防貪錦囊

Guidelines for Corruption Prevention

best practices

Guidelines on Disbursement of Grants by Public Funded Organizations

Corruption Prevention Department

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Disbursement of Grants by Public Funded Organizations

Introduction

The ICAC Corruption Prevention Department conducts procedural studies to assist clients to identify control weaknesses and to devise appropriate corruption prevention measures. Disbursement of public grants is an area which can benefit from corruption prevention guidelines.

Organizations, wholly or partly funded by the Government, often provide grants to eligible applicants to undertake projects or activities which aim at achieving their organizational objectives.

The objectives will not be served if, through corrupt practices, unjustified preference is accorded to some applications, fraudulent applications/ claims are accepted or funds are misappropriated. Any ultimate loss will be borne by the public. This can be avoided if sufficient safeguards are incorporated into the funding system to reduce corruption opportunities.

Application

These guidelines are applicable to public funded organizations which are involved in the allocation and disbursement of grants for approved projects and activities. General guidance is provided for the necessary corruption prevention controls.

Definition

A grantor is an organization which administers and disburses a fund according to the specific purpose for which it is set up.

A grantee refers to a private individual or an organization that receives a grant.

A grant includes a full or partial subsidy, an allowance or similar financial assistance.

Principles

Where public money is entrusted to an organization, it has a duty to act in the best interest of the public. The key principles are :-

- achievement of the purpose of the grant;
- openness and fairness; and
- avoidance of potential conflict between duty and personal interest.

Achievement of Purposes of Grants

A grantor should approve grants only for projects/ activities/ expenditure items which fall within the ambit of the fund. Approved grants should be used in compliance with their terms and conditions. To achieve the purpose of a grant, clear policies, procedures and requirements should be laid down for approving grants.

An established control framework will reduce the risk of fraudulent applications, false claims, wrongful use of grants and breaches of conditions of grants, thus enhancing the probity and effectiveness of the funding system. The controls should cover :-

- segregation of duties;
- staff supervision;
- evaluation of funding applications;
- time frame for application/ claim processing;
- variation of project proposals;
- procurement of goods and services by grantees;
- verification of claims;
- payments;

- bank accounts;
- documentation;
- monitoring of projects undertaken by grantees; and
- internal/external audit.

Procedural Guidelines

Inconsistent practices may give rise to allegations of corrupt dealings. Procedural guidelines in the form of a manual or a set of instructions are desirable to ensure consistency and conformity to policies and procedures. Procedural guidelines should be readily available to and easily understood by the staff concerned.

They should include, among other things, the following elements :-

- ambit and objectives of the fund;
- application methods and eligibility criteria;
- evaluation of funding applications;
- approval authorities for allocation and funding applications;
- verifiable proof required to support subsequent claims for payment;
- audit trails for approval and disbursement of funds;
- accounting and internal audit controls; and
- rules governing declaration of interest, acceptance of advantages and confidentiality of information.

Segregation of Duties

Adequate segregation of duties within the funding system will prevent possible manipulation by a single person and provide the basic checks and balances. Typical functions to be performed by different personnel include :-

- setting of ambit, objectives and allocation policies of the fund;
- vetting and evaluation of funding applications;
- approval of funding applications;
- disbursement of grants;
- checking of progress of approved projects; and
- internal audit checks.

Supervision

Effective supervision is essential in reducing the risk of manipulation by staff who collude among themselves or with applicants/ grantees to abuse the funding system. Supervisors should conduct routine and surprise checks to ensure proper understanding of and compliance with policies and procedures.

Supervisory checking with a minimum of two tiers is desirable to ensure integrity of the assessment/ vetting of an application or a claim for payment. In addition, grants and claims should be approved by appropriate authorities according to their financial limits, which should be clearly laid down.

Evaluation of Applications

To prevent possible manipulation by assessment personnel, funding applications should be considered based on pre-determined evaluation criteria. To achieve consistency and objectivity in an evaluation, a marking scheme or a checklist should be devised as far as possible to quantify determinant factors.

Time Frame

A time frame should be set for assessment of applications and processing of claims to prevent staff from delaying or expediting a grant/ payment for a corrupt motive and to enhance efficiency.

Variation of Proposals

Variation of project/ activity proposals by grantees is not uncommon. There may be changes as to the date/ time/ venue, the nature of the activity, target beneficiaries and the budget of the project/ activity. Allowable variations and conditions (e.g. requirement for prior notification or approval) should be specified clearly to avoid abuse. A fresh application or an endorsement by the original approval authority should be required for non-allowable variations.

Procurement of Goods/ Services

Grantees often need to order goods and services for carrying out approved projects/ activities. Conditions of grants should include the necessary safeguards to ensure that purchases are free from corruption and malpractice, that they are procured in a fair and open manner, and that they represent value for money.

A sufficient number of quotations should be obtained to ensure competitiveness. Where feasible, issue of orders, receipt of goods/ services and payment of invoices should be handled by different personnel. Procurement personnel, in particular, should avoid conflict of duty and personal interest.

The "Procurement Practices" of the Best Practice series produced by the Corruption Prevention Department provides good reference on the necessary control measures.

Verification of Claims

A funding system is prone to fraudulent claims for payment. Typical examples of frauds include : inflating the amounts claimed, using false receipts to support claims where no goods/ services have been provided, and supplying false particulars/ forged signatures on the receipts to obtain payment.

To facilitate tracing of issuers of receipts, a grantee should be required to nominate persons responsible for checking and certifying receipts and use of goods/ services. Sufficient audit trails should be provided by the grantee to enable identification of vendors, payees and certifying persons of receipts.

To deter and detect fraudulent claims, a grantee should be required to submit a statement of accounts supported by receipts. Verification checks should be conducted to ensure that :-

- all supporting receipts submitted by a grantee are duly certified;
- the receipts bear the identities, telephone numbers and addresses of vendors;
- the dates, venues and purchase items on the receipts correspond with those of the approved project/ activity;
- the necessary number of quotations have been obtained; and
- the calculations and balances on the submitted statement of accounts are correct.

Random checks should be made with certifying persons/ vendors to verify the information contained in the receipts/ quotations.

To confirm that an approved project/ activity has been organized, there should be a requirement for submission of verifiable proof such as photographs, samples of publicity leaflets, details of programmes and copies of admission tickets. Where applicable, the grantor should devise a system of attendance or random/ surprise on-site inspections to ensure proper use of the grant.

Payment of Grants

An approved grant should be paid directly into a bank account opened in the name of the grantee/ grantee organization. Cash payment should be avoided as far as practicable. A grantor should maintain sufficient audit trails to identify payees.

Where payments in respect of a grant are settled by cheques, the following control measures should be taken:-

- all cheques should be signed by at least two authorised signatories;
- signatories should not be allowed to sign cheques drawn in their favour;
- an officer other than the signatories should be held responsible for the safe custody of cheque books and the preparation/ recording of cheques for issue;
- cheques should be crossed and made payable to approved payees only;
- issue of cash cheques should be avoided;
- signing of blank cheques should not be allowed;
- void cheques should be cancelled and retained for audit inspection; and
- cheques should be supported by vouchers.

The Best Practice "Payment Procedures" produced by the Corruption Prevention Department provides more details on control measures for payment.

Bank Accounts

To reduce the risk of misappropriation, a grantor/ grantee should consider the following controls for operation of bank accounts :-

- a separate bank account should be maintained for the fund or a grant of substantial amount;
- the opening of bank accounts should require at least two signatories at senior level who are authorised to act for the grantor/ grantee;
- the operation of bank accounts should require at least two authorised officers and appropriate financial limits should be set for different levels of officers; and
- reconciliation of accounting records and bank account statements should be carried out at least monthly by one or more independent officers.

Documentation

A grantor should maintain proper records of all accounting transactions, decisions and events affecting the fund.

Monitoring of Performance

An assessment system should be established by the grantor to evaluate project progress, compliance with the conditions of grant, and to ascertain whether or not the objectives of the grant have been achieved. A time-limit should be set for submission of an assessment report to a specified authority. Consideration should also be given to requiring a grantee to submit progress reports and interim financial statements of major projects, if the nature, duration and cost of the project make it desirable.

Internal/External Audit

Auditors should be independent of the operating departments. Policy/ procedural non-compliance, breaches of financial limits and unauthorised transactions should be investigated and the findings reported to the senior management of the grantor.

Openness

To enhance public accountability, it is important to ensure transparency of policies, procedures and practices. Sufficient information should be given to the public to enable potential applicants to assess their interest and to assist applicants to prepare their applications. This should cover :-

- invitation of applications;
- eligibility criteria;
- application procedures;
- time frame for processing applications;
- evaluation criteria;
- announcement of result of applications;
- complaint or appeal channel; and
- an overall account of annual allocation and use of grants.

Opportunities for applying grants should be open to all eligible applicants. Adequate publicity about the fund should be given and any time-limit should be long enough for any applicant to prepare and submit an application.

Fairness

The funding system should be administered in an equitable and just manner.

Policies, procedures and practices must not be discriminatory so as to preclude a particular class of applicants. Eligibility and evaluation criteria should not be too restrictive or unreasonable. Requirements should only refer to those which are essential to ensure an applicant's capability of fulfilling the terms and conditions of a grant.

Budgetary apportionment of a fund among major categories of projects/ activities/ applicants should be fully justified, which could be achieved with adequate consultation and well thought-out strategies. Collective decision making by an independent committee will reduce personal influence and bias.

Applicants should be treated equally. Information provided to one applicant should not be different from that given to others. Applications for funding projects of similar nature should be subject to similar evaluation criteria and time frame for processing.

Impartiality should be maintained in the evaluation of an application, the finding of which should be substantiated by relevant facts and/ or proof. Personal prejudice will be reduced if an evaluation is subject to a well-defined marking scheme. Non-disclosure of applicant identities in the evaluation process will offer a degree of protection against possible favouritism to a particular applicant.

To ensure that decisions relating to fund allocation/ funding applications are made fairly and objectively, a review system should be provided so that applicants are able to lodge their appeals/ complaints. An impartial and independent review panel should be appointed to resolve such matters.

Conflict of Interest

Any perception of conflict of interest may give rise to allegations of favouritism and loss of public confidence. Those who are involved in the decision making process must not use their position to benefit themselves or other persons with whom they have family, personal, social, business or financial ties.

There should be a requirement for declaration of potential conflict of interests, for which proper records should be maintained. Where a potential conflict of interest arises, the individual concerned should avoid participating in the decision making process. Under no circumstances should a person be involved in the vetting, evaluation or approval of his own application or other applications where a conflict of interest may arise (e.g. an application from his affiliated organization).

Acceptance of Advantages

Gratuities must not be accepted in relation to the processing of a grant. Gratuities generally include such advantages as money, loans, credits, prejudicial discounts, gifts and favours offered directly or indirectly by applicants and grantees. Entertainment offered by applicants should also be avoided.

Confidential Information

All confidential information including personal data, whether owned by a grantor or a grantee, should be held in strict confidence and handled with due care. Such information should not be divulged unless disclosure is authorised by the parties concerned or required by law or unless the parties have waived confidentiality.

No personal advantage should be obtained by the use of such confidential information.

Further Advice

In addition to the Best Practice series of publications, the ICAC maintains a specialist ***Advisory Services Group*** which provides cost-free corruption prevention advice to private companies. Companies which have used this service include almost all trades and sizes from small family businesses to medium and large corporations.

As managers of the enterprise it is your responsibility to determine how best to use this free advice on minimizing corruption risk to suit your own circumstances.

Organizations interested in corruption prevention practices in other areas or those requiring further assistance in disbursement of grants are invited to call Tel. No. 2526 6363 for specialised advice under conditions of the strictest confidence. We pledge to respond to your request within two working days.

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