



# INTERNAL AUDIT

# &

# PREVENTION OF FRAUD AND CORRUPTION

VOLONTARIATO INTERNAZIONALE  
PER LO SVILUPPO



*Insieme, per un mondo possibile*

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Organismo Non Governativo - Onlus • Promosso dal CNOS - Centro Nazionale Opere Salesiane  
Accreditato presso ECOSOC con Special Consultive Status • Associato al DBN - Don Bosco Network

Via Appia Antica 126, 00179 Roma (Italia) - Tel. +39 06 516291 - Fax +39 06 51629299  
vis@volint.it - www.volint.it - CF 97517930018

## 1. INTRODUCTION

The VIS **Management system** includes, among others, also procedures fit to ensure a system of internal audit and to prevent fraud and corruption. The rules and regulations underlying these areas are in particular:

- Legislative Decree 231/2001: Rules governing the administrative liability of legal persons, companies and associations, including those without legal personality;
- Legislative Decree no. 117 of 3 July 2017: Third Sector Code, pursuant to article 1, paragraph 2, letter b), of law no. 106 of 6 June 2016, and subsequent amendments and implementing decrees;
- the body of rules and regulations of the main institutional donors of the VIS, such as ECHO, EU, UN, AICS.

The basic documents on which the system of internal audit and prevention of fraud and corruption is based are:

- a. the Code of Conduct
- b. the *Organizational Model - General Part, the Organizational Model - Special Part: risk analysis and documented procedures*, developed pursuant to the aforementioned Legislative Decree 231/2001;
- c. this procedure and the other manuals containing the management procedures in Italy and at the country offices in developing countries;
- d. the annexes to which the documents specified in c. for this purpose refer as constituting and supplementing the audit and prevention procedures.

The verification activities provided for in this procedure must be considered separate and additional to the control actions already provided for (at a regulatory, statutory and operational level) and carried out by the Board of Auditors (REV), the Supervisory Body (OdV), the external auditing firm (AUDEX) of VIS, as well as the audit activities on the accounts and/or management system provided for and promoted by the main institutional donors. However, the activities covered by this procedure are also to be considered as interrelated to those specified above and are therefore functional to their full implementation. In this sense, the results of the internal audit may be made available to the REVs and the supervisory body and, in addition, these bodies may request the activation of the internal audit for specific purposes with respect to their mandate.

## 2. INTERNAL AUDIT

From an organisational point of view, the internal audit function is autonomous and independent of the NGO Directorate and the operational and management units of the body. This function, in fact, while referring to the Directors for its performance, reports directly to the Presidency and the board of the VIS. The objectives of the internal audit provided for in this procedure are:

### 2.1 GENERAL OBJECTIVES

- a) Improving the quality and efficiency of the institutional programmes and activities carried out by the VIS: adequate and satisfactory use of the available resources (human, financial, tangible and intangible) will improve the quality of the work carried out and increase its impact.
- b) Increase accountability and transparency towards donors, institutions and other stakeholders of the body, respecting and implementing all the commitments made through its Code of Conduct and other acts of public and associative relevance.

## **2.2 SPECIFIC OBJECTIVES**

- a) verifying the knowledge and proper application of the VIS Management System, its administrative, operational and management procedures, and the main procedures laid down by the institutional donors.
- b) Identify any problems (training, organisational, communication, etc.) and make the necessary recommendations to develop and implement the actions and corrections (organisational and operational) necessary to resolve them.
- c) Train and educate headquarters and country office staff for effective preparation for external audits conducted by donors or others.

The internal audit function is activated by the Presidency, also on the instructions of the EC and the Management, arranging for audits to be conducted to carry out checks and inspections on administrative and management activities carried out both at the Rome office and in the country offices. As already specified, the audit function can also be activated, through the Presidency, at the request of the REV and the supervisory body.

## **2.3 ORGANIZATIONAL AND OPERATIONAL PHASES AND PROCEDURES**

The organisational and operational phases and procedures of the audit are defined below:

1. The function can be performed and conducted through the establishment of an ad-hoc unit, structurally included on a permanent basis in the NGO's organization chart, or through the assignment of temporary professional assignments to individuals with appropriate skills and selected for this purpose.
2. In the second case, the Internal Auditor is selected through a competitive procedure open to the participation of subjects with adequate and recognized professional skills and qualifications, consistent and relevant to the TdR established for the audit. The selection process is organised and managed by the Human Resources department. The selection of the internal Auditor, possibly from a shortlist of three candidates, is carried out by the Chairman and approved by the Executive Committee.
3. The Internal Auditor has no decisional/operational responsibility for the internal management processes relating to programmes and other institutional activities and reports - for the exercise of his functions - to the Management and the Presidency.
4. The areas subject to internal audit may be both the organisation and management of services or functions at the Rome office and the organisation and management of individual country offices. The President, having consulted with the Directors, defines the functions at the Head Office and the country offices to be audited and guarantees that the internal Auditor has rapid, complete and unlimited access to all the documentation necessary to carry out his mandate. The Internal Auditor receives the operational mandate from the Management and carries it out on the basis of the TdRs defined in the selection phase.
5. The Internal Auditor makes his evaluations and recommendations in a totally autonomous and independent manner.
6. The audit is carried out in two parts: the first part concerns the review of organisational and management arrangements, concentrates on internal controls and procedures and is normally carried out by filling in a questionnaire and carrying out specific interviews and checks; the second part consists of the verification of accounting, administrative and other documents relating to a number of projects and the implementation of operational services or functions. In addition to the internal procedures, the audit may also examine the correct application of the procedures laid down by the main institutional donors of the VIS.
7. At the beginning of the audit, a presentation meeting will be held with the heads of the country office or sector/area of Headquarters. In the case of an audit of a country office, the following are involved (if

any and operational): RPL and RAL, CRP and CRPC, PM and any other operator (expatriate or local) interested in management.

8. The duration of the audit varies and is functional with respect to the specific objectives and the operational mandate received from the Auditor. Except in the case of specific and punctual audits (in terms of subject and duration), in general the duration of an internal audit is between 60-75 days and starts from the communication of the start spread among all the subjects involved by the Management with a reasonable period of time in advance. The communication prepared for this purpose must contain all the details of the verification process and must require the transmission of information and data and the delivery of useful documentation to the Auditor.
9. During the work and before the final report and recommendations are produced, the Internal Auditor meets with the parties involved in the verification process to analyse the draft audit and control documents already drawn up. In this context, and possibly allowing a further limited period of time, the parties may submit facts, documents and counter-deductions that may modify the Internal Auditor's assessments.

Finally, it should be noted that the VIS internal audit system borrows the model and terms of reference adopted by the main Italian NGOs, defined and presented in the following documents:

- ***Vademecum for the activation of an internal audit system***, in C. TASSARA, *Teoria e pratica della cooperazione europea. Politica di cooperazione allo sviluppo dell'Unione Europea e gestione dei progetti cofinanziati*, Link 2007, Rome – 2011;
- *Lotta alla povertà, cooperazione allo sviluppo e interventi umanitari. Percorsi di qualità e trasparenza nell'organizzazione, la gestione e il controllo interno delle ONG*, Link 2007, Rome – 2011.

Extracts from the documents specified above and attached to this procedure are useful sources for a more effective and complete implementation of the same and, therefore, they are referred to for further details, clarification and additions to the VIS internal audit system.

In particular, two fundamental elements that must characterize the process of verification and internal control aimed at improving the quality and efficiency of the functioning of the organization are referred to here:

- i. **confidentiality**: documents and information accessed by an internal auditor are very sensitive. It is therefore essential that, beyond the normal obligations arising from the current privacy laws, they are acquired, processed and eventually disclosed according to criteria of extreme confidentiality; the entire process of verification and control, moreover, must be based on the same criteria;
- ii. **monitoring of corrective actions**: the value of the internal audit is not limited to the mere formulation of the results of the process, but can only be grasped by the implementation and completion of the Auditor's recommendations. These actions are the responsibility of the top management of the organisation and of the direct managers of the operating units concerned, who may avail themselves of the involvement of the Auditor. The Auditor is in any case responsible for verifying the full application of his recommendations during the subsequent internal audits carried out in the same area.

### 3. PREVENTION OF FRAUD AND CORRUPTION

#### 3.1 GENERAL OBJECTIVES

In order to ensure that VIS operates to high standards of accountability, transparency and compliance with the rules of law and regulations of its sector, it is essential that clear indications are provided on the organisational and operational framework that will help to address and minimise the risks of fraud and

corruption. The policy of VIS on the subject defines the specific responsibilities of its staff and volunteers in relation to these risks, and also applies to the relationships that the NGO establishes with partners and third parties involved in various ways in its activities (suppliers, consultants, government officials and donors, etc..).

### **3.2 POLICY STATEMENT**

VIS adopts a "zero-tolerance" policy against fraud and corruption, requires that staff and volunteers (in Italy and abroad) always act honestly and with integrity and safeguard the tangible and intangible assets for which they are responsible in any capacity and manner. Fraud and corruption are to be considered always present threats both to the operation of the organization, in every place and at every level, and to its reputation and accreditation and, therefore, must be treated with constant commitment of all staff and every member of the NGO.

VIS takes seriously any actual or attempted act of fraud or corruption by staff, volunteers, suppliers, implementing-partners or consortium members and others acting on its behalf. Staff and volunteers involved in fraud or attempted fraud or corruption of any kind will be subject to disciplinary action up to, in the most serious cases, dismissal (if legally and/or contractually provided for) and reporting to the prosecuting and law enforcement authorities. VIS will do everything in its power to recover from those directly responsible, by any legal means, all funds stolen through fraud and will take resolute action against all third parties involved.

### **3.3 TERMS AND DEFINITIONS**

VIS is committed to maintaining high legal, ethical and moral standards, to adhering to the principles of integrity, objectivity and honesty and to being accredited so as to be considered and evaluated as a body that combats fraud and corruption in the conduct of its institutional activities. The objective of its anti-fraud policy is to:

- promote a culture and an environment that discourages fraudulent activity;
- facilitate fraud prevention and detection;
- develop procedures that contribute to the detection of fraud and related crimes and ensure that such cases are dealt with promptly and appropriately.

A fundamental and necessary condition for the implementation of this policy is the minimization of situations-conditions of conflict of interest. Corruption is an abuse of power committed for profit and/or personal interest. A conflict of interest exists and arises whenever the impartial and objective exercise of a person's functions can be compromised for reasons concerning family relations, emotional life, political, national or other affinity, economic interest or any other interest shared with third parties.

The term fraud is commonly used to describe a wide range of misconduct, including theft, corruption, embezzlement, forgery, collusion, money laundering and concealment of material facts. It often involves the use of deception to gain personal gain for oneself, for an accomplice or third party, or to result in loss: intention, i.e. intent, is the key element distinguishing fraud from irregularity. Fraud not only has a potential negative financial impact, but can also damage the reputation and credibility of the organisation, which is called upon to manage funds responsibly, effectively and efficiently. Fraud does not only result in a loss for VIS, but ultimately spills directly or indirectly over to our recipient(s)/beneficiary(s), especially people living in extreme poverty and the most vulnerable.

### **3.4 GUIDELINES**

VIS appreciates and values long-term relationships and interacts with suppliers, partners, supervisory authorities, government agencies, public officials, political figures and any other third parties interested in or involved in its activities on the basis of merit, professionalism, trust and integrity. VIS does not exercise

or make any unlawful payments, unlawful "favours" or other actions that may expose the organisation to the risks of financial loss, suspension of operations, dependence, blackmail, extortion, legal sanctions and damage to reputation and credibility.

The following are the basic terms of reference of its policy:

- A) "*DON'TS*" – VIS prohibits all forms of fraud and corruption with a zero tolerance policy. For this reason, it is forbidden to make or receive payments or gifts, to provide or receive favours, from or to any public official, political personality, representative of an administrative or control body, government agency, supplier, partner or any other (public or private) party, in order to influence or reward acts or decisions, obtain or maintain resources or activities useful to obtain them, or pursue any other unlawful or improper purpose of advantage. This prohibition excludes gifts and other forms of giveaways of modest value and in line with relational practices typical of the context in which they are made and which in no way lend themselves to being interpreted as improper incentives.
- B) "*DOS*" - In critical situations, it is recommended to do the following:
- ignore or reject any indication, approach or suggestion aimed at committing an act of fraud or corruption;
  - try to have someone as a witness to support you;
  - not accept anything that is not appropriate, even if it includes donations for altruistic or sympathetic purposes;
  - maintain correct and accurate records, documenting as soon as possible the details of any required, attempted or actual acts of fraud or corruption.
- C) "*IF YOU SEE ANYTHING REPORT IT IMMEDIATELY*": report any suspected, requested, attempted or actual acts of fraud or corruption to your or another senior manager or use the intended whistleblowing procedures.

#### "Red Flags"

The following examples (which are not exhaustive) may be useful indicators of the risk of fraud and corruption:

- accounting discrepancies and inconsistencies, such as:
  - ✓ descriptions of transactions that are absent, vague, inconsistent or false;
  - ✓ absent, false or unusual records about the identity of the beneficiary/supplier/counterparty;
  - ✓ overcompensation or unusually high compensation without supporting details;
  - ✓ unusual payment models or instruments;
  - ✓ general accounts or mixed accounts that can be used to conceal improper payments;
  - ✓ over-invoicing; false or inaccurate invoices, travel and/or expenses; unrecorded accounts or transactions;
- the other party does not appear to be qualified to perform the tasks for which it is involved;
- a counterparty refuses to validate or provide information on its reports to verify compliance with anti-corruption requirements;
- requests for commissions to be paid in a third country, to a third party, or in cash or other untraceable funds;
- a counterparty does not appear to be qualified to perform the tasks for which it has been involved;
- strong reliance by political or governmental subjects on our experienced staff and too high a commitment to promote the interests of the NGO;
- secrecy in the mandates and representations of third parties;
- absence of written agreements, anti-corruption policies, training activities or codes of conduct;
- misleading conduct by the other party in the verification or due-diligence processes.

### Specific Risks

The NGO's activities are exposed to risks of fraud and corruption. This requires all staff to be aware of and adhere to the following standards:

- I. "tips": it is against our policy for staff members to incur expenses for gifts, travel, entertainment or other forms of giveaways to third parties, with the very limited exception of small hospitality expenses relating to the participation of outside guests in official events, provided that such hospitality does not create a perception of improper conduct or influence on the objectivity of their decisions;
- II. "Public Officials": it is necessary to establish integral and collaborative relationships with various governmental bodies, enter their respective countries, establish offices, hire personnel, raise funds, implement and manage projects and maintain conditions of tax exemption or legitimate reward for the activities conducted. However, there will be no inappropriate forms of pressure on the public administration to do so, such as:
  - ✓ payments aimed at facilitating and encouraging processes or acts, i.e. those made to public officials to execute or accelerate existing administrative processes in which the results should already be predetermined. A payment of this nature can be considered as a form of corruption and is therefore prohibited. Staff should pay attention to the risk that such payments may sometimes be included, but hidden, in the commissions. Payments "per diem" made in a transparent manner and normally against project forecasts are not covered by the above.
  - ✓ remunerated involvement of public officials in programming activities, unless this is explicitly provided for in the projects.
- III. "procurement and partnership": when interacting with third parties, especially in procurement and in the definition/constitution of partnerships, VIS staff must comply with the standards and procedures laid down for this purpose, adopt best practices in this area, comply with legal requirements and maximise the effectiveness of such commitments.

In practice, conducting in-depth checks and inspections to better understand one's counterpart and implementing effective operational and financial monitoring systems are among the best tools for combating fraud and corruption, together with the application of a careful policy of separation of powers, limitation of conflicts of interest and careful delegation of expenditure authorisations.
- IV. "Force majeure": circumstances may arise in which payments are made to protect against an imminent threat to the life, health, safety or freedom of VIS staff or others close to them. The staff involved will have to report in detail the event and the related causes of force majeure, but will not be subject to sanctions.
- V. "unfounded accusations": accusations and suspicions reported in good faith (see whistleblowing) will never lead to negative consequences for the person making them, whatever the results of the investigation. However, if the allegations made by the supervisory body are found to be deliberately malicious or vexatious, then they constitute serious negative conduct and will be treated as such.

### **3.5 ROLES AND RESPONSIBILITIES**

Responsibility for the prevention and detection of fraud and corruption lies primarily with the administrators (PRES and CE) and directors (DIRPR and DIRAP) of the NGO who are required to:

- identify the risks to which systems, operations and procedures are exposed;
- develop, maintain and ensure the implementation of effective controls and procedures to prevent and detect fraud and corruption.

Unit/function managers, country coordinators (RPL) and regional coordinators (CRP and CRPC) are required to:

- ensure that all cases of suspected and/or alleged fraud are reported to the Supervisory Body as soon as possible using standard or more appropriate reporting methods. The supervisory body's checks and investigations cannot be requested before the report is made;
- where the alleged fraud affects the financial funds for projects, the donor or the competent institution must be informed;
- assist the supervisory body in providing an adequate investigative response;
- after consultation with its managers, to undertake reports and to inform the competent investigating authorities in the countries where such conduct has taken place;
- respond adequately to the recommendations made in the investigation reports;
- ensure that staff and third parties involved in the body's activities are explicitly informed and trained about this policy, the procedures and guidelines, and the responsibilities that follow.

The supervisory body, the internal auditors and the auditors, with reference to the prevention, detection and repression of fraudulent and/or corrupt conduct, are required to comply in full with the provisions of law, articles of association, regulations and/or other kind of rules and regulations applicable to them.

VIS personnel in Italy and abroad must ensure that third parties (partners, suppliers, service providers, consultants, etc.) involved in various ways in the activities of the NGO assume responsibility for:

- ensuring that all cases of suspected and/or alleged fraud to the detriment of VIS are reported to the Supervisory Body as soon as possible;
- Providing the VIS with all relevant information or information required to allow adequate investigation;
- ensure that their staff are aware of this policy and the responsibilities it entails.

### **3.6 SPECIFIC PROCEDURES AND COUNTERMEASURES, REPORTING, CHANGES AND REVISIONS OF THE ANTI-FRAUD AND ANTI-CORRUPTION POLICY**

Amendments and revisions of the VIS anti-fraud and anti-corruption policy and its constitutional documents are the prerogative of the EC. In particular, with reference to the activities specified above, reference is made to the contents already provided for by:

- a) VIS Organisational Model drawn up pursuant to Legislative Decree 231/2001 (General section, Risk analysis, documented procedures and related documents).
- b) VIS Code of Conduct.
- c) Ad hoc procedures established in various parts of the VIS Management System.
- d) Transparency International Italia, *Linee-guida per la predisposizione di procedure in materia di whistleblowing*, 2016.
- e) Transparency International, *Preventing Corruption in Humanitarian Operations, Handbook of Good Practises*, 2014.
- f) Directorate General for Humanitarian Aid and Civil Protection – ECHO, *Anti-Fraud Strategy*, 2014.



