Independent Commission for Aid Impact

Rapid review: Tackling fraud in UK aid

Annotated bibliography

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1. Introduction

1.1 Overview

This annotated bibliography summarises key background research informing the ICAI 2021 review, *Tackling fraud in UK aid*, which aims to assess the effectiveness of counter-fraud measures across UK government departments spending of UK official development assistance (ODA). The review looks at cross-government counter-fraud structures, and assesses in more detail counter-fraud systems and practices across the five government departments allocated more than £100 million of ODA in 2019-20. The review will also explore the extent to which lessons have been learned and applied within and across the departments.

This annotated bibliography lists publicly available sources from key sectors and stakeholders including:

- Learning and research from the aid sector, academia and private sector
- UK government rules and guidelines
- Audits and impact reviews, and
- Professional standards and guidelines.

1.2 Approach

This annotated bibliography is based on a rapid survey of available literature on the above areas. It focuses on fraud in the UK public sector and in international development, as well as providing an overview of general good practice in fraud risk management in the private sector. This document provides a short summary of key publications and websites, drawing on authors/publishers' summaries and key areas of documents relating to this review. It includes 5-10 publications in each of the following sources:

- NGO and international development publications
- Academic publications
- Private sector publications
- Government publications
- Audits and impact reviews
- Professional standards and guidelines

In September 2020, when this survey was taking place, the Department for International Development (DFID) and Foreign and Commonwealth Office (FCO) merged to form the Foreign, Commonwealth and Development Office (FCDO). As such there is limited reference to FCDO in the annotated bibliography review, although some documents, such as the Smart Rules (see 5.1) had begun to be migrated from the former DFID to FCDO.

2. NGO and international development publications

2.1 NGOs & risk: managing uncertainty in local-international partnerships, Interaction, United States Agency for International Development, 7 March 2019, link.

This report examines how risk is perceived and managed in partnerships between international and national non-governmental organisations (NGOs) working in humanitarian response. It finds that, driven by increasingly stringent donor requirements, international NGOs' risk management tools and procedures for partnering are weighted toward mitigating fraud, theft, or corrupt practices, sometimes at the expense of other risks such as security.

Reflecting the findings in ICAI's 2016 review on *DFID's approach to managing fiduciary risk in conflict-affected environments*, this study concludes that lead partners pass stringent donor requirements down the supply chain, often to smaller local or national bodies which do not have the bandwidth or budget to meet additional compliance requirements.[1] The report argues that a 'zero tolerance' approach to fraud by donors and international NGOs can have the unintended consequence of burying fraud deeper underground, as smaller organisations fear the reputational consequences of reporting fraud. INGOs bear the main risk, but their downstream partners are more vulnerable to unforeseen costs or delays.

The report recommends that donors and lead partners take a collaborative, rather than a punitive approach: using collaborative audits rather than investigations triggered by allegations or complaints.

2.2 Principles on Donor Action on Anti-Corruption, OECD, 2006, link.

This document, published by the OECD Development Assistance Committee, provides a set of three overarching principles covering the key areas and activities where donors should work together on anticorruption. They emphasise the need to support and strengthen the capacity of civil society, and underline the need for OECD donors to undertake work in their own countries on areas such as repatriation of assets, money laundering, and the ratification and implementation of the United Nations Convention against Corruption.

The three principles are:

1. Collectively foster, follow and fit into the local vision
2. Acknowledge and respond to the supply side of corruption
3. Marshal knowledge and lessons systematically and measure progress

The principles constitute basic guidelines and orientations to improve collective donor action in the fight against corruption. They serve as stand-alone policy guidance as well as complementing the GOVNET Policy Paper on Anti-Corruption, which sets out opportunities for collective action in a number of areas where a concerted approach seems essential if the multiple risks associated with corruption are to be successfully managed. The document also explains how the principles apply to countries, donors and development agencies.

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[1] *DFID's approach to managing fiduciary risk in conflict-affected environments*, ICAI, August 2016, link.

2.3 *Aid risks in fragile and transitional contexts: improving donor behaviour, OECD, 2011, link.*

This report argues that standard aid approaches are widely considered inadequate in fragile and transitional contexts, in part because related instruments and processes are too cumbersome and inflexible. The report states that much of donor risk management is focused on avoiding institutional risks such as major corruption (fiduciary failure) or political scandal. But too exclusive a focus on reducing or avoiding risk can lead to perverse results: the more risk-averse the approach, the narrower may be the range of achievable goals. Indeed, the ways in which risk reduction is pursued – for example by imposing tight reporting requirements or tough financial controls – may frustrate the very objectives of the enterprise. Low institutional risk may come at the cost not just of programmatic risk but of strategic failure. The report concludes that the necessary concern with corruption and other fiduciary risks in fragile and transitional contexts needs to be balanced against programme demands and the nature of the contextual risks that aid interventions are designed to tackle. Local procurement is highlighted as one area where a better balance needs to be struck.

2.4 *Development assistance and approaches to risk in fragile and conflict affected states, OECD, 2014, link.*

This report presents a comparative study of donor approaches to risk management in fragile and conflict affected states. The aim is to document risk management processes that have been applied in practice. It considers hindsight bias and provides examples where a low appetite for fraud risk might result in disproportionately onerous processes. The findings are based on evidence from four country case studies: Democratic Republic of Congo, South Sudan, Somalia and Nepal (and additional examples drawn from Myanmar, Afghanistan and Haiti). The report finds that five factors enable development assistance providers to work towards long-term success in peace building and state building:

1. A foreign policy with international security pressures and humanitarian imperatives that favour political stabilisation and institution building;
2. Donor commitments to support cross-cutting objectives such as gender equality, justice and human rights, which broadens their perspective beyond short-term results;
3. Investment in country analysis and knowledge (including appropriate staff training and valuing staff's country knowledge);
4. Long engagement and experience in the country; and
5. Risk sharing between development agencies in the context of pooled funds and other coordinated approaches.

It includes recommendations to: develop more robust remote management systems that ensure good risk management in cases of limited access, while addressing typical challenges of remote management systems, including weak monitoring; develop tools for portfolio based approaches to risk management to better manage potential trade-offs; and, adopt good practice for risk sharing between development agencies and implementing partners by engaging frequently with them, and responding flexibly to operational needs.

2.5 *Handbook of good practices: preventing corruption in humanitarian operations, Transparency International, 2014, link.*

Transparency International (TI) explains that it has long held that the most damaging impact of corruption is the diversion of basic resources from poor people. Corruption in humanitarian aid is the most egregious form of this, as it deprives the most vulnerable poor people, the victims of natural disasters and civil conflicts, of essential life-saving resources. Humanitarian assistance aims to save lives and alleviate the suffering of people in times of crisis. TI reinforces that these noble ambitions do not immunise emergency responses from corrupt abuse. It refers to numerous examples of corruption during the Asian tsunami humanitarian response, and examples of substantial diversion of aid resources reported in Afghanistan, Iraq, Liberia and Somalia. In response to this concern, TI launched a programme in 2005 to diagnose corruption risks specific to humanitarian operations and to develop a set of good practices aimed at mitigating those risks. The first, diagnostic phase culminated in the publication of a report on Mapping the Risks of Corruption in Humanitarian Action, in 2006. The handbook is intended to offer guidance and support to people in the humanitarian sector who work to alleviate the suffering of the most vulnerable people.

2.6 Elite capture of foreign aid: evidence from offshore bank accounts, Jørgen Juel Andersen, Niels Johannesen and Bob Rijkers, World Bank Group, February 2020, link.

This research working paper documents that aid disbursements to highly aid-dependent countries coincide with sharp increases in bank deposits in offshore financial centres known for bank secrecy and private wealth management, but not in other financial centres. The paper calculates an implied leakage rate of around 7.5% on average and tends to increase with the ratio of aid to gross domestic product. The report notes that these findings are consistent with aid capture in the most aid-dependent countries. The paper concludes that aid capture by politicians, bureaucrats and their cronies is the most plausible explanation for this diversion.

2.7 The grand bargain: a shared commitment to better serve people in need, World Humanitarian Summit, February 2016, link.

This commitment by major donors, including the UK, is about harnessing the vast experience and expertise from across the humanitarian ecosystem and bringing it into a realignment which is better prepared for tackling the emergency needs of more than 125 million people, fully recognising the diverse needs defined by their age, gender and abilities.

Its stated purpose is to ensure that nations are collectively able to anticipate and prepare for crises, can deliver protection and assistance better to the most vulnerable and restore opportunity and dignity to them. The Grand Bargain recognises that, faced with the reality of woefully under-resourced humanitarian responses, the status quo is no longer an option. The signatories agree that they have to find and create efficiency – while also doing more to shrink overall needs and deepen the resource base for funding humanitarian action. Above all, it states, the Grand Bargain is about the need to work together efficiently, transparently and harmoniously with new and existing partners, including the private sector, individuals and non-traditional sources of funding. This requires innovation, collaboration and adapting mind-sets. The agreement does not specifically mention mitigating fraud, but sets the context in which UK aid should be delivered.

2.8 DFAT removes standardized remuneration requirements for contractors, Lisa Cornish, Devex, 21 February 2020, link.

This article explains the decision by the Australian Department of Foreign Affairs and Trade (DFAT) to stop using its salary banding tool for suppliers known as the Aid Adviser Remuneration Framework (ARF). The framework was implemented in 2016 and had been under review since 2017. According to the article ARF had been steeped in controversy as its rates were lower than broader market rates for the same services. The International Development Contractors Community (IDDC) had argued that ARF rates acted as a disincentive to potential advisors, particularly when contractors are recruiting for work in challenging environments such as Afghanistan or Papua New Guinea. The article explains that, despite DFAT ostensibly trying to diversify their development partners, ARF requirements include 10 or more years of experience with DFAT and within relevant sectors, blocking a significant part of the market. The article explains that achieving value for money was a key reason for the implementation of ARF, but its unintended consequence was to stifle competition and reduce DFAT's access to the best expertise. While it does not discuss fraud risk explicitly, it helps explain some of the pressures that contractors can face that may affect fraud risk.

3. Academic publications

3.1 Measuring fraud in overseas aid: options and method, Mark Button, Chris Lewis, David Shepherd and Graham Brooks, University of Portsmouth Centre for Counter Fraud Studies, March 2012, link.

This research, funded by DFID, seeks to identify and select an appropriate methodology to measure fraud losses in the different modalities of aid. It explores the experience of other countries, donors and multilateral bodies in measuring fraud in overseas aid and discovers little evidence that bilateral donors, multilateral agencies or UK NGOs use Fraud Loss Measurement Techniques (FLM) to assess fraud levels in their overseas aid budgets.

Some governments and multilateral agencies find it useful to have large sampling exercises to collect measures of wider losses due to what they call 'Improper Payments' or some similar term. Reported figures vary widely from organisation to organisation and over time: e.g. the total estimated Improper Payments rate for USAID was reported as 0.85% in 2008 and 0.28% for 2009; but the estimated financial impact of irregularities on the budget of the European Anti Fraud Office (OLAF) rose from 1.13% in 2009 to 1.27% 2010.

FLM-type exercises are used by government agencies such as the Department for Works and Pensions (DWP), HM Revenue & Customs (HMRC), the National Health Service (NHS) and Medicare in the US. Again, there is considerable variation between agencies and types of expenditure: the DWP estimated fraud rate varied from 0.0% for pensions to 4.1% for jobseekers allowance; the HMRC estimated a total 'direct tax gap' for 2009 at 5.8%; a recent NHS study highlighted a fraud loss rate of 4.7% for a medical locum agency's invoicing: and the US Medicare reported 7.6% 'Improper Payments' in 2009.

This report examines the potential for FLM exercises applied to the complex and challenging environment of overseas aid and aid modalities. It shows that FLM approaches, being rare in this context, would be difficult and expensive to apply to a bilateral donor complete budget. However, the report argues that there are elements of a bilateral budget where FLM can be undertaken and with the development of fraud resilience checks and a fraud loss model much greater understanding of the risk of fraud in different contexts can be gauged.

As a result the report concludes on the need to:

- Recognise that FLM and the broader development of counter fraud capacity are a form of aid.
- Reject attempts to measure total fraud in a 'super measure' on all the bilateral donor budget as this is too complex and expensive to achieve.
- Seek to use FLM to measure fraud where this is practicable. Work should be focussed upon: the bilateral donor administration, direct purchasing, developing countries' government departments and NGOs receiving aid from the donor.
- Carry out further work to: develop resilience checks for the overseas aid fraud context and to create models for predicting a range of likely fraud losses.

The report also notes the need for a political lead from the top of the bilateral aid donor, that enhancing the resilience to fraud should be a condition of aid to governments and international agencies, and that multilateral organisations should also move towards enhancing the resilience to fraud as a condition of their aid to countries and to NGOs.

3.2 Fraud in Overseas aid and the challenge of measurement, Mark Button et al, Journal of Financial Crime, Vol. 22 No. 2, p. 184-198, 2015.

This paper explores the challenges of measuring fraud in overseas aid. It asserts that there has been very little consideration of how to measure fraud in the overseas aid context, with most effort aimed at corruption, which although there is some overlap, presents different challenges. The research is based on 21 semi-structured interviews with key persons working in the delivery of aid in both the public and voluntary sectors. It uses DFID as a case study to apply more accurate measures of fraud.

The paper shows that there are significant challenges to using fraud loss measurement to gauge fraud in overseas aid. However, it argues that, along with other types of measures, it could be used in areas of expenditure in overseas governments and charities to measure aid. Given the high risk of such aid to fraud, it argues helping to develop capacity to reduce aid, of which measuring the size of the problem is an important part; this could be considered as aid in its own right. The paper offers insights on the challenges to accurately measuring fraud in an overseas context, which will be useful to policy-makers in this context. Given the importance of as much aid as possible reaching recipients, it offers an important contribution to helping to reduce losses.

3.3 From face-to-face to face-to-screen: remote management, effectiveness and accountability of humanitarian action in insecure environments, Antonio Donini and Daniel Maxwell, International Review of the Red Cross, vol. 95, p. 383-413, 2013, link.

This article assesses the impact of remote management on humanitarian aid. This is defined as when senior programme managers are absent from the location where humanitarian assistance is being given. This study uses Afghanistan and Somalia as its focal points, but its analysis and conclusions are relevant to the current situation imposed by the coronavirus outbreak: where senior programme management staff have been repatriated and programmes are expected to run increasingly remotely.

According to the article, the key hazards and disadvantages 'can include lower-quality and less efficient service delivery, difficulties in maintaining policy or strategic direction, the risk of corruption or other abuses, and accountability concerns. Similarly, it may become more difficult to abide by humanitarian principles, to avoid discriminatory practices on the basis of gender or ethnicity and to withstand pressure or manipulation from strongmen and abusive power-holders.'

The article notes that fraud risk can be increased when there is a reliance on remote management but also warns that too much reliance on technology for remote data collection, big data and algorithms for the sake of accountability and even efficacy threaten the sense of common humanity that it argues is essential to the humanitarian endeavour.

3.4 Anti-Corruption in International Development, Ingrida Kerusauskaite, 2018, Routledge.

This book unpacks the concept of corruption, its political and ethical influences, its measurement, commitments to combat corruption and ways that this is being attempted. Corruption is linked to a wide range of developmental issues, including undermining democratic institutions, slowing economic development and contributing to government instability, poverty and inequality. It is estimated that corruption costs more than 5 per cent of global GDP, and that more than one trillion US dollars are paid in bribes each year.

Building on research on the nature, causes and consequences of corruption, this book analyses international anti-corruption interventions in particular. It discusses approaches to focus efforts to tackle corruption in developing countries on where they are most likely to be successful. The efforts of the UK are considered as a detailed case study, with comparisons brought in as necessary from other countries' and multilateral institutions' anti-corruption efforts.

3.5 Anti-corruption in adverse contexts: strategies for improving implementation, Mushtaq Khan, Antonio Andreoni and Pallavi Roy, SOAS, September 2019, link.

This article explains that developing countries are characterised by political settlements where formal rules are generally weakly enforced and widely violated, and that conventional anti-corruption strategies that focus on improving the general enforcement of the rule of law and raising the costs of corruption facing individual public officials have typically delivered poor results in these contexts. The authors argue that feasible anti-corruption interventions in these contexts cannot be solely based on conventional anti-corruption strategies. In societies that have widespread rule violations, the authors note that high-impact anti-corruption is only likely to be feasible if the overall strategy succeeds in aligning the interests and capabilities of powerful organisations at the sectoral level to support the enforcement of particular sets of rules. The article identifies four broadly defined clusters of strategies for creating effective anti-corruption strategies: 1) aligning incentives, 2) designing for differences, 3) building coalitions, and 4) resolving rights. The article argues that these clusters of strategies can provide a framework for understanding the impact and feasibility of anti-corruption activities.

3.6 Addressing the bug within: How bilateral aid agency address corruption and foster integrity, U4 Anti-Corruption Resource Centre, Bergen, Norway, 2012.

This paper presents research by U4 Anti-Corruption Resource Centre on development agencies' internal integrity and anti-corruption policies and measures, and the implications of these policies at the interface between agencies and contractors. The paper finds that policy instruments of the nine donor countries reviewed – both internal and those covering external interactions – are broadly similar. Yet, there is considerable variation in how the instruments play out in practice. The research states that the most important factor for success of policies is the commitment of a donor agency's political leadership and that of the senior and middle-level management. It explains that it is here that many agency staff expressed concerns, pointing out the perceived discrepancy between the official rhetoric on the one hand, and the mismatch of this rhetoric with operational-level practice on the other.

Communication, guidance and training on the practical implications of policies are highlighted by the paper as other critical issues. Key issues identified by respondents of most agencies were the lack of an on-going dialogue with staff on the operational consequences of policies, the pressure staff perceive having to implement policies that were not fully understood and confusion over the relative weight of multiple guidelines and policies. Communication gaps were also highlighted with regard to how agencies inform staff about handling corruption or integrity cases, and specifically, about the measures taken in response to these cases. The paper notes that this type of reporting was seen as having the potential to contribute toward staff members better understanding the application and implementation of their agency's policies on corruption.

The paper states that interviewees frequently pointed to the lack of, and need for, a space to discuss openly and frankly the dilemmas that they face on the ground. It argues that this confirms the impression that simply putting a policy in place will not in itself be sufficient to anchor anti-corruption and integrity provisions into the corporate culture. Some agencies are perceived as being more coherent between public commitment and actual practice. This, the paper notes, contributes to their reputation as being credible in terms of dealing with corruption. However, it explains that this has also led to challenges (and frustration) in operational environments, when dealing with partners who are not equally rigorous on corruption and where the lack of consensus prevents collective action in interactions with partners.

Related to this, the paper highlights concerns regarding safeguards and practices aimed at preventing corruption within multi-lateral organisations, through which a considerable amount of donor resources are channelled. Currently, staff observe a strong discrepancy between strict policies applying to bilateral aid on the one hand, and a perception of relatively few controls on funds implemented through multi-lateral implementers.

4. Private sector publications

4.1 Fraud in the wake of COVID-19: benchmarking report September 2020 edition, Association of Certified Fraud Examiners, September 2020, link.

This report summarises the results of an assessment by Association of Certified Fraud Examiners (ACFE) of the impact of COVID-19 on fraud trends. It states that as the COVID-19 pandemic enters the fourth calendar quarter, its effects continue to permeate numerous aspects of global business operations, including organisations' fraud risks and anti-fraud programs. Following ACFE's initial benchmarking report on fraud trends in the wake of COVID-19 (released in June 2020), it conducted a second survey from late July to mid-August 2020 to gauge how these effects continue to unfold for organisations around the world. It shows an increase in observed fraud by respondents. By May 2020, 68% of respondents reported an increase in fraud. This had increased to 77% by August 2020, and 92% of respondents expected to see an increase in fraud over the next 12 months.

While the overall level of fraud has increased in the wake of COVID-19, the report found that certain types of fraud are presenting more pervasive risks to organisations than others. In particular, cyberfraud (eg, business email compromise, hacking, ransomware, and malware) continues to be the most heightened risk for organisations, with 83% of respondents already observing an increase in these schemes and 90% anticipating a further increase over the next year. The report found that other significant risks in terms of both observed and expected increases include unemployment fraud, payment fraud (eg, credit card fraud and fraudulent mobile payments), and fraud by vendors and sellers (eg, price gouging, product misrepresentation, and overbilling).

4.2 Report to the nations: 2020 global study on occupational fraud and abuse, Association of Certified Fraud Examiners, 2020, link.

The report is the eleventh study by the Association of Certified Fraud Examiners (ACFE) into the costs and effects of occupational fraud. The study covered 2,504 fraud cases from 125 countries causing a combined total loss of $3.6 billion. Based on the research, ACFE estimates that organisations lose an average of 5% of revenue each year to fraud and that fraud cases typically last 14 months before detection. It found that while asset misappropriation are the most common schemes (86% of cases), they are the least costly (median loss of $100,000). Financial statement fraud schemes, on the other hand, are the least common of the schemes reviewed (10%) but are the most costly (median loss of $954,000).

The study found that organisations with fraud awareness training for employees were 50% more likely to gather tips through formal reporting mechanisms than without training. Of the schemes reviewed, 43% were detected by a tip and 33% via telephone or email hotlines. A lack of internal controls was found to have contributed to almost one in three frauds. The presence of anti-fraud controls is associated with lower fraud losses and quicker detection.

The study found that business owners/executives committed only 20% of occupational frauds, but caused the biggest losses, with a median loss of $600,000, compared with $150,00 for managers and $60,000 for employees. 42% of occupational fraudsters were living beyond their means and 26% were experiencing financial difficulties. 72% were male.

4.3 Global fraud and risk report 2019/2020: mapping the new risk landscape, Kroll, 2020, link.

This study was based on an online survey of 588 senior executives who have responsibility for, or significant involvement in, determining their organisation's risk management strategies. Survey respondents were drawn from 13 countries and regions and 10 industries. 92% of the organisations operate in more than one country, and 55% have annual revenues of $1 billion or more.

The study found that 28% of organisations were significantly affected by fraud by external parties and 27% by fraud by internal parties in the last year. It also found that 45% of internal frauds are perpetrated by employees, 17% by third parties and 12% by customers. The report identified that external fraud was most commonly perpetrated by customers (20%) followed by contractors (18%) and third parties (18%).

The report stresses that just as risks arise from many areas, so too does incident detection. Internal and external audits play a leading role; together they account for between 38% and 58% of incident discovery. However, the report notes that for fraud the amounts are much lower with internal and external audit detecting 38% and 20% respectively of internal fraud and 19% and 25% respectively of external fraud. Other mechanisms, including whistleblowing, reporting by customers/suppliers, notification by regulators/law enforcement and discovery by company management also contributed to their discovery. The report states that whistleblowing is an important element in the incident detection ecology, but it is a relatively extreme measure; people who take that step often do so because they lack confidence that normal organisational channels will address the problem.

The report also highlights the importance of culture as a line of defence. The report identifies factors that affect the ability of an organisation to build and sustain such a culture, including establishing the proper tone from the top, aligning performance goals with ethical behaviour and providing ongoing education to help employees navigate ambiguous situations.

4.4 Fighting fraud: a never-ending battle, PWC 2020, link.

This report contains the results of more than 5,000 respondents from 99 territories about their experience of fraud over the past 24 months. Nearly half had suffered at least one fraud – with an average of six per company. The most common types were customer fraud, cybercrime, and asset misappropriation. And there was a roughly even split between frauds committed by internal and external perpetrators, at almost 40% each – with the rest being mostly collusion between the two.

The report estimates the costs of the crimes reported to be $42 billion. 13% of those who reported having experienced fraud had lost over $50 million. The report notes that reporting of fraud remains poor and that too many organisations are failing to respond effectively. Only 56% conducted an investigation into their worst incident. And barely one-third reported it to the board. The report emphasises three steps to combatting fraud:

- Take action: being prepared
- Responding: doing the right thing
- Emerging stronger: measuring success

4.5 Annual fraud indicator 2017: identifying the cost of fraud to the UK economy, UK Fraud Costs Measurement Committee, Crowe, 2017, link.

This report is the second undertaken by the UK Fraud Costs Measurement Committee and involved Crowe UK, Experian and the Centre for Counter Fraud Studies, University of Portsmouth. The report found that private sector fraud was estimated to cost the UK economy just over £140 billion in 2017. In comparison public sector fraud losses were estimated at £40.4 billion, losses to charities were estimated at £2.3 billion and fraud committed directly against individuals at around £6.8 billion.

The report finds that a significant proportion of the costs of fraud are attributed to procurement fraud. The procurement of goods and services often accounts for a significant proportion of an organisation's expenditure and is open to a wide range of potential fraud risks. This is because there are usually multiple individuals involved in a process who often do not work closely together; ie the person who wants something purchased does not always work directly with the people who initiate orders and with those responsible for paying. There are often multiple opportunities for fraud in procurement and some of the most common include:

- legitimate suppliers adding unauthorised additional costs to an invoice
- legitimate suppliers conspiring with staff to add additional costs to an invoice
- fraudulent suppliers/staff submitting false invoices for payment
- fraudulent suppliers/staff diverting legitimate payments for legitimate suppliers to themselves
- under provision of goods and services in terms of quality or quantity.

The report concludes that change in fraud year on year are driven by the level of expenditure in key areas such as procurement and not changes in the effectiveness of fraudsters or counter-fraud measures.

4.6 Tightening the chain on fraud, Paul Guile, Institute of Chartered Accountants in England and Wales, Finance and Management, Issue 202, p. 14-16, 2012, link.

This article argues that procurement fraud has a far lower profile than other types of fraud but provides rich pickings for its perpetrators. It sets our common mistakes made by organisations, including:

- Procurement does not have the importance it should. Operations or sales departments gain kudos for generating company revenues, but most of that money is spent in procurement. Yet many organisations do not have procurement visibility at board level. Some don't even employ procurement specialists.
- There is no procurement fraud strategy. If fraud risks are considered at all, they are not linked to procurement. Yet both of these issues are based on the value for money approach and are therefore natural partners.
- There's been no procurement fraud training – in some cases, it's never even been considered. How can people spot procurement fraud if they are unaware of how it can be committed?

The article sets out eleven points to consider to mitigate risks including understanding at the board-level, a clear strategy, due diligence and segregation of duties.

5. Government publications

5.1 Smart Rules – September 2020: Better programme delivery, version XIV, Foreign, Commonwealth and Development Office, September 2020, link.

The Smart Rules, originally developed by the Department for International Development (DFID), have been adopted by the Foreign, Commonwealth and Development Office (FCDO) to provide an operating framework for its programmes. They provide a framework for due diligence throughout the programme lifecycle, define accountabilities and decisions and set out the processes that are compulsory.

Many of the 37 Smart Rules relate to good governance in fraud risk management. They establish the role of the Senior Responsible Officer (SRO) as the person accountable for the design, delivery and closure of programmes. They also require that the Head of Department and SROs must make decisions on their risk appetite, which should be "appropriate to the context, and ensuring systems and processes are in place to systematically manage those risks". Guidance supporting the Smart Rules makes it clear that fraud risk should be considered when assessing wider programme risks. Smart Rule 35 requires that "All FCDO staff must immediately report any suspicions and/or allegations of fraud, terrorism financing, money laundering, bribery, corruption, or sexual exploitation, harassment and abuse to the Head of Internal Audit" or via the Internal Audit Department's email or telephone hotline.

The document refers to further, non-compulsory guidance available in the form of Smart Guides. These include guidance on due diligence and enhanced due diligence on safeguarding, fiduciary risk, risk management guidance and various aspects of procurement.

While the document has been updated for FCDO, many areas in the September 2020 version still refer to DFID.

5.2 The government counter fraud profession, Cabinet Office, 2017, link

This document provides an overview of the Government Counter Fraud Profession including the benefits to practitioners and key features of professional standards and competencies. It describes its aim as to tackle fraud head on by committing to invest in this group of highly skilled people, who are at the forefront of protecting public services and fighting economic crime. It notes that the Profession aims to do this by bringing together individual and organisational learning from across the public sector, and beyond, into one place.

This brochure explains that a Government Counter Fraud Profession Board consists of Counter Fraud Leads from across government. This board decides what the profession looks like and who is able to join. Beneath this is an Advisory Board. This is a peer-review body consisting of experts from across government that review applications and advise the Board on who should enter the Profession. There are then three specialist groups: Cross Sector Advisory Group; Practitioners Group; and Fraud Champions Group.

The document describes how the Professional Standards and Competencies are broken down into Core Disciplines and Sub-Disciplines, recognising the variety in counter fraud activity. Ten Core Disciplines set out the knowledge, skills and experience that are called upon to deliver an effective counter fraud response, such as Risk Assessment, Detection and Culture. Five Sub-Disciplines define areas that cut across the Disciplines: Bribery & Corruption; Money Laundering; Disruption; Cyber Fraud; and Criminal Justice. The document emphasises the importance of collaboration across government departments and areas of expertise. It asserts that the profession sets out to tackle fraud head on and is intended to demonstrate the UK Government's leadership in the fight against the threat of fraud.

5.3 Counter-fraud standards and profession, Cabinet Office, 2020, link.

This website provides a brief overview of the UK Government's cross-department counter fraud activities. It estimates that fraud costs the government an estimated £31 to £53 billion every year.

The website explains that the Counter Fraud Function is one of fourteen government functions bringing together 15,000 counter-fraud public servants. The webpage sets out the Counter Fraud Function's five strategic objectives focused on building capacity; data use and intelligence sharing; understanding and responding to risks; close working with cyber security; and minimising known losses. The website explains that the Government Counter Fraud Profession was launched in 2018 to provide a professional structure and common standards and competencies for government fraud professionals.

A Counter Fraud Centre of Expertise, coordinated by the Cabinet Office, was established in 2018 to: bring the function together; oversee the development of the profession; support public bodies to enhance their fraud response; maintain the Counter Fraud Functional Standard (GovS 013) and assess public bodies compliance with these; and, lead the International Public Sector Fraud Forum, engaging public sector agencies globally to understand, find and stop fraud.

5.4 Cross-government fraud landscape annual report 2019, Cabinet Office, 2020, link.

This report focuses on the public sector fraud landscape in central government and the progress it is making to tackle fraud and error loss outside of the tax and welfare system. The report provides an update on the Cabinet Office Counter Fraud Centre's key activities, including progress made in embedding the counter fraud functional standard, its fraud capability building and data gathering activities. It lists which departments and bodies have met, or partially met, the 12 standards that comprise GovS 013.

The report estimates fraud and error losses in UK public spending outside the tax and welfare system to be between 0.5% and 5% while reported department-level gross fraud detected is less than 0.1% for all departments except the Ministry of Defence which reported a 0.3% loss. Detected fraud and error by government department is listed on page 25.

5.5 Government functional standard, GovS 013: counter fraud, Cabinet Office, 2020, link.

This Policy Paper sets out the Counter Fraud Functional Standard that was launched in October 2018. It applies to all government departments and their arms-length bodies. The paper notes that as of February 2020, 123 public bodies had adopted the functional standard as the basis for managing the risk of fraud, bribery and corruption in the public sector.

This standard is part of a suite of operational standards that sets expectations for management within government. Standards may include both mandatory and advisory elements. It aims to set the expectations for the management of fraud, bribery and corruption risk in government organisations, including key aspects of governance (including counter fraud actions plans and metrics and assurance) and practices (including reporting, proactive detection activity and training).

Regarding metrics, the standard states that organisations should define the outcomes they are seeking to achieve that year. In particular, it states that "Organisations should target an increase in the total amount of detected fraud and/ or loss prevented from their counter fraud strategy".

Regarding proactive detection activity, the standard expects organisations to "undertake activity to try and detect fraud in high-risk areas where little or nothing is known of fraud, bribery and corruption levels".

The standard also expects organisations to appoint the following key counter-fraud roles:

- Accounting Officer – the senior executive in a central government organisation, accountable to Parliament and the public for the stewardship of public money.
- Senior Officer for Counter Fraud – an accountable individual at board level to support the Accounting Officer.
- Senior Lead for Counter Fraud (also known as the Counter Fraud Functional Lead) who is accountable to the Senior Officer for the day-to-day management of fraud, bribery and corruption risk in their organisation.
- Counter Fraud Champion promote awareness of fraud and increases understanding across their organisation.

5.6 The orange book: management of risk – principles and concepts, HM Government, 2004, link.

This document sets out the main principles underlying effective risk management in all government departments and arm's length public bodies with responsibility derived from central government for public funds. It is intended for use by everyone involved in the design, operation and delivery of efficient, trusted public services. Fraud risk is not explicitly covered but is referred to in relation to operations risks and commercial risks and therefore sets the overarching risk management context within which fraud risk should be managed by government departments.

5.7 United Kingdom anti-corruption strategy 2017 to 2022, HM Government, 2017, link.

Published in December 2017, the cross government anti-corruption strategy establishes an ambitious longer-term framework to guide UK government efforts to tackle corruption, including fraud, at home and abroad in the period to 2022. The strategy aims to ensure that efforts are joined up across government and that they include close collaboration with civil society, private sector, law enforcement, and other partners playing a critical role in tackling corruption. It commits to actively implement international anti-corruption standards, especially the OECD Anti-Bribery Convention. It includes a goal to enhance international development and export finance practices, which includes CDC focusing on "greater transparency and higher standards in the use of offshore jurisdictions".

5.8 Managing public money (revised), HM Treasury, 2019, link.

Originally published in 2007 and updated in 2013 and 2019, this document sets out the main principles for dealing with resources in UK public sector organisations. The key themes are the fiduciary duties of those handling public resources to work to high standards of probity; and the need for the public sector to work in harmony with parliament. The document asserts that public sector organisations should innovate in carrying out their responsibilities, using new technology and adopting good business practice. It sets out expectations on the government and its public servants to meet the ethical standards in this document and to operate transparently.

Annex 4.9 is specifically focused on fraud, providing details on good practice for public sector organisations with regard to preventing, countering and dealing with fraud. This covers: assessing vulnerability to fraud, evaluating the scale of fraud risk; responding to fraud risk; and reporting fraud. It states that an organisations response to fraud risk should be "customised" to the risks it faces and would typically include some or all of the following:

- Developing a Fraud Policy Statement, a Fraud Risk Strategy and a Fraud Response Plan (key documents that every organisation should have).
- Developing and promoting an anti-fraud culture, maybe through a clear statement of commitment to ethical behaviour to promote awareness of fraud. Recruitment screening, training and maintaining good staff morale can also be important.
- Allocating responsibilities for the overall and specific management of fraud risk so that these processes are integrated into management.
- Establishing cost-effective internal systems of control to prevent and detect fraud.
- Developing the skills and expertise to manage fraud risk effectively and to respond to fraud effectively when it arises.
- Establishing well publicised avenues for staff and members of the public to report suspicions of fraud.
- Responding quickly and effectively to fraud when it arises. Establishing systems for investigations into allegations of fraud.
- Using Internal Audit to advise on fraud risk and drawing on their experience to strengthen control.
- Taking appropriate action (criminal, disciplinary) against fraudsters and seeking to recover losses.
- Continuously evaluating the effectiveness of anti-fraud measures in reducing fraud.
- Working with stakeholders to tackle fraud through intelligence sharing, joint investigations, etc.

The document notes that public sector organisations should provide the Cabinet Office with details of any novel or unusual frauds (or attempted frauds) so that this information can be shared more widely.

5.9 Fraud Act 2006, the National Archives, 2006, link.

The UK Fraud Act includes three classes of fraud: Fraud by false representation; Fraud by failing to disclose information; Fraud by abuse of position. In all three classes of fraud, the Act requires that for an offence to have occurred, the person must have acted dishonestly, and that they had to have acted with the intent of making a gain for themselves or anyone else, or inflicting a loss (or risk of a loss) on another.

5.10 Good practice in tackling external fraud, National Audit Office, 2008, link.

In this guide, the National Audit Office (NAO) defines external fraud as where third parties, such as businesses, individuals or organised crime groups, steal money from a department or agency, either by obtaining payments to which they are not entitled or keeping monies they should pay over to the department. At the other end of the scale, departments or agencies may suffer from more systematic and premeditated attacks by organised crime groups. The NAO explains that these may be fewer in number but the losses in each case are substantial. In some cases, fraudsters may work in collusion with the department's staff. As well as diverting money that should be spent on public services, the NAO noted that fraud can undermine the position of honest citizens and businesses and support the activities of those involved in other serious crime.

The guide states that all government departments and agencies have a responsibility to develop anti-fraud policies to show those seeking to defraud the government that such action is unacceptable and will not be tolerated. While there is not a "one-size-fits-all" approach, the guide stresses the value in promoting a wider understanding of how others tackle fraud and good practices that are successful elsewhere and that smaller departments and agencies should consider whether they can adapt and apply practices used by larger departments in tackling external fraud.

The guide covers three overarching areas: understanding and managing the risks of external fraud; preventing and deterring external fraud; and detecting and investigating fraud and imposing sanctions. The report quotes Dermid McCausland, Managing Director, NHS Counter Fraud Service: "Effective work to detect and investigate fraud must lie at the heart of any professional, integrated approach. Such work is not only about eventually applying appropriate sanctions, it has to be about learning as much as possible about the nature of the problem, about deterring fraud where this is possible and about identifying the policy or systems weakness which has allowed it to occur."

6. Audits and impact reviews

6.1 DFID's approach to anticorruption, ICAI, November 2011, link.

This report assessed the former DFID's approach to managing the risk of corruption which is one of the most important components of achieving value for money in the UK aid programme. The report concludes that DFID's organisation of responsibilities for fraud and corruption was fragmented and that this inhibited a coherent and strategic response to this critical issue. It states that DFID needed to give significantly greater attention to the fight against corruption to manage this increasing risk.

The report recommended that:

- In any country assessed as having a high risk of corruption, DFID should develop an explicit anti-corruption strategy, setting out an integrated programme of activities and dialogue processes.
- DFID should review the structure and nature of its UK counter-fraud and anti-corruption resources, to develop a more co-ordinated approach to risk assessment, risk management, anti-corruption programming and fraud response.
- DFID should develop more articulated processes for managing the corruption risks associated with particular aid types and invest more resource in due diligence and on-the-ground monitoring of delivery partners.
- While continuing to invest in the legal and institutional framework for fighting corruption, DFID should focus on supporting more robust law enforcement activity to build transparency and accountability. This should include innovative forms of beneficiary monitoring and community mobilisation.
- DFID should invest more in intelligence collation and analysis of corruption risks in particular sectors and countries, to inform a more strategic approach to fighting corruption.

The report concludes that although DFID had a good awareness of fraud risks in case study countries (Bangladesh, Nepal, Nigeria and Zambia), it needed to improve the management of risks in the delivery chain and strengthen counter-fraud capability and intelligence in the countries in which it operates.

6.2 DFID's approach to managing fiduciary risk in conflict-affected environments, ICAI, August 2016, link.

This 2016 ICAI performance review examined how DFID manages fiduciary risk in conflict-affected environments, with fiduciary risk defined as the likelihood that aid entrusted to others to deliver is not used for its intended purposes or cannot be properly accounted for.

The review found that DFID had made good progress in risk management since weaknesses were identified by DFID's internal audit department in 2014, with areas of good performance including strong consideration of fiduciary risk in programme design, high awareness and understanding of fiduciary risk among DFID staff, and good practices in identifying, assessing and mitigating fiduciary risk.

The review also found a high degree of variation in the way country offices categorise and rate risks, and inconsistent understanding among DFID staff of when risk is transferred to partners, particularly where supply chains are complex. The review found that DFID's risk mitigating actions were primarily targeted at lead partners, who are then responsible for enforcing them through the delivery chain. It concluded that this not only reduces DFID's direct interaction with local civil society organisations and businesses and the possibility of increasing the capacity of these organisations to manage risk, it also distances DFID staff from some of the practical risks and challenges that emerge during programme implementation.

6.3 Achieving value for money through procurement – Part 1: DFID's approach to its supplier market, ICAI, November 2017, link.

This is the first of two ICAI reviews examining DFID's procurement practices. This review looks at DFID's engagement with actual and potential suppliers in order to shape its supply chains and achieve better value for money through its procurement.

ICAI's review found that DFID had made a concerted effort to build up its commercial capacity and develop its supplier base. It also found that DFID had identified areas of its procurement practices which might have inhibited competition among its suppliers – such as the size and complexity of contracts – and had launched new initiatives to address these issues. The report stressed, however, the need for improved communication about procurement opportunities and that the department needed to do more to increase the range and diversity of suppliers. The review found that, despite introducing open book accounting the department had been slow to exercise these rights due to capacity constraints. The review warned that some suppliers with a track record of delivering DFID programmes could have advantages over new entrants that may have the unintended consequence of limiting competition.

6.4 ICAI follow-up: DFID's approach to managing fiduciary risk in conflict-affected environments, ICAI, June 2017, link.

This document is a summary of the results of ICAI's follow up of DFID's approach to managing fiduciary risk in conflict-affected environments. The review concluded that there had been a mixed response from DFID to ICAI's prior recommendations. ICAI noted positive action on recommendations regarding clarifying DFID's risk appetite and its approach to risk transfer, with new policies, guidance and staff training. The review noted that these have been well received by staff, and are reportedly beginning to improve risk management practice in the field. On the rules governing risk transfer through complex delivery chains, oversight of multilateral partners and matching staff skills with programme risk levels, the response has been uneven. ICAI stated that it recognises that it takes time to change business processes, and that some issues, particularly the oversight of multilateral partners at country level, require sensitive handling, but that it nevertheless expected to see DFID continuing to push forward in these areas.

6.5 Achieving value for money through procurement Part 2: DFID's approach to value for money through tendering and contract management, ICAI, September 2018, link.

This review covers DFID's procurement of goods, works and services in relation to aid programmes over the period 2012-13 to 2016-17, including ongoing contracts initiated during that period. It assesses the full range of procurement and contract management practices, from defining supply need and identifying delivery options through contract award to oversight and monitoring of suppliers and contract compliance. It explores how well DFID captured and applied lessons on procurement.

The review's findings include:

- Poor consultation with suppliers had heightened the risk of unintended consequences.
- DFID did not always choose the most appropriate procurement process but a new strategic sourcing process had resulted in stronger procurement planning.
- The contract management function in DFID was poorly defined and contracts were frequently amended or extended beyond their advertised length and values.
- Inception phases were often too short for adequate preparation and planning.
- Progress on flexible and adaptive programming would require more innovative approaches to tendering and contract management.

ICAI's recommendations included that DFID should accelerate its timetable for acquiring a suitable management information system for procurement, to ensure that its commercial decisions are informed by data. ICAI also recommended that DFID should instigate a formal contract management regime, underpinned by appropriate training and guidance and supported by a senior official responsible for contract management across the department. The new regime should include appropriate adaptive contract management techniques, to ensure that supplier accountability is balanced with the need for innovation and adaptive management in pursuit of development results. The report concluded that while DFID's approach to procurement was appropriate to the department's objectives and there were weaknesses in management information and contract management, and that a major review of suppliers by DFID had resulted in reducing communication between DFID and its suppliers.

6.6 ICAI follow-up review of 2018-19 reports, ICAI, July 2020, link.

Each year ICAI conducts a follow-up assessment of ICAI reviews from the previous year. The 2018-19 follow-up review covered the ICAI (2017) and ICAI (2018) reviews on procurement.

Relating to the 2017 ICAI procurement review, ICAI found that DFID has made good progress on most recommendations, leading to a stronger approach to its supplier market. The department has progressed significantly with its use of open-book accounting and monitoring and management of fee rates. It has made use of a number of communication channels to promote new suppliers, support small and medium enterprises (SMEs) and local suppliers and encourage overseas bidders. However, there has been a disappointing failure to increase the number of local suppliers from developing countries.

Relating to the 2018 ICAI procurement review, however, ICAI concluded that DFID's response to the recommendations were inadequate. While ICAI noted that there have been improvements in how

DFID manages consultations and information, it determined this will have little impact on overall performance without progress on instituting a formal contract management regime and appropriate levels of staff training. ICAI concluded that DFID's response to its recommendations relating to tendering and contract management were inadequate as a result of DFID's failure to put in place a formal contract management regime, despite the risks this entails for programme results.

6.7 DFID's use of private sector contractors, International Development Committee, House of Commons, 27 March 2017, link.

This report sets out findings and the minutes from the International Development Committee's investigation of DFID's use of contractors. It notes that as DFID's budget had increased in recent years, so too had the funds channelled through these partners, particularly with respect to private sector contractors. The report notes that contractors can act as an effective channel for aid delivery, and one that the committee supports where it is proven to be most effective and offer the best value for money. However, the committee found that it is not evident that DFID had an effective process for assessing this at the programme level, nor whether it undertakes a sufficiently robust appraisal of all available options. It also raised concerns that DFID's strategy on contractors was being driven by a lack of administrative capacity in the Department.

The report concludes that evidence suggests that DFID did not have a sufficient understanding of the way its procurement processes are shaping the market, particularly with respect to its procurement through framework agreements. It notes that while DFID had been explicit about its wish to expand the market and facilitate entry to smaller organisations, many of the procurement processes it uses work against this stated aim. The report states that DFID relied on the pressures of competition in its supplier market and assumes that the levels of competition assure it value for money. While the report recognises that DFID was ahead of other donors in creating a competitive supplier market, there are aspects of its procurement, such as framework agreements and other barriers to entry, which were undermining this. The way the market is set up also means that the rewards for contractors lie in winning contracts, not in delivering on them.

The report recommended that DFID should strengthen its approach to following up on implementation, particularly through greater use of independent evaluations. The committee also notes concerns about DFID's oversight of the supply chain, from lead contractors down to smaller, local organisations. Serious examples of sub-contractors being mistreated by lead contractors point towards an insufficient level of oversight that DFID should take concrete steps to improve. The committee also expressed concern about what it describes as the appalling conduct of some contractors who have behaved in a way that is entirely misaligned with the Department's purpose. The report recognised that not all contractors have behaved poorly, though it stresses that recent examples highlighted in the media should not be viewed as isolated cases.

The committee noted that it has heard that there are fundamental flaws in the working practices of some organisations. While DFID required contractors to sign up to its Statement of Priorities and Expectations, there is a worrying over-reliance on self-regulation and a complete lack of enforcement. The report urged DFID to ensure that a key focus of its Supplier Review, planned for later in 2017, was on ensuring greater compliance and a more robust system of incentives and consequences to shape the behaviour of contractors to the highest ethical standards.

6.8 Department for International Development: Investigation into the Department's approach to tackling fraud, National Audit Office, February 2017, link.

This National Audit Office Report focuses on how DFID tackles fraud across its budget, and looks at measures put in place by the FCO and British Council. It was prompted by a) parliamentary interest in how the UK aid budget is spent, b) DFID's larger budget and increased focus on fragile and conflict-affected states (FCAS), and c) concerns that fraud is underreported. The report has findings in the following six areas:

- **FCAS**: Clear relationship between fragile states and countries perceived as most corrupt by Transparency International. However, few allegations of fraud were being reported in some of the most corrupt countries.
- **Fraud prevention**: DFID used a 'three lines of defence' model, involving front-line staff; a control and assurance team, and internal audit. Due diligence conducted over delivery partners has built-in consideration of fraud risk.
- **Fraud detection**: Detection was challenging where DFID did not have direct control over the funds it provides (55% via multilateral bodies, which in turn use NGO delivery partners). Number of cases reported to DFID was rising as a result of their awareness work.
- **Investigating fraud**: DFID's central fraud team investigated 3% of the 429 allegations in 2015-16, providing advice to teams for the remainder. DFID's fraud caseload quadrupled between 2010-11 and 2015-16, primarily with increases in lower priority cases, with the most serious cases remaining steady at between 20 and 25 cases annually. Annual gross losses to fraud in 2015-16 were around 0.03% of DFID's budget. The theft or exploiting of assets or information accounted for the largest losses in 2014-15. Between 2003 and 2016, non-governmental organisations accounted for nearly 40% of all reported fraud cases.
- **Fraud recovery and sanctions**: DFID prioritised recovery of funds and has recovered about two-thirds of reported fraud loss since 2003. There are sanctions it applies, and in some cases it will pursue cases through the courts.
- **Fraud reporting**: DFID reported to its audit committee and the Cabinet Office. Meets mandatory requirements but all three bodies (FCO, DFID, British Council) report less than some NGOs.

The report provides a useful factual overview of DFID's approach to tackling fraud but does not conclude on its appropriateness or effectiveness, or provide recommendations.

6.9 Tackling overseas expenditure: conclusions and recommendations, Public Accounts Committee, April 2017, link.

In April 2017 the Public Accounts Committee hearing assessed the National Audit Office's *Investigation into the Department for International Development's approach to tackling fraud*. The committee concluded that:

- levels of fraud in DFID, FCO and British Council expenditure 'do not seem credible, given the risks they face overseas, and recommended that all three bodies should report back to the Committee setting out what more they will do to provide better estimates of the likely levels of fraud.
- DFID has adapted well to manage its rising fraud case load, but further improvements can be achieved, and recommended that DFID review how it prioritises fraud allegations to focus on the areas of greater financial and reputational risks.
- DFID needs to do more to determine the effectiveness of its delivery partners' counter-fraud measures and should undertake an assessment of the ability of its principal non-governmental organisation partners to manage fraud risks, which it should use to inform future spending decisions.

- The FCO's and the British Council's counter-fraud activities do not yet match the risks they face. In particular, the FCO does not yet have adequate controls in place for assuring its increasing programme funds. The FCO and the British Council should each publish a clear plan setting out how they will improve their counter-fraud activities.
- DFID, the FCO and the British Council publish limited information on confirmed cases of fraud and how they were resolved. All three bodies should publish more detailed information on their fraud cases for 2016–17, including any sanctions applied for each case.

7. Professional standards and guidelines

7.1 CFE code of professional standards, Association of Certified Fraud Examiners, 1 November 2020, link.

These Standards express basic principles of ethical behaviour to guide ACFE Members in the fulfilling of their duties and obligations. By following these Standards, all Certified Fraud Examiners are expected to demonstrate their commitment to excellence in service and professional conduct. The Standards cover professional conduct, standards of examination (including fraud examinations and evidence) and standards of reporting (including report content). The latter includes that: Certified Fraud Examiners' reports shall be based on evidence that is sufficient, reliable and relevant to support the facts, conclusions, opinions and/or recommendations related to the fraud examination; the report shall be confined to subject matter, principles and methodologies within the Member's area of knowledge, skill, experience, training or education; and no opinion shall be expressed regarding the legal guilt or innocence of any person or party.

7.2 Chartered Global Management Accountant (2012), Gillian Lees, Fraud risk management: a guide to good practice, link.

This guide, a joint venture between American Institute of Certified Public Accountants and the Chartered Institute of Management Accountants, aims to help professionals tackling fraud in their organisations to take practical steps towards establishing more robust procedures to tackle fraud, particularly in terms of prevention, detection and response. It explains the fraud triangle as a model for understanding the motivation to commit fraud, considering three factors: motivation; opportunity; and rationalisation. It sets out the four main components of effective anti-fraud strategy: prevention; detection; response; and deterrence. It also sets out two key components of a fraud prevention strategy: a sound ethical culture; and sound internal control systems. It goes on to look at fraud indicators and warning signs, and tools for detecting fraud.

7.3 IIA policy paper: internal audit and corrupt practices (including fraud and bribery), Chartered Institute of Internal Auditors, May 2013, link.

This paper explains that internal audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within an organisation. This is part of its normal role of supporting the Board's and Audit Committee's oversight of risk management. It notes, however, that internal audit's role is not to directly detect or prevent corrupt practices. This is for executive management. Internal audit's role includes promoting anti-fraud and anti-bribery best practice, testing and monitoring systems and advising on change where it is needed.

7.4 Tackling fraud in the charity sector, Fraud Advisory Panel, Charity Commission, February 2016 link.

This guide is for trustees and senior managers of charities in England and Wales as well as their professional advisors. It highlights the main learning points from the first national conference on charity fraud held in late 2015, and provides signposts to extra sources of information, support and best practice. It concludes with a summary of top tips for preventing, detecting and responding to fraud.

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