

# Anti-fraud and -corruption management paper

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## 1. Introduction

This anti-fraud and -corruption management paper provides insight in the way ICCO manages the risks and controls of fraud and corruption.

ICCO is committed to the highest possible standards of openness, transparency and accountability and as part of the ACT Alliance ICCO promotes a culture of honesty and zero tolerance towards fraud and corruption.

ICCO operates in many regions and countries and has many different kinds of projects which makes the organisation vulnerable for risks of fraud and corruption.

The purpose of this management paper is to provide:

- guidance to staff on how to handle fraud and corruption cases
- protection to staff in circumstances where they might be victimized

This management paper should be read in conjunction with:

- the ACT Alliance Anti-fraud and corruption policy
- the ACT Alliance Code of Conduct
- the relevant ICCO HR policies
- the office policies of the ICCO Regional Offices

For the purpose of this paper, the terms fraud and corruption are defined as follows:

**Corruption** is the offering, giving, soliciting or acceptance of an inducement or reward which may improperly influence the action of any person.

**Fraud** is an intentional distortion, deceit, trickery, and perversion of truth or breach of confidence, relating to an organization's financial, material, or human resources, assets, services and/or transactions, generally for the purpose of personal gain or benefit. Fraud is a criminal deception or the use of false representations to gain an unjust advantage.

The definitions above equally apply to all malpractice and unethical behaviour, including (this list is not exhaustive):

- Embezzlement: theft of organisation's resources for own use. It may involve only one person or more;
- Misuse and misappropriation of funds;
- Collusion and bribery: bribery means that a person, organisation or institution improperly provides goods or services against some form of improper remuneration (this involves at least two parties);
- Obstruction of justice;
- Sharing of profits / kick backs, cuts, discounts for personal benefits;

- Abuse or misuse of power;
- Extortion: the act of obtaining something by force, threats or undue demands;
- Favouritism: the unfair favouring of one person or a group with something at the expense of others;
- Nepotism: is favouritism shown to relatives in conferring offices or privileges.

In the annex to this paper details are described on the different procedures within the ICCO organization. In the annex contract parties are defined as organizations or individuals with whom ICCO has a contractual relationship, such as partner organizations, consultants, suppliers etc..

## **2. Responsibilities**

### *2a. Executive Board*

The Executive Board is responsible for the governance of the ICCO organization, and for ensuring that a zero tolerance culture and policy on fraud and corruption is embedded at all levels in the organization. Compliance and audit procedures are part of this responsibility.

### *2b. Managers*

It is the responsibility of Regional managers and Head of Departments to be familiar with types of fraud and corruption that might occur in their RO or department and their working environment, including partner organisations, and to work on prevention and early detection, as well as proper handling and control.

The managers are responsible sharing all relevant papers, policies and procedures with their staff and make them aware of the risks and content. They also should encourage their staff to report suspected cases immediately.

### *2c. All staff*

All staff have the responsibility to prevent fraud and corruption from happening, and they may in no case be involved in fraud or corruption practices. They must also be alert on signs, and report immediately to their line manager, normally being the Regional Manager/ Head of Department, or the Internal Auditor in case there is suspicion of fraud or corruption.

## **3. Reporting suspected fraud and corruption**

All staff are obliged to immediately report suspected fraud and corruption.

Staff in ROs: report to the Regional Manager

Staff in GO: report to the Head of Department

Head/RM: report to Executive Board (EB) with copy to Internal Auditor

In doubt who to report to, all staff can always report to Internal Auditor

Staff who suspect fraud and corruption should not do any of the following:

- contact the suspected individual or organisation directly
- discuss the issue with anyone within ICCO other than the staff listed above
- discuss the issue with anyone outside ICCO, without first contact one of the persons listed above

#### **4. Dealing with reports and signs**

All reports and signs about suspected fraud and corruption will be taken seriously by ICCO. Managers receiving reports and signs must immediately notify the EB and QAS (Quality and Audit Services).

#### **5. Investigation**

Managers are responsible for the investigation on facts, unless the manager is subject of investigation by EB and QAS, or the situation requires the EB to take over the lead in the investigation (due to security or impact).

Investigations should be done by experienced staff which is not involved in the case being investigated. Possibly external parties are involved (lawyers, forensic auditors).

All work of the investigation team should be documented, including transcripts of interviews. The conclusion of the investigation must also be properly documented.

The responsible manager should forward the written report to the EB with a copy to QAS.

If a staff member made the initial notification of the suspected fraud or corruption, this staff member should also be informed about the outcome of the investigation, but this can only be done by the manager upon final decision of EB on the case.

During the investigation security risks might occur. The investigation team should always inform the EB, Security Advisor and Internal Auditor about any security risks.

#### **6. Safeguards**

Issues reported to line management and EB/QAS will be investigated with the following safeguards.

Harassment or victimisation: ICCO recognizes that the decision to report a suspicion can be a difficult one to make, not least because of the fear of reprisal from those responsible for the malpractice. It is advised to have in each department a person of confidence for staff.

In accordance, ICCO will not tolerate any harassment or victimization and will take all practical steps to protect those who raise an issue in good faith.

Confidentiality: ICCO will endeavour to protect an individual's or organisation's identity when the issue is raised and they do not want their name to be disclosed. It should be understood however, that an investigation of any malpractice may need to identify the source of the information and a statement of the individual or organisation may be required as part of the evidence.

Anonymous allegations: ICCO discourages anonymous allegations. Issues expressed anonymously will be considered at the discretion of ICCO. In exercising this discretion, the factors to be taken into account are:

- the seriousness of the issues raised
- the credibility of the allegations and the supporting facts
- the likelihood of confirming the allegation from attributable sources

Untrue allegations: if an allegation is made in good faith, but it is not confirmed by an investigation, ICCO guarantees that no action will be taken against the individual or organisation who raised the issue. If, however, individuals or organisations make malicious allegations, disciplinary action will be considered against the individual or organisation making the accusation.

## **7. Results from investigation**

### *7a. Disciplinary procedures*

Individuals or organisations who are judged guilty of fraud and/or corruption have committed gross misconduct and will be dealt with in accordance with ICCO's sanction policies.

Where appropriate, ICCO will refer significant cases to the local law enforcement agencies with a view to initiating criminal prosecution. Consideration should be given to the local context and the consequences in terms of human rights of initiating criminal prosecution against the individual or organisation involved. In every case, the final decision whether or not to prosecute should be taken by the EB, in consultation with Legal, QAS and involved manager.

The ICCO staff member who is involved and found guilty in proven fraud or corruption cases will be dismissed according to the procedures of local legislation.

### *7b. Changes to systems or controls*

The investigation is likely to highlight where there has been a failure of supervision and/or a breakdown or absence of controls. The course of action required to improve systems and controls should be documented in the investigation report and implemented when this report is finalized.

### *7c. Recovery of losses*

Where ICCO has suffered a loss, full restitution will be sought of any benefit or advantage obtained and the recovery of costs will be sought from the individual or organisation responsible for the loss. If the individual or organisation can not or will not compensate for the loss, ICCO considers taking legal action to recover the loss.

## Annex: procedures on anti-fraud and -corruption

ICCO has implemented several procedures on managing fraud and corruption.

1. Prevention procedures
2. Detection procedures
3. Investigation procedures
4. Monitoring procedures
5. Handling procedures
6. Reporting procedures
7. Communication procedures

### 1. Prevention procedures

Prevention is the most favored way of dealing with fraud and corruption, as fraud and corruption should not occur in the first place. Prevention is about raising awareness on zero tolerance, moral ethics and behavior and assessments before any fraudulent event may occur.

ICCO has developed several prevention procedures, and also has adopted some procedures from other organizations. The following table shows all applicable formal prevention procedures.

*Table 1: procedures on prevention of fraud and corruption*

Procedure	Description	Documentation
Compliance Charter	Institutional framework approved by Supervisory Board on how to prevent cases of fraud and/or corruption within the organisation	<a href="#">Compliance Charter</a>
Contract parties	Prevention of fraud and/or corruption at the level of ICCO's contract parties	<a href="#">Anti-fraud and -corruption procedure contract parties</a>
Risk assessment	Inclusion of preventive measures within proposals towards, and contracts with funders	<a href="#">Risk assessment procedure leads and proposals</a>
Employees	Risk management and prevention, a.o. prevention of fraud and/or corruption, at the level of own implementation activities (subprojects)	<a href="#">Risk level procedure own implementation subprojects</a>
Code of conduct	Code of conduct which contract parties and employees need to adhere to when signing an agreement with ICCO	<a href="#">Code of conduct ACT Alliance</a>

Code of conduct	Code of conduct which contract parties and employees need to adhere to when signing an agreement with ICCO	<a href="#">Code of conduct ICRC</a>
Contract parties	Framework which is often used by ICCO within its programs and projects towards partner organizations and consultants	<a href="#">ACT anti-fraud and -corruption policies</a>
Bribery Act	Official Bribery Act where ICCO refers to in its anti-fraud and corruption policy, and which is adhered with in ICCO's programs and projects	<a href="#">UK Bribery Act 2010</a>
Child protection	Policy on protection children's rights within ICCO's programs and projects	<a href="#">Child Safeguarding policy</a>
Procurement	Declaration which is mandatory to sign for members of evaluation committees in which they pledge to act according to certain principles	<a href="#">Procurement manual Annex 1 Declaration for members evaluation committees</a>
Procurement	Declaration which is mandatory to sign for candidates who want to take part in tender procedures	<a href="#">Procurement manual Annex 2 Declaration for candidate tenderers</a>
Assessments	Tool to assess partner organizations on organisational capacity before contracts are awarded	<a href="#">Organizational scan partner organizations</a>
Assessments	Tool to assess partner organizations on financial capacity before contracts are awarded	<a href="#">Financial scan partner organizations</a>
Assessments	Tool to assess private companies on corporate social responsibility before contracts are awarded	<a href="#">Company scan</a>
Segregation of duties	Matrix to define roles and responsibilities in primary processes of ICCO	<a href="#">Risk control matrix</a>

Next to these procedures ICCO uses also more needs based prevention measures, such as specific clauses within contracts with partner organizations, suppliers, service providers and consortium members if funders explicitly ask for certain measures to arrange, provide needs based training within program inception periods and within teams, and have due diligence done in more complex environments.

## 2. Detection procedures

Detection of fraud and/or corruption should be systematized as much as possible, otherwise one might only detect fraud or corruption “by chance”. ICCO has developed several procedures on detecting fraud or corruption, some of them already mentioned in table 1.

*Table 2: procedures on detection of fraud and corruption*

<b>Procedure</b>	<b>Description</b>	<b>Documentation</b>
Contract parties monitoring	Detection of fraud and/or corruption at the level of ICCO's contract parties	<a href="#">Anti-fraud and -corruption procedure contract parties</a>
Own monitoring	Risk detection, a.o. of fraud and/or corruption, at the level of own implementation (sub)projects	<a href="#">Risk level procedure own implementation subprojects</a>
Own monitoring	Detection of unwanted behavior as taken up in the ToE	<a href="#">Procedure unwanted behavior</a>
Whistleblowing procedure	Detection of fraud and/or corruption through confidential reporting to Compliance Officer	<a href="#">Whistleblowing procedure</a>
Complaints procedure	Detection of fraud and/or corruption through receipt complaints from contract parties	<a href="#">Complaints procedure</a>
Audits and evaluations - external project audit	External project audits of programs/projects/offices, either needs based or contractually agreed	<a href="#">ToR project audit</a>
Audits and evaluations - Resource Management Audits	External forensic audits of programs or projects	<a href="#">ToR RMA</a>
Audits and evaluations - external evaluations	External evaluations of programs or projects	<a href="#">ToR evaluation</a>
Audits and evaluations - internal performance audits	Internal performance audits on programs or projects	<a href="#">ToR performance audit</a>

Contract parties monitoring includes analysis of reporting, procurement checks, visiting partners and projects in the field, doing audits, evaluations or assessments at location etc..

For program staff it is often difficult to detect fraud or corruption at the level of contract parties, because the monitoring of their performance is based on the information that the party shares in reports, offers etc. and during visits. Therefore the signs or symptoms of fraud or corruption are often indirect and intuitive. However in this section a few signs are enumerated. When a combination of these signs is observed, staff should stay alert and should the inform the responsible manager.

Signs that can be observed:

- o Narrative, financial or audit reports to ICCO have delays of more than 3 months.
- o The quality of the goods provided varies significantly from the goods offered.
- o The external auditor of the partner expressed a qualified opinion on the institutional or project financial statements.
- o An (anonymous) letter or notification is received from (former) employees, beneficiaries or other external parties.
- o An external evaluation appoints that the results that were agreed upon in the contract were not (fully) achieved due to organizational problems.
- o The same signatures at different stages of procurement.
- o Fees and admin costs for facilitation payments.
- o There is lack of transparency in financial reports or price offers/tenders received from contract parties:
  - How core costs (overhead) are distributed over the several projects;
  - What is registered under each budget line;
  - How the organisation deals with exchange gains/losses, interest gains losses.
- o The contract party refuses to cooperate with external evaluations and/or audits.
- o Other donors are withdrawing their funds or phasing out.
- o The contract party is listed on a red list of other donors (e.g. List of Debarred Firms of the World Bank).
- o Budget monitoring reports showing inconsistent behaviour between line items. E.g. project related expenditure is underspent due to delays in the implementation but fuel is overspent.

Signs that can be observed in the financial records of the contract party:

- o Lots of corrections to the manual cashbook, including extensive use of white-out fluid.
- o Manual records that look as if they have been written on the same day, same hand, same pen. Could be an evidence of rewritten or duplicate books.
- o Delayed banking of cash received, shown up by bank reconciliation.
- o Records not being kept up to date so managers cannot detect acts of false accounting.
- o Missing supporting documents

Non-financial signs that can be observed during a visit:

- o One employee working very long hours – first in and last out.
- o Never taking holidays – to prevent anyone else seeing their records.
- o Change of lifestyle – spending patterns don't match with income.
- o Smoke screens: making false accusations of other colleagues to win time.



### 3. Investigation procedures

Depending on the way fraud or corruption is detected, a certain investigation procedure will be applied.

We saw that there are mainly five detection procedures:

- Contract parties monitoring \*
- Own monitoring \*
- Whistleblowing procedure
- Complaints procedure for partner organizations and/or beneficiaries
- Audits and evaluations

Trying to find out what is actually happening (fact finding) is for each way of detection different. That is why we can distinguish between different investigation procedures each having its own process steps.

*\* These categories are written down in the most elaborate way because the other categories already fall under existing frameworks and procedures and in this policy document we will refer to those frameworks and procedures.*

#### 3.1 Investigation procedure on contract parties monitoring

**Step 1: Submission new case:** staff observe signs of fraud or corruption at the level of the contract party, and are then obliged to report this to the responsible Regional Manager/Head of Department. The case is reported to the unit Quality Audit Services (QAS) by the RM/HoD, and the RM/HoD will raise the risk level of the contract party to High in AllSolutions in the CRM module. If the contract party has one or more subprojects, the RM/HoD may also decide to raise the risk level of the subproject(s). RM/HoD may delegate this action to the RC.

**Step 2: Investigation:** one appointed staff member or external person will start an investigation to find out what is the underlying reason for the observed signs: is it really fraud or corruption? Security risks should be taken into account.

The contract party is informed of the fact that it is under investigation and that payments and contracts are suspended immediately. Some tools that can help in the investigation process are:

- o Correspondence with the contract party to ask for clarification;
- o Information from other donors;
- o Visit of program staff to the contract party;
- o Financial audit or RMA by an external auditor chosen by ICCO. Costs and benefits should be balanced. Costs are to be covered by program budget and later covered by the contract party in case fraud is proven;
- o QAS can also be asked to give advice on how to investigate or how to correspond with the contract party.

Results of the investigation phase will be reported by the investigator to the RM/HoD and documented in the CRM module and under the specific subproject(s). The results can be:

- There is no fraud or corruption proven, it is a matter of incapacity from the side of the contract party;
- The case remains uncertain;
- Fraud or corruption are proven and confirmed.

**Step 3: Action Plan:** In some cases the RM/HoD can decide that the relation with the contract party should be continued, despite the fact that incapacity is confirmed, that the case remains uncertain or that fraud is confirmed. For proven fraud cases continuation is only allowed when the fraudulent actions have been “repaired”, funds are returned, goods are exchanged, staff and management is replaced etc..

An Action Plan should be written by the contract party in which an improvement trajectory is outlined to address the problems found during the investigation. The RM/HoD approves the Action Plan. The contract party is informed whether the Action Plan was approved. One appointed staff member is responsible for monitoring the implementation of the Action Plan and will report to the RM/HoD.

**Step 4: End of investigation:** The investigation ends in one of the following ways:

- The relation with the contract party is ended. A letter is sent to the contract party by the RM/HoD. The contract party will be marked as a High risk contract party in the system and the relation will be blocked in the system as well (*see annex 2 for template*). Afterwards new contracts and payments are not possible anymore. It is advised to check the procedure and communication with legal advisor.
- The risk level is considered medium or low again, due to e.g. an implemented Action Plan, returned funds etc.. The RM/HoD changes the risk level of the contract party back to Medium or Low in the system.

A detailed workflow description of this procedure can be found here: [anti-fraud and -corruption procedure contract parties](#).

### **3.2 Investigation procedure on own monitoring**

The investigation procedure applicable on own monitoring can be twofold: either the investigation procedure applies on risks within own implementation (sub)projects, or it applies on more general behavioral issues outside the project work.

In the first case the procedure will be quite similar to the one applicable on contract parties, after all one has to look into project related activities.

A detailed workflow description of this procedure can be found here: [risk level procedure own implementation subprojects](#).

The investigation procedure applicable on ICCO’s own employees’ behavior outside the project work falls largely under the applicable rules as written down in the Terms of Employment of ICCO Global Office and of the Regional Offices. The RM/HoD is primarily responsible for the investigation phase, within projects the Project Manager should also play a part in leading an investigation, unless the Project Manager is subject of investigation itself. If the RM/HoD is subject of investigation, the EB will take the lead in the investigation phase. If the EB is subject of investigation, the SB will be responsible for taking the lead in the investigation phase. The suspected staff is suspended immediately.

Unlike with the previous investigation on contract parties, here we do not register a lot of information in the system because of privacy laws and regulations. Hence we do not use the risk levels or blocking options.

### **3.3 Investigation procedure within whistleblowing cases**

Here we refer to the existing [whistleblowing procedure](#).

### **3.4 Complaints procedure for partner organizations and/or beneficiaries**

Here we refer to the existing [complaints procedure](#) as published on ICCO's website.

### **3.5 External audits of offices and projects**

The investigation method in case fraud or corruption is proven through external audits is the primary responsibility of the RM/HoD and follows the same method steps as with contract parties.

## **4. Monitoring procedures**

The monitoring procedures for 3.1, 3.2 and 3.5 are mainly embedded within the project management cycle. These procedures focus on reports from contract parties, follow up monitoring of Action plans, visits to contract parties by program staff, meetings and evaluation with contract parties or employees, system monitoring through risk levels and regular updates, donor visits or meetings etc. The line management (RM/HoD) is primarily responsible for the follow up and monitoring of fraud and corruption cases, but the line manager may delegate the actual work to the Regional Controller or the Project Manager.

RM/HoD and Project manager are the so called first line of defense, the RC is the second line of defense.

The third line of defense is organized at the level of internal audit (QAS). QAS also follows up fraud and corruption monitoring through the tertial management information reporting cycle in the organization.

The fourth line of defense is considered external audit. Fraud and corruption cases will be monitored through external audits and reported in audit reports and management letters.

The monitoring procedures for 3.3 and 3.4 are described in the specific policies.

## **5. Handling procedures**

The ultimate goal of handling all fraud and corruption cases is to solve cases in such a way that minimum financial and reputational damage is done to ICCO, its stakeholders (donors, partners, consortium members etc.), and its employees. Depending on the nature of the case, its size, impact, and complexity this will be possible or not. ICCO tries to solve its cases first on its own, but has a network of lawyers and consultants who can assist in the handling process.

Handling procedures are sometimes open and sometimes confidential, depending again on the nature of the case.

First ICCO always intends to solve cases amicably. If cases can not be solved that way, then ICCO tries to mitigate the issue through its contractual procedures and position as rightful demander of its claim. If this also does not deliver the desired results, ICCO may decide to start legal actions or more formal procedures to solve the issue. This will depend on the costs and benefits expected and the urgency of the case. When fraud or corruption are confirmed by e.g. an independent audit report and the amount concerned can be clearly defined and proven, ICCO stands stronger in taking legal steps to fulfill its claim. The legal option is mentioned in ICCO's contract terms and conditions.

If the legal option is chosen, it is mandatory to report cases of proven fraud to the police. For the RO's each RM should define whether given the local legal system and culture it is feasible and wise to report the case to the police. The RM should balance whether the costs of a legal procedure weigh against the benefits.

The legal steps can also be taken after a relation is ended. RM/HoD should discuss the possible legal steps and actions with the Legal Officer and with QAS in order to make a plan of legal action.

We also refer to the more detailed procedure on [legal steps](#).

## **6. Reporting procedures**

The following (internal) reporting lines on fraud and corruption apply in the organisation:

- 3.1, 3.2, 3.5: RO/Program Department: RC/PC to RM/HoD, monthly
- 3.1, 3.2, 3.5: RC to QAS, tertial
- 3.1, 3.2, 3.5: QAS to EB, tertial
- 3.1, 3.2, 3.5: QAS to external accountant, yearly
- 3.3,3.4: QAS to EB, on case basis
- All: QAS to Legal, monthly
- All: QAS to SB, on case basis

Externally ICCO reports about its performance on fraud and corruption cases through the corporate annual report and reports to donors.

## **7. Communication procedures**

Within the organisation ICCO has several ways of communication on the topic fraud and corruption:

- policies and procedures are published on the ICCO international website
- articles are embedded in the terms of employment and contract templates with contract parties
- trainings are given to raise awareness and ensure compliance
- during internal audits and project visits attention is given to these subjects