



PRFT Misuse of Funds - Policy and Procedure

1. Summary

If funding partners' money or other assets are used for any purpose outside of its core objectives then there has been a misuse of funds. Any suspected misuse of funds should be reported internally to the Executive Director. An attempt to misuse funds that did not result in an actual misuse should also be reported internally to the Executive Director.

The PRFT's management team will monitor all misuse of funds cases and report progress to the trustees or board members.

It is vital that we report misuse of funds so that we can minimise any losses, ensure that we meet our statutory responsibilities, meet the requirements of our supporters, donors and other stakeholders and make sure that we learn – by improving our ways of working so that we reduce the risk of losses in the future. We also want to ensure that we support colleagues through resolving these issues.

Poverty Reduction Forum Trust's reputation could be damaged if it was thought that it did not act properly in response to a possible misuse of funds.

2. Definition - what is a misuse of funds?

“Funds” in this policy means money and assets that belong to Poverty Reduction Forum Trust (including institutional grants received). Any use of funds which is not in accordance with funding partners’ objectives is a misuse of funds, whether or not there was an intention to misuse funds. For example, if a member of staff loses a cash advance then that is a misuse of funds, even though they did not mean to lose the money. This policy covers the full range of misuses of funds, from the criminal (eg. theft) to the purely accidental (eg. cash lost while travelling) and therefore reporting a misuse of funds issue does not mean that any fault is implied.

3. Types of misuse of funds

Here are some examples of possible misuse of funds:

- Theft – when funding partners’ money or other assets are stolen by PRFTs’ staff & by someone else. This includes funding partners’ funds that have been stolen after they were granted to PRFT.
- Bribe – the offering, promising, giving, accepting or soliciting of money, a gift or other advantage as an inducement to do something that is illegal or a breach of trust in the course of carrying out an organisation’s activities. This includes facilitation payments.
- Funds diverted to another project – for example, PRFT receives a grant to be used for a water and sanitation project but uses them to build a school, without discussing the change with funding partner. This applies to all funding sources including core funds.
- False financial records (e.g. accounts, unsupported floats)
- Double-funding – where one project’s expenditure is reported to 2 different donors as if they are the only donor of that project, with the surplus funds not being used for the project.
- Ghost projects – projects that do not exist but are reported on falsely, so that funds can be used for other purposes.
- Financial mismanagement
- Assets seized by third party (e.g. a government freezes a PRFT’s bank account and removes the balance)
- Ineligible expenditure (eg. a partner rents vehicles when the agreement states that the vehicles should only be purchased etc)
- Accidental loss by PRFT staff (eg. a cash advance cannot be accounted for)

4. What do you need to do?

The principles of any action taken by PRFT's staff should be to:

- First and foremost, protect the personal security of PRFT and funding partners' staff
- Not "tip-off" anyone suspected of fraud (for example, if you suspect staff / funding partner staff, then be very careful that they do not realise that you have noticed something in case they destroy evidence)
- Secure funding partners assets (ie. make sure no more funds can be lost in the same way and also recover any funds where possible)
- Secure PRFT's records
- Make transparent reports - inside PRFT (and outside, where appropriate)
- Only share information about the issue with those that need to know

If you suspect a misuse of funds then you need to report it, even if you are not sure what has happened. Also, if you are aware of an attempt to misuse funds, then you need to report it, even if no funds were actually lost.

Below is guidance for what you need to do. "Reporter" refers to the PRFT's staff member who discovered the issue. See Appendix 1 for a flowchart showing the reporting lines for a misuse of funds.

If you are unsure if you should report an issue or not then please contact any member within the management team for assistance.

Actions: First person to discover a misuse of funds (the "Reporter")

If any member of staff has any grounds for believing that funds have been misused or that there has been an attempt to misuse funds, they must immediately inform their Supervisor and/or Executive Director (unless this is impractical or the Supervisor and Executive Director is implicated, in which case, the individual should report their concerns directly to their chairman).

Do whatever you can to secure PRFT's assets and records without endangering any colleagues or partner staff.

Actions: Reporter, Supervisor or Executive Director

Within one week of the issue first coming to the Reporter's attention, they or their Supervisor / Executive Director must ensure that a misuse of funds form is completed.

Actions: Supervisor

On receiving notification of a misuse of funds, the Supervisor should discuss the issue with the Executive Director.

The Supervisor will decide on further action to be taken. This will depend on the seriousness of the issue.

The Supervisor is responsible for bringing all misuse of funds cases to a conclusion, either by ensuring that all funds are returned or by reporting why this will not be possible.

The Executive Director should consider the possible effects of the loss of funds on the reputation of PRFT:

- Could the overall reputation of PRFT be damaged? If so, report the issue to your Executive Director.
- Could the reputation of PRFT with a funding be damaged? If so, the Chairman should be involved in deciding what action to take.

Legal action should only be taken as a last resort to try to recover funds from staff member.

Things to consider before initiating legal proceedings:

- All legal action should be authorised by the Chairman before proceeding.
- Is the amount large enough to outweigh the reputational risks of suing a staff member.

Regardless of how strong the legal case is, the potential outcomes should be considered. For example, if the case is won but the staff member who no longer has the funds to repay or replace the misused funds, then is it worth pursuing?

Once everything has been done to try to resolve an issue then the management team with the involvement of the board chairman should all agree in writing on their recommendation.

Actions: Executive Director

The Executive Director is responsible for keeping a record of misuse of funds cases and in supporting development of action plans to resolve them.

The Executive Director will keep the Board Chairman informed about all reports and ensure that the Serious Incidents Register is kept up to date for review by the board of trustees.

5. Case study - suggested actions of misuse of funds

Below is an example of misuses of funds that is reported and some suggestions as to what to consider in dealing it. The case requires the completion of the misuse of funds form.

Theft – when PRFT money or other assets are stolen by a staff member, funding partner employee or by someone else.

If funds are stolen from a PRFT staff member then some things to consider are:

- Are there any personal security concerns?
- Should they move hotel or avoid a particular street or area in future?
- Should an insurance claim be made?
- Could they have been more careful in protecting the money? (eg. did they leave their hotel room unlocked or a bag unguarded?)
- Was the amount of money held by the colleague bigger than it needed to be?

Causes of misuse of funds

Motivation

Except in the case of fraud, misuses of funds are unintentional and are therefore unmotivated misdeeds permitted and/or encouraged by organisational failings, although usually resulting from individual lapses.

Fraud requires motivation as well as opportunity. The motivation for fraud normally comes from excessive desires or personal hardships overcoming legal, moral and/or religious observances in order to achieve personal gain. These motivators are known in short hand as “need” and “greed”. However, fraud is not a normal or acceptable response to hardship.

Although fraud can spread to incorporate an entire business’s activities rarely are the entire organisation and its staff corrupt.

Opportunity

Business weaknesses and circumstances which may enable misuse of funds include the following:

- An absence of a fraud policy
 - Inadequate, inconsistent, undocumented or un-enforced internal controls
 - Lack of professional management – especially with regards to financial management and understanding of business processes
 - Lack of a clear management structure and designated areas of authority
 - Strained relations with key business partners or regulators
 - Inadequate recruitment procedures
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- Poor employee relations
 - Redundancies – threatened or real
 - Disgruntled key staff (due to pay, promotional prospects, working conditions etc, etc)
 - Unusual staff behavioural patterns – e.g. working unsociable hours, not taking holidays
 - Personal circumstances of staff – e.g. divorce
 - Lack of segregation of duties – e.g. chief accountant as sole bank signatory
 - Lack of asset identification and control
 - Poor management reporting systems
 - Poor security (especially physical and IT)
 - Inadequate documentation and filing
 - Large cash transactions
 - Excessive performance targets
 - Intense competition with other organisations or between staff
 - Financial difficulties (i.e. potential bankruptcy)