shaped by the level of expertise of the individuals responsible for implementing them, contributing to the work of Keating and Frumkin (2003). Many of the mechanisms- both preventative and especially detective- require a certain level of expertise to be effectively implemented. Therefore, if a donor organization lacks the necessary capabilities to carry out these accountability functions, the effectiveness of the mechanisms may be significantly undermined. Sida emphasized the importance of knowledgeable staff in detecting mistakes and enforcing accountability. For example, additional controls, such as additional audits on already audited statements, are only possible with the qualified staff on-site. Additionally, differences in financial literacy and confidence influence how thoroughly financial information is analyzed and how responsibilities are interpreted, ultimately affecting the consistency and depth of oversight and enforced accountability across the organization.

Furthermore, Burks' (2015) findings suggest that a way to reduce accounting errors is for the NPO to offer comprehensive staff training. On the contrary, Sida provides and invests in staff training at the partner organization. In this way, our findings also contribute to Bovens' (2010) study by demonstrating that solely exercising external accountability is insufficient on its own to foster sustainable accountability practices and that a potentially more enduring approach involves cultivating internal accountability within NPOs. Sida exemplifies this approach through its emphasis on capacity-building. Specifically, Sida invests significantly in human resource development and training initiatives at the offices of its partner organizations (NPOs). This emphasis reflects a broader understanding: although external actors play a vital role in enforcing accountability, their influence is ultimately limited. In accordance with the findings of Buabeng (2020), genuine and lasting accountability must be embedded internally within NPOs. However, given that many NPOs lack the financial and organizational resources to independently invest in control functions or skilled controllers, donors may need to assume part of this responsibility, contributing to the works of Keating et al. (2008), McDonald and Goodman (2020) and Yetman and Yetman (2006).

Lastly, studies by Ortega-Rodríguez et al. (2024), as well as Samkin & Schneider (2010) suggest that accounting errors that are detected can lead to the loss of legitimacy for the NPO, reducing donor support and fostering mistrust. While our findings support this conclusion, highlighting situations where some of the repercussions in Bovens' (2010) *judgement* stage have led to sanctions, our findings add to the existing literature by arguing that these negative consequences can be passed on to the donors. Consequently, the enactment of accountability

is affected by the potential for repercussions of its implementation- particularly within the *answerability* and *judgment* stages of Bovens' (2010) framework. As Sida operates as a representative of the Swedish government and is funded by Swedish taxpayers, it is subject to heightened scrutiny regarding the management of its financial resources. Consequently, when mismanagement occurs within partner NPOs, it may be perceived as a mismanagement of Swedish taxpayer funds, even if Sida is not responsible for the errors. This dynamic presents a potential dilemma for Sida. On one hand, identifying and addressing financial errors within NPOs is essential for promoting transparency and ensuring that these organizations are held accountable for their actions. On the other hand, disclosing such findings may inadvertently reflect poorly on Sida itself. This may result in reputational damage, political repercussions, and increased scrutiny of Sida's effectiveness and capabilities. This, in turn, may lead to a reduced willingness to investigate or disclose errors, due to concerns that such transparency could reflect negatively on Sida.

Conclusively, depending on the circumstance that accountability is applied in, Bovens' (2010) stages must be understood not as a linear process, but as a continuous cycle. In the Central American context, our findings revealed that although all three stages were implemented, certain irregularities persisted across reporting periods. Misconduct was only partially prevented but often identified and addressed each year. This reflects a broader cultural reality where corruption and unethical practices are often viewed with less severity, and reputational consequences are minimal. As such, the cyclical reapplication of Bovens' (2010) framework- especially the *answerability* and *judgment* stages- is essential to sustaining accountability in environments where traditional deterrents may be less effective.

6. Conclusion

Government fund-receiving nonprofit organizations are held accountable for their accounting errors by donors in three primary ways: through the assessment of their organizational conduct, the scrutiny of financial practices, and ultimately, the consequences imposed in response to identified errors. Drawing on seven in-depth interviews and Bovens' (2020) three-stage accountability framework, our study illustrates how three of Sida's accountability mechanisms- *assessment*, *answerability*, and *judgment* phase- were enacted to ensure compliance at all stages of the financial reporting process- before, during, and after reporting. Sida's response is guided by professional judgment, the organization's financial capacity, and

the extent to which trust has been compromised. Sida demonstrates that by embedding accountability throughout the financial reporting cycle, organizations can strengthen trust, enhance financial reliability, and ensure long-term integrity in their financial management practices. Moreover, our contribution to the extant literature on accounting errors in the NPO industry is dual. Firstly, our study highlights the importance of preventative controls to reduce the likelihood of accounting errors before they occur, thereby fostering anticipatory compliance, enhancing financial transparency, and mitigating the need for corrective or punitive responses. Secondly, our study expands the conceptualization of accountability mechanisms within accounting, illustrating that these mechanisms operate along a spectrum shaped by organizational expertise, contextual factors, and the potential reputational consequences for donors- thereby highlighting the importance of both internal capacity-building and cyclical application of accountability processes to ensure their sustained effectiveness. Conclusively, our study provides an example of how donor organizations can navigate the complexities of enforcing financial accountability in nonprofit partnerships.

6.1 Suggestions for Future Research

While this study focused on a donor's approach to ensuring financial accountability, we urge future research to examine the experiences and insights of NPOs receiving funds, which would offer valuable insights into how these organizations perceive, internalize, and react to donor-imposed accountability measures. By interviewing NPO staff and management, researchers could gain a fuller picture of the challenges faced by NPOs and the effectiveness of donor-driven accountability mechanisms. Furthermore, we believe that our findings on the influence of expertise on the enforcement of accountability constitute an intriguing avenue of research. In particular, future research could delve into how donors manage these potential risks and whether the variance in expertise significantly impacts the integrity of its accountability mechanisms. Lastly, we would be interested to see whether our findings hold true for non-profit organizations that are funded by private funders.

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8. Appendix

8.1 Appendix 1: Interview Details

Date	Position	Setting	Recording	Length
22/01/25	Controller	Online (Skype)	Yes	01:02:09
21/02/25	Controller	In Person	Yes	01:35:16
21/02/25	Controller	In Person	Yes	00:40:29
11/03/25	Analyst	Online (Google Meet)	Yes	00:44:32
18/03/25	Program Manager 1	Online (Google Meet)	yes	00:46:42
20/03/25	Program Manager 2	Online (Google Meet)	Yes	00:45:49
01/04/25	Head of Development	Online (Google Meet)	Yes	00:49:05
Average				00:54:69

8.2 Appendix 2: Interview Guide

The questions below serve as examples to illustrate the general topics covered in the interviews. The exact questions may vary depending on the interviewee's background and the specific phase of the study at the time of the interview.

Formalities and Background

- Presenting the aim of the study.
- Asking if it is ok to record/ tape the conversation.
- Reminding of GDPR form.
- Respondents were asked what role they occupied and what it entails.

Project Selection and Budget

- What criteria do you use to select projects for funding? Which due diligence procedures take place before investment?
- Do you have any input (criteria, requirements, specific guidelines) on how organizations allocate/use the funds provided?
 - Do you have a template for financial reporting or a list of compliance criteria?

- If funds remain at the end of the year, what is supposed to happen to them?
 - How does a remaining budget impact future funding or the amount allocated the following year?

Financial Reporting and Challenges

- Can you walk us through the typical financial reporting and cooperation process for NPOs?
 - How often do you require financial reports and what is included in these reports?
 - What other documentation/reporting do you require throughout the funding period?
 - Do you provide guidance or set specific requirements for financial reporting?
- When reviewing financial reports, what key aspects do you focus on?
- What are the most common mistakes or examples of fraud you encounter?
 - Why do you believe these are the most common mistakes?
 - How frequently would you say these issues arise?
 - Could anything be done to avoid these problems?
- What are the biggest challenges NPOs in Central America face in meeting your financial reporting standards?
 - How do you support organizations in ensuring they report correctly?
- Is there a specific accounting standard or system required for NPOs to use in their financial reports? Why or why not?

Auditing

- Do you require NPOs' statements to be reviewed by an auditor?
 - Are there any guidelines or recommendations?

Fraud Prevention and Accountability

- What internal controls are in place for monitoring NPOs and avoiding the risk of error?
- What mechanisms, in your view, do you have to prevent fraud?
 - How effective do you believe these mechanisms are in preventing fraud/mistakes?
 - Are there any systems in place that are specific to Central America?
- How do you react when you suspect fraud in an organization?
 - What steps do you take to handle suspected fraud cases?

- What are the repercussions for an NPO found to have committed intentional mistakes?
- What corrective steps do you require organizations to take?
- What are the differences in handling intentional vs unintentional mistakes in financial reports?
- What about restatements? Do the NPOs need to construct restatements if accounting errors have been found?

Other

- How effective do you believe that Sida's mechanisms are for holding NPOs accountable?
- How would you describe your relationship and cooperation with NPOs?
- Have you faced any nonfinancial challenges in working with NPOs? If so, what were they and why did they occur?
- What happens when you conduct a field visit? Can you walk us through the process?
- How does Sida balance/relate financial and non-financial follow-up and performance?

8.3 Appendix 3: Contents of the Yearly Plan

This document must include, among other things:

☐ Context; ☐ Problem Statement; ☐ Target Groups; ☐ Budget; ☐ Geographic Area to be covered; ☐ Justification; ☐ Objectives; ☐ Components; ☐ Theory of change; ☐ Institutional Capacity

Logical Framework Matrix with Indicators and Results:

☐ Sustainability; ☐ Ownership; ☐ Detailed Budget Breakdown; ☐ Risk Analysis; ☐ Gender; ☐ Environmental and Poverty Perspectives; ☐ Conflict Analysis; ☐ Implementation Strategy

8.4 Appendix 4: Controllers Due Diligence Assessment Checklist:

Please submit the following documents with your organizational assessment:

Your organization's:

☐ Statutes; ☐ Steering Committee composition; ☐ Organization chart; ☐ Anti-corruption policy; ☐ Conflict of interest policy; ☐ Most recent audit including Management Letter; ☐ Procurement manual; ☐ Travel policy; ☐ Financial reports for two years; ☐ Internal control procedures; ☐ Procedures for oversight of country offices; ☐ Financial management guidelines; ☐ Human Resources procedures/policies; ☐ Salaries of the Management Group with all other benefits; ☐ ERP (Enterprise Resource Planning) system used by HQ and Country Office

8.5 Appendix 5: General Guidelines for Financial Reports

Submission in Microsoft Excel for transparency in calculations; detailed documentation of underlying costs and allocation keys; and an opening balance matching the previous period's closing balance. Reports must outline accounting principles, all income sources (including Sida's contributions, bank interest, and exchange gains/losses), incurred expenses, and unused funds. If applicable, exchange rate effects must be fully disclosed, and a balance sheet included. Implementing partner funding must be specified, noting accounted, pending, and overdue amounts. A cash balance statement should document financial needs against the latest approved work plan and budget. Reports must be signed by both the financial manager (or equivalent) and an authorized representative of the cooperation partner (Sida, 2023).

8.6 Appendix 6: The Use of Generative AI

Artificial intelligence (AI) was employed during this research to support the transcription of interview data. The AI-powered tool in Samsung's Voice Recorder was used to convert audio recordings into text, enhancing the efficiency and consistency of the transcription process. All transcripts were subsequently reviewed and verified manually to ensure accuracy. Importantly, the analysis, interpretation, and writing of the research findings were conducted independently and reflected our own critical engagement with the data. AI tools were also employed for grammar and spelling checks to ensure clarity and linguistic accuracy, as English is not the first language of either author.