



Zeister Zendingsgenootschap

Procedure for Fraud and Financial Incapacity at Partner Organisations

1. Introduction

The Procedure for Fraud and Financial Incapacity at Partner Organisations aims to provide insight in and control over the risks of fraud and financial incapacity. This is necessary for ZZg to remain in control. In the staff meeting where the Annual Report is on the agenda the General Secretary will ask explicitly if any staff member may have been aware of signs of fraude or financial incapacity and mention this Procedure.

With this procedure ZZg aims:

- To solve issues of fraud and financial incapacity that have impact on the achievement of the results as agreed in the contract with the Partner.
- To increase awareness amongst the involved employees of the risks and consequences of fraud and financial incapacity.
- To have better insight in the risks ZZg is incurring.
- To prevent future mistakes by keeping better records of the history.

2. What is fraud and financial incapacity?

Fraud and financial incapacity have many definitions. For ZZg they are defined as follows:

- **Fraud:** is the intentional misuse of funds by the partner organisation or one of its employees. "Fraud can involve one or all of the following:
 - Misrepresentation of facts
 - Breach of the responsibilities of the contract
 - Suppression of truth
 - Omission of critical facts." (Zack, G.M., 2003)
- **Financial Incapacity:** is the lack of internal resources (personnel, capacity, funds, systems, equipment, etc.) to manage and administrate funds properly and/or to make the required reports.

Both financial incapacity and fraud can result in funds not being spent in accordance with the contract with ZZg. An important difference between financial incapacity and fraud is that the first is not deliberate while the latter is.

3. How the procedure is applied

In short, the procedure is as follows:

3.1 A new case is submitted: ZZg personnel or other external parties observe signs of (possible) fraud or financial incapacity at a partner and decide to report a new case to the General Secretary of ZZg or to the President of the Board (ZZB). The General Secretary will inform donors about the report of (possible) fraud. A sign of risk may be the late submission or no submission at all of reports as agreed in the reporting schedule of the Specific Contract.

3.2 Investigation: ZZg starts an investigation to find out what is the underlying reason for the observed signs, whether fraud, corruption or financial incapacity are detected. The partner is informed of the fact that it is under investigation and that payments are suspended in the meantime. Also when reporting is delayed payments are suspended until the reports are submitted (Clause D-2 General Contract Conditions). Results of the investigation phase can be:

- Financial Incapacity is confirmed
- Fraud and/or corruption is confirmed
- Nothing could be found or the (employee of) Partner is innocent.



Zeister Zendingsgenootschap

3.3. Action Plan: Depending on the results of the investigation ZZg may decide to terminate the contract and the relation with the partner or may decide to continue the partnership on some conditions. When the latter is the case an Action Plan should be written by the partner outlining an improvement trajectory to address the problems found during the investigation. ZZg has to approve the Action Plan. The partner is informed whether the Action Plan was approved and starts with the implementation, which is monitored by ZZg.

When fraud and/or corruption is confirmed ZZg will consider taking legal steps to recover the lost funds as is foreseen in the General Contract Terms and Conditions (Clause D-3).

3.4. End of procedure: The Procedure for Fraud and Financial Incapacity at Partner Organisations ends in one of the following ways:

- The relation with the partner is ended. A termination letter is sent to the partner.
- The partner will be marked as a high risk partner to avoid unwanted contracting in the future.
- The level of risk of fraud and financial incapacity is considered as low, due to an implemented Action Plan and returned funds in case of fraud. The partnership may be continued under extra monitoring.
- It was a false alarm and the partnership continues under normal circumstances.

The partner is informed of the decisions by ZZg in writing.