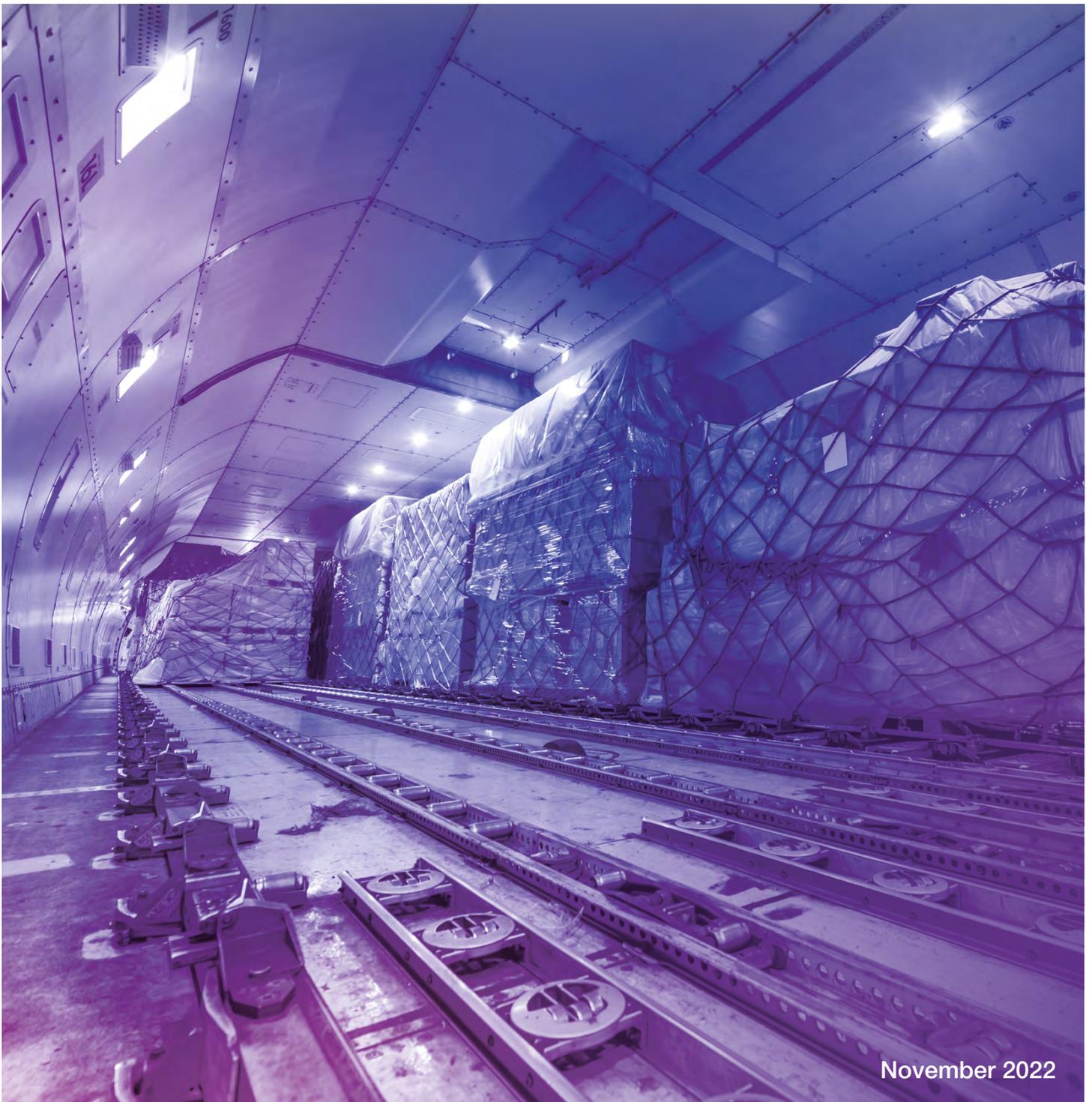




# International Public Sector Fraud Forum

## Fraud in International Aid

### Principles for Effective Fraud Control





Cabinet Office



Produced in collaboration with the Cabinet Office and the Commonwealth Fraud Prevention Centre.

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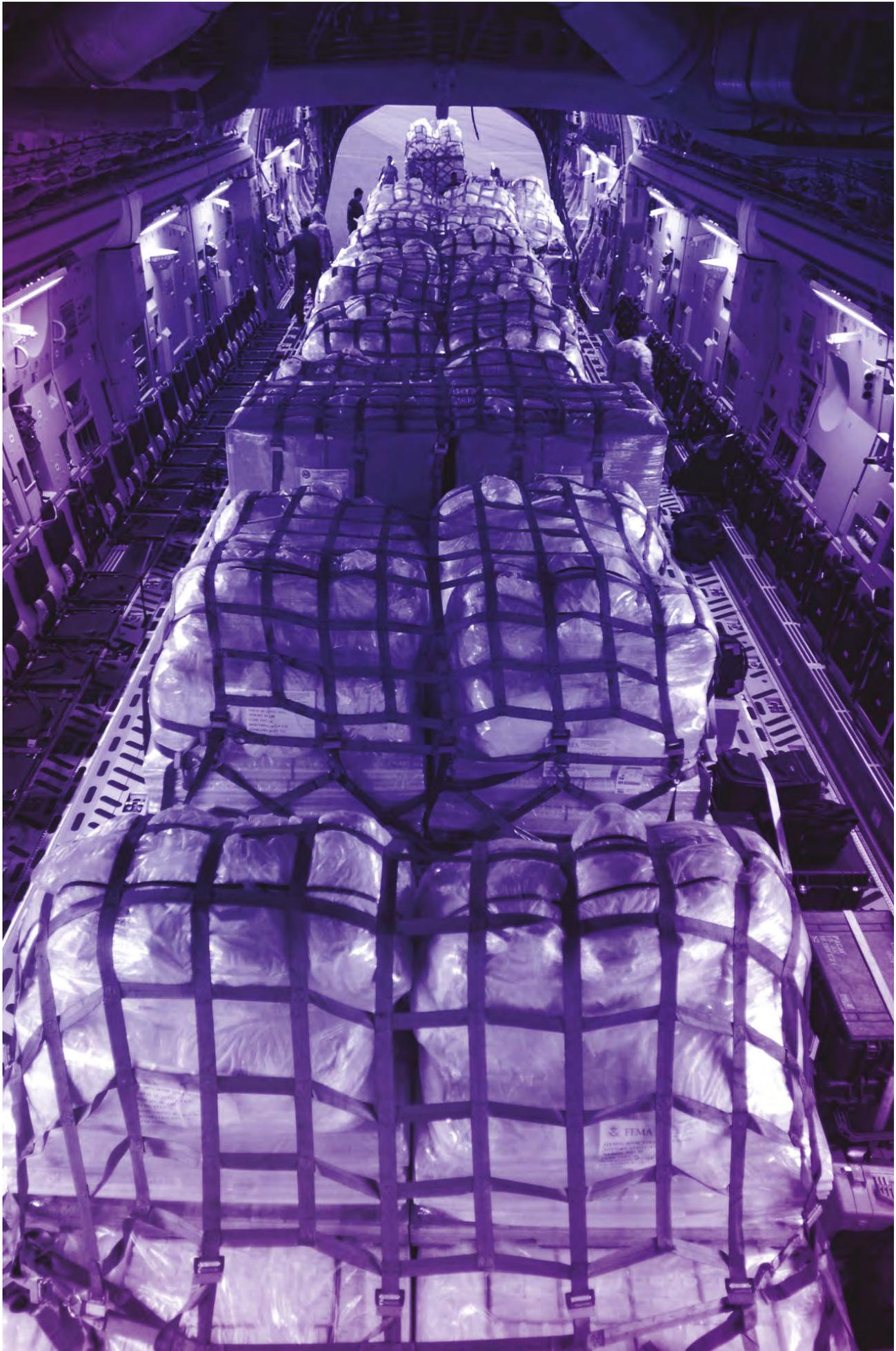
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# Contents

<b>The International Public Sector Fraud Forum</b>	<b>5</b>
<b>Foreword</b>	<b>7</b>
<b>International Aid in the Five Eyes Countries</b>	<b>8</b>
<b>What is International Aid?</b>	<b>11</b>
<b>Why is Dealing with Fraud in International Aid Important?</b>	<b>12</b>
<b>Fraud Risks in International Aid Delivery</b>	<b>13</b>
Case Studies - Fraud Risks	14
Lessons Learned from COVID-19	16
<b>Counter Fraud in the Delivery of International Aid Programmes</b>	<b>18</b>
Managing Counter Fraud in the International Aid Cycle	20
<b>Identifying Indicators of Fraud and Understanding Fraud Risk</b>	<b>22</b>
Red Flag Monitoring	22
Fraud Risk Assessment	24
Initial Fraud Impact Assessments	25
Resources and Guidance on Fraud Risk Assessments	26
<b>Key Techniques to Prevent and Detect Fraud</b>	<b>27</b>
Grant Clauses	27
Use of Data and Data Analytics	27
Whistleblowing and Tip-Off Facilities	28
Building International & Local Networks and Intelligence Sharing	28
Analysis of Management Accounting Reports	29
Spot Checks	29
<b>Summary of Recommendations</b>	<b>31</b>
<b>Annex A - Additional Resources for Countering Fraud in International Aid Schemes</b>	<b>33</b>
<b>Annex B - Countering Fraud in Foreign Aid Schemes Checklist</b>	<b>35</b>





# The International Public Sector Fraud Forum

The International Public Sector Fraud Forum (IPSFF) currently consists of representatives from organisations in the governments of Australia, Canada, New Zealand, the United Kingdom and the United States. The collective aim of the Forum is to come together to share best and leading practice in fraud management and control across public borders.

The Forum has established 5 principles for public sector fraud.



## 1. There is always going to be fraud

It is a fact that some individuals will look to make gains where there is opportunity, and organisations need robust processes in place to prevent, detect and respond to fraud and corruption.

## 2. Finding fraud is a good thing

If you don't find fraud you can't fight it. This requires a change in perspective so the identification of fraud is viewed as a positive and proactive achievement.

## 3. There is no one solution

Addressing fraud needs a holistic response incorporating detection, prevention and redress, underpinned by a strong understanding of risk. It also requires cooperation between organisations under a spirit of collaboration.

## 4. Fraud and corruption are ever changing

Fraud, and counter fraud practices, evolve very quickly and organisations must be agile and change their approach to deal with these evolutions.

## 5. Prevention is the most effective way to address fraud and corruption

Preventing fraud through effective counter fraud practices reduces loss and reputational damage. It also requires less resources than an approach focused on detection and recovery.



# Foreword



**Lyn McDonald, OBE**  
*Executive Director, Public Sector Fraud Authority  
UK Cabinet Office*

International Aid is essential to the global economy. The fraud perpetrated against aid in its many guises is not victimless – it has a clear and immediate impact on life saving projects across the world as well as undermining the hard work of those involved from taxpayers onward. Tackling the epidemic of fraud is essential for security, credibility and to ensure all funds have the impact intended.

Aid did not stop during the global crisis of coronavirus (COVID-19). Those who perpetrate fraud used the time to step up their efforts to attack domestic help schemes meant for people and businesses.

The members of the IPSFF: Australia, Canada, New Zealand, United Kingdom and The United States have come together to look at the problem. They have shared their findings and insights... Step 1 is defining the problem.

“If I had an hour to solve a problem I’d spend 55 minutes thinking about the problem and five minutes thinking about solutions<sup>1</sup>.”

This is our 55 minutes - the third part of Einstein’s quote is to learn - that’s why you only need five minutes to solve the issue because you learn from others, I know all members of the forum have found this useful. I am confident that anyone defending public services and public funds from fraud particularly in the field of aid will find this informative and useful.

This guide is for decision makers delivering international aid and counter fraud experts working with them to prevent and detect fraud. It sets out recommendations for strategic considerations and operational steps for Governments, multilateral organisations, including the United Nations or World Health Organisations, Non-Governmental Organisations (NGO) and local actors to take to minimise fraud risk in aid through prevention and detection in the International aid programmes.

Additionally, the guide can provide a wider perspective on economic crime beyond fraud, such as corruption, cyber attacks and organised crime.

1 Forbes. [The third critical step in problem solving that Einstein missed 2021](#)

# International Aid in the Five Eyes Countries

In 2021, the total value of official development assistance - or International aid - provided by the 24 member countries of the Development Assistance Committee (DAC) amounted to USD 178.9 billion. Of this figure, USD 68.521 billion was paid by the Five Eyes countries alone.<sup>2</sup> The graphic below shows each Five Eye's country's official development assistance contribution in 2021.



While the vast majority of the spend on international aid is delivered through grants, the total amount includes spending in the following areas:

- Loans to sovereign entities,
- Debt relief,
- Contributions to multilateral institutions.

Net official development assistance by the DAC has more than doubled in real terms since 2000, increasing by 118% since this date. With the rate international aid is increasing, the need to embed effective counter fraud capacity and capability within programmes is greater than ever due to the potential loss to fraud that expanding aid programmes entail.

2 OECD. [Financing sustainable development - development finance standards - ODA 2021 summary, pg12, 2021](#)



# The Principles of Fraud Control in Emergency Management

The following are the principles of effectively controlling the levels of fraud in emergency management contexts.



Accept that there is an inherently high risk of fraud, and it is very likely to happen.



Integrate fraud control resources (personnel) into the policy and process design to build awareness of fraud risks



The business and fraud control should work together to **implement low friction counter-measures** to prevent fraud risk where possible



Carry out **targeted post-event assurance** to look for fraud, ensuring access to fraud investigation resource



Be **mindful of the shift** from emergency payments **into longer term services** and revisit the control framework – especially where large sums are invested

In doing all of this we must be mindful of the fundamental purpose of the emergency context – **getting payments and services to those in need is the priority.**





## What is International Aid?

International aid is a common feature of all the Five Eyes countries. The provision of aid is critical in many respects, such as helping to alleviate epidemics, conflicts and poverty, or dealing with the aftermath and reconstruction of humanitarian crises when prevention has not been possible. Aid is crucial both for international policy and the economic wellbeing of the world. It can be used to stimulate trade or industry. Aid can be delivered in the form of commodities and services or through financial means by way of grants or commercial contracts. More importantly, fraud in development impacts the vulnerable, and can have a disproportionate impact on women and children. It is therefore imperative to counter fraud, ensuring scarce funds are not diverted but get to their intended use.

There are many moving parts needed to ensure the delivery of international aid is successful. Preventing fraud is a key but often neglected aspect of international aid delivery and carries the potential to be the biggest risk in aid schemes. To be effective, international aid schemes must have adequate counter fraud measures in place. Some of these will be standard and can be done by the distributing donor or the agency, for example: Fraud Risk Assessments (FRA) and Fraud Threat Assessments (FTA).

To better understand how effective your upfront counter fraud measures have been at the portfolio and regional level, to be agile in dealing with fraud threats, access to trained fraud professionals are required throughout the lifecycle of a scheme. The larger or riskier the scheme is, there is a greater need for additional actions and counter fraud techniques, including: embedded partnership working with local actors, online suspicious activity reporting, triaging of intelligence, use of data analytics, and the means to adequately investigate and recoup funds where fraud has occurred. When aid is being provided on a global scale and involves significant risk for nations, a coordinated approach to the law and the mechanisms behind it (such as grant agreements or clauses), precise and detailed procedures (who the aid goes to & how it will be distributed), intelligence sharing and the resulting action (including recovery, investigation) is the best practice approach.

## Why is Dealing with Fraud in International Aid Important?

Globally, the amount of international aid rose to an all-time high of USD 178.9 billion in 2021, up 4.4% from 2020<sup>3</sup> as countries stepped up to grapple with the COVID-19 crisis.

As the provision of International aid is a constant and growing feature of the Five Eyes countries, paying it effectively and safely is crucial to ensure not just value for money but to maximise its impact. More importantly, fraud in International aid impacts the vulnerable, and can have a disproportionate impact on women and children. It is therefore imperative to counter fraud, ensuring scarce funds are not diverted but get to their intended use.

Often money, services and commodities are distributed through third party agencies who provide a vital link between donor and recipient countries. Aid can also be delivered by government departments, multilateral partners like the United Nations, World Health Organisation, independent entities such as NGOs, or countries themselves. The agencies involved in the disbursement of international aid have a duty to ensure the commodities and financial aid reach the causes and individuals intended. The aspects relating to preventing fraud should start with the donors. It is incumbent on fraud practitioners, especially as international aid is funded by taxpayers' money, to minimise the risk of fraud or error in aid programmes.

There are inherent risks in the provision of international aid as it is often directed to countries with more fragile economies with political and/or social instability. This creates difficulties when:

- There is a lack of transparency on how the aid is being channelled, used and by who;
- Aid is disbursed in emergencies which limits the application of bespoke or typical fraud checks;
- In the main international aid is paid through third parties;
- There are differences in international law which creates additional pressures and risks;
- Validating relief payment information, especially if financial infrastructures are impacted;
- Gathering intelligence both before and after payment,
- Opaque ownership of relevant companies makes it difficult to identify beneficial owners and/ or known bad actors involved in the distribution of aid or implementation of projects;
- The prevalence of fraud prevents the right people and agencies receiving funds, leading to lives being lost;
- Fraud leads to money landing in the wrong hands causing more lives to be lost as funds can be diverted to nefarious activities & organisations;
- Countries and governments involved in international aid, whether providing or receiving are open to reputational risks;
- There is a lack of visibility of international officials during the implementation of the projects;
- Literacy & language barriers enhance local beneficiaries' vulnerability to fraud or abuse by 3rd party entities.

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3 OECD. [Financing sustainable development - Development finance standards - Official Development Assistance, 2021](#)

## Fraud Risks in International Aid Delivery

International Aid can be delivered through a wide variety of means. It can be as simple as money - paid usually as a grant - but also includes commercial contracts, commodities and services.

The governments of Australia, Canada, New Zealand, the United Kingdom and the United States have a world class track record at tackling fraud and have identified the following characteristics as indicators of an increase in fraud risk:

- Low transparency coupled with little or no ready access to information and data;
- Poorly drafted or limited counter fraud clauses in delivery partner grant agreements and contracts;
- Lack of preventative controls where aid is paid in international currency(ies) as a direct cash payment;
- Inconsistent or poorly designed internal preventative control measures or application of them;
- Limited control or oversight through supply chain management;
- Limited audit processes or resources;
- Limited exchange of information across international borders;
- Limited or lack of engagement with multilaterals;
- High turnover in staff delivering international development, including staff and volunteers in country;

- Limited or no anti-corruption control environment (e.g. limited or no fraud training, fraud reporting mechanism, or regularly communicated anti-corruption tone at the top);
- Lack of clarity of roles and responsibilities can lead to assumptions being made that someone else will conduct fraud checks, no one in your organisation would collude with fraudsters, or that it is not your role or responsibility to worry about fraud.

These characteristics are indicators of poor aid management but together they also indicate a much greater risk that fraud is already in the system. These characteristics are also indicators in domestic schemes but are exaggerated in the cross-border delivery of aid. The inability to conduct audits on the ground, currency issues and other risks in the provision of aid represents opportunities for fraudsters and increased challenges for managers to tackle fraud risks and threats.

These are linked to the unstable nature of the environment in which international aid is often distributed for example, in countries with precarious economies, high political instability or on-going conflict, and states undergoing a period of transition. Our international partners have also reported that they often rely on local actors to help distribute funds. While local knowledge can be invaluable, it can pose fraud risks where adequate fraud controls are not in place.

Types of fraud that occur may include but are not limited to:

- Abuse of power or influence;
- Collusion to deceive, to divert or misuse money or resources;
- Diversion of funds for personal gain;
- Fraudulent abuse of procurement processes;
- Incorrect or misleading reporting of information;
- Overstating contract or grant costs;
- Overstating contract or grant achievements;
- Facilitation payments, bribes or extortion;
- Theft or misuse of data;
- Falsifying qualifications or contractor status;
- Product substitution;
- Individual recipient beneficiary fraud;
- Forced labour/trafficking for contractor gain (of individuals from 3rd party countries hired by contractors/ subcontractors to perform the work).

## Case Studies - Fraud Risks

In February 2021, the World Bank Development Research Group published a study by three prestigious economists which evaluated the extent of fraud and corruption in foreign aid schemes intended for vulnerable and in need nations.

The study, 'Elite Capture of Foreign Aid'<sup>4</sup>, tracked the flow of aid funds to 22 nations and found that as much 16% ended up in tax havens.<sup>5</sup> As this figure is only indicative of organised fraud against schemes, the impact of fraud is compounded when fraud committed by local fraudsters is included. As such, when fraud is not addressed at early stages of schemes the impact of fraud can be great and much-needed funds can be siphoned off to criminals.

Consider the leaked Panama papers from the law firm Mossack Fonseca. They showed 214,000 shell companies for individuals to hide their identities, these included at least 140 politicians and public officials - some of whom were subject to sanctions. Corruption happens everywhere and ensuring we do not hand funds and products to those officials or politicians already involved and set up for fraud is not an easy task. The examples below highlight only a few select case studies evidencing the extent of fraud in international aid schemes.

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4 WorldBank. [Elite Capture of Foreign Aid: Evidence from Offshore Bank Accounts 2021](#)

5 The Week. [Foreign aid: How & where is Britain's budget spent? 2021](#)



### CASE STUDY 1

In May 2021, the United States Justice Department successfully prosecuted a citizen of Turkmenistan who had coordinated a collusive tendering scheme to bid on contracts procured by NGOs and funded by USAID. He received kickbacks from companies who were provided with key information, helping them win contracts. These contracts were for the procurement of food and supplies that would ultimately be provided to those affected by various humanitarian crises, including refugees displaced by the conflict in Syria.



### CASE STUDY 2

A 2018 investigation into the Mercy Corps discovered that USD \$639,000 worth of aid was lost. The aid was intended for displaced people in the Democratic Republic of Congo. It was revealed the fraud involved a complicated scheme to corrupt aid workers, community leaders and business owners. A senior Mercy Corps official investigating the offence believed other aid agencies were also impacted by the fraud; a total of USD \$6 million was lost over a 14 month period.<sup>6</sup>



### CASE STUDY 3

In 2018, Ugandan officials created false identities in refugee settlements, particularly in western Uganda, to fraudulently obtain aid money meant for genuine refugees. As a result they defrauded millions of dollars in aid. The officials are accused of diverting relief items meant for refugees, misappropriating government land allocated for refugees, trafficking young girls and married women, and local electoral fraud.<sup>7</sup>

6 The New Humanitarian. [EXCLUSIVE: Congo aid scam triggers sector-wide alarm 2020](#)

7 The Guardian. [‘They exaggerated figures’: Ugandan aid officials suspended over alleged fraud 2018](#)

## Lessons Learned from COVID-19

International aid is frequently distributed through systematic and organized programmes of work. Most contributing countries have departments which lead on the distribution of aid, like the UK's Foreign & Commonwealth Development Office (FCDO). These dedicated centres of expertise provide assured methods of enabling, distributing and measuring the impact of aid. However, the risk of fraud in international aid schemes is still present. To mitigate and prevent the harmful effects of fraud, it is key to identify effective countermeasures and also apply the lessons learned from similar schemes.

Following COVID-19, record levels of aid have been distributed by states at a global level. To reduce and prevent fraud impacting aid schemes it is important to integrate the lessons learned from COVID-19 programmes into scheme design at the early stages.

### Learning Points from COVID-19 - Fraud Risks in International Aid

1		At the point of scheme design, complete a Fraud Risk Assessment to ensure you fully understand the fraud risk and work with fraud control experts to support the design of the aid scheme
2		Establish data governance, data sharing agreements and consistent data specifications across governments to identify fraud in new financial aid packages
3		Develop a strategic counter fraud communications campaign particularly during emergency management situations
4		Develop your intelligence capability - which includes an online suspicious activity reporting tool and creating a dedicated flow of information to help identify key threats to ensure resources are targeted effectively
5		Put in place effective Post Event Assurance (PEA) to detect fraud and error, help measure the scale of potential loss and help recover losses where possible. PEA should be included in the programme design and in mandatory clauses in the agreements.
6		Share experiences and best practice with international and local partners to build knowledge and expertise.

# The risk of fraud in foreign aid schemes is still present

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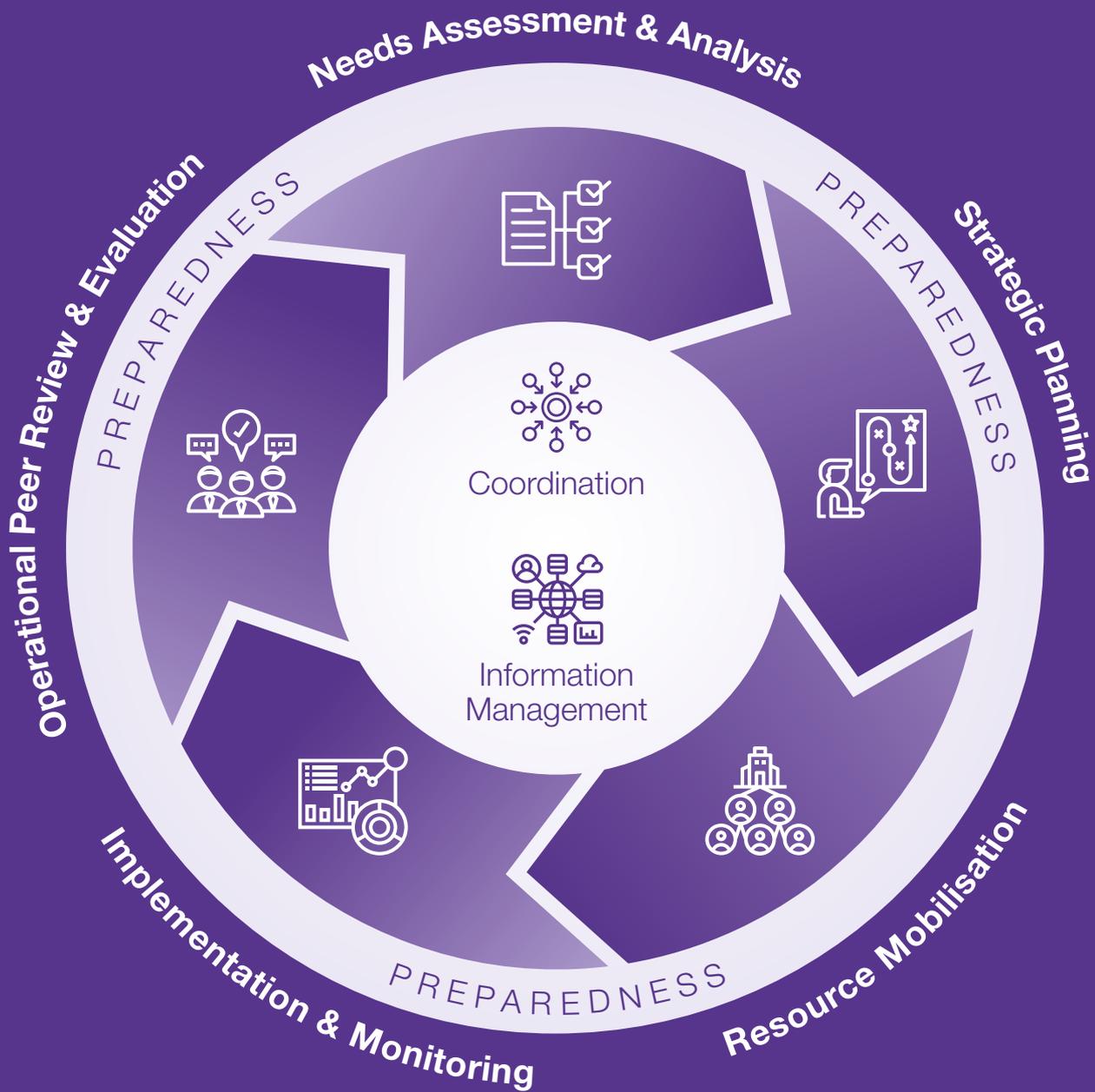
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# Counter Fraud in the Delivery of International Aid Programmes





To ensure international aid is being delivered to the desired entities and not fraudulently redirected to alternative outfits, it is important to introduce effective auditing processes of the aid-delivery cycle at all stages of its delivery and implementation.

The delivery of aid usually involves the use of intermediaries who are assembled quickly and lack fraud risk and financial management expertise. It is therefore essential to understand and document the flow of money and physical aid through to the ultimate beneficiaries. This involves having a clear understanding of all individuals and organisations involved in this process and the geographical destination of the aid.

Key counter fraud activities including strategic fraud risk and threat assessments should be completed irrespective of urgency of aid distribution, having prepared controls, such as mandatory clauses in agreements, creates the first line of defence in fighting fraud and corruption. Otherwise, rather than creating an environment which is hostile to fraud, it's highly likely to encourage further fraud.

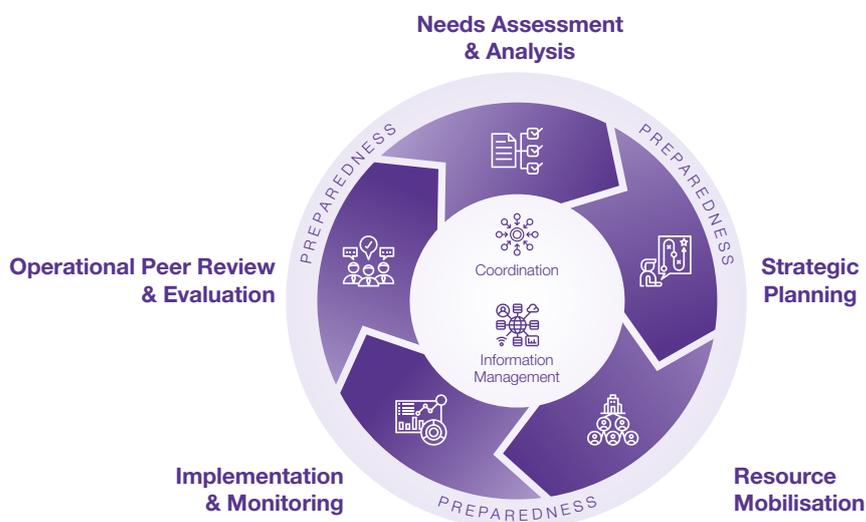
Using local actors who are invested in ensuring the effective and efficient use of the funds, products or services is the best way to combat fraud, corruption and mis-use. They are more likely to know how and when mis-use happens and likely to understand when prices have been inflated, or that product purchases are not fit for purpose. There is a risk when such local actors are overlooked. If we can provide a safe, secure and anonymous way for local actors to report their concerns or suspicions, that intelligence can save millions and potentially save lives. It is desirable to have local actors who are invested and can act as a preventative control on the ground, verifying the receipt, and use of aid.

Consideration should be given to a simple digital Artificial Intelligence (AI) online tool that is capable of building data - identifying patterns which may highlight anomalies. This kind of reporting happens in domestic fraud through various means. For example in the UK, ActionFraud and Crimestoppers are used to report instances of fraud. The UK also has Spotlight, a due diligence tool, which can analyse and review information to support informed decisions on fiscal applications. Similar digital tools and platforms built once can be used collectively by the five countries. It will allow a **'tell us once'** approach to report concerns or suspicious activity. By using data and local information - building patterns and using neural networks to highlight known bad actors - we can use the information to produce actionable intelligence. Working towards this end we can use and share this intelligence, ensuring fraudsters are not able move on to the next aid budget or country. Digital AI can be a simple tool which helps to develop a comprehensive strategic threat assessment of fraud in international aid.

Visible monitoring of aid programmes will act as a deterrent, whilst further promoting accountability within aid agencies, local actors and NGOs who are involved with the provision of aid. This, along with other activities such as internal controls, monitoring of channels for reporting will be heavily reliant on the delivery partner.

The international aid delivery cycle can be applied to your application of counter fraud controls. The measures can be taken at each stage of the project to mitigate the risk of fraud. They are summarised in the table on the next page.

## Managing Counter Fraud in the International Aid Cycle



<p><b>1</b></p> 	<p><b>As you do your ‘Needs Assessment’ you should be planning to build and deploy counter fraud capability</b></p> <ul style="list-style-type: none"> <li>• Identify which of your standard distribution tools can also be utilised as counter fraud and corruption tools - for example, distribution and handling maps;</li> <li>• Utilise Standards and Training to train local staff who can become counter fraud experts;</li> <li>• Conduct Initial Fraud Impact Assessment (IFIA) it will provide an early assessment of the need to resource counter fraud activity, including mapping out counter fraud requirements throughout the project life cycle. It should help to identify when the proposed design needs to be adapted or changed in relation to counter fraud concerns;</li> <li>• Ensure your trained staff are also accredited counter fraud experts who can be deployed to support new schemes as they are launched. This could be through a License to Practice model which recognises the key skills, knowledge and experience needed to be an effective counter fraud professional.</li> </ul>
<p><b>2</b></p> 	<p><b>As part of your ‘Strategic Planning’ establish international and local networks for aid delivery</b></p> <ul style="list-style-type: none"> <li>• Initiate ‘Red Flag Monitoring’ to horizon scan for fraud risks;</li> <li>• Identify invested local actors and existing non-departmental public bodies that have vested interests in ensuring the effective delivery of aid;</li> <li>• Utilise networks across the Five Eyes countries (Canada, United States, New Zealand, Australia and the United Kingdom) to share expertise, resources and develop shared counter fraud functions;</li> <li>• Establish memorandum of understandings (MOUs) with relevant NGOs, donor agencies and Five Eyes governments to establish mutual commitments;</li> <li>• Identify appropriate sources of information to enable quality due diligence at the later stages of the project/scheme’s design and implementation.</li> </ul>

<p style="text-align: center;"><b>3</b></p> <hr style="width: 20%; margin: auto;"/> 	<p><b>Use the ‘Planning Stage’ to secure your governance and processes against fraud</b></p> <ul style="list-style-type: none"> <li>• Name a government official to be responsible for the project or scheme in the receiving country;</li> <li>• Put in place ‘Fraud Risk Assessments’;</li> <li>• Regular due diligence on potential delivery partners, consultants and service providers to ensure transparency and avoid manipulation by recipients;</li> <li>• Seek submission from delivery partners or funding recipients of a fraud and corruption control strategy, setting out how fraud and corruption will be managed;</li> <li>• Determine the procurement and financial arrangements to avoid the diversion of funds for unintended purposes;</li> <li>• Ensure agreements include specific fraud and grant clauses.</li> <li>• Clearly define project physical requirements and components to avoid any overstatements and over-dimensions by recipients;</li> <li>• Include an additional clause within agreements requiring government sign off to remove previously established fraud and grant clauses;</li> <li>• Establish measures to assess and review the project throughout its lifespan;</li> <li>• Introduce adequate internal controls, ensure they are in place and regularly test these to corroborate they are operating as intended.</li> </ul>
<p style="text-align: center;"><b>4</b></p> <hr style="width: 20%; margin: auto;"/> 	<p><b>As you reach the ‘Implementation Stage’ ensure counter fraud mechanisms are in place</b></p> <ul style="list-style-type: none"> <li>• Establish your intelligence flows;</li> <li>• Put in place an online suspicious activity reporting tool;</li> <li>• Establish data mining/analytics opportunities;</li> <li>• Monitor fraud programme for irregular and suspicious transactions, expenses and receipts;</li> <li>• Ensure all contract amendments are properly authorised by the donor prior to any expenditure being incurred;</li> <li>• All payment requests and fund transfers are supported by adequate documentation (and reports) in accordance with the contractual agreement to avoid overbilling/payments;</li> <li>• Define a requirement to maintain appropriate documentation to certify the quality and quantity of commodities and services provided by third parties;</li> <li>• All parties understand expectations for reporting all fraud allegations and incidents, both internally and externally;</li> <li>• Conduct frequent audits and establish regular audit frequencies.</li> </ul>
<p style="text-align: center;"><b>5</b></p> <hr style="width: 20%; margin: auto;"/> 	<p><b>Use the ‘Peer Review’ Stage to conclude whilst implementing PEA and lessons learnt</b></p> <ul style="list-style-type: none"> <li>• Ensure verifiable transfer of project assets to final beneficiaries;</li> <li>• Ensure balance of project funds to be paid/refunded is determined following the final audit of the project;</li> <li>• Put in place PEA work to identify and understand the extent of any losses;</li> <li>• Put in place loss recovery processes;</li> <li>• Lessons on counter fraud should be logged and mobilised onto other programmes, regional, national and international level strategies, to ensure design is improved for future investment initiatives.</li> </ul>

# Identifying Indicators of Fraud and Understanding Fraud Risk

## Red Flag Monitoring

Proactive identification of fraud indicators, or 'red flags' within schemes is an effective method of fraud prevention, disruption and detection. Throughout the lifecycle of an international aid project, it is important to monitor red flags that may be caused by the specific in-country geo-political, economic and cultural contexts in which the programme is delivered. Examples of red flags you might identify are shown in the table below. It is important to note international aid can be exploited anywhere, it is essential to

have appropriate controls in place regardless of whether red flags are present or not. Many of the countries with a high volume of red flags may be the countries where international aid is directed. Knowing the vulnerabilities at the start and mitigating the risk is your best way to ensure funds, products and services are at the most effective and efficient. Accepting the risk without identifying, or actively monitoring and taking any action is more likely to result in increased risk not just to the aid or outcomes but also to the local actors and NGO officials.

## Examples of Macro Level red Flags

<b>The level of economic vulnerability</b>	A country in which the aid programme is being delivered, may have less stable economies, governance and processes around flow of funds. They are likely to have higher levels of fraud risk and less accessibility to information, tools and data for use in Fraud Loss Measurement (FLM) exercises.
<b>Violence and civil unrest</b>	The prevalence of in-country conflict, crime syndicates and terrorist organisations threatens the supply chains and assets of humanitarian aid programs leading to heightened levels of fraud risk.
<b>Human rights violations</b>	Delivery of humanitarian aid programs in countries with poor human rights records can cause supply chain disruptions, increasing the vulnerability of a program to fraud. The risk of fraud could be heightened if in-country organisations and agents also have poor human rights records.
<b>Regulatory burdens and requirements should be considered</b>	Governments can impose regulatory restrictions on the provision of aid, changing the nature of aid delivery and exposing a program to new fraud risks.
<b>Instability</b>	Unstable regimes or upcoming elections may pose a risk as potential new governments may have different expectations of how and where aid should be delivered.
<b>The risk of expropriation</b>	Governments can confiscate assets, nationalise property or breach contracts exposing an aid programme to previously non-existent or under considered fraud risks.
<b>Possibility of cultural missteps</b>	Superficial attempts to engage with local communities, organisations and agents during the delivery of an aid program can lead to biases and resentments which could heighten the risk of fraud.



# It is important to monitor red flags

## Examples of Programme Level Red Flags

<p><b>Internal Fraud</b></p>	<p>Fraud professionals should also remain vigilant of internal fraud red flags throughout the delivery of an aid programme. Internal frauds such as payment fraud, procurement fraud, travel and subsistence fraud remain significant risks. They could be perpetrated by anyone associated with a programme. Within a humanitarian aid project, red flag examples of internal fraud in a scheme could be behavioural or financial.</p>
<p><b>Behavioural Red Flags</b></p>	<p>Common behavioural characteristics which individuals may display, could be but are not limited to:</p> <ul style="list-style-type: none"> <li>• consistently work longer hours than their colleagues for no apparent reason;</li> <li>• reluctant to take holidays or time off;</li> <li>• excessively high or low staff turnover; or</li> <li>• asking to defer internal audits or inspections;</li> <li>• those involved in the provision of aid who have relationships with unusual in-country entities.</li> </ul>
<p><b>Financial Red Flags</b></p>	<p>Some indicators of fiscal red flags could be but are not limited to the following:</p> <ul style="list-style-type: none"> <li>• Unusual transactions from bank accounts;</li> <li>• cash-only transactions;</li> <li>• high-volume payments without a logical explanation;</li> <li>• immediate withdrawal of funds from an account;</li> <li>• conversion of financial currency to cryptocurrency;</li> <li>• small and frequent transfers to different accounts.</li> </ul>

## Fraud Risk Assessment

A Fraud Risk Assessment (FRA) covers how to effectively identify and assess individual fraud risks and develop these into a comprehensive FRA for international aid schemes. Conducting a FRA exercise is a key stage in your fraud controls and can be used to evaluate mitigating fraud controls, including understanding their limitations.

A diagram detailing the stages of a FRA can be seen below.

Diagram of the Fraud Risk Assessment Process



## Initial Fraud Impact Assessments

An Initial Fraud Impact Assessment (IFIA) provides an overview of the main fraud, bribery, corruption impacts and the challenges faced by individual business units, projects or programmes.

The purpose of an IFIA is to provide an early assessment of the resources needed to support counter fraud activity and better inform spend decisions. The IFIA can also be used to inform the proposed design of a spend activity and when it needs to be adapted to the changes in scheme delivery or fraud concerns.

Bringing counter fraud experts into the conversation from the outset of a newly proposed international aid scheme can help to identify and enhance the understanding of the types of fraud impacts which could affect a scheme.

The IFIA will empower senior leaders to react to fraud risk.

### Timing of an Initial Fraud Impact Assessment

The IFIA should be time-limited to the planning and scoping phases of a spend activity. It is best practice for the IFIA to be completed before funding is approved. If this is not possible, it should be completed as soon as possible. As IFIAs can be conducted in a shorter time frame than traditional FRA activities they are a useful tool to help accelerate the administration of funds in international aid delivery.

## Developing an Initial Fraud Impact Assessment

An IFIA should be informed by the potential ways that spend could be defrauded. When developing an IFIA, the following areas should be considered:

- Existing intelligence;
- Fraud risk logs;
- Risk registers;
- Likely scenarios;
- Lessons learned from other comparative aid initiatives.

More detailed guidance on how to conduct an IFIA can be found in the United Kingdom Government's Guide to Fraud Risk Assessments, listed in the resources on the next page.

## Resources and Guidance on Fraud Risk Assessments

### The Australian Government's Library of Fraud Risk Assessment Guidance and Tools

The Australian Government's Commonwealth Fraud Prevention Centre has produced a portfolio of publicly available Fraud Risk Assessments (FRA) tools and templates to assist fraud professionals to conduct FRA activities. This includes a FRA Leading Practice Guide detailing best practice principles, methods around FRAs and assists fraud professionals in demonstrating the benefits of FRAs to senior leaders. The Commonwealth Centre's wider FRA portfolio also includes a Strategic Fraud Risk Profiling Tool to assist in the identification of high risk areas while accommodating the key deliverables of an entity or programme.



→ A link to the Commonwealth Fraud Prevention Centre's Library of Fraud Risk Assessment tools and templates can be found here:

[Fraud risk assessment guidance and tools](#)



### United Kingdom Government's professional standards to Fraud Risk Assessments

The UK Government Counter Fraud Profession has produced professional standards and guidance on the core discipline of Fraud Risk Assessment (FRA) exercises. The guide provides an introduction to the purpose and scope of the FRA discipline. It also provides an overview of the steps involved in the FRA process from mapping the organisational landscape to prioritising programme appetites for residual risk. Products which can assist with FRAs such as guidance for professionals on how to plan, research, conduct interviews for an FRA exercise, packs for designing workshops and questionnaires are also signposted within the document.

Further guidance is provided on how to conduct and assure Initial Fraud Impact Assessments (IFIA). This is particularly pertinent to the delivery of humanitarian aid programs where pressure to deliver in-country aid at pace is often great.



Government  
Counter Fraud  
Profession

→ A link to the guidance can be found here:

[Fraud Risk Assessment Standards](#)



# Key Techniques to Prevent and Detect Fraud

## Grant Clauses

When designing international aid schemes, clear reference should be made to domestic and international grant-making standards. Whilst UK domestic standards are not designed specifically with international grant making in mind, the commonality in the process of administering domestic and overseas grants makes it possible for the design of international grants to take account of the principles contained in the UK domestic standard, to ensure grants are robustly designed and obligations for compliance are met.

Compliance with established standards will help to mitigate risk and make it more likely that grant funding is used for the intended purpose and achieves value for money in the context of the prescribed impacts and outcomes.

International aid schemes would benefit from making reference to grant agreements. The UK has worked with the Government Legal Department to develop a comprehensive Model Grant Funding Agreement (MGFA), which contains specific clauses covering fraud and corruption, including descriptions of what constitutes a breach of those terms, along with penalties that can be applied in such circumstances. The MGFA is used by default for all domestic schemes, except where the scheme is particularly specialist and requires a bespoke agreement, in that case, an agreement developed will be based on the MGFA.

A fundamental component in the designing a robust grant scheme is the consideration of a fraud and corruption risk and the accompanying mitigation strategy, at the outset, which is reviewed and threaded

throughout the design, approval and delivery phases of the scheme. At its heart, the fraud risk assessment (FRA) should seek to detect, prevent and deter fraud and clearly specify the mitigation strategy, including any grant agreement clauses, such as information sharing, monitoring, oversight arrangements and breach, to ensure compliance and provide tools for effective grant management. These will provide the legal framework within which the authority and recipient can work in tandem to tackle fraud risk.

## Use of Data and Data Analytics

- Data and intelligence are at the heart of preventing and detecting fraud through effective screening. Where technology allows, data analytics tools and technologies can be utilised to support fraud threat forecasts, prevention and detection at early stages of an aid scheme. Deploying data analytics in fraud prevention can have the following benefits:
- **Improved efficiency.** Automated tools can be established to detect and monitor potentially fraudulent behaviours within schemes.
- **Early warning system.** Analytics solutions can enable the rapid identification of fraud indicators before the fraud materialises.
- **Continuous testing.** Continuous fraud tests can be conducted on data; scanning and evaluating it to identify any risks on a business as usual basis.
- **Extending parameters.** Data analytics facilitates testing of full data sets, leading to increased chance of uncovering fraud.

Data analytics deployed for fraud prevention and detection can be used to classify, segment and group data to identify patterns which can help detect fraud. Therefore, where possible schemes should be designed collecting information on suppliers, local actors and beneficiaries using a **standardised data specification (schema)**. This will improve the data quality, enhance its data analytics potential and allow for cross checks to other relevant data sources. In the context of international aid programmes which often deal with diverse and highly disparate information, data analytics can be key to screen data to conduct detailed and targeted counter fraud investigations. Data analytics exercises can be used to:

- **Providing due diligence of suppliers and local actors.** Conducting verification checks on the identity and status of a supplier or local actor can help provide a due diligence process.
- **Process Aid Claim Data.** As international aid schemes regularly involve a high frequency of claims for aid, the application of data mining exercises can be utilised to identify fraudulent claims, data patterns in large data sets. Mining exercises also enable the clustering and categorisation of aid recipients, further facilitating the identification of data patterns and the detection of fraud.
- **Support 'Red Flag' Monitoring in Predicting Fraud Risks.** Through the application of historic data sets, data mining can be used to accurately anticipate future fraud risk and predicatively model outcomes in aid programmes.
- **Anticipating Rare Events.** Data mining enables the risk assessment of rare events through the methodology of predictively modelling a fraud environment. In the fluctuating environments of states undergoing a

period of transition, anticipating outlining events and worst case scenarios can prevent frauds from occurring by safeguarding against fraud risks.

## Whistleblowing and Tip-Off Facilities

A whistleblowing online suspicious activity reporting tool is an avenue allowing individuals to confidentially alert an organisation to suspicious activity, including fraud. It is an important tool for detecting fraud within programs and mitigating fraud risks. It enables the ability to take action against misconduct at an early stage. Whistleblowing online suspicious activity reporting tools also perform a preventive role as their existence can act as a deterrent.

It is important to ensure fraud control operations in international aid are designed to appropriately safeguard whistle-blowers. It is warranted that whistle-blowers can be protected, with information being released only on a need to know basis. Several countries, including the Five Eyes, have strong legislative requirements to protect whistle-blowers, and the oversight of allegations and fraud investigations needs to be carefully handled to ensure whistle-blowers in international jurisdictions can be offered appropriate protection.

There are various types of whistleblowing online suspicious activity reporting tools that can be deployed alongside aid programmes to facilitate the reporting of suspected frauds. The section below discusses potential benefits and drawbacks of the different types of whistleblowing hotlines.

## Building International & Local Networks and Intelligence Sharing

In order to ensure an aid project will successfully deliver assets to its intended recipients, a consolidated counter fraud approach involving fraud professionals across jurisdictional, national and organisational boundaries should be



pursued. Coordinating counter fraud strategy with other governments, local agents and NGOs, establishing secure networks to triage intelligence is key to detecting and mitigating fraud in foreign aid programmes. Measures that should be taken to ensure a counter fraud approach is joined-up with international and local partners include:

- Establishing an online suspicious activity reporting tool with international partners,
- Sharing information on the direction and intention of aid,
- Sharing greylist information on bad actors and due diligence conducted with partners where possible,
- Sharing of new and emerging fraud risks and threats with partners,
- Agreeing standardised and consistent aid, grant and moral clauses with partners,
- Establishing mutual coordination of on the ground verification.

## Analysis of Management Accounting Reports

Regular analysis of management accounting reports should be conducted to enable the detection of fraud facilitated by professional enablers. By storing and reviewing documentation - which could include; maintaining and monitoring expense reports, equipment logs and receipts - the likelihood

of discovering anomalous transactions or payment discrepancies will increase. Reminders to affiliates of an aid programme that documentation and accounting reports are often reviewed would further act as a deterrent to potential professional enablers of fraud.

Fraud professionals should also remain vigilant to the ways in which professional enablers can commit fraud. Examples of dishonest conduct by professional enablers could include the following:

- Setting up anonymous companies or other legal structures to hide alternative beneficiaries;
- Assisting or permitting criminals to open onshore or offshore banks accounts to move fraudulent money;
- Failing to identify and report suspicious transactions, making it easy for criminals to engage in fraud, corruption and money laundering.

## Spot Checks

Spot checks can be used to supplement other counter fraud techniques to detect fraud in aid programs. The presence of 'on-the-spot' checks for fraud in programs can also act as a deterrent for fraudsters in itself. Although data analytics techniques have a wider coverage than spot checks, they can be utilised in, in-country environments where access to the large data sets required to conduct thorough data analytics activities are limited.





## Summary of Recommendations

	<p>Ensure you have the capacity and capability to counter fraud in your international aid schemes. It is vital we protect taxpayers money.</p>
	<p>Utilise methods aligned to the fraud risk methodologies outlined in this paper. See further details signposted in <a href="#">Annex A</a>.</p>
	<p>Ensure you have robust grant clauses up front in any grant agreements. Similarly review clauses in any contracts for the delivery of aid work.</p>
	<p>Invest in the use of data and intelligence to help identify and prevent fraud.</p>
	<p>Ensure post event assurance is put in place to help understand fraud loss and inform the development of counter fraud controls in future schemes.</p>



## Annex A



## Annex A - Additional Resources for Countering Fraud in International Aid Schemes

### U.S. Agency for International Development Anti-Fraud Plan

→ <https://www.usaid.gov/sites/default/files/documents/596sac.pdf>



### U.S. Agency for International Development Office of Inspector General, Compliance and Fraud Prevention

→ A Pocket Guide for Program Implementers:  
[https://oig.usaid.gov/sites/default/files/2018-08/OIG%20Fraud%20Prevention%20and%20Compliance\\_7.9.18.pdf](https://oig.usaid.gov/sites/default/files/2018-08/OIG%20Fraud%20Prevention%20and%20Compliance_7.9.18.pdf)





## Annex B

## Annex B - Countering Fraud in Foreign Aid Schemes Checklist

<p><b>Consider the Risks of Fraud in Foreign Aid Delivery</b></p>	<ul style="list-style-type: none"> <li>• Consider the types of fraud that can occur in the International aid lifecycle;</li> <li>• Consider including audit clauses - allows audits to take place &amp; support contract compliance;</li> <li>• Implement lessons learned from similar schemes into programme design;</li> <li>• Conduct an Initial Fraud Impact Assessment;</li> <li>• Conduct a Fraud Impact Assessment;</li> <li>• Consult international best practice guidance on how to effectively design fraud risk assessment activities.</li> </ul>
<p><b>Introduce Effective Fraud Prevention Measures</b></p>	<ul style="list-style-type: none"> <li>• Deploy in-country counter fraud capability by training staff to become accredited counter fraud experts;</li> <li>• Identify invested local actors, NGOs and networks that have vested interest in ensuring the effective delivery of aid;</li> <li>• Ensure there are adequate internal controls in place at the project design stage;</li> <li>• Name a government official responsible for a scheme in the receiving country;</li> <li>• Establish clear guidelines for suppliers, consultants and service providers to ensure transparency;</li> <li>• Incorporate specific fraud and grants clauses into agreements;</li> <li>• Ensure all contract amendments are properly authorised by the donor prior to expenditure;</li> <li>• Maintain appropriate documentation to certify the quality and quantity of goods and services provided by third parties;</li> <li>• Establish channels for reporting suspicions of fraud;</li> <li>• Conduct frequent audits and establish regular scheme audits;</li> <li>• Verify the correct transfer of assets to final beneficiaries at the project closing stage;</li> <li>• Agree a balance of project funds to be paid at the final audit of the project.</li> </ul>
<p><b>Introduce Effective Fraud Detection Measures</b></p>	<ul style="list-style-type: none"> <li>• Deploy data analytics at scheme level to detect anomalies and unusual transactions;</li> <li>• Establish effective fraud reporting hotlines to facilitate tip-offs;</li> <li>• Monitor potential fraud ‘red flags’ to find where fraud could be occurring in a scheme;</li> <li>• Conduct analysis of management accounting reports;</li> <li>• Introduce spot checks.</li> </ul>

the 1990s, the number of people in the UK who are aged 65 and over has increased from 10.5 million to 13.5 million, and the number of people aged 75 and over has increased from 4.5 million to 6.5 million (Office for National Statistics 2000). The number of people aged 65 and over is projected to increase to 16.5 million by 2020, and the number of people aged 75 and over to 8.5 million (Office for National Statistics 2000).

There is a growing awareness of the need to address the needs of older people, and the need to ensure that they are able to live independently and actively in their own homes. This has led to a number of initiatives, including the development of the National Framework for Older People (Department of Health 1999) and the National Strategy for Older People (Department of Health 2000). The National Framework for Older People sets out the government's commitment to older people, and the National Strategy for Older People sets out the government's strategy for addressing the needs of older people.

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