



Foreign, Commonwealth  
& Development Office



### **Introduction**

This document outlines the minimum standards FCDO expects its funding partners to demonstrate when managing the risk of aid diversion in programmes funded by UK aid. Aid diversion risks include fraud/theft, terrorist financing, money laundering and bribery<sup>1</sup>. Aid diversion occurs when funds are not directed to the aid outcomes or recipients intended.

The document is not designed to cover every aspect of counter aid diversion or to go into depth on specific issues such as risk, corporate governance, legal responsibilities etc.

The document is not designed as a check list and its use should not restrict the scope of partners to balance aid diversion risk with operational priorities and realities on the ground. Rather, the document should stimulate and encourage detailed conversations that can focus into specific issues such as discussing residual risk.

Using this document is not mandatory. Rather, it is tool that some partners have been asking for.

### **Context**

FCDO operates in highly challenging environments. We are willing to take carefully considered and well managed risks to deliver UK objectives and achieve development outcomes. We will undertake higher risk activities where the situation (e.g. emergency humanitarian) or the expected results justify them, and we are comfortable that the mitigating actions keep the residual risk to an acceptable level. We will undertake higher risk activities to innovate, build the evidence base and work in new and transformative ways. We will comply with relevant UK and local law and will take reasonable steps to avoid actions which may damage our reputation. We will do all we can to ensure our funds are not diverted and the same zero tolerance approach applies to sexual exploitation, harassment and abuse.

FCDO has a rigorous set of standard controls and measures to protect UKaid and ensure it reaches those for whom it is intended and delivers results. FCDO does not give money to organisations or governments if we are not confident, they will manage it well. FCDO expects the partners we fund to apply proportionately similar controls and have effective safeguards in place to protect UK aid from being diverted.

The minimum standards we expect partners to apply are detailed below and should be read in conjunction with the terms of any funding arrangement.

The United Kingdom has signed up to the [OECD Recommendation of the Council for Development Cooperation Actors on Managing the Risk of Corruption](#) which promotes a broad

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<sup>1</sup> Fraud is an intentional act of dishonesty by one or more individuals with the intent of making a gain for themselves or anyone else, or inflicting a loss (or risk of loss) on another, that results in the loss or misuse of FCDO funds and resources. Theft is taking without consent and with the intention of not returning any property belonging to FCDO or which has been entrusted to it including cash, equipment, vehicles and data. Terrorist financing involves providing money or other property to individuals, entities or groups knowing or having reasonable cause to suspect it will or may be used for terrorist purposes. Money laundering involves the processing of money or assets that were obtained criminally in order to disguising their criminal origin and legitimise them. Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

vision of how international development agencies can work to address corruption, including the bribery of foreign public officials. It calls on countries to encourage their international development agencies to ensure effective measures are in place to manage risks of, and respond to, actual instances of corruption in development co-operation. FCDO's Aid Diversion Framework is designed around this and expects its partners to follow the same model and principles. These are set out below:



### **Controlling risk to UK aid**

- Your internal systems and processes must set out how the risk of aid diversion is managed and controlled and how you gain assurance that these controls are operating effectively. **(Some suggested controls can be found in Annex A)**
- Your controls should set out the operating environment, the objectives you are seeking to meet and the risks to these not being met. You should then map the corresponding management activities which mitigate these risks and identify the evidence you will use to establish whether these are working.
- You must understand and comply with relevant legislation and sanctions in relation to fraud, terrorist financing, money laundering and bribery.
- Your staff and downstream partners should be aware of their corporate and personal responsibilities to protect funds from diversion through a code of conduct. These should be clearly documented, and senior management should ensure compliance through appropriate staff awareness raising and training.

### **Protecting UK aid from diversion**

- You should complete a full assessment at the design stage of all programmes to identify and manage the risk of funds or materials being diverted.
- You should accurately capture all your delivery partners in a regularly updated delivery chain map. A delivery chain risk map should be completed to identify the risks, mitigation measures and controls. FCDO teams will store this map in the programme delivery plan.
- You should complete due diligence checks on each of your downstream partners to establish their capacity and capability to effectively manage funds. Risks arising from the due diligence assessment should land into your programme risk register.
- You should ensure contractual agreements with downstream partners align with the terms and conditions of your agreement with FCDO.
- You should ensure that any conflicts of interest are recorded including gifts, hospitality or donations received.

### ***Preventing UK Aid diversion***

- You should regularly monitor and review your risks to account for changes in operating circumstances (e.g. economic, political, security) and adjust your programming accordingly.
- You should regularly review your controls to ensure that they are operating as intended.
- You should have regular dialogue both with FCDO and with your delivery partners about risks and incidents of aid diversion. These discussions should be a normal part of project discussions and should balance the realities of delivering aid in challenging environments with protecting against aid diversion.

### ***Reporting UKaid diversion***

- You must have an action plan which sets out your agreed process for dealing with incidents of aid diversion.
- Any suspicions, allegations or instances of aid diversion involving (or potentially involving) UK aid must be reported immediately to FCDO's Internal Audit Investigations Directorate, [reportingconcerns@fcdo.gov.uk](mailto:reportingconcerns@fcdo.gov.uk), +44(0)1355 843747.
- **All reports received are in confidence. The identity of any individual making the disclosure will be kept confidential and will only be shared with those who need to know, to investigate and progress the matter.**
- **If individuals wish to raise a concern confidentially on the basis that their name is not revealed without their consent, this will be respected as far as possible.**

## Annex A – Suggested Controls

### Counter Fraud Control Activities

#### General

- ✓ Segregation of duties in purchasing, recruitment, grant allocation and financial management
- ✓ Clarity of roles, responsibilities, and reporting lines
- ✓ Keep up to date with project plans, positions and activities
- ✓ Project visits
- ✓ Validation of goods and services received
- ✓ Verification of timesheets
- ✓ Project reports received
- ✓ Reconciliation of facts and statistics
- ✓ Follow up recommendations
- ✓ Work plans set and agreed
- ✓ Check and compare signatures

#### Asset Management

- ✓ Use of inventories
- ✓ Sound level of record keeping of the movement of goods
- ✓ Independent verifications of goods received
- ✓ Fixed assets have an owner allocated to them
- ✓ FCDO informed of any changes to the fixed assets register
- ✓ Vehicles are appropriately insured
- ✓ Random spot checks
- ✓ Cash and assets are stored in a secure location
- ✓ Strong controls over the management of vehicles
- ✓ Voucher scheme in place of management of fuel
- ✓ Use of daily logbooks
- ✓ Review of fuel claims

#### Procurement/Contract Management

- ✓ Professionally qualified procurement personnel
- ✓ Agreed procurement plan
- ✓ Terms of reference that are consistent with the outline of the requirements
- ✓ Credible complaints system
- ✓ Separation of duties between individuals involved in identification of need and managing the procurement process
- ✓ Separation between those involved in the evaluation of the technical and financial proposals
- ✓ Delegated authority limits set
- ✓ Appropriate oversight of third-party suppliers
- ✓ No facilitation fees
- ✓ Verification of quotes
- ✓ No single negotiations

#### Finance

- ✓ Professionally qualified personnel
- ✓ Activity based budgets agreed that include cash flow forecasts are identified, monitored, managed and reported
- ✓ Approval sought for budget overruns
- ✓ Annual budgets approved and broken into quarters to avoid change in budget figures
- ✓ Submission of monthly financial statements
- ✓ Reconciliation of costs for activities against submitted reports and/or monitoring reports
- ✓ Reconciliation of bank statements

- ✓ Analysis financial reports
- ✓ Review activities to ensure compliance with formal agreements and policies and procedures
- ✓ Check for arithmetical errors and correct balances being brought forward
- ✓ Check for duplicate funding from other donors
- ✓ Provision of receipts on request
- ✓ Follow-up of outstanding debts
- ✓ Delegated authority limits
- ✓ Confirmation that cheque books are complete on receipt
- ✓ Bank accounts with the project that FCDO is funding not the parent company or individuals
- ✓ One person accountable for cash et al

**Recruitment/Human Resources**

- ✓ Policies and procedures
- ✓ Automated payroll
- ✓ Harmonised staff allowances
- ✓ Daily substance allowances set
- ✓ Conflicts of interest managed

## Annex B – Frequently Asked Questions

### 1. Practically, how should I report fraud, losses, corruption or safeguarding concerns?

You can do this in a number of ways. You can report any actual cases of or suspicions of fraud, losses, corruption or safeguarding to your contacts in FCDO. This can be done in person, by phone or by email. Alternatively, you can report to FCDO's Internal Audit Investigation Department (IAID) in the UK by sending an email to [reportingconcerns@fcdo.gov.uk](mailto:reportingconcerns@fcdo.gov.uk) or by phoning +44 (0)1355 843747. However, if you contact FCDO's IAID we would also encourage that you keep your contacts in the relevant FCDO office abreast of any issues (unless of course the reporting issue is regarding a member of FCDO staff).

### 2. What happens when I report fraud, losses, corruption? What is the process and how long does it take?

All cases of actual or suspected fraud, losses and corruption are referred to FCDO's IAID. This section will seek further information as necessary from the implementing organisation in order to determine if there actually has been a case of fraud, loss or corruption, how much funding was lost or diverted and how best to resolve this. Depending on the nature of the case this can be resolved in different ways, but FCDO's programme staff will advise partners throughout the process on what information we need and what actions should be taken.

### 3. What should I report to FCDO?

Any credible suspicions of, or actual incidents UK funding not being used as intended this should be reported to FCDO. The Partner should assess credibility based on the source of the allegation, the content, and the level of detail or evidence provided. It does not matter how much funding you suspect or know might be involved in the incident, FCDO needs to know about every pound that has not been used as intended. In practical terms this could cover many different circumstances, e.g. a downstream partner not being able to account for how they have spent FCDO funding, or a warehouse being looted of FCDO-funded commodities. The key thing to remember is that the UK has an obligation to its taxpayers to spend UK ODA funding as intended and if this is not happening, we need to know about it.

### 4. What information does FCDO need from partners in order to process cases of fraud, losses or corruption

At first FCDO does not need much information from partners, it is enough to know that something has or may have happened, so please don't delay on reporting due to a lack of information. Once an incident has been reported your FCDO contacts will explain what information you need to provide. You will always have to provide a description of the incident and what level of lost or diverted funds can be attributed to FCDO. In addition to this you might be asked to explain things like what steps you will take to prevent a similar incident occurring again, whether your insurance will cover losses and exactly what items, or commodities were lost/diverted/stolen.

### 5. When should I report fraud, losses or corruption or safeguarding concerns to FCDO?

You should always report cases or suspicion of fraud, losses or corruption **immediately**. As mentioned above you do not need to have all the details at the time of reporting.