

Fraud Prevention

Corporate fraud in any organisation runs ethical risks and leads to waste. In the case of non-profit institutions dedicated to tasks such as development or humanitarian aid, it threatens basic elements of their programming and their credibility within the community. Consequently, fraud must be dealt with swiftly and thoughtfully, anticipating events and not only reacting once they have been perpetrated.

Various forms of fraud can be referred to as:

- **Fraud** is defined as any intentional act or omission, designed to harm others, with the result that the victim suffers loss or damage and / or the perpetrator makes a profit.
- **Corruption** is the misuse of a power entrusted by delegation, for private purposes, such as personal enrichment or that of a third-party, a friend, a family member. It consists of refraining from doing, facilitating something, or taking advantage of its function in exchange for a promise, a gift, a sum of money, or advantages of various kinds.
- **Misappropriation** consists of the theft or misuse by any means of a resource or material owned by a third-party.

We can place these three at the same level - they are all improper conduct. This guide will refer to fraud and anti-fraud policies when referring to all three of the aforementioned categories. To deal with fraud, it is necessary for organisations to establish an anti-fraud policy document. Likewise, the entity must periodically assess the exposure to the risk of fraud.

The anti-fraud policy must contemplate three elements:

Prevention	Imparting the organisation's values by its workers by explaining the possible consequences of fraud for the organisation. Organisations should also seek to establish a code of ethics and conduct, which must be communicated and disseminated throughout the organisation, including the appropriate communication channels and complaint formats. Staff should be trained in the identification, categorisation and use of these channels and formats. Establish alert mechanisms that can anticipate and prevent the commission of fraud.
Control	Creating an anti-fraud commission whose responsibility is the investigation and verification of compliance with the policies of the institution, dedicated to the systematic or ad-hoc examination of the practices observed by persons or bodies of the institution. This commission will be in charge of establishing a compliance program with the established policies and norms and their monitoring. To obtain good information staff must feel safe when reporting, but at the same time they must feel the responsibility to provide truthful information. Clear responsibilities must be established and due protection to the complainant and protection against false reports.
Reaction	Displaying the principle of zero tolerance through quick and determined actions, reaction to fraud must always be undertaken using strong evidence. This is only achieved with the collaboration of whistle-blowers and in-depth investigations and the prior establishment of appropriate and consistent measures. Except where security may prohibit it, reaction policies and processes should be made public, and communicated among the staff, donors and beneficiaries. Communication of policies are usually sensitive and should be planned in advance.

It is important to be aware that fraud prevention regulations cannot by themselves guarantee the non-existence of fraud. The effectiveness of fraud prevention guidelines relies on the organisation and the individuals that comprise it.

Procurement fraud may include, but is not limited to:

- **Collusion between providers** - A group of suppliers work together to manipulate their bids in order to rotate winners.
- **Division of the offer** - Demand is split into multiple bids to pass through a lower threshold and therefore reduced due diligence supervision.
- **Adaptation of the offer** - Persons within the agency deliberately draft bid documentation to tailor it to the specific strengths of a specific supplier.
- **Price manipulation** - A supplier charges a price higher than the one agreed in the contract / framework agreement.
- **Product substitution** - The organisation obtains and pays for a certain specification, but the supplier provides a lower / different specification.

Key red flags to watch out for may include, but are not limited to:

Related to Suppliers:

- Undisclosed conflict of interest.
- Winning suppliers outsource to losing bidders.
- The last provider to submit a bid wins the contract.
- Offers that look similar on paper, font, colour, spelling errors, printing, etc.
- Inflated invoices or purchase orders.
- The winning bid is higher than the rate from the market.
- The winning bid is identical to the budget.
- Fictitious suppliers or suppliers without existence or physical address.
- Turnover pattern of winners.
- Partial delivery of goods or services.
- Quality of the delivered items differs from the supplied/proposed samples at the bidding stage.
- Qualified contractors do not submit bids.

Related to Personnel:

- Manipulation of the evaluation criteria after the opening of the tender.
- Contracts awarded by single source or non-competitive process.
- Requirements defined in a way that only a specific manufacturer or supplier can meet.
- Multiple purchase requests started in close proximity for similar requirements to avoid boundaries threshold.
- A staff member does not separate duties.
- Excessively narrow or wide specifications.
- Officials do not delegate their responsibilities or they refuse to go on vacation.
- There is no clear information on the presentation of offers.
- Inadequate documentation (no PR, PO, bid analysis and GRN).
- Overly friendly relationship between a provider and any persons conducting procurement.
- Unusually high exemption rate.
- Tender announcements scheduled to match with holidays.