



# Fraud policy

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## 1. Scope

Due to the nature of Cordaid/ICCO's operations and working in fragile context, an elevated risk exists that Cordaid/ICCO's staff and partners might be tempted to engage in fraudulent activities. The impact of fraud on an NGO can be significantly higher than the financial loss related to it. It harms trust, the reputation of Cordaid/ICCO and even the development aid sector in general and the stakeholders such as staff, beneficiaries, partner organizations, donor organizations, government bodies and the public.

Considering this context Cordaid/ICCO's policy is to take all suspicions of fraudulent activities seriously and to sanction all proven fraudulent activities (zero tolerance).

This policy applies to any irregularity, or suspected irregularity, involving employees, consultants, vendors, implementing partners, sub-contractors and/or any other parties contractually engaging with Cordaid/ICCO.

All suspicions of fraud will be followed up by the direct line manager of the office and/or unit involved, in many cases the Country/cluster Director.

All suspicions of fraud should directly be reported to the Cordaid/ICCO Integrity Committee (CIC). The CIC decides on the persons to be informed about a suspected fraud incident. The Manager Internal Audit will always be informed (if not part of the Integrity Committee). The Manager Finance & Control and the CFO are informed about cases with a potential financial impact, to make sure that the financial impact is correctly processed in the financial administration.

This policy applies to all Cordaid/ICCO's **staff members**, **volunteers** and **consultants** commissioned by Cordaid/ICCO, in the Netherlands and abroad. Furthermore, the policy also applies to all **implementing partners** and **suppliers** who are contracted for the purpose of reaching Cordaid/ICCO's objectives.

## 2. Related policies

This policy should be read in connection with the following Cordaid/ICCO policies:

- Integrity policy
- Code of conduct for staff
- Code of conduct for third parties
- Conflict-of-interest Policy
- Whistleblower's Policy
- Policy on (un)desirable behavior
- Complaints procedure
- Anti-terrorism and anti-money laundering policy

## 3. Dissemination

The Fraud Policy is openly available on Cordaid/ICCO's external websites and her internal website (Intranet). All updates will be directly communicated to all Cordaid/ICCO staff by CIC. New staff will receive the Fraud Policy as part of the onboarding program.

The Fraud Policy is mentioned in all funding agreements for partner organizations including a link to the full document.

The consultants commissioned by Cordaid/ICCO and the suppliers will receive the Fraud Policy as part of their introduction to Cordaid/ICCO.

## 4. Definition

Cordaid/ICCO uses the following definition of fraud: Fraud is any **intentional** act or omission designed **to deceive others**, resulting in the **victim suffering a loss** and/or the **perpetrator achieving a gain**, usually, monetary. There are three common types of general frauds: Corruption, Asset and Cash Misappropriation and Financial Statement Fraud.

### 4.1 Corruption

Corruption refers to schemes in which fraudsters **use their influence** in business transactions in a way that violates their duty to their employer in order to obtain a benefit for themselves or someone else. Corruption poses – apart from any financial loss – a serious risk to the reputation, credibility and ethical principles of Cordaid/ICCO's staff and activities.

For example - employees colluding with other third parties to receive or offer bribes / grants or unlawful compensation / extort funds / facilitate money laundering / engage in conflicts of interest or payroll fraud.

### 4.2 Asset and cash misappropriation

Asset misappropriation schemes are frauds in which the perpetrator **steals or misuses** Cordaid/ICCO's resources.

For example - fraud through logistic processes (including staff using building material in their own interest, falsifying inventory document) / theft.

### 4.3 Financial statement fraud

Financial statement fraud involves the **intentional misstatement or omission of material information** from the organization's financial reports; these are the cases of "cooking the books or figures".

For example - preparation of misleading / fictitious reports / declarations of non-business related expenses / embezzlement, payment of bogus invoices - in order to make an organization appear more profitable than it really is.

## 5. Fraud Prevention and Detection

### 5.1 Quality Management System with four lines of defense

Fraud prevention is embedded in Cordaid/ICCO's regular internal control system through a three lines of defense model.

Cordaid/ICCO operates a **Quality Management System**, whereby the following elements are important:

- Cordaid/ICCO's Quality Management System describes the most essential business procedures including process controls and segregation of duties. The Quality Management System consists of different project processes, protocols and policies. Line management is responsible for compliance with the quality system in the day-to-day operations;

- The Compliance & QMS department and the Finance & Control department are responsible for the design of the Quality Management System and monitor its effectiveness;
- The Internal Audit department perform regular internal audits at Global Office and Country Offices to provide assurance on the effectiveness of the Cordaid/ICCO Quality System;
- An external audit on the consolidated financial statements and frequent external project audits are (according to pre-defined guidelines and requiring qualified external auditors).

Cordaid/ICCO's staff members, volunteers and consultants commissioned by Cordaid/ICCO shall respect Dutch legislation as well as the legislation of the countries in which they work and must be familiar with all processes and policies that are part of the Quality Management System.

## 5.2 Code of Conduct

All staff members working at Cordaid/ICCO's Global Office and Country/cluster offices are expected to fully familiarise with the Code of Conduct for staff before starting their employment. The Code of Conduct clearly addresses corruption and misappropriation of assets as wrongful behaviour. In addition, Cordaid/ICCO's Conflict of Interest policy must be signed by all staff members.

## 5.3 HRM Policy

Two elements are important with regard to the link between HRM and fraud: personnel selection and training. Transparency and fairness are essential throughout the process of personnel recruitment ensuring a defined set of competencies and objective used in the selection procedures. During recruitment and training, personnel should be familiarised with Cordaid/ICCO's mission and vision and all applicable procedures and guidelines (including anti-corruption measures). Cordaid/ICCO supports this process by providing for:

- Procedure for the introduction of new staff (incl. training to strengthen necessary competencies);
- Transparent and well-documented selection procedure;
- Objectivity through shared decision-making on recruitment.
- Self-declaration and references from candidates to be hired

# 6. Reporting suspected fraud

## 6.1 Procedure for reporting fraud

In order to detect corruption, it is important that personnel of Cordaid/ICCO and persons outside Cordaid/ICCO who come across suspected fraud, are encouraged to report any suspicious incident. For all personnel and volunteers, it is very important to protect those who step forward to report any irregularities. A report of (alleged) fraud must never have negative effect on the person reporting any irregularity. The staff reporting irregularities or possible fraud must be protected by the Management Team and direct supervisor against any reprisal.

Suspensions of financing terrorism and/or money laundering will be dealt with in the same way as a suspected fraud.

For this purpose, Cordaid/ICCO has set up the following:

- Report of suspected fraud;
- Complaints procedure;
- Whistleblower's Code (*see separate code*)
- Confidential Counselors at Global Office and Country/cluster Offices

Suspicious of fraud brought up by staff members will be handled and reported to CIC by the line manager of the employee. All follow up actions are coordinated by the CIC. If one of the line manager is subject of the suspicion, a Board Member (GO) will take over the responsibility. The persons using Whistle-Blower's policy may report directly to the Board (CFO), the CFO in turn decides the next course of action. It may involve engaging CIC and IA or any other party he deems fit for further investigation. The CIC must keep all cases strictly confidential and may guide concerned staff to right persons in case further help is required.

Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and also to protect Cordaid/ICCO from any civil liability.

**6.2 Format for report of suspected fraud**

| <b>Step 1:<br/>Fraud/integrity<br/>case identification</b> | <b>Action</b>  |
|--|--|
| 1. Report alleged/concrete fraud/integrity case            | Report alleged/concrete fraud/integrity cases using relevant template provided by Cordaid/ICCO Integrity Committee to be found in intranet.  |
| 2. Details of alleged fraud/integrity case                 | The details should include: <ul style="list-style-type: none"> <li>• A description of the fraud/integrity case;</li> <li>• Specific details about the contract, grant, etc. (including project number);</li> <li>• The name of the person(s), country/cluster office or partner organization involved;</li> <li>• The period in which the alleged fraud/integrity case took place;</li> <li>• The amount (if known) of the alleged fraud/integrity case;</li> <li>• The date of the report;</li> <li>• The name and signature of the person reporting alleged/concrete fraud.</li> <li>• Confirmation that payments to the implementing partner/ supplier will be withdrawn immediately (if applicable);</li> <li>• Confirmation that partner is blacklisted (if applicable);</li> <li>• When Whistle-blower's policy is used, the Board (CFO) will decide the next course of action.</li> </ul> |
| <b>Step 2: Reporting to donor</b>                          | <b>Action</b>  |
| 3. Flow of reporting to donor                              | <ul style="list-style-type: none"> <li>• When a fraud/integrity case is related to program/project, the relevant Project Leader should be informed by the one handling the suspected fraud case;</li> <li>• Project Leader to ensure that the donor is adequately informed on the case including immediate actions taken;</li> <li>• When a fraud/integrity case related to Cordaid/ICCO Staff (GO &amp; CO) takes place, HR should be part of the investigation.</li> </ul>   |

| Step 3: Investigation | Action   |
|-----------------------|--|
| 4. A fraud team       | A fraud investigation team should be set up by the Internal Audit department with a good mix of objectivity and context specific knowledge. This team will be advised by Internal Audit.   |
| 5. Plan of approach   | A <b>plan/ approach</b> regarding next steps to be taken.<br>The plan includes: <ul style="list-style-type: none"> <li>• Suspension of staff;</li> <li>• Provision of replacement staff;</li> <li>• Launch of an internal investigation (if possible);</li> <li>• Appointment of an External Forensic Auditor (if necessary) in order to conduct a fraud/ corruption/forensic investigation;</li> <li>• Terms of Reference (TOR) for investigating External Auditor;</li> <li>• When external audit requested by donor, inform the donor;</li> <li>• Decision when to contact other funding partners.</li> </ul> |
| Step 4: Monitoring    | Action   |
| 6. Review             | Review of audit report. Is the report in line with the TOR?<br>Has appropriate action been taken?  |
| 7. Evaluation         | Evaluation with the fraud team how the process went. Lessons learned and how to utilize these into our present policies.   |

### 6.3 Overall reporting on fraud incidents

The CIC administratively maintains a fraud register. Periodic updates on the ongoing investigations are provided by Manager Internal Audit. The administrator of CIC receives all updates on the progress of investigations in order to maintain complete documentation. The fraud register is presented the Audit Committee on a quarterly basis and when deemed necessary by the chairman of the Integrity Committee and/or the Audit Committee directly to the Supervisory Board. The fraud register is also regularly examined by the external auditor.

## 7. Sanctions

Actions will follow in case of suspected fraud. If those actions reveal fraudulent acts, sanctions will be imposed. Sanctions are imposed for two purposes:

1. **Disciplinary reasons:** Demonstrating that corruption is not tolerated and has consequences. Sanctions support prevention; enforce compliance with signed agreements, and
2. **Mitigation:** Reduce the effects of non-compliance regarding the implementation of the programme in question and other programmes (with respect to financing, reputation and security).

### 7.1 Confirmed fraud at supplier/partner organization

The following actions are taken if the investigation initiated confirms the corruption:

- Dismissal of the personnel involved;
- Report the acts of corruption to the local police (if possible);

- Inform Cordaid/ICCO's communication department for further action as appropriate.

## **7.2 Fraud committed by consultant**

In the event of fraud committed by a consultant, Cordaid/ICCO cancels all payments and seeks annulment of the contract. Furthermore, the consultant will be black listed in Cordaid/ICCO's database for consultants and/or the CRM system to prevent him or her from being assigned to any missions in the future. Legal action will be taken if appropriate.

Cordaid/ICCO shall always take into consideration the interests of the beneficiaries of the programme when sanctions are imposed.

## **7.3 Conditions for the continuance of the relationship (committed by supplier/partner)**

The conditions laid down by Cordaid/ICCO for the continuance of the relationship, include:

- The extent of the damage has been established by Cordaid/ICCO or a third party, and accordingly action has been taken by the implementing partner/supplier;
- Compensation for the damage sustained;
- The matter is reported to the police by the implementing partner/supplier directly;
- The implementing partner/supplier noticeably improved the internal organization/control;
- Other 'guilty parties', if any, are suspended or dismissed.
- If not / otherwise blacklisted.

## **7.4 Fraud committed by staff**

In the event of fraud committed by Cordaid/ICCO's staff members, the Board of Directors decides on the actions to be taken in consultation with the line manager and manager HR.

Any failure to comply with prior agreements will be confirmed in writing. Any disciplinary action to be taken depends on the nature of the unwanted act and includes a written warning or dismissal and legal action.