



Financial incompetence:

The lack of internal resources (staff, expertise, funds, systems, equipment, etc.) to manage the funds and the required reporting

### **Guidelines for an internal Fraud Protocol and sanction policy**

A fraud protocol intends to reduce the risks of fraud and financial incompetence. Project officers must be aware of the possibility of fraud, and they must know how to act in order to avoid unnecessary stress on the partner relation. Through internal checks or through signals from the external environment of the IO, the AO can make up that something may be wrong at the IO. See annex for possible signals.

A fraud protocol is a roadmap that can be used to assess which intervention is needed with which type of fraud. At the lowest level, the periodic installments still take place. In case of financial incompetence the IO is primarily responsible to eliminate bottlenecks. The AO may take its responsibility by funding the capacity building of the staff.

In case the IO is not replying to requests for information, payments will be stopped. If there is still no response, it must be considered whether there is fraud and how improper used funds can be reclaimed. The advantages and disadvantages of judicial proceedings should be considered before doing so.

How the internal procedure at the AO precisely is arranged, depends on the software systems that are in use and the employees involved. The procedure should be defined in a Quality Manual.

### **Reporting to Prisma and EO Metterdaad**

As soon as the AO gets an indication that there could be fraud or financial incompetence, both the EO Metterdaad (manager) and Prisma need to be informed. The manager of EO Metterdaad will directly inform the board of the foundation and will also keep the board informed of the process followed.

A fraud case that has become known to other organizations or the press needs extra attention to avoid reputation damage. In joint consultation a strategy will be developed how to address questions of (private) donors and journalists.

### **Handling of fraud cases**

Prisma, in consultation with the AO and EO Metterdaad, will make a proposal for handling the fraud case. By mutual agreement EO Metterdaad, AO and Prisma will develop a roadmap and possible penalties / sanctions. EO Metterdaad will decide whether the improperly spent funds must be repaid or not.

Cases of financial incompetence should be reported in the final memo which is sent together with the report. Besides is described what measures are taken to eliminate bottlenecks.

### **New applications for funding**

Metterdaad accepts no responsibility in case a fraud investigation is ongoing or financial incompetence are known without measures taken to resolve it at the time of the application. The AO will be asked to pay back the funds to Prisma.

## **ANNEX**

For a complete overview on signs and signals of fraud, see:

<http://www.mango.org.uk/Guide/Fraud>

### **Signals**

The following signals may indicate fraud or financial incompetence, but are not limited to these.

From distance:

- 6 months after completion of the project period reports are still not received
- The external auditor gives in the statement a number of limitations, such as information that was not available or an event which is not certain whether or not it will occur
- A (anonymous) letter from (former) employees, the beneficiaries or other stakeholders
- The external evaluator reports that goals are not achieved because of organizational problems
- Lack of transparency in financial reporting related to
  - the allocation of costs between different projects
  - which costs fall under a budget line
  - the way the organization deals with exchange differences and interest income
- The AO or IO is not willing to participate in an external evaluation
- Other donors withdraw their funds or cut down their funding
- The IO is put on a blacklist of other donors or there are rumours among fellow organizations (most blacklists of donors are not freely accessible)
- The expenses on budget lines are inconsistent to the budget (for example, high salary costs or transport costs while the project-related expenses stay behind)

In the accounts of the partner:

- Lots of corrections to the cashbook – this may include extensive use of white-out or blocked out figures
- Pristine records – .ie. a manual cashbook that look as if they have all been written on the same day in the same hand. Could be an indication of rewritten/duplicate books
- Delayed banking of cash received – shown up by bank reconciliation.
- Records not kept up to date – i.e. deliberately delayed so managers cannot detect false accounting going on.
- Missing supporting documents – e.g. certain bank statements destroyed to cover someone's tracks, or a project officer who regularly claims to have 'lost' receipts.  
(source: Mango)

### **Not financial signals during a field visit**

- Working very long hours – first in last out of the office? Could mean that they are having to do extra work to cover their tracks?
- Never taking holidays – can't afford for someone else to see what they are doing!
- Change of lifestyle – spending patterns don't match their income (e.g. personal building projects, social habits, expensive car..)
- Creating 'smoke screens' – where someone is making a false accusation about another team member to give them time to cover their tracks or make a getaway!  
(source: Mango)

### **Penalties / Sanctions**

- Request for additional underlying information and carry out an external audit
- Stop installments
- Reclaim payments
- Take juridical action