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REGIONAL ACTIVITY: DEVELOPMENT OF NATIONAL METHODOLOGIES ON CORRUPTION RISK ASSESSMENT

Setting up the institutional and operational framework of corruption risk assessment in Macedonia: practical suggestions and reflections

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The views expressed in this document are solely those of the author and do not necessarily reflect the views of the Regional Anti-Corruption Initiative or its member States, or of the Austrian Development Agency.

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I. Context and objectives of the report

This report is produced as a follow up to the visit organised by RAI Secretariat in the period 12-13 of May 2016 in Skopje. During the visit, meetings were held with representatives from the Ministry of Finance, Ministry of Justice, Ministry of Interior, the State Commission on Prevention of Corruption and civil society. The aim of these meetings were to exchange opinions and gather insights on the ways corruption risk assessment (CRA) practices can become integral part of the systemic governmental efforts to prevent corruption in Macedonia¹.

The main key points expressed during the meetings are summarised as follows:

- Decision has not been taken on if separate corruption risk assessment methodology should be elaborated or the methodology used for financial risk assessment should be adapted to include corruption risks as well;
- Currently the State Commission for Prevention of Corruption does not have staff, who is specially trained and dedicated to carry out CRA activities;
- The TAIEX report on CRA methodology to be applied in Macedonia expressed the view that special/ separate methodology for corruption risk assessment is not needed. Instead, the TAIEX expert proposed corruption risks to be included in the overall system of financial risk management;
- The Law on corruption prevention will be amended and is currently reviewed by the Ministry of Justice;
- Ministry of Finance has published Risk Management guidelines aimed at outlining the overall approach in managing risks in public sector institutions. In addition, separate instructions guide the public authorities in the process of elaboration of their risk management strategies;
- Civil society representatives (in particular TI-Macedonia) expressed willingness to support the CRA process and underlined the need for introducing external or combined type of CRA.

Based on the views and opinions exchanged during the visit, the current report deliberates on the key features of the corruption risk assessment process, highlighting the need for defining the CRA institutional and operational framework prior to the process of outlining its methodology. The establishment of the parameters of this framework will provide the contextual background and will ensure that the CRA process reflects the needs and the capacities of the Macedonian public institutions.

The remaining of this report is divided in three sections. The first one is devoted to a brief overview of the main features of corruption risk assessment process. The second section deliberates on some key points to be considered in the process of establishment of corruption risk assessment mechanism. The third section comprises of process support matrix. The latter can be used as a check-list, providing guidelines on the elements that should be clarified and comprehensively described when the CRA procedures are established.

¹ All references to Macedonia in the present draft document should be understood in the context of the UN Security Council resolution 817 par.2.

II. Corruption risk assessment: basic characteristics

A: Main objectives and principles

Corruption risk assessment supports the establishment of evidence-based approach in curbing corruption and enables governmental authorities to use effectively the available resources and achieve long-term anticorruption results.

In its essence, CRA is a process of identifying the organizational factors that favor or might favor corruption and harm integrity, assessing their severity, and drawing up recommendations on how to mitigate these risks. Its results should assist the senior management in making informed decisions, identify priorities and select the most appropriate actions.

The scope of the CRAs may differ depending on the scope of the analysed area and may cover entire sectors, organisations or separate organisational structures within a bigger institution. Sectorial CRAs are focused on systemic risk and risk factors that are essentially similar within all institutions inside a sector. Most of the corruption risks, risk factors and other issues can be addressed either on the sectorial level or on the level of an individual institution from the sector in question (e.g. by integrity plan).

In order to yield the expected results, corruption risk assessment should:

- become integral part of the organizational activities and be embedded in the planning processes at both organizational and strategic level;
- be systematic, structured and timely;
- be based on all available information relevant to organisational activities and operational framework;
- engage internal and external stakeholders;
- provide for clear division of responsibilities and independence of the findings;
- recognise that communication and consultation is key to identifying, analysing and monitoring risk.

B: Self-assessment or external assessment?

Depending on the parties, involved in the conduct of the corruption risk assessment, CRAs can be clustered in 3 main categories:

- CRAs based on self-assessment: In this type of assessment, the individual institutions assess their own organisational risks.

Strengths: The main advantage of such assessment is that it creates organisational ownership and raises less organisational resistance. In such configuration, the CRA team is well acquainted with the specifics of the organisational operations and can produce highly relevant results.

Weaknesses: Majority of the organisations face severe challenges in linking their work and operational procedures with corruption risks. The usual range varies from a complete denial to a conditional

acceptance. Major risk in self-assessment CRA is that the organizational risks are not properly identified, or if they are, they are not objectively assessed. Self-assessment practices are therefore successful only in highly ethical environment, where the risk assessment practices have become well established practice. Another weakness of the self-assessment is that the organisations that should conduct CRA rarely poses the knowledge on how to conduct CRA and deal with findings that may not present their organization in the best possible light

Good example of self-assessment CRA practices can be found in Netherlands (for more info please see RAI Handbook on Corruption Risk Assessment in Public Institutions in South East Europe)

- CRAs based on external assessment: conducted by bodies, outside of the organisation in question.

Strengths: The external experts usually possess the needed expertise to conduct CRA. They provide objective and independent view on the risks, related to the operational framework of the organisation. The findings may bring new perspectives and suggest new organisational developments.

Weaknesses: The CRA team may not have in-depth knowledge on the peculiarities of the organisational activities and procedures. The CRA report may not be accepted and may face strong internal organisational resistance. Its findings may not be ‘embraced’ by the organisation which may reject the ownership over the CRA findings and recommendations.

- CRAs based on combined assessment: conducted by joint team of internal and external experts.

Strengths: By combining the knowledge and insights of the experts, working in the organisation and the objective evaluation of the situation, done by the external experts, this method of CRA minimises the weaknesses of the previous two methods, while maximising their benefits. A combined CRA ensures the impartiality and the legitimacy of the assessment; diminishes the organisational resistance; ensures the ownership of the results and enables fast implementation of its recommendations.

Weaknesses: Requires good planning and preparation that may be time-consuming.

Good example of mixed CRA can be found in Moldova (for more info please see RAI Handbook on Corruption Risk Assessment in Public Institutions in South East Europe)

C: Needed resources

As every other organisational task, CRA requires adequate resources to be allocated for its proper implementation. While planning CRA, consideration should be given on:

- What type of resources will be needed (human, technical, financial etc.)?
- How these resources will be ensured?

- Who will be responsible for the resource allocation?

D: Methods of data collection

The data about the specific operational and legal framework; internal and external environment and organisational culture forms the basis of the CRA.

In order to ensure reliability of the CRA findings, the information gathered should consist of both objective data (e.g statistics) and subjective data (e.g public perceptions).

Useful data sources in this regard can be (the list is not exhaustive):

- Audit reports: they may give indications of corrupt use of public funds or demonstrate deficiencies in control or accounting procedures;
- Statistical data appropriate to sector/institution;
- Specialised researches for the purpose of identification of causes, trends and vulnerabilities;
- Interviews and focus groups;
- Surveys and anonymous questionnaires;
- Results from internal checks, audits, investigation and prosecution;
- Confidential "Hotlines";
- Anonymous complaints;
- Confidential questionnaires to employees and contractors;
- Civil society reports;
- Media investigations and publications.

E: Corruption risk assessment stages

The process of CRA can be divided in five main steps:

- 1) Situational analysis/gap analysis;
- 2) Risk identification;
- 3) Risk assessment;
- 4) Identification of risk mitigation measures;
- 5) Implementing the CRA recommendations;
- 6) Monitoring the implementation of the CRA recommendations.

Step 1: Assessment of Preconditions: Situational analysis/Gap analysis

The objective of this stage is to provide a snapshot of the legal and procedural framework of the examined sector/organization. To do so, the CRA team should gather and analyze evidences from primary and secondary sources related to:

- The existing national and sector specific legal and strategic framework along with overview of sub-normative legislative acts;

- Organisational procedures and integrity regulations applicable to the specific sector/organisation;
- External public perception studies, reports and statistics;

In addition, the use of self-evaluation questionnaires is highly recommendable. The latter can provide valuable insights on the integrity culture and the staff perceptions of the organisational/sectorial corruption environment.

Step 2: Risk Identification

The Risk identification process is based on the findings in previous step. It maps the areas of corruption vulnerability, integrity violations or other unethical behaviour. Special attention should be paid to:

- Sensitive processes;
- Sensitive functions, and
- Other areas and points where there is significant vulnerability to corrupt and unethical behaviour.

In the process of corruption risks identification, the CRA team should look at the organisational competences/activities and should address the following questions: *Which, Where, When, Why* and *How* events could prevent, degrade, delay or enhance the achievement of the organisational/sectorial tasks and objectives.

The answers to these questions will provide the team with a list of corruption risks that threaten the organisational performance.

Typically, the risks to which organizations are exposed can be categorized in two main clusters:

- **Risks, typical for all administrative bodies**, irrespectively of their specific focus. These risks relate to the ways the organization is managed and cover areas such as human resource management, assets management, public procurement, IT, licensing, legal representation etc. These risks usually can be clustered in four broad categories: risks related to managing people; risks related to managing services and products; risks related to managing external relations; risks related to the management of money, assets and information.
- **Specific risks** related to the operational area of the organisation. These are the risks that derive from the specialized activities that the organisation conducts.

Step 3: Assessment of Risk Levels: Risk Mapping

Once the risks that threat the organizational integrity are defined, they should be classified in a risk map, assessing their criticality and harm for the organization.

In this stage, the following elements should be considered:

- What will be the severity of effects of acts of corruption and integrity violations (if they occurred)?
- What is the organizational exposure to risks?

- What is the probability of occurrence of damage?

Impact:

Some of the factors to be consider when estimating the potential impact of each corruption risk or scheme include: past incidents of the corruption scheme (if any);similar incidents of the corruption scheme at other organisations; potential damages for the population (health, safety, security, environment etc.); potential economic losses for the state; potential losses of credibility and trust; potential losses of foreign investments.

Probability:

When estimating the probability of the corruption scheme to occur it is worth considering:

- The nature of the transaction or process to which the scheme relates;
- Incidents of the corruption scheme occurring in the past in this particular area;
- Incidents of the corruption scheme in the particular organisation;
- The local corruption culture and environment;
- The number of individual transactions related to the scheme;
- The complexity of the scheme and the level of knowledge and skill required for execution;
- The number of individuals needed to perpetrate the scheme; and
- The number of individuals involved in approving or reviewing the process or transaction related to the scheme.
- What is the organizational resistance (possibility to avoid or limit the effects as a result of operational controls, technical and human infrastructure)?

The findings drawn on the bases of the analysis conducted in stages **A**, **B** and **C** is recommendable to be verified by focus groups and interviews with managers and expert staff.

Step 4: Recommendations to eliminate/ diminish the effects of integrity risks

The objective of this stage is to provide recommendations for diminishing the risks, identified in the previous stages.

Priority should be given to addressing the risks identified as extreme and high. The mitigation risks measures should reflect the organisational commitment to fight corruption, should be time-bound and should allocate the appropriate resources for their implementation.

Step 5: Implementing the CRA recommendations

Once the CRA recommendation has been delivered to the senior management of the organisation, they should be embedded in the operational and strategic framework. There should be a clear planning, outlining how the recommendations should be implemented, who is responsible for that, what is the timeframe for the implementation. The risk mitigation measures, identified during the CRA should also allow for scrutiny of their implementation.

Step 6: Monitoring the implementation of the CRA recommendations

Given the constantly changing external and internal environment, a periodic assessment of the relevance of the recommendations and the emergence of new corruption factors should be periodically assessed. Adjustments in the integrity plans/CRA plans should be made if needed.

Regular monitoring on the level of implementation and the effectiveness of the measures should be conducted as the last step of the CRA cycle.

F: Elements to be included in the risk assessment plan

Every risk assessment exercise should begin with the establishment of risk assessment plan, defining the main cornerstones of the assessment. The core elements to be included in such plan consist of:

1. Objectives of the CRA;
2. Scope of CRA;
3. Implementing team (who will conduct the assessment);
4. Methodology (how the assessment will be conducted, what type of data will be gathered, who are the main stakeholders to be involved etc.);
5. Detailed tasks and timeframe (describes each of the steps in the assessment and provides timeframe for their implementation);
6. Resources (what will be the needed resources for the implementation of the assessment);
7. Monitoring and reporting requirements;
8. Outcome (what will be the result of the assessment and how it will be incorporated in the organisational procedures).

III. Some suggestions, reflecting the peculiarities of the Macedonian context:

Macedonia is in a process of introducing corruption risk assessment as a tool for strengthening thenational system of corruption prevention. There are current discussions on the legal platform needed for the establishment of CRA and the particular methodology that should be applied in this regard. Those elements however can be properly identified only if a clear vision on the CRA institutional and operational framework is established. Prior to the commencement of CRA methodology drafting, consideration should be given to the following questions:

✓ What type of CRA should be introduced (self-assessment; external or mixed assessment)?

Given the peculiarities of the different types of CRA and the current corruption perception levels in the country, it is highly recommendable that the Macedonian authorities consider the introduction of a mixed form of CRA, involving both internal and external experts. The involvement of external (to the organisation) stakeholders is needed to ensure the legitimacy of the CRA and guarantee the unbiased, expert identification and assessment of the corruption risks. The involvement of internal experts on the other hand will ensure the ownership and the smooth implementation of the CRA recommendations. A

mixed CRA team will benefit from a greater public and organisational support and will contribute better to the success of the anticorruption interventions at organisational and sectorial level;

✓ **Which institutions should be involved in the CRA?**

The answer to this question is linked to the type of CRA chosen by the Macedonian authorities. If mixed CRA is chosen, the list of external parties may include the State Commission for Prevention of Corruption, Auditing and controlling institutions, civil society representatives etc. The risk assessment practices/methods already established by the Law on public internal financial control should be taken as guidelines and should be adapted to the specific needs of the corruption risk assessment. The experience acquired by the internal and external auditors may add valuable contribution to the CRAs. Yet, due to the peculiarities of corruption as a social phenomenon, active participation of the State Commission for Prevention of Corruption and civil society representatives working in the anticorruption area should be sought to ensure the proper focus of the CRAs.

✓ **What should be the scope of CRA (which institutions should be covered)?**

The scope of the CRA should reflect the available capacities and state resources. It should be noted, that although the introduction of CRAs for all state bodies is a good practice, it requires the allocation of significant human, financial and technical resources and preconditions the presence of well qualified staff, capable to carry such large scale assessments. If the allocation of such resources is not possible, it is worth considering another approach which covers first the institutions/sectors that are considered most vulnerable to corruption and following their assessment cascade CRAs down to other organisation. Such approach will provide the needed learning and resource allocation framework, allowing for in-depth and comprehensive CRAs to be carried out in the areas recognised as governmental priorities in the fight against corruption;

✓ **How often CRA should be conducted?**

Considering that the findings of the CRA analysis should form the anticorruption policy at institutional and national level, it is worth considering linking the CRAs with the strategic planning cycles of all organisations (or with the national anticorruption strategy cycles).

✓ **What should be the legal/strategic platform, establishing CRA?**

The answer to this question has two dimensions: one is related to the operational and institutional framework of CRA and the other to its methodology.

In terms of legislative basis that should introduce CRA framework: The on-going revision of the Law on prevention of corruption provides a valuable opportunity for codification of corruption prevention practices. Given that CRAs are powerful instruments for corruption prevention, and considering the need for establishing a single, clear and comprehensive framework for corruption prevention, the natural place of CRA provision is in the mentioned law.

In terms of CRA methodology: The two existing risk management guidelines (on risk management and on elaboration of risk management strategies), can be used as reference points on how CRA should be conducted. Depending on chosen operational framework of CRA, the two documents: 1) can be adapted and used as reference points (in case of self-assessment), or 2) can form the foundations of separate unified CRA methodology.

IV. CRA process support matrix

This CRA process support matrix provides a check-list of the main elements that should be considered when the operational framework and the methodology for the CRA are established.

Corruption Risk Assessment Process Matrix		
What type of CRA is envisioned? <ul style="list-style-type: none"> - Sectorial; - Organizational; - CRA of administrative units within bigger administrative structures; 	Please explain:	
Is CRA embedded as integral part of the organizational process? If yes: <ul style="list-style-type: none"> - Is CRA embedded in the planning process strategic level? - Is CRA embedded in the planning process at organizational level? 	Yes	No
	Please explain how:	
Does CRA assist the senior management to make informed choices, identify priorities and select the most appropriate action?	Yes	No
	Please explain how:	
Will CRA be conducted at regular intervals of time? If yes, how often?	Yes	No
	Please explain:	
CRA will be based on self-assessment or will be conducted by a team of external and internal experts?	Please explain:	

If the CRA is based on self-assessment: who will be the responsible unit/structure for conducting it?	Please explain:	
If the CRA is based on self-assessment: how will be the objectivity of the assessment ensured(and the weaknesses mentioned in section 2 mitigated)?	Please explain:	
If the CRA is conducted by a team of external and internal experts: who will be the external stakeholders to be involved?	Please explain:	
If the CRA is conducted by a team of external and internal experts: who will be the internal stakeholders to be involved?	Please explain:	
If the CRA is conducted by a team of external and internal experts: who should be the leader of the assessment team (unit/position within the organisation)	Please explain:	
Who should appoint the CRA team?	Please explain:	
How will be the independence and objectivity of the CRA team ensured?	Please explain how:	
What should be the timeframe for conducting the risk assessment?	Please explain:	
Will the CRA findings be based on all available information, relevant to the organisational activities?	Yes	No
	If not, please explain:	
How the data needed for the CRA will be collected?	Please explain:	

What kind of data will be collected?	Please explain:
Which will be the external sources of data?	Please explain:
Which will be the internal sources of data?	Please explain:
How the perceptions on the internal organizational culture and practices will be gathered? (e.g focus groups, interviews with senior managers, anonymous self-assessment questionnaires)	Please explain
How will be the impact of the identified risks assessed?	Please explain:
What will be the methodology for assessing the probability of the risks?	Please explain:
What type of resources will be needed to conduct CRA? <ul style="list-style-type: none"> - Human resources; - Technical resources; - Financial resources; 	Please explain:
How the resources needed for the implementation of CRA will be ensured?	Please explain:
Who will be responsible for the resource allocation?	Please explain:
How will the CRA recommendations be embedded in the organizational activities/strategies?	Please explain:
What will be the mechanism for	Please explain:

monitoring the implementation of the recommendations, deriving from the CRA ?	
How will be the effectiveness of the CRA recommendations monitored?	Please explain: