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ANNEX 4.7 FRAUD

Governance in public sector organisations includes arrangements for preventing, countering and dealing with fraud. This annex provides further detail.

A4.7.1 Accounting Officers are responsible for managing public sector organisations' risks, including fraud. Each organisation faces a range of fraud risks specific to its business, from internal and external sources. The risk of a given fraud is usually measured by the probability of it occurring and its impact in monetary and reputational terms should it occur.

A4.7.2 In broad terms, managing the risk of fraud involves:

- assessing the organisation's overall vulnerability to fraud;
- identifying the areas most vulnerable to fraud risk;
- evaluating the scale of fraud risk;
- responding to the fraud risk;
- measuring the effectiveness of the fraud risk strategy; and
- reporting fraud to the Treasury.

A4.7.3 For guidance on all these areas, see [Managing the Risk of Fraud – a Guide for Managers](#).

Assessing vulnerability to fraud

A4.7.4 Each organisation should identify, itemise and assess how it might be vulnerable to fraud, covering the main risks in some detail.

Evaluating the scale of fraud risk

A4.7.5 Each public sector organisation should evaluate the possible impact and likelihood of risks of the specific fraud risks it has identified. From this, each organisation should deduce a priority order for managing its fraud risks. This will inform decisions about the action to be taken to manage fraud risk effectively.

Responding to fraud risk

A4.7.6 The organisation's response to fraud risk should be customised to the risks it faces. Typically it will involve some or all of the following:

- Developing a **Fraud Policy Statement** and **Fraud Response Plan** (two key documents that every organisation should have).
- Developing and promoting an anti-fraud culture. It may be helpful to give all staff a clear statement of commitment to ethical behaviour to promote awareness of fraud. Recruitment screening and maintaining good staff morale can also be important.
- Allocating responsibilities for the overall management of fraud risk and for the management of specific fraud risks so that these processes are integrated into management generally.

- Establishing cost-effective internal controls to detect and deter fraud, commensurate with the identified risks.
- 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 their suspicions of fraud.
- Responding quickly and effectively to fraud when it arises using trained and experienced personnel to investigate.
- Establishing systems to monitor the progress of investigations.
- Using Internal Audit to track all fraud cases and drawing on their experience to strengthen control to prevent repetition.
- 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.

Measuring the effectiveness of the fraud risk strategy

A.4.7.7 It is important to measure the effectiveness of actions taken to reduce the risk of fraud. Assurances about these measures can be obtained from Internal Audit, stewardship reporting, control risk self assessment, monitoring against any relevant targets or from other review bodies.

Reporting internal fraud to the Treasury

A.4.7.8 Public sector organisations are required to submit an annual fraud return to the Treasury. The data supplied is used to produce the Government Annual Fraud report. The main aim of the report is to share information about fraud across government to increase awareness of fraud risk in certain areas.

A.4.7.9 Public sector organisations should also provide the Assurance, Control and Risk (ACR) team in the Treasury with details, as quickly as possible, of any novel or unusual frauds (or attempted frauds) so that details can be shared more widely. Public sector organisations should also consider reporting frauds and suspected fraud to the NAO.