Corruption Risk Assessment Methodology for Municipalities

(July 2021)

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Introduction

The Corruption Risk Assessment Methodology is intended for the municipality city halls in Georgia. The goal of the Methodology is to facilitate the establishment of a municipal-level civil service of high integrity and free of corruption risks.

The Methodology provides a basis for corruption risk assessment, that is to say, possible corruption risks in a public institution and their causes are defined. Such an assessment is a tool to prevent corruption and violation of integrity and does not imply defining and assessing individual responsibility.

The Methodology was developed by Transparency International Georgia within the framework of the project "Strengthening Corruption Risk Assessment Capacities in Batumi, Gori, Lagodekhi, Ozurgeti, Senaki, Tbilisi, Telavi and Zugdidi Municipalities" with the financial support from the USAID GGI. The document is based on the guideline methodology developed by the Ministry of Justice of Georgia in 2019.

By applying the Methodology, a municipality city hall will be able to conduct corruption risk assessment within its own system and develop a **corruption risk assessment report** which would include **a corruption risk register and a risk management plan**. The document would allow to plan and implement anti-corruption measures in the future.

A brief description of all key stages of corruption risk assessment is provided at the beginning of the document. It is followed by a detailed description of the three main stages of the corruption risk assessment process: (I) assessment process planning; (II) risk identification and analysis; (III) risk management.

It is important to conduct annual reviews of the assessments made on the basis of the Methodology in order to evaluate the effectiveness of implemented measures.

Definition of Terms

Corruption: offences covered by Articles 163 (3), 164[1], 180 (3, "a"), 182, 186 (3, "a"), 194, 194[1] (3, "b"), 195 (1), 203, 220, 221, 332, 333, 335, 337, 338, 339, 339[1], 340, 341, 342 and 355 of the Criminal Code of Georgia. Also, all offences against entrepreneurial or other economic activities as well as offences in the area of financial activities committed by civil servants through abuse of their office. In addition, violation of the Law on the Conflict of Interest and Corruption in a Public Institution.

<u>Violation of integrity</u>: violation of the rules established by the Government of Georgia Decree No 200 on the Definition of Ethics and General Rules of Conduct in Public Institutions, dated 20 April 2017. Violation of ethics and rules of conduct stipulated by the law.

<u>Corruption Risk</u>: a possibility to commit any kind of corruption-related violation or to violate integrity.

<u>Cause</u>: a cause of a corruption risk (alternatively, "risk factor") is a circumstance which may encourage, generate or create a corruption risk.

Key Stages of Corruption Risk Assessment

Stage 1: Process Planning	
1	Acquiring a consent from a municipality mayor to launch the corruption risk assessment
2	Defining a body/person to coordinate the corruption risk assessment process
3	Defining the scope of the corruption risk assessment in a city hall system
4	Creating a working group based on the already determined scope of the risk assessment
5	Informing all members of a working group about the corruption risk assessment methodology, allocating tasks and responsibilities, agreeing on communication and other procedures, and establishing a timetable. Employees of a city hall system must also be provided with information about the risk assessment process.
Stage 2: Risk Identification and Analysis	
6	Locating and analysing various kinds of information needed for identifying and assessing corruption risks
7	Identifying corruption risks and their causes and including them in a risk register (see enclosed Excel file)
8	Assessing corruption risks with regard to their probability, impact and scope, and including the results in the risk register
9	Ranking corruption risks based on their severity and priority
Stage 3: Risk Management	

10	Developing mitigation measures for each entry in the risk register, designating responsible persons and establishing a timetable
11	Preparing a risk assessment report containing an account of the corruption risk assessment process, its results and a risk management plan; the report must be accompanied by the final version of a risk register
12	Approval of the risk assessment report by a municipality council or mayor

I. Planning of Corruption Risk Assessment Process

The planning stage includes designating a structure/person responsible for the coordination of the corruption risk assessment process, defining the scope of the risk assessment, forming a risk assessment working group, determining a timetable and mobilising necessary resources in advance.

The number one task at the planning stage is to receive a municipality mayor's consent to begin the process. Such a high-level involvement ensures that the corruption risk assessment is conducted without hindrance and is productive.

If an assessment is being carried out for the first time, the initiator of the process may be a mayor him/herself or a structural unit of a city hall; if the assessment is a repeat one, a coordinating structure or a person designated the first time the corruption risk assessment was conducted must be the initiator of the process.

From the very beginning, it is important to designate a structure or a person coordinating the risk assessment who would ensure that the process as a whole is conducted in a timely and high-quality manner. It is expedient to assign the role of a coordinator to an internal audit service since precisely this department has all the key information needed to identify the risks. Apart from the internal audit service, this task can be performed by a human resources department, administration, a structural unit responsible for defining policy, or an individual employee of a city hall.

The next stage is the establishment of the scope of the corruption risk assessment, a timetable and specific internal procedures in coordination with a municipality mayor. At this stage, it is decided which structural units of a city hall and which legal entities within its system will be covered by the risk assessment.

After defining the scope of the risk assessment, a working group is formed at a city hall comprising representatives of all structural units and subordinated legal persons of the city hall which are involved in the risk assessment process.

It is important to explain the significance of the process to all members of a working group and to allocate responsibilities (collection of information, identification and analysis of risks, and development of the risk management plan). A timetable and internal procedures of communication and cooperation to guide the process coordinator and the working group in the process of the risk assessment must also be established at this stage.

In addition to the working group members, employees working in the city hall system must also be provided with information about the risk assessment. Depending on the risk assessment scope, the city hall system employees must be informed as thoroughly as possible about the risk assessment being conducted, its goals, how it is conducted, and how intensively various structures of the city hall system will be involved in this process.

II. Corruption Risk Identification

Identification and analysis of corruption risks includes collection of statistical as well as dynamic information, definition of all possible causes of risks, risk assessment, identification of control mechanisms, risk prioritisation and **creation of a risk register** on the basis of obtained information.

The risk register will help municipalities elaborate an anti-corruption action plan based on identified risks and risk mitigation measures.

Corruption risk assessment takes into account the perceived level of corruption, past experience with and severity of corruption violations, in order to determine the **potential possibility of corruption**.

a) Collection of Information

After the preparatory stage is completed, the process coordinator with the help of the working group members gathers and analyses all internal and external documents and data related to corruption risk assessment.

The following documents must be used to identify corruption risks:

- Internal and external audit reports;
- Internal and external investigation or research reports;
- Audit reports by monitoring agencies;
- Court decisions concerning decisions made within a municipality city hall system;
- Disciplinary and corruption-related violations recorded within a city hall system;

- Reports and complaints concerning violations received through various channels;
- Media reports.

The examination and analysis of the **current regulations** from the viewpoint of containing corruption risks is an integral part of the process of risk identification and analysis.

To gather necessary information, the process coordinator and the working group shall use an **orientation questionnaire** (see Annex 1). The questionnaire contains numerous questions about the areas vulnerable to corruption-related violations and allows the evaluators to identify challenges and direct additional resources for assessment accordingly.

To gather information, the process coordinator and the working group conduct **interviews** or **working meetings** with representatives of specific departments within a city hall system or external persons (monitoring agencies, researchers, civil society, media and private sector representatives).

In order to identify corruption risks in the event these are present, the process coordinator and the working group consider the results of similar studies conducted in other municipalities and discuss hypothetical scenarios concerning a specific corruption-related violation.

Once the information collection stage is completed, the process coordinator and the working group identify the areas of heightened corruption risks and focus greater attention on them during risk identification and assessment.

b) Risk Identification

Based on the documents gathered during the previous stage, the coordinator and the working group identify the following two categories of information and enter this information into a special document – the corruption register (see Annex 2) during a working process:

1. Any kind of <u>corruption-related violation</u> that had taken place in a city hall system in the past or which could theoretically take place. Such cases should be grouped by content and the number of cases identical in terms of a corruption scheme should be recorded along with the damages they had caused and the process of responding to them. **Specific corruption risks stem precisely from these violations** (see Annex 2 – example of risks recorded in the register).

2. Once the corruption-related actual and potential violations described in the previous paragraph are established as corruption risks, <u>cause(s)</u> for each individual risk must be established. The causes may be related to the legislation as well as the weaknesses of its enforcement, low level of awareness among employees, weakness of oversight mechanisms and so on.

After that, identified <u>corruption risks</u> must be grouped by category in order to simplify their management in the future. For example:

- Nepotism and favouritism;
- Conflict of interests;
- Incompatibility with office;
- Accepting bribes;
- Office-related corruption violation;
- Abuse of office for personal gain;
- Abuse of public resources for personal gain;
- Violation of the norms of ethics and integrity;
- Use of administrative resources;
- Voter bribery;
- Areas vulnerable to corruption: public procurement, infrastructure projects, issuing licences and permits;
- Control and oversight roles.

For each risk identified at this stage, its **scope** must be defined (see Annex 2), in other words, who could be linked to specific risks: city hall leadership, internal structural units of a city hall or legal entities subordinated to a city hall.

c) Risk Assessment and Prioritisation

Once corruption risks are identified, they have to be assessed. Each risk is assessed based on two indicators:

- **Probability** – the likelihood of a risk [event] occurring
- **Impact** – the severity of a negative outcome if a risk event occurs

The corruption risk **probability** is determined by the correlation of causes and existing integrity measures. The following criteria exist to assess the probability of occurrence of a risk event: vulnerability of the regulatory framework to corruption, processes' and institutions' propensity for corruption, ineffective governance, low level of remuneration, instances of corruption in public institutions, low level of legal awareness on the part of civil servants.

In order to determine the **probability or impact** of a risk, the process coordinator and the working group consider past experience. The statistical analysis of past years, among others, shows the probability and impact of a given risk in the past years – **high, medium or low**. Based on these data, a discussion should be held on the probability and the degree of impact of a similar risk in the future. In the absence of statistical information, the process coordinator and the working group must conduct an internal study and question persons holding senior positions.

Risk Probability	Description
High	There is a high probability of corruption risk, which is established based on previous experience. The mechanisms to ensure integrity within an organisation cannot mitigate risk factors.
Medium	A corruption risk is not high based on statistical information because the specific nature of the working process or the existing mechanisms of ensuring integrity partially insure/reduce a possibility of the risk event occurring.
Low	The probability of a risk event occurring is minimal but not impossible. The risk event may occur only under special conditions.

Risk Impact	Description
High	If a risk event occurs, it may have a serious impact on the fundamental rights and freedoms of an <u>individual</u> and their right to receive public services. For example, it would infringe upon the right to free trial, the right to private life, family and education, or private property. High impact on a <u>public institution</u> also implies an infringement upon the reputation of and trust towards an organisation; it causes significant financial losses, threatens an organisation's stability, endangers a possibility of achieving the key goals of an organisation, and encourages other organisations to become involved in corrupt deals. High impact on the <u>public</u> implies the loss of local and foreign investments, negative influence on social development, which ultimately has a negative impact on the rule of law in a country.

Medium	Medium corruption risk impact on an <u>individual</u> implies causing unjustified costs and other obstacles to exercising their rights. Such an impact could be, for example, demanding unjustified payment for services which a person is already entitled to by law. Medium impact on a <u>public institution</u> implies negative influence on its reputation, significant financial losses. Also, a possibility of achieving secondary goals of an organisation is threatened.
Low	Low impact is manifested in an undermined reputation, insignificant obstacles to achieving goals, minimal financial losses.

After determining the degree of probability of a corruption event occurring and the measure of impact of a corruption event if it occurs, a corresponding matrix (see below) is filled out in order to identify the severity of corruption risks.

The probability-impact matrix entails ranking a probability of a corruption event occurring and its expected impact as **low**, **medium** or **high**. As a result, a table is created which determines in which case a risk warrants a necessary and immediate response. On the map below, marked in red are the kinds of risk responding to which represents the key priority. Medium severity risks are marked in yellow, they are a lesser priority than the ones marked in red; the risks marked in green are not particularly problematic.

Probability Low → High	Medium severity	High severity	High severity
	Low severity	Medium severity	High severity
	Low severity	Low severity	Low severity
	Impact: Low → High		

The assessment of severity of each risk also automatically shows which risk should be minimised as a priority. Correspondingly, risk prioritisation should be done in accordance with the level of their severity.

It should be considered that information about the probability, impact and severity of corruption risks should be reflected in the corruption risk register (see Annex 2) as part of the working process.

III. Corruption Risk Management

Once corruption risks are identified, assessed and prioritised, a process coordinator and a working group select measure(s) for each risk whose implementation is expected to reduce the risk. In this process, it is important to determine a timetable for implementing a specific measure and a responsible structural unit or person. This information, too, shall be reflected in the risk register (see Annex 2) as part of the working process.

Risks are mainly eliminated by means of one or several strategies, which include:

- **Risk avoidance** – termination or modification of activities in order to stop the risk from increasing. A risk can be avoided by changing an area of activity or a corresponding regulation;

- **Risk reduction** – reducing a probability of a risk event occurring and/or its impact in the event the risk event does occur;

- **Risk transference** – in order to reduce a probability and/or impact of risks, they are transferred to or distributed among third parties who can control them better;

- **Risk acceptance** – nothing is done to reduce a risk because the risk manager believes that the institution is forced to allow a given level of a risk because possible damages involved in the process of avoiding the risk exceed the damages involved if the risk event occurs.

The new measures offered in the process of risk monitoring and control should be integrated with the existing system – internal control, audit and other systemic means, in order to avoid additional budget expenses.

Example of Corruption Risk Identification/Assessment

Note: The example provided below is a theoretical corruption risk and is not based on any real case.

To better understand the procedure of corruption risk identification, we can consider the following theoretical case:

During the examination of internal audit reports at the stage of collecting information, a process coordinator and members of a working group see that the internal audit service of the city hall identified several suspicious cases of issuing permits when it had examined the process of construction permit issuance for the previous year. After the cases had been sent to the investigation bodies, the investigation confirmed that a city hall employee accepted bribes in exchange for issuing construction permits.

Based on these circumstances, the corruption risk assessment coordinator and the working group decide that the uncovered violation must be entered into the corruption risk register using the following wording: "A city hall employee accepts a bribe in exchange for issuing a construction permit" (see table).

After that, the process coordinator and the working group establish the category of the identified risk, its scope, assess its severity (using the probability-impact matrix), study and identify the risk causes, consider and develop risk mitigation measures, and designate persons responsible for implementing these measures and the timetable (see table). They enter this information in the risk register document in the process (see Annex 2).

Example of Corruption Risk Identification	
Corruption risk	City hall employee accepts bribe in exchange for issuing a construction permit
Category	Accepting bribe
Area	City hall structural unit
Probability	Low
Impact	High
Risk severity	Medium
Causes	a) The process is not sufficiently automatised (digitised) and permit applicant has to come into contact with a corresponding city hall employee on multiple occasions b) Procedures of issuing permits are not clearly written out c) Weakness of audit mechanisms
Risk management measures	a) Increasing the degree of process automatisation (digitalisation) b) Establishing clear written procedures for issuing permits

	c) Introducing audit for the process of issuing permits
Responsible person	a) and b) Department responsible for issuing construction permits
	c) Internal audit service
Deadline	a) March 2022
	b) May 2022
	c) September 2022

Preparing Corruption Risk Assessment Report

The final stage of the risk assessment process is the preparation of the corruption risk assessment report by the process coordinator and the working group.

The report must describe the entire process of corruption risk assessment, its results and a corruption risk management plan. The final version of the risk register must be attached to the report, including the following information:

- List of identified risks and their causes;
- Indication of the level of risk;
- List of recommendations and measures to be considered and introduced, indicating responsible persons and timetables.

The final corruption risk assessment report is approved by a municipality council or a mayor.

The risk assessment process must be repeated and the report updated annually in order to measure progress.