



# Lessons on accountability, transparency and audit of Tsunami-related aid

*country report of the Netherlands*





*Country report of the Netherlands*

# **Lessons on transparency of and accountability for disaster-related aid**

## **Task Force on the Accountability for and Audit of Disaster-related Aid**

10 November 2008

Netherlands Court of Audit

Lange Voorhout 8, P.O. Box 20015, 2500 EA The Hague, The Netherlands

This document is copyright protected and contains information owned by the Netherlands Court of Audit. The document may be reproduced for internal use only. No part of this document may be reproduced or made available to third parties without the prior written permission of the Court of Audit.



# Contents

	<b>Executive summary</b>	<b>1</b>
<b>1</b>	<b>Preface</b>	<b>3</b>
1.1	Introduction Tsunami Initiative INTOSAI	3
1.2	Lessons learned on transparency and accountability of disaster-related aid	4
1.2.1	Insight Tsunami-related aid flows	6
1.2.2	Audits, evaluations and report	7
1.2.3	Pilot study GIS & Audit	7
<b>2</b>	<b>Accountability and audit Tsunami-related aid flows</b>	<b>8</b>
2.1	The stakeholders involved	8
2.2	Central government	9
2.2.1	Volume of aid	9
2.2.2	Channels of aid	10
2.2.3	Accountability and audit	12
2.3	Local government other public entities	12
2.3.1	Volume and channels of aid	12
2.3.2	Accountability and audit	13
2.4	Aid organisations	14
2.4.1	Volume of aid	14
2.4.2	Channels of aid	15
2.4.3	Accountability and audit	16
	<b>Appendix I Example channeling Tsunami-related aid via international umbrella organisation</b>	<b>24</b>



## Executive summary

The Netherlands Court of Audit (NCA), as a member and Chair of the Task Force on the Accountability for and Audit of Disaster-related Aid, has studied the accountability and transparency of Tsunami-related aid flows of relevant stakeholders within the Dutch humanitarian aid sector. We studied publicly disclosed accountability information over the period 2004-2006 and held interviews with experts having knowledge of the humanitarian aid sector. During our study we were supported by the Dutch Ministry of Foreign Affairs, the office of PricewaterhouseCoopers (PWC) in the Netherlands and by the Austrian Ministry of Foreign Affairs, for which we are most grateful.

### *Volume of Tsunami-related aid in the Netherlands*

The Dutch government (Ministry for Development Cooperation) pledged EUR 300 million for relief, rehabilitation and reconstruction of the Tsunami-affected areas. Of this amount EUR 31 million was pledged for the relief phase, EUR 200 million for the rehabilitation and reconstruction phase and EUR 69 million for debt relief.

Municipalities and provinces in the Netherlands also provided funds for the Tsunami-affected countries. We found accountability information from two municipalities and five provinces<sup>1</sup> indicating that EUR 5 million had been provided for the Tsunami-affected countries.

The large aid organisations in the Netherlands have organised themselves into a group of cooperating aid organisations to raise funds for humanitarian crises such as the Indian Ocean Tsunami. The group of cooperating aid organisations (SHO) raised about EUR 205 million for the Tsunami-affected countries in 2004 and 2005. Of this amount EUR 200 million came from the Dutch public, Dutch business community, lotteries, municipalities and provinces. The Dutch government provided EUR 5 million to the group of cooperating aid organisations.

---

<sup>1</sup> The Netherlands has twelve provinces and more than 400 municipalities.



*Findings on accountability and audit of Tsunami-related aid*

We found that the government and the larger humanitarian aid organisations had complied with accountability requirements set by rules and regulations, by funding agencies, by accreditation institutions and by self-regulation. We also found that the larger humanitarian aid organisations had even provided more information than required by the accountability rules in place. Nevertheless, lack of information and lack of comparable information prevented us from following the aid flows from source to destination. We therefore concluded that the accountability requirements applicable to humanitarian aid funds in the Netherlands do not facilitate a transparent audit trail. We were also unable to establish a sector-wide overview of the provision and expenditure of Tsunami funds in the Netherlands.

The lack of accountability information and comparability of that information hampers the planning, coordination, monitoring and auditing of aid and stands in the way of learning for the future. The Task Force concluded from various country reports such as this one that a single information structure should be in place to facilitate an audit trail of disaster-related aid funds. This single information structure should contain standardised financial and performance accountability information that matches the information needs of the relevant stakeholders. A single information structure would enhance the accountability and transparency of disaster-related aid funds. The Netherlands Court of Audit is willing to assist the Dutch aid sector with the further development of transparency and accountability for disaster-related aid. We recommend a hands-on, step-by-step approach with all relevant stakeholders to develop a common set of financial and performance data and to harmonise definitions, accountability and reporting standards. Such an approach could establish a platform for a single information structure.



# 1 Preface

## 1.1 Introduction Tsunami Initiative INTOSAI

Recent natural disasters such as the Indian Ocean Tsunami of 26 December 2004 and those on various continents in the period since the Tsunami (2005-2008) have demonstrated that such calamities pose problems of a specific kind, necessitating numerous and varied aid measures. Emergency aid, humanitarian aid, rehabilitation and reconstruction are complemented by capacity building in the fields of anti-corruption, good governance, accountability and financial transparency. There is also a need for comprehensive coordination of the stakeholders involved.

As an autonomous, independent, non-political organisation, INTOSAI (International Organization of Supreme Audit Institutions) believes it should contribute its collective experience to enhance accountability for disaster-related aid spending and to promote transparency. The 54th meeting of the Governing Board of INTOSAI, in Vienna in November 2005, therefore decided to create a Task Force on the Accountability for and Audit of Disaster-related Aid, chaired by the Supreme Audit Institution of the Netherlands with two Vice-Chairs, the BPK of Indonesia and the BAI of Korea.

The Task Force would promote the exchange of information to identify a global audit trail and prepare the ground for a meaningful and effective coordination of audits. It would enhance the transparency of flows of funds from donors to recipients and identify the role of international organisations (multilaterals, non-governmental organisations - NGOs). Based on lessons learned, it would develop best practices for Supreme Audit Institutions (SAIs), national governments, international institutions and NGOs to enhance accountability for disaster-related aid.

The Task Force was linked to strategic goal 3 in the INTOSAI Strategic Plan 2005-2010, "Knowledge sharing/Knowledge services". The goal liaison for the Task Force was the SAI of India.



In the final proposal for the establishment of the Task Force, the Governing Board agreed upon the following four work packages for the Task Force:

1. Framework for the exchange of information.
2. Internet Communication Forum.
3. Formulating Guidelines for Supreme Audit Institutions on the Audit of Disaster-related Aid.
4. Formulating best practices and recommendations to improve the transparency and accountability of disaster-related aid for all stakeholders.

The four work packages were realised in two phases:

- Work Packages 1 and 2: establish an audit trail for Tsunami-related aid.
- Work Packages 3 and 4: establish a potential audit trail before a natural disaster happens.

Lessons learned would be gathered from establishing the audit trail for Tsunami-related aid. The Task Force would use these lessons and lessons learned from other natural disasters such as Hurricane Katrina and the earthquakes in Indonesia and Pakistan to flesh out the most important issues regarding accountability for and transparency of aid flows and to formulate recommendations to enhance accountability for and transparency of aid flows. The Task Force would use the lessons learned and the recommendations to develop best practices for relevant stakeholders such as national governments, international institutions and NGOs regarding accountability for disaster-related aid and to develop guidance for SAIs regarding disaster-related aid.

## **1.2 Lessons learned on transparency and accountability for disaster-related aid**

Disaster-related aid can be seen as a flow of resources (in cash or in kind) from a source (donor) to a destination (recipient) and a flow of information from recipient to donor. The relation between donor and recipient is essentially a simple linear one.

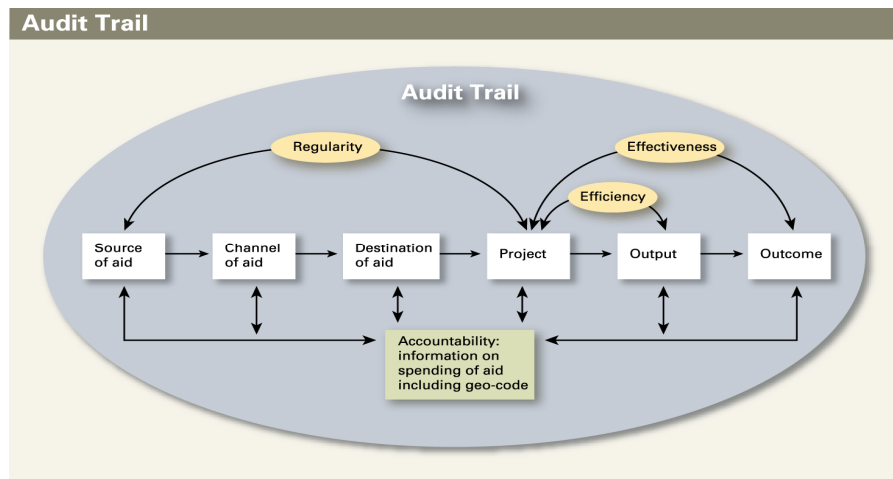




Donor and recipient want to have assurance on the following questions:

- *Has the aid pledged been provided (trust)?*
- *Has the aid provided been spent on its intended purpose (regularity)?*
- *Has the aid provided been spent in the most efficient way (efficiency)?*
- *Has the aid provided has been spent in the most effective way (effectiveness)?*

These questions cannot be answered without an audit trail:



Given the international character and complexities of the humanitarian aid sector it is difficult to construct an audit trail and therefore to answer the questions of trust, regularity, efficiency and effectiveness:





That is why the Task Force on the Accountability for and Audit of Disaster-related Aid gathered lessons on how to establish an audit trail to improve preparedness for other disasters. These lessons have been published in the report *Lessons on accountability, transparency and audit of Tsunami-related aid* on the website [www.intosai-tsunami.org](http://www.intosai-tsunami.org).

The Task Force gathered lessons from three sources:

1. Establishing an insight into Tsunami-related aid flows.
2. Audits, evaluations and reports on disaster-related aid (broader than the Tsunami alone).
3. Geographical Information System (GIS) & Audit pilot study.

### **1.2.1 Tsunami-related aid flows**

The Netherlands Court of Audit gathered and analysed publicly disclosed accountability information issued by 67 organisations that were involved in the provision and expenditure of Tsunami funds. Of these 67 organisations, 43 provided data on their involvement in Tsunami-related aid. Our main sources of information were annual reports and accounts on which an auditor had issued an assurance statement. We entered the data available on Dutch Tsunami funds in a database that the Task Force developed to help us gather and analyse the available data and match our data with those of the other Task Force members. We used the accountability information and other information on the Dutch humanitarian aid sector to construct a chart of the flow of Tsunami funds from source to destination.



### **1.2.2 Audits, evaluations and reports**

We studied various documents on disaster-related aid that were issued by national and international organisations. We also held interviews with relevant stakeholders. The resultant findings and lessons learned regarding trust and the regularity, efficiency and effectiveness of the Dutch Tsunami funds were used as input for the Task Force's report on lessons learned.

### **1.2.3 GIS & Audit pilot study**

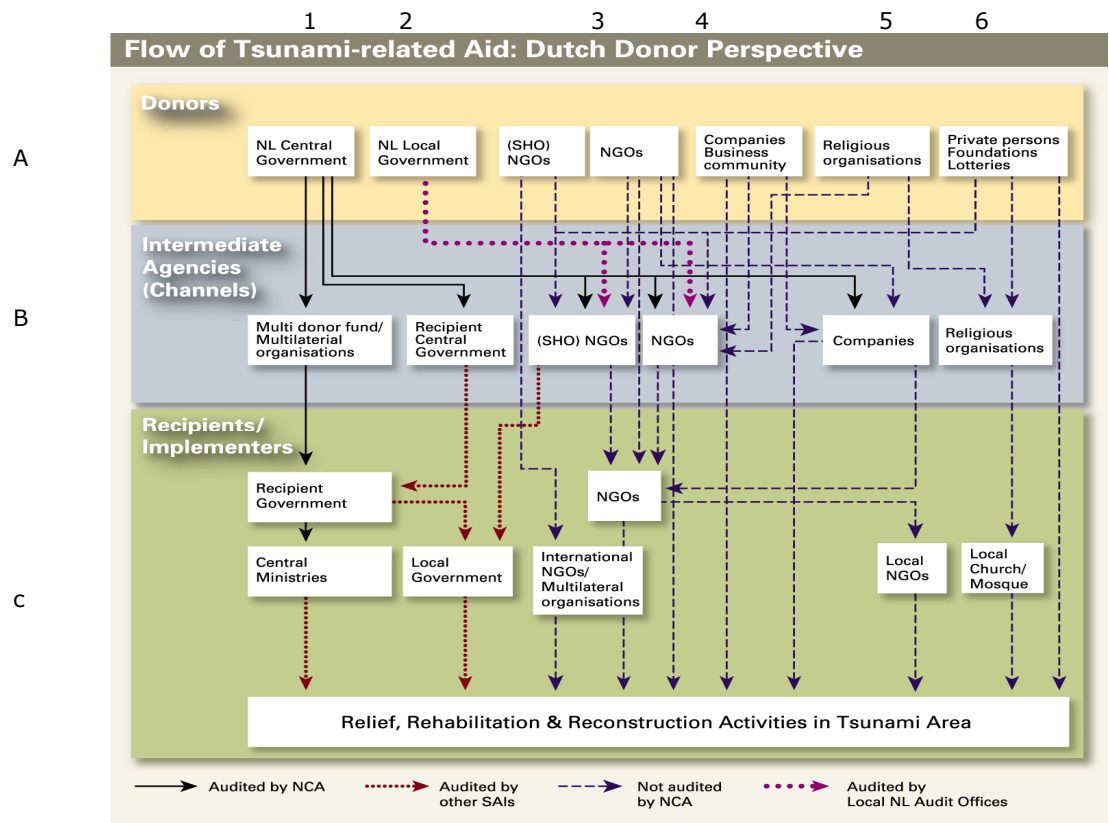
The Task Force conducted a pilot study of the use of Geographical Information Systems to audit disaster-related aid. The Netherlands Court of Audit was a member of the pilot study group and was supported by the Dutch Ministry of Foreign Affairs, for which we are most grateful. The results of the pilot study are presented in chapter 5, GIS and auditing disaster-related aid, in the Task Force's report on lessons learned and in the section on GIS & Audit on the [www.intosai-tsunami.org](http://www.intosai-tsunami.org) website.



## 2 Accountability for and audit of Tsunami-related aid flows

### 2.1 The stakeholders involved

Many organisations participated in the Tsunami-related aid. We developed the following matrix to distinguish the individual organisations.



In this matrix we defined 6 major stakeholder groups:

1. Central Government
2. Local Government
3. NGOs
4. Business community
5. Religious organisations
6. Private foundations, lotteries etc.



These stakeholder groups are present in most countries and they act in the following roles.

- A. Donors
- B. Intermediate Agencies/Channels
- C. Recipients/Implementers

The matrix above gives an indication. We use the following criteria:

#### **A. Donor**

A donor is a national government, agency or private organisation that raises money and makes a contribution to a consolidated appeal. (An appealing organisation can be a government, umbrella organisation, an agency, an NGO, etc. requesting funding for specific projects.)

#### **B. Channel**

Appealing and coordinating organisations. In this role they do not raise funds or operate within projects themselves. The channel is an intermediate organisation (or chain).

#### **C. Recipient/implementer**

An implementer collaborates with the appealing organisation to implement projects, usually on a sub-contract basis. (Implementers can be governmental organisations, national or international NGOs or other organisations.)

## **2.2 Central government**

### **2.2.1 Volume of aid**

In the Netherlands two ministries are involved in development assistance: the Ministry of Foreign Affairs and the Ministry for Development Cooperation. The Ministry for Development Cooperation uses the staff of the Ministry of Foreign Affairs. The development cooperation policy has a stable funding base of 0.7% of GDP (according to an agreement within the Development Assistance Committee of the OECD-DAC). Net Official Development Assistance was about EUR 4.13 billion in 2005 and about EUR 4.35 billion in 2006<sup>2</sup>.

---

<sup>2</sup> OECD-DAC statistics and accountability information from the Dutch government.



For the Tsunami, the Dutch government pledged EUR 300 million, of which EUR 31 million for emergency relief, EUR 200 million for rehabilitation and reconstruction and EUR 69 million for debt relief.

### 2.2.2 Aid channels

The Dutch government channels humanitarian assistance in three ways:

- bilateral aid is concentrated on a limited number of partner countries;
- humanitarian aid is also delivered through multilateral channels, such as the European Commission and the United Nations;
- finally, the Dutch government channels humanitarian aid through a number of aid organisations that are part of its Cofinancing System (see section 2.4.3.2 for more information).

For the Tsunami, the Ministry for Development Cooperation channelled funds in a variety of ways, as can be seen in table 1.1.

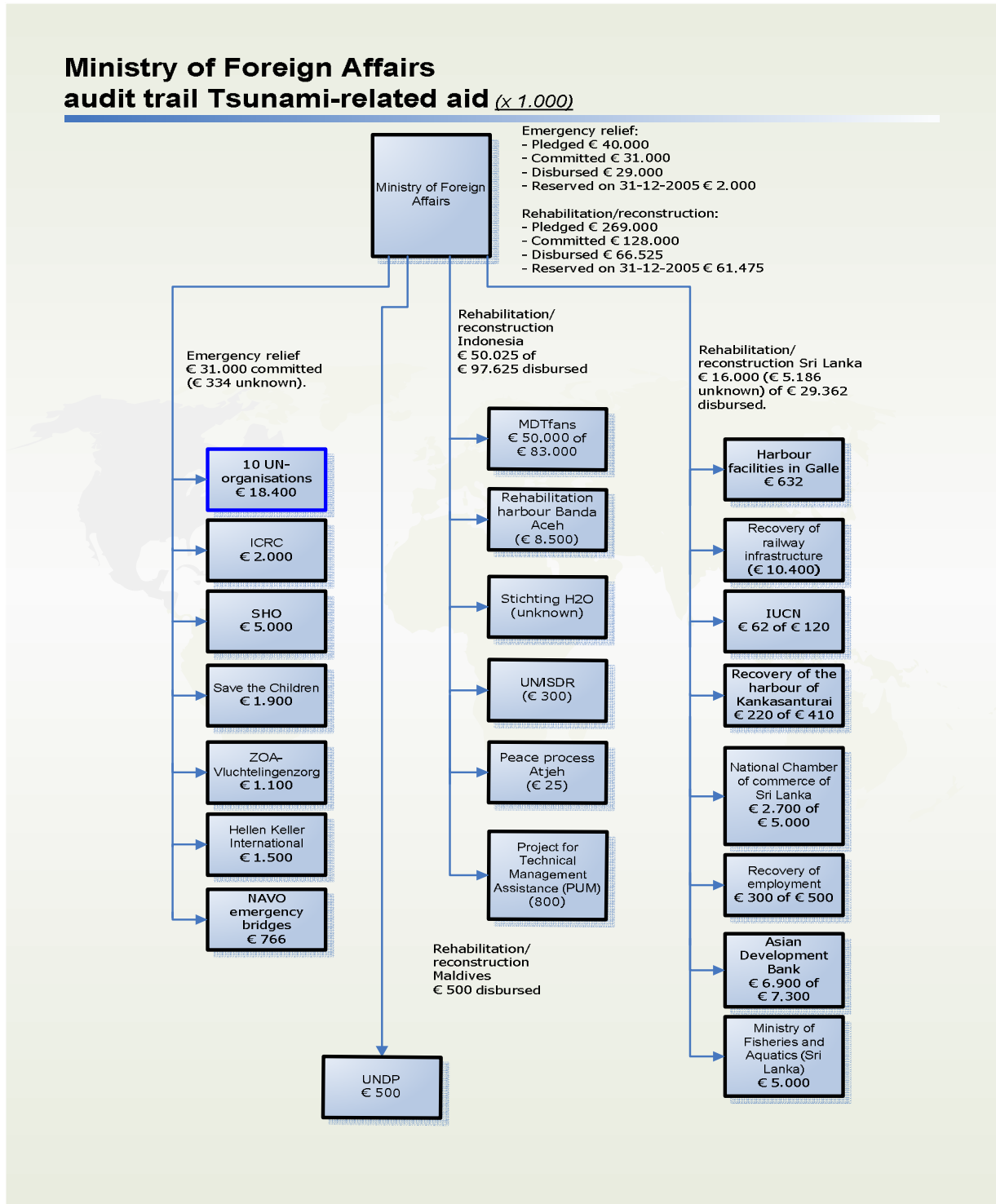
*Table 1.1 - Dutch central government Tsunami pledges*

	EUR Million	Destination
Relief phase	31	United Nations agencies, group of cooperating Dutch aid organisations (SHO), individual international and national aid organisations, NATO
Rehabilitation and reconstruction	200	Multi Donor Fund for Aceh and Nias (Indonesia), Asian Development Bank, harbour and infrastructure projects in Indonesia and Sri Lanka, peace process in Aceh, National Chamber of Commerce Sri Lanka, Ministry of Fisheries and Aquatics Sri Lanka, individual international and national aid organisations
Debt relief	69	Not known
<b>Total amount pledged</b>	<b>300</b>	

Our mandate as an SAI formally extends to the full amount of Tsunami-related aid provided by the Dutch government. In practice our audit mandate is confined to the provision of public funds to such channels as multilateral institutions and international aid organisations. We can follow aid flows from central government to the doorsteps of these channels (have funds been transferred?) but no further.



An overview of the channelling of public funds donated for the Tsunami is given below (based on data at the end of 2005).



Source: Letter from the Minister for Development Cooperation to the Dutch parliament regarding the status of the Dutch contribution for



rehabilitation following the Tsunami in South East Asia, 12 December 2005.

### **2.2.3 Accountability and audit**

Accountability for the expenditure of the state budget is laid down in the Government Accounts Act. The Act sets criteria on:

- regularity, orderliness and auditability of financial and material management;
- compliance of annual reports with reporting standards on financial information, policy and operational management.

The Minister for Development Cooperation is accountable for the expenditure of public funds on disaster relief. In 2005 the Minister provided parliament with specific information on the government's pledges for the Tsunami victims and the purpose they would serve. However, the annual report and accounts contained no specific information on the expenditure of Dutch state funds on the Tsunami disaster.

## **2.3 Local authorities and other public entities**

### **2.3.1 Aid volume and channels**

Local authorities, consisting of provinces and municipalities in the Netherlands, do not have a duty to alleviate humanitarian crises in other countries. Nevertheless, some provinces and municipalities are active in capacity building and development cooperation. They also provide funds for major humanitarian crises abroad. We have not assessed the amount of aid that local authorities provide annually for humanitarian aid.

Municipalities and provinces in the Netherlands have also provided funds to the Tsunami-affected countries. Nevertheless, it is difficult to gather public information about the volume of aid provided by local authorities and other public entities. We found that only some provinces and larger municipalities provided accountability information about Tsunami-related aid; according to media reports more had provided Tsunami-related aid. We found accountability information on two municipalities and five provinces<sup>3</sup> indicating that EUR 5 million had been provided for the Tsunami-affected countries. From the available accountability information we concluded that most of the aid had been granted to the fundraising

---

<sup>3</sup> The Netherlands has twelve provinces and more than 400 municipalities.





account of the cooperating aid organisations (SHO) and to a limited number of individual aid organisations and private organisations involved in water and sanitation aid projects.

### **2.3.2 Accountability and audit**

In the Netherlands provinces and municipalities have to publish an annual report with certified accounts. The Netherlands Court of Audit has no mandate to audit these bodies. An interesting development regarding the accountability and audit of public funds managed by local authorities is the introduction of single information and single audit. Single information and single audit were introduced especially for earmarked funds that central government provides to local authorities and organisations with a public interest (e.g. universities, schools, supervisory bodies).

#### *2.3.2.1 Single information and single audit*

The earmarked funds that the Dutch government provides to local authorities (municipalities and provinces) and organisations with a public interest (e.g. universities, schools, supervisory boards) were reviewed in 2004. One of the review's main conclusions was that government requirements on the accountability information that local authorities and organisations with a public interest must provide created an administrative burden that should be reduced. Every earmarked fund had specific accountability and reporting requirements in terms of *what* information had to be provided and *when* it had to be provided. The requirements varied per earmarked fund, leading to an administrative burden on local authorities and on organisations with a public interest. It also led to an audit burden on the recipients of the earmarked funds and on central government, because an assurance statement was required for each earmarked fund.

The solution was found in applying single information and single audit to accountability for and audit of earmarked funds. The local authorities' annual reports and accounts must satisfy basic information requirements for all the earmarked funds they receive and each authority's auditor must issue an assurance statement on that single information that satisfies the government's assurance needs. The government can then rely on the assurance statement issued by the local authority's auditor instead of conducting an additional audit.



Conditions that should be met for the use of single information and single audit<sup>4</sup>:

- harmonisation and standardisation of accountability requirements;
- standardised financial accountability information that matches the information needs of relevant stakeholders;
- clear criteria and requirements to guarantee the audit adequacy of the auditor of the local authority or organisation with a public interest;
- risk-based reviews to verify the adequacy of the audits conducted and the follow-up to review findings.

## **2.4 Aid organisations**

### **2.4.1 Volume of aid**

According to Statistics Netherlands, humanitarian aid organisations in the Netherlands raised almost EUR 1.5 billion in 2005. A group of the aid organisations have joined fundraising forces and formed "Samenwerkende Hulporganisaties", or SHO (cooperating aid organisations). The SHO also invites other organisations to combine fundraising activities in the event of a major humanitarian crisis. The SHO raised about EUR 205 million for the Tsunami disaster, from the Dutch public, local authorities and the private sector (approximately EUR 200 million) and the Dutch government (EUR 5 million).

---

<sup>4</sup> Netherlands Ministry of Finance (2005). Implementation of single audit ('Uitvoering motie single audit'). CAD 2005-00188 M.



*Table 2.1* - Financial overview of funds raised for the Tsunami as at the end of December 2006 (in EUR)

Own fundraising by SHO	
Public donations	203,336,868
Cost of fundraising	
Action and administration costs (1.7% of own funds raised)	3,460,000
Available from own fundraising	199,876,868
Subsidies from government and others	
Ministry of Foreign Affairs	5,000,000
Interest income	204,311
Total available for distribution among members and guest organisations	205,081,179
Amounts distributed as at December 2005	
Public donations	200,053,500
Grant from Ministry of Foreign Affairs	5,000,000
Total distributed among members and guest organisations	205,053,500
Amount still available for distribution	27,679

*Source:* SHO, Annual report 2006 Tsunami

Of the total amount raised, 10% was initially reserved for the organisations that had been invited to join the SHO in its fundraising for the Tsunami-affected countries. The organisations invited could apply for this amount via project proposals. A total amount of EUR 15.7 million was approved for projects proposed by the organisations invited, representing 8% of the public donations. The remaining 2% was distributed among the members of the SHO.

No reliable data were available on the funds raised by other aid organisations for the Tsunami.

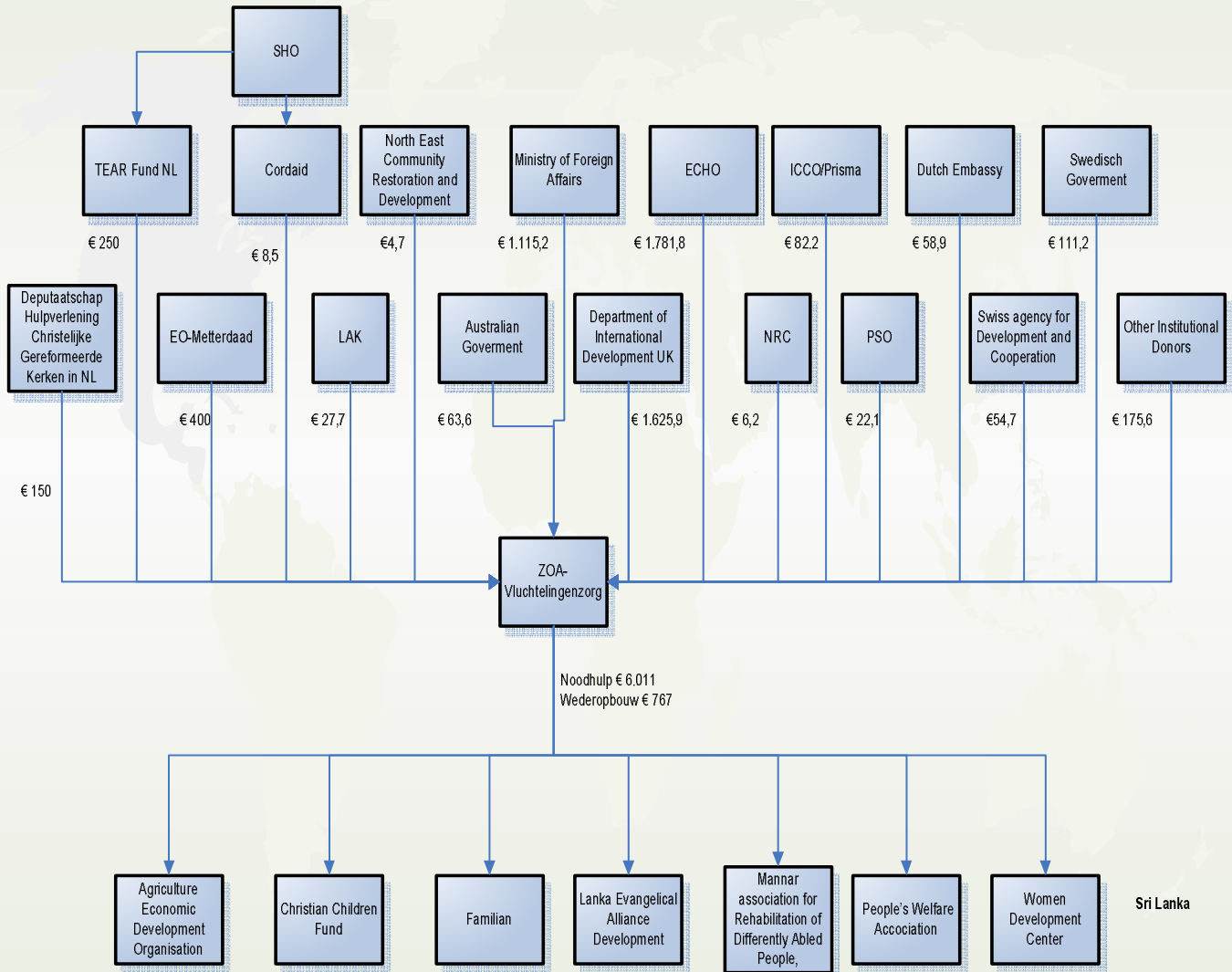
#### **2.4.2 Aid channels**

Dutch aid organisations play different roles in the channelling of aid funds:

- aid organisation as fundraiser and implementer;
- aid organisation as fundraiser and as implementer in cooperation with local partners;
- aid organisation as fundraiser (aid is channelled via international umbrella organisation);
- aid organisation as fundraiser (aid is channelled to other aid organisations, see example of ZOA-Vluchtelingen zorg an aid organisation specialised in aid for refugees).



## ZOA-Vluchtelingenzorg Audittrail Tsunami aid (x 1.000)



Source: annual reports and accounts 2005-2006 of ZOA-Vluchtelingenzorg, the SHO and various other aid organisations

### 2.4.3 Accountability and audit requirements

Charities in the Netherlands (mostly NGOs) have to follow generally accepted accounting practices as formulated by the Dutch Accounting Standards Board. Requirements are also set by funding agencies, the



government, accreditation institutions and voluntary by aid organisations (self-regulation).

#### *2.4.3.1 Guideline for Fundraising Institutions*

A special guideline was issued for fundraising institutions in 1998, Guideline for Fundraising Institutions (RJ 650).

This guideline sets criteria for the insight into:

- costs and benefits of fundraising;
- the spending of funds;
- the spending of funds for their intended purpose.

These criteria are set for transparency in broad categories such as total funds available and total spend on purpose and on costs. The criteria of RJ 650 do not facilitate an audit trail to follow aid from source to destination.

#### *2.4.3.2 Requirements of funding agencies*

The Dutch government has a cofinancing system, the most recent one being the Cofinancing System (MFS) 2007-2010, that forms a framework for a transparent system of grant awards to autonomous Dutch-based Civil Society Organisations (CSOs). Cofinancing means that the organisations applying for grants within this framework should have other funds sources (own funds or funds from other donors) to achieve sustainable poverty reduction. The Dutch government gives preference to organisations dedicated to achieving sustainable poverty reduction in a result-oriented way, often through a rights based approach and with a desire to contribute to an equitable process of globalisation.

The Cofinancing System sets reporting obligations. Annual plans and annual reports must be drawn up in accordance with the Ministry's multiyear strategic planning framework. Annual plans must include a separate section on activities that relate directly to the Millennium Development Goals (MDGs). This section of the report must consider at least output and must address the MDGs to which the organisation's activities are chiefly or substantially directed. It must state the amount of funds (output) devoted to activities directed largely or exclusively at the achievement of each of the MDGs. Wherever possible, it should also include information on outcomes; even if such information is limited, the main results can be stated. The applicant must submit a specific proposal for the monitoring of the proposed activity.

To select proposals that qualify for grants from the Cofinancing System, criteria are set on, amongst other things, the visibility of performance



throughout the chain, the learning ability within the chain, the efficiency of the organisation and the quality of the accounting system. The ability to monitor expenditure of the grant and to secure accountability for the expenditure of grants has a central place in the selection criteria.

#### *2.4.3.3 Accreditation requirements*

In the Netherlands, as in other countries, there is also an organisation that sets criteria to obtain accreditation for fundraising. This is Central Bureau Fundraising (CBF), a member of the International Committee on Fundraising Organisations (ICFO). To obtain CBF accreditation fundraising organisations must:

- prepare their annual accounts in accordance with the Guideline for Fundraising Institutions, paying attention to policy, communication, quality assurance and the expenditure of funds on their intended purpose;
- have an auditor issue an unqualified opinion on their annual accounts by way of assurance;
- publish their annual report.

The CBF sees the Guideline for Fundraising Institutions as an important instrument to harmonise annual accounts so that figures are presented uniformly and common terminology is used. The Guideline for Fundraising Institutions makes a distinction between costs for fundraising and costs for spending the funds on their intended purpose (fundraising costs versus programme costs). The CBF has set a limit for fundraising costs: a maximum of 25% of the funds raised may be used to defray fundraising costs.

#### *2.4.3.4 Self-regulation requirements*

The members of the SHO have agreed a financial arrangement that covers some key definitions (e.g. categories of administrative costs), administrative organisation, accounting for administrative costs, financial reporting and external assurance on financial reporting to SHO. One of the conditions of the financial arrangement is that RJ 650 must apply to annual accounts. The financial arrangement sets a limit of 6% on funds spent on preparation and coordination. The financial arrangement also sets other conditions on the annual report and accounts:

- funds received from the SHO should be disclosed;
- interest received on these funds should be disclosed;
- the following expense categories should be disclosed: preparation and coordination, aid delivered through local partners, aid delivered through international umbrella organisation, aid delivered directly by



the SHO member, programme costs in the Netherlands and programme costs in the recipient country;

- information should be provided in respect of the funds raised by the SHO on the activities performed and the objectives of those activities;
- where possible, information should be provided on the quality, efficiency and effectiveness of the activities.

#### 2.4.3.5 *Findings on accountability of aid organisations*

Only general requirements exist regarding accountability for and transparency of private funds donated to aid organisations. We found that aid organisations generally comply with those requirements. We also found that aid organisations went beyond the accountability requirements in providing accountability information. An important example is the accountability information provided by the SHO. The SHO has issued seven interim reports on aid delivery to the Tsunami-affected countries during the period 2005-2007. The interim reports consider aid delivery by SHO members and invited organisations per recipient country and contain financial overviews of amounts raised, commitments and disbursements and lessons learned.

But compliance and accountability information beyond the set requirements do not produce an audit trail of disaster-related aid. The reporting, for instance, differs among NGOs: in the in-depth study of Dutch Tsunami aid flows we found that none of the 43 year reports and or accounts was using the same reporting format and presentation of financial figures. This makes comparison difficult and tracking funds from one aid organisation to another almost impossible. Other country studies by the members of the Task Force also showed that the definitions, criteria and standards used were generally not transparent and where they were, they differed significantly.

Our study of the individual annual reports of the SHO members and organisations invited to take part in the Tsunami fundraising campaign found that of the eight members only one did not account separately for the Tsunami and of the ten invited organisations four did not account separately for the Tsunami. When we tried to follow the aid flow from the SHO members and invited organisations, we encountered difficulties at the first level in the chain: three out of eight members do not provide sufficient information about the next organisation(s) in the chain or about the amounts that flow to the next organisation(s) in the chain or about both. Five out of ten invited organisations do not provide sufficient information. About EUR 68 million, of which EUR 53 million from the members and EUR 15 million from the invited organisations, cannot be





followed beyond the first level of the chain (from SHO to recipient member or invited organisation).

At the second level in the chain we encountered even more difficulties with some of the public funds (if they had been channelled through the UN or through specific foundations). In the case of the cooperating aid organisations we had difficulty following the aid flow because some of the aid organisations channelled funds through their international headquarters and these international aid organisations generally do not provide enough detailed information about the destination of the funds received from their national committees and other sources. Another difficulty arises when aid organisations channel funds through local partners. Most of these local aid organisations are not obliged to publish annual reports and accounts or any other accountability information.

#### **2.4.4 Transparency of purpose, type and geographical destination**

We also assessed the transparency of purpose, type and geographical destination of assistance in order to determine whether aid had been provided for its intended purpose. Owing to the high percentage of information in the annual reports and accounts that is not specified, it is difficult to assess the purpose and type of assistance and its geographical destination. For private funds this is largely because the Tsunami aid was not earmarked.

*Table 2.2 - Total amount unspecified in analysed annual reports/accounts 2005 of cooperating aid organisations (in %)*

	<b>Source of aid</b>	<b>Destination of aid</b>
Purpose of assistance	99.0	83.6
Type of assistance	48.9	60.6
Geographical destination	96.2	68.7
Sector	87.3	92.8

Since we could not follow the aid flow downstream, we assessed whether it was possible to make an upstream analysis by retrieving data from the Development Assistance Databases in the countries affected. For a number of Dutch organisations we could find projects in the DADs for which they were registered as funding source, funding agency or first level partner/implementer. The DADs provide data on commitments and disbursements, but - as stated earlier - the data is often neither up to date nor complete. If there is no direct link between the Dutch organisation and the organisation implementing the project, it is extremely difficult if not impossible to trace the aid back to the Dutch



organisation. For an upstream analysis of American, Dutch and Norwegian Tsunami-related aid we refer to the country report made by the SAI of Indonesia that can be found on the website [www.intosai-tsunami.org](http://www.intosai-tsunami.org).

#### 2.4.4.1 *Administrative costs*

As part of the in-depth study of Dutch Tsunami-related aid, we tried to assess the amount, percentage and definition of administrative costs. Regarding administrative and other costs, our aim is not to prescribe the percentage of administrative costs that is acceptable but to enhance transparency of administrative and other costs.

We found that of the 43 organisations that provided information on Tsunami-related aid, 10 (23%) provided information on administrative costs and fundraising costs specifically for the Tsunami, 23 (53%) did not provide this information and 5 (12%) did not provide specified information. We also assessed whether the definitions of administrative and fundraising costs were transparent in the annual reports and accounts. Only four organisations (9%) provided information about the definitions used and all four definitions differed and could easily lead to different cost calculations.

We also reviewed available literature studies and concluded that no clear international consensus had been reached on how to define administrative costs.

In its financial arrangement, the SHO included a definition of administration costs (preparation and coordination of direct aid activities) and an indication of activities that should be regarded as administrative costs (preparation of project proposals, assessment of project proposals, decision making on project proposals, technical advice to international headquarters or local partner, financial management, reporting, overhead costs, external contacts). The cooperating aid organisations stated in the financial agreement that a minimum of 94% should be spent on direct aid activities and a maximum of 6% could be spent on preparation and coordination of direct aid activities. The costs of regional offices of local partners are considered direct aid activities.

We found that minimising administrative costs only applies to one part of the aid flow and in case of the SHO only to the first part of the aid flow: the minimum cost condition applies only to funds flowing from an SHO member or invited organisation to the next organisation and not beyond. If an NGO receives funds and channels them to its international headquarters, for instance, the maximum applies only to the NGO itself



and not to the international headquarters. The same goes for channels such as the United Nations, the European Commission, the World Bank and also to public entities in the recipient countries (public entities do not provide an insight into their administrative costs).

Our study found several examples of statements regarding a maximum level of administration costs, but where it is possible to follow the flow of aid it is clear that these statements do not apply to the whole aid flow.

#### 2.4.4.2 *Interest*

As part of our in-depth study of Dutch Tsunami-related aid flows we also looked into the interest paid or received on the Tsunami funds. From the 43 annual reports and accounts we reviewed we found that seven organisations accounted separately for interest received on Tsunami funds for a total amount of EUR 997,175.

#### 2.4.5 **Findings on the audit of aid organisations**

In our in-depth study we also gathered information on the assurance provided and whether an auditor had expressed an unqualified opinion.

We found that in 72% of cases an auditor had expressed an unqualified opinion on the annual reports and accounts. In the other cases we had to do more research but still found that an auditor had expressed an unqualified opinion on the annual accounts of the other organisations. It was just not made clear in the published information.

We reviewed the criteria that had been used by the external auditor and found that in 25% (11 cases) the opinion or the information provided (annual report, annual accounts and website) did not clarify what criteria had been used. In most cases reference was made to the Guideline for Fundraising Institutions (RJ 650).

We conclude that organisations involved in providing or channelling Tsunami-related aid comply with applicable rules and regulations. Nevertheless, the lack of transparency prevents the tracking of funds from source to destination. This is on account of the purpose of annual reports and accounts: they are not intended to provide information on the efficient and effective spending of aid flows, but to account for those funds. If we look at the assurance process conducted by private auditors, we found that they reviewed the accounting system, internal control procedures and supervisory arrangements with partner organisations.

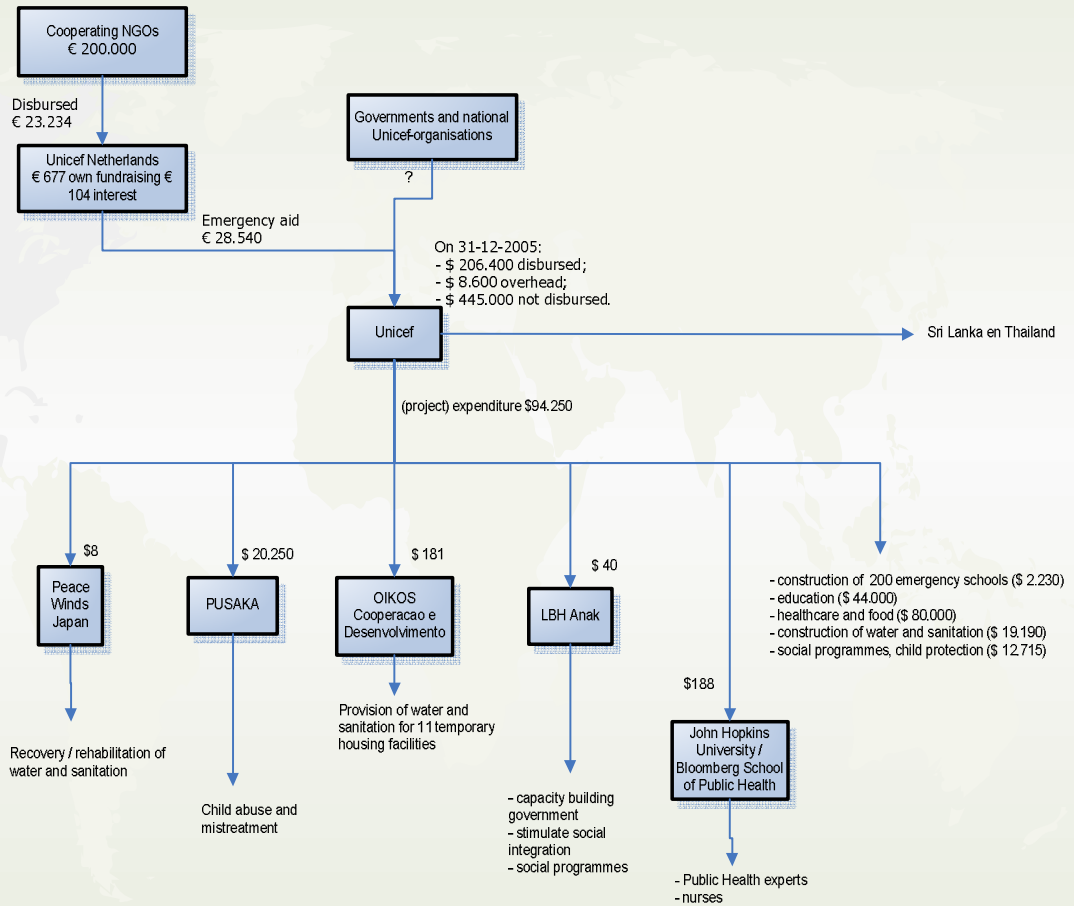


For the Tsunami, the Ministry of Foreign Affairs agreed with the SHO that it should report on the expenditure of public funds separately and that the maximum percentage of administrative costs would be 2%. From studying the Dutch Tsunami-related aid flows we found that the SHO members and invited organisations accounted for the Dutch public funds they received separately. The Netherlands Court of Audit's financial audit for the 2006 budget year did not reveal any irregularities in the accountability information provided by the cooperating aid agencies separately to the Ministry of Foreign Affairs.



## Appendix I Example channelling Tsunami-related aid via international umbrella organisation

### Unicef – in depth Indonesia (x 1.000)



Remark: Projectoverview 'development assistance database' is not in line with information from report 'Building Back Better'

**Audit team**

Dhr. drs. E.C. Jongsma (projectleider)  
Dhr. drs. E.E. Philipsen  
Mw. drs. K.R.M. Rentenaar RA  
Dhr. mr. C.R. Broer  
Mw. drs. S.W. Mathijssen  
Dhr. G. Engelaar  
Mw. drs. R. Sibilio  
Dhr. drs. P.A.M. Boeding

**Algemene Rekenkamer**

Lange Voorhout 8  
Postbus 20015  
2500 EA Den Haag  
telefoon (070) 342 43 00  
fax (070) 342 41 30  
[www.rekenkamer.nl](http://www.rekenkamer.nl)

**Design**

Corps Ontwerpers, Den Haag

**Photography**

ImageSelect

**Graphics**

Nicole Smulders