

**SUSPECTED FRAUD & CORRUPTION**

FOREWORD

- 1 The specific requirements of this SoPP are **in addition** to those set out in the general statements on '*Standards of Professional Practice*' on pages 1 to 4 inclusive. In particular, the attention of members is drawn to the section on *Standard of Care* at page 2.
- 2 The awareness of the risks and consequences of fraud and corruption has been increasing across the public services in recent years. Reports by public sector audit institutions and the Public Accounts Committee have all highlighted the impact that fraud and corruption can have on specific organisations and on all aspects of public-sector administration.
- 3 This SoPP is written in that context, and states the course of action to be taken by CIPFA members should they find themselves with information on allegations of fraud or corruption.
- 4 This SoPP sets out the responsibilities in relation to the reporting of potential abuses and also the reporting of weaknesses in control systems that may result in such abuses. It does not cover the methods by which a fraud or corruption investigation is conducted.

INTRODUCTION

**Applicability**

- 5 This SoPP is applicable to all members of the Institute. The SoPP does not consider how allegations of fraud or corruption should be investigated, but rather deals with the importance of members being aware of matters affecting the control of their employing organisation and of their responsibility to report any allegations of fraud and corruption that may come to their attention. Fraud investigation requires considerable specialist knowledge and should, therefore, be left to suitably trained individuals.

**Scope**

- 6 All organisations should make every effort to ensure that the control systems in place are sound and are designed, amongst other things, to prevent fraud and corruption. Elements likely to be included are financial regulation, anti fraud and

whistleblowing policies, provision of trained fraud investigators, fraud awareness training for all staff and codes of conduct. However, the threat of control weakness and fraudulent or corrupt activities always remains.

- 7 Therefore, this SoPP is generally applicable to all aspects of organisations, including their governance, management and operational activities.

### Objectives

- 8 To ensure that all weaknesses in internal control and allegations of fraud or corruption, whether actual or perceived, are adequately reported using the procedures established in the employing organisation or other appropriate action should established procedures be inadequate in the circumstances.

### KEY PRINCIPLES

#### Compliance with internal control procedures

- 9 **Members should ensure that they comply with all controls and procedures established by their employing organisation, including those designed to prevent fraud and corruption.**

#### *Guidance*

- 10 Members should:
  - 10.1 Be fully aware of the controls that are in place at their employing organisation. Such information can be found in the organisation's standing orders and financial regulations and other such procedure documents.
  - 10.2 Comply with such control procedures at all times.
  - 10.3 Take all reasonable steps to ensure that controls are complied with by others. This is particularly relevant for members who have a supervisory or management responsibility.

### Reporting internal control weaknesses

- 11 **Members should ensure that they report to an appropriate person any potential control weaknesses that come to their attention**

#### *Guidance*

- 12 Members should make every effort to be aware of the potential consequences of a failure or weakness in control procedures, and should take all reasonable steps to ensure that such control procedures are sufficiently robust to prevent fraud and corruption.
- 13 If during the normal activities of a member, control weaknesses are identified, whether the weakness is actual or perceived, a member should report the weakness, and the potential consequences, to an appropriate person. In this context, an appropriate person would include, for example, a line manager, the head of internal audit or the director of finance. This is particularly important if the control weakness might enhance the potential for fraud.
- 14 A reluctance to report potential control weaknesses undermines the organisation's entire corporate governance and control framework.

### Fraud and corruption reporting procedures

- 15 **Members should ensure that they are fully conversant with the procedures established within their employing organisations for reporting allegations of fraud and corruption.**

#### *Guidance*

- 16 Members should familiarise themselves with their organisations' procedures for reporting allegations of fraud. It should also be recognised that different types of allegation may have a different reporting protocol. For example, in local government, allegations of housing-benefit fraud are sometimes subject to different reporting arrangements from those that apply to allegations of fraud and corruption concerning employees.
- 17 Members in senior-management rôles should ensure that clear and effective procedures are in place for reporting allegations of fraud and corruption, and that these are communicated to all staff. See also paragraph 23.

### Reporting allegations of fraud and corruption

- 18 **Members should ensure that they report all suspicions of fraud and corruption promptly and confidentially using the established reporting procedures.**

#### *Guidance*

- 19 Should members receive, or uncover, evidence of the possibility of fraud or corruption, they should promptly report the matter to the appropriate person identified in their organisations' established reporting procedures. The consequences of a failure to report allegations of fraud and corruption promptly can be serious, and may affect the chances of a successful investigation. Also, those who are minded to perpetrate fraud and corruption will feel less likely to be apprehended if they become aware of a reluctance to act when such abuses are uncovered.
- 20 In the absence of such procedures, the appropriate person would, for example, include a line manager, the head of internal audit or the director of finance. If there is any doubt as to whom allegations should be reported, the organisation's external auditor should be in a position to advise.
- 21 Allegations should be reported confidentially. Confidentiality is important not only to protect the innocent but also to ensure that an opportunity is not offered to cover up fraudulent activity or to destroy potential evidence of such activity.
- 22 Members should not attempt to investigate such matters unless they have received specific training and have the authority within the organisation to conduct such investigations. It is essential that fraud and corruption investigations are dealt with only by trained staff, to ensure that nothing is done that may hamper any subsequent criminal or civil proceedings.
- 23 In this context, and in relation to paragraphs 15-17 above, the Public Interest Disclosure Act 1998 is particularly relevant (Appendix C to the CIPFA Standard of Professional Practice on Ethics summarises the purpose of this Act).

### Further sources of guidance

- 24 There are many sources of written guidance on the issues of internal control and reporting allegations of fraud and corruption aimed at the public services. A helpful starting point is *Propriety and Audit in the Public Sector*, issued by the Public Audit Forum. This document seeks to promote a common understanding of