

LIFT Financial Risk and Fraud Policy
June 2012

1. Purpose

This documents aims to clarify the Livelihoods and Food Security Trust Fund's (LIFT's) policy and procedures related to financial risk and fraud, including procedures for reporting and investigating suspicious or fraudulent activity.

2. Context

As a mechanism for pooled funding, there is a need for LIFT to agree on a standard policy on financial risk and fraud. As LIFT funding decisions are made by the Fund Board and translate into grants and contracts between the Fund Manager, UNOPS, and various other parties, this common standard shall be based on the Fraud Policy of UNOPS, strengthened by LIFT-specific safeguards that take account of additional requirements of LIFT donors where applicable and possible. Attempted fraud shall be treated as fraud even if there is no direct financial loss to LIFT.

3. Prevention of fraud

All contractual agreements of LIFT with grant-receiving Implementing Partners (IPs), as well as contractors and personnel, are in the name of, and managed by, UNOPS on behalf of LIFT. UNOPS has put in place internationally-recognized management procedures and fiduciary controls and operates in accordance with its ISO 9001-certified quality management system. Specific to LIFT, financial and fraud risk are dealt with through the following mechanisms:

a) Pre-emptive: Financial capacity assessments

For new IPs, the Fund Manager carries out financial capacity assessments. This assessment includes: fund flow systems; staffing and staff capacity; accounting policies and procedures; audit procedures; reporting and monitoring systems; and, information systems. Grant engagement requires that minimum financial capacity criteria are met. The assessment may prompt certain measures to strengthen a partner's capacity during the life of the grant. Implementation of recommendations is monitored by the Fund Manager.

b) Looking for danger signals

All projects are visited regularly, at least three times a year. Project visits include visits to field offices and discussions with project and support staff, determining whether activities are progressing within the framework of the grant agreement's workplan and whether adequate management and oversight processes are in place. Findings from field trips are shared with LIFT management team and catalogued systematically. Delays, deviation from work plans and weaknesses within the management of the project (including governance, finance, procurement/logistics, fund flow, HR, and other administration) trigger discussions within the LIFT Fund Manager and with IP representatives, aiming to address such risks through strengthened systems and adjustments of work plans/revisions of grant agreements where this is in the interest of the Fund and in line with the objectives of providing support to project beneficiaries. Serious weaknesses and non-performance may prompt the suspension of the grant to allow for a more thorough assessment to determine whether or not a grant should be terminated.

c) External audits of Implementing Partners

Upon request of LIFT Fund Board, all non-UN Implementing Partners are audited annually by an independent audit firm, engaged through the global mechanism established and managed by UNOPS Internal Audit and Investigation Group. The areas of focus include: a) effective, efficient and economical use of resources; b) reliability of reporting; c) safeguarding of assets; and d) compliance with applicable legislation. In cases where there is no added value in a full audit of an Implementing Partner (e.g., if previous audits did not result in any 'high risk' recommendations or where the grant agreement has already expired), the Fund Manager shall contract the services of a company to carry out an expenditure verification to confirm eligibility of expenditure prior to the release of final grant disbursements.

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d) Audits of the Fund Manager

Upon request of the LIFT Fund Board, the Fund Manager is audited regularly by UNOPS' Internal Audit and Investigations Group. These audits consist of two parts: i) an audited financial statement, which is composed of the statement of audit opinion together with the signed financial statements; and ii) a management letter or report. The audited financial statement shall be provided to donors as a way of giving assurance on the use of donor funds. The management letter or report is considered a UNOPS internal audit report and requests by donors for access to such reports shall be made in writing to the Executive Director of UNOPS in accordance with UNOPS Administrative Instruction (AI/IAIG/2010/02).

4. Reporting suspicions of fraud

Within the implementation structure of LIFT, fraud cases could appear at various levels:

- within the Fund Manager;
- involving a direct contractor or grant recipient/IP;
- involving a sub-contractor or sub-grant recipient; and
- outside the circle of LIFT contractual relations, but within the organizations that are involved in the management and implementation of the Fund's activities.

a) Suspicion of fraud within the Fund Manager

For suspicions of fraud that arise within the office of the Fund Manager, UNOPS Organisational Directive No. 10(OD 10) states that:

*"Any staff member or other personnel who has a reasonable basis for suspecting that fraudulent acts have occurred has a duty to report immediately his/her suspicions to his/her supervisor, to the Internal Audit and Investigations Group (IAIG) or to the UNOPS General Counsel. In addition a Fraud Hotline may be used (E-mail: fraudhotline@unops.org; or the telephone number(s) posted on the intranet [...]). If a staff member or other member of personnel is found having knowledge of a possible fraud and not reporting it, he/she could be subject to disciplinary or administrative action(s)."*¹

For cases that trigger a formal investigation and are relevant to the Fund's financial and reputational standing, UNOPS shall inform the Fund Board immediately and the Fund Board shall adhere to relevant and appropriate confidentiality requirements.

b) Suspicion of fraud involving a direct contractor or grant recipient/IP

Contractors and grant recipients shall be obliged to report instances of suspected fraud within their offices (e.g. when being investigated) to the Fund Manager if such fraud poses a risk to the financial or reputational standing of the Fund. A respective fraud clause shall be included in the contract or grant agreements.

The Fund Manager, when informed of such fraud suspicions, shall share such information with the Fund Board. Furthermore, such cases shall be monitored and progress or final findings documented in the Fund Manager's records. The Fund Board shall be regularly updated on these cases.

c) Suspicion of fraud involving a sub-contractor or sub-grant recipient

Contractors and grant recipients shall be obliged to report instances of suspected fraud within the offices of sub-recipients of grants and sub-contractors to the Fund Manager if such cases pose a risk to the financial or reputational standing of the Fund. The Fund Manager, when informed of such fraud suspicions, shall share such information with the Fund Board. Furthermore, such cases shall be

¹ The full text of OD 10 is available at <http://www.unops.org/SiteCollectionDocuments/Accountability%20documents/OD-10-rev2.pdf>.

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monitored and progress or final findings documented in the Fund Manager's records. The Fund Board shall be regularly updated on these cases.

- d) Suspicion of fraud outside the circle of LIFT contractual relations but within an entity that is involved in the management and implementation of the Fund's activities

Fund Board members as well as the Fund Manager shall share relevant information if they become aware of ongoing investigations outside LIFT against LIFT IPs, contractors or other stakeholders. Such information shall be reviewed to determine whether it could impact on LIFT's financial or reputational standing and whether lessons could be drawn to strengthen the Fund's own risk mitigation framework.

5. Investigations of possible fraud

Investigations into cases of suspected fraud shall be the responsibility of UNOPS Internal Audit and Investigations Group. The Director, IAIG will make an initial assessment of the reported incident and may, at his/her discretion, decide that a preliminary assessment be conducted. Based on the preliminary assessment, if any, and/or IAIG's initial assessment, the Director, IAIG shall determine whether a formal investigation should be conducted and if so, to refer the case to:

- a) IAIG personnel, or with the prior approval from the Executive Director, outsourced professional investigator(s) working on behalf of the IAIG;
- b) an ad-hoc investigation committee consisting of two or more UNOPS or other UN personnel (with at least one person employed by UNOPS under the United Nations Staff Regulations and Rules) appointed by the Executive Director; or
- c) the Investigation Unit of UNDP Office for Audit and Investigations (UNDP-OAI), the United Nations Office of Internal Oversight Services (OIOS) or any other UN entity, with the prior approval from the Executive Director.

6. Sanctions

Those found to have been involved in fraudulent and corrupt activity or to have been negligent in the exercise of supervisory duties will be subject to disciplinary and, where appropriate, criminal proceedings. Action will also be taken to recover any funds that have been lost or misused. Similarly, funding may be recovered, and future funding withheld from funding recipients where arrangements for preventing or detecting fraud and corruption fail to improve.

For UNOPS staff members, pursuant to Staff Rule 10.1 (b), UNOPS will pursue recovery for any financial loss attributable to the staff member's misconduct (fraud, theft), or gross negligence, or recklessness, in the management of funds.