



COUNTERING FRAUD AND CORRUPTION

Policy and Response Plan

Effective: July 2020

To be reviewed: July 2023

*To help the public service
spend wisely*

TABLE OF CONTENTS

Countering Fraud and Corruption Policy	1
Introduction	1
The scope of this Policy.....	1
Responsibility for Implementation of the Policy	2
Definitions of Fraud and Corruption	4
Reducing the Opportunity for Fraud and Corruption - Separation of Duties.....	5
Robust Systems of Control	5
The Importance of Monitoring	6
Identification of fraud.....	6
Red Flags.....	7
Reporting Fraud and Corruption.....	7
Responding to Fraud and Corruption.....	8
Enforcement.....	8
Fraud Response Plan.....	9
Purpose.....	9
Application.....	9
Fraud Response Team.....	9
Investigations and Selection of Investigating Officer	10
Action on Investigation Findings	11
Case Closure, Follow Up and Review	11
Confidentiality.....	11
Reporting Cases of Fraud	12
External Fraud	12
Reference Documents.....	12
International Bodies in the Fight against Corruption	14

COUNTERING FRAUD AND CORRUPTION POLICY

INTRODUCTION

1. The Office of the Auditor General (OAG) staff are required at all times to act honestly and with integrity and to safeguard the public resources for which they are responsible, in line with the OAG Code of Conduct¹, OAG Ethics and Independence Policy.² Staff are also required to comply with the OAG Register of Interest Policy³. The OAG adopts a zero tolerance approach to fraud and corruption and is committed to acting professionally, equitably and adhering to a strict ethical code; consequently, any case will be thoroughly investigated and dealt with appropriately.
2. The OAG's work is underpinned by the following four core values:
 - **Professional** – competently carrying out independent and objective work, always striving to deliver a high quality service
 - **Respect** – treating our employees, clients and stakeholders with respect and dignity
 - **Integrity** – conducting our work ethically, in a manner that creates confidence and trust in what we do
 - **Transparent** - accountability and transparency in the operations of the OAG
3. This document sets out the OAG's policy in respect of fraud and corruption, both internal and external, and its response plan for handling situations when there are occurrences.
4. This policy also facilitates the development and maintenance of internal controls that will aid in the detection and prevention of fraud and corruption in the OAG.

THE SCOPE OF THIS POLICY

5. This policy applies to any irregularity, or suspected irregularity, involving employees (full and part time) as well as consultants, vendors, contractors, and/or any other parties in a business relationship with the OAG. It does not apply to fraud or corruption identified at a client as part of our audit work.

¹ Code of Conduct <L:\AO\AO ADMINISTRATION\Office Policies\OAG Office Policies\OAG Code of Conduct>

² Ethics and Independence Policy <L:\AO\AO ADMINISTRATION\Office Policies\OAG Office Policies\OAG Ethics and Independence Policy>

³ Register of Interest Policy <L:\AO\AO ADMINISTRATION\Office Policies\OAG Office Policies\OAG Register of Interests Policy>

6. Breach of this policy shall be dealt with under the disciplinary procedures within the OAG Human Resources Management Policy and Procedures Manual⁴ and, in serious cases, may be treated as gross misconduct leading to summary dismissal.

RESPONSIBILITY FOR IMPLEMENTATION OF THE POLICY

7. The Auditor General has overall responsibility for the effective operation of this policy. The Auditor General is responsible for monitoring and reviewing the operation of this policy and making recommendations for changes to minimise risks to our operations. In addition, the Auditor General is responsible for the interpretation of the policy and its application within the OAG.
8. All staff are responsible for their own compliance with this policy and for ensuring that it is consistently applied. Any breach of this policy should be reported to the Auditor General.
9. The senior management team (Auditor General and Deputy Auditors General) are responsible for ensuring policies and procedures are in place to detect and prevent fraud and corruption. Each member of the senior management team must be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity. They are responsible for:
 - setting the tone at the top;
 - ensuring that effective internal controls are operating within their areas of responsibility;
 - ensuring all employees are aware of the Fraud and Corruption Policy and maintain an understanding of their obligations;
 - ensure that all staff undertake the Fraud Awareness Training on the CIG website;
 - reducing the opportunity for fraud and corruption, by integrating preventive and detective measures;
 - encouraging adherence to the OAG' Code of Conduct;
 - implementing appropriate and on-going training;
 - ensuring that a culture of honesty and openness exists in their work place such that employees are not discouraged from questioning events or processes, or reporting suspected fraud or corruption;
 - assessing the types of risk involved in the operations for which they are responsible and responding to minimise the opportunity for fraud.

⁴ Human Resource Resources Management Policy and Procedures Manual <L:\AO\AO ADMINISTRATION\Office Policies\HR P&P Manual\OAG HR P&P Manual - Revised Jan 2012.doc>?

10. All staff are responsible for:

- being aware of, and complying with the OAG Fraud and Corruption Policy;
- acting honestly and with the highest level of integrity and ethics;
- acting with propriety in the use of official resources and the handling and use of public funds;
- conducting themselves in accordance with the principles of the OAG Code of Conduct;
- being conscious to the possibility that unusual events or transactions could be indicators of potential fraud;
- reporting details immediately through the appropriate channel if they suspect that a fraud or corrupt behavior has been committed;
- reporting any suspicious acts or events as soon as they become aware of them; and
- co-operating fully with whoever is conducting internal checks, reviews or fraud investigations.

11. In addition to the OAG policy, the Cayman Islands Government (CIG) has also taken positive steps in the fight against fraud and corruption in the introduction of the Anti-Fraud Policy, Whistle Blower Policy and the launch of an anonymous whistleblower hotline.

DEFINITIONS OF FRAUD AND CORRUPTION

Fraud

- The intentional misrepresentation of material facts with knowledge of its falsity and for the purpose of obtaining personal gain, avoiding an obligation or causing loss to another party.
- Fraud can be used to describe a wide variety of dishonest behaviour such as forgery, false representation and the concealment of material facts.
- The fraudulent use of IT resources is included in this definition, where its use is a material factor in carrying out a fraud.

Corruption

- The abuse of public office for private gain;
- in addition to a dishonest activity in which a person acts contrary to the interests of the Office and abuses his/her position of trust in order to achieve some personal gain or advantage for themselves;
- provides an advantage/disadvantage for another person or entity.

12. Actions constituting fraud and corruption include, but are not limited to:

- any dishonest act;
- any breach of trust;
- forgery or alteration of any document or account of the OAG;
- misappropriation of funds, securities, supplies, or other assets;
- deliberate misuse of OAG resources;
- impropriety in the handling or reporting of money or financial transactions;
- benefits as a result of insider knowledge of OAG or client activities;
- disclosing private, confidential or proprietary information to outside parties without implied or expressed consent;
- accepting or seeking anything of material value from contractors, vendors, or persons providing services/materials to the OAG. (Refer to the OAG Code of Conduct regarding the acceptance of hospitality and gifts);
- destruction, removal, or inappropriate use of records, furniture, fixtures, and equipment; and/or
- any similar or related irregularity

13. The most persuasive and effective method of preventing fraud and corruption is the promotion by senior managers of an ethical and transparent environment that encourages staff at all levels to actively play a part in protecting the reputation of the OAG.
14. Please contact the Auditor General for guidance, if there are any question as to whether an action constitutes fraud.

REDUCING THE OPPORTUNITY FOR FRAUD AND CORRUPTION - SEPARATION OF DUTIES

15. The opportunity for fraud and corruption must be reduced wherever possible. Allocating responsibility for too many functions to one person can constitute a high risk that should be avoided. The risk of fraud and corruption can be reduced by ensuring proper separation of duties. For example, more than one person should be involved in ordering, receiving and authorising payments for goods or services.
16. The separation of key functions forms an integral part of systems control and is essential to minimise the potential scope for irregularity by staff acting on their own.
17. Without adequate separation of duties, the effectiveness of other control measures may be undermined. Where resources are limited and separation of duties is not possible, alternative management controls – such as supervisory monitoring - must be employed.

ROBUST SYSTEMS OF CONTROL

18. Appropriate preventive and detective controls should be put in place to counter the risk of fraud and corruption. Procedures set up to prevent and detect fraud and corruption should be proportional to the risk involved and be carefully followed and monitored.
19. Preventive controls are designed to limit and discourage the possibility of a fraud occurring e.g. separation of duties. Detective controls are designed to spot errors, omissions and fraud after the event e.g. supervisory checks and reconciliations.
20. Managers with responsibility for awarding contracts, making payments, authorising grants and other financial transactions must ensure they have a clear written and well documented designation of authority and operational control procedures. It is important, for example, that:
 - there is adequate separation of duties and proper authorisation processes for payments;
 - staff are familiar with operational procedures; and

- accounting and other records, such as cash balances, bank balances, physical stock counts, are reconciled with the actual position

THE IMPORTANCE OF MONITORING

21. Many instances of fraud and corruption are due to failure to comply with existing controls. It is vital that good internal control systems are supported by supervisory checking and alertness to the risks of fraud.
22. Managers have the prime responsibility for ensuring their systems are sound and that they are operating as intended. Monitoring procedures that are carried out in this regard should be well documented and available for review and / or audit. Both internal and external auditors have a role in monitoring the effectiveness of the systems and controls in place by carrying out independent reviews. Ongoing monitoring is essential.

IDENTIFICATION OF FRAUD

23. External and internal fraud is not always easy to identify. Often suspicion may be raised but it is not acted on and reported. In cases of fraud and corruption there are usually three components which together lead to fraudulent behavior. Exhibit 1 shows the three components of fraud.

Exhibit 1 – Components of fraud



- **Opportunity** to commit fraud. This is where internal controls are weak and access to assets and information allows fraud to occur. Opportunity is the element that every company/business should be seeking to reduce.
- **Pressure/Motive** or a need for committing fraud. This can be for financial reasons, having someone close apply pressure or other motivating factors.
- **Rationalisation** is a crucial component of most frauds because most people need to reconcile their behavior with the commonly accepted notions of decency and trusts. The OAG must lead by example and has a zero tolerance approach towards fraud and corruption.

RED FLAGS

24. Managers and staff must always be alert to the risk of fraud, misappropriation of assets, thefts and corruption. Red flags of external fraud include:

- photocopies of documents when originals would be expected;
- discrepancies in information e.g. signatures and dates;
- lack of supporting documents;
- unexpected queries from stakeholders or suppliers e.g. bank account detail changes;
- requests for non-standard types of payment; and
- unexpected trends or results e.g. from reconciliations.

25. Danger signs of internal fraud include:

- evidence of excessive spending by staff in cash/contract work;
- unusually close relationship with a vendor or supplier;
- extreme financial pressure;
- lack of segregation of duties;
- reluctance of staff to take vacation or sick leave;
- undue possessiveness of or anomalies between work records;
- pressure from colleagues to avoid normal control procedures;
- abnormal travel and subsistence claims; and
- excessive overtime or Flexible Working Hours patterns.

REPORTING FRAUD AND CORRUPTION

26. The red flags highlighted in this policy are far from exhaustive and any indication of fraudulent or corrupt activity should be reported. Managers and staff must always be alert to the risk of fraud, theft,



bribery and corruption. All staff have critical roles and responsibilities in ensuring that fraud is prevented, detected and dealt with promptly.

27. Extreme care must be taken in the investigation of suspected improprieties or irregularities so as to avoid mistaken accusations or alerting suspected individuals that an investigation is under way.
28. All staff have a duty to report any suspicions either to their line managers, the Deputy Auditors General for Financial and Performance Audits or the Auditor General. If the suspicions implicate the Auditor General, they should report their suspicions to the Governor.
29. All reported suspicions of fraud or corruption should be dealt with in confidence, and information will only be made available to other parties where there is legitimate interest for them to know.

RESPONDING TO FRAUD AND CORRUPTION

30. Thorough and properly structured investigations should be undertaken where there is suspected fraud or corruption and the appropriate legal and/or disciplinary action should be taken in all cases. Appropriate disciplinary action should also be taken where supervisory or management failures have occurred.
31. Investigating fraud is a specialised area of expertise, and those tasked with any investigation work should have received appropriate training, including the gathering and documenting of evidence. Investigations should not be undertaken by untrained staff. Specialist advice, such as Legal and HR should be taken where necessary and as early as possible. Consideration should be given to using the CIG Internal Audit Service to assist or undertake the investigation.

ENFORCEMENT

32. All cases of actual or suspected fraud or corruption will be vigorously and promptly investigated and appropriate action will be taken. The police will be informed where considered appropriate. In addition disciplinary action will be considered not only against those members of staff found to have perpetrated frauds but also against managers whose negligence is held to have facilitated frauds. Both categories of offence can be held to constitute gross misconduct, the penalty for which may include summary dismissal.

FRAUD RESPONSE PLAN

PURPOSE

33. The OAG has prepared this Fraud Response Plan which sets out arrangements to ensure that when detected or suspected fraud or corruption against the OAG is reported, prompt effective action is taken to:

- Assess the need for an investigation;
- investigate the circumstances;
- determine the facts;
- minimise the risk of subsequent loss;
- develop and maintain effective controls to prevent and detect fraud;
- ensure that appropriate recovery action is taken or, failing recovery, to initiate action to write off any losses;
- remedy any weaknesses in internal control procedures;
- initiate disciplinary and legal procedures, where appropriate; and
- demonstrate that the OAG is serious about deterring fraud and corruption.

APPLICATION

34. These procedures apply to the OAG and all staff of the OAG.

FRAUD RESPONSE TEAM

35. The Fraud Response Team (FRT) comprises the OAG's senior management and the functions include:

- to receive and record information (anonymously or otherwise) about suspected frauds, from individual members of staff or the public;
- to support investigations of fraud incidents and vulnerabilities;
- to consult and coordinate on counter fraud matters as required; agree what action, assistance and communication is required from within OAG, CIG and external sources (e.g. legal, Police); and
- to ensure that, where it is considered appropriate, the Governor, Deputy Governor and /or the external auditors are informed about relevant cases as soon as possible after they come to light.

INVESTIGATIONS AND SELECTION OF INVESTIGATING OFFICER

36. Following the reporting of suspicions of fraud or corruption the FRT will then determine whether any allegations warrant further action or investigation, taking advice from other specialists (e.g. legal, HR) as appropriate.
37. If further action or investigation is agreed, the FRT should initiate the following action, insofar as it is appropriate to the particular case:
 - confirming the investigative arrangements and reporting lines;
 - secure records and assets, including restrictions on access to offices and computer terminals;
 - based on advice from the Corporate Services Manager , involving Legal as required, consider the *prima facie* case for suspension of OAG members of staff who are the subject of allegations;
 - agree the scope and nature of any investigative work required to establish the facts of a particular case;
 - notify Governor and Deputy Governor as appropriate;
 - decide whether the appropriate Police contacts should be informed, and in the case of breaches of the Anti-Corruption Law whether the Anti-Corruption Commission should be informed; and
 - agree a timetable for completion of any agreed actions.
38. Depending on the magnitude and complexity of the fraud, the appropriate parties to undertake the investigation may include Internal Audit, or an Independent Investigating Officer. The Auditor General has the primary responsibility and will determine whether to use these persons.
39. The appointment of the independent Investigating Officer shall be made by the Auditor General on the advice of the FRT. The Investigating Officer should have the appropriate skills to undertake an investigation and, if necessary, knowledge of the area of work under investigation. The Investigating Officer should be a person who has not had close personal or work related ties with the person under investigation. The Investigating Officer should have appropriate levels of independence, objectivity and investigative skills. The investigation should be properly planned to make certain that it is carried out in a professional manner.
40. Investigations will take into account any relevant work or recommendations by a specialist area (e.g. Internal Audit report).
41. The terms of reference for any investigative work should be considered carefully. Investigations should not be restricted solely to allegations against an individual that may lead to a charge of gross

misconduct. If there is a possibility that instances of serious misconduct (e.g. misconduct other than fraud) may also have occurred, these should be investigated at the same time as the fraud allegations.

ACTION ON INVESTIGATION FINDINGS

42. As soon as possible after investigations have been completed and the FRT is satisfied that no further investigations are required, it must ensure that:

- appropriate disciplinary action is taken if required disciplinary action is taken, if appropriate, if the initial allegation appears to be malicious;
- the form and content of any report to the Governor and/or Deputy Governor is appropriate; and
- the Police/Anti-Corruption Commission is notified if required.

CASE CLOSURE, FOLLOW UP AND REVIEW

43. Where evidence of fraud or serious misconduct has been identified, the FRT should consider whether any action needs to be taken to prevent a recurrence. In such cases, a well-documented action plan should be drawn up setting out recommendations.

44. Action plans will include the required steps to take in response to an investigation's findings. An occurrence of fraud may hold lessons to be learned for other areas of Government or the whole of the Cayman Islands Government. The FRT should ensure that all appropriate action is taken forward effectively.

45. In any case where such a charge of gross misconduct has been brought but a disciplinary hearing does not uphold the charge or an appeal overturns the decision, the FRT must consider whether, in light of this information, there are lessons to be learned in terms of the handling of cases and whether the Fraud Response Plan and related guidance is operating effectively.

46. The FRT should make recommendations for any changes to procedures that it considers necessary in light of the outcome of individual cases.

CONFIDENTIALITY

47. Members of the FRT will receive the appropriate information relating to individual cases. They must treat all information relating to individual members of staff on a confidential basis and should ensure that it is conveyed only to those persons who require the knowledge on a strictly need to know basis.

REPORTING CASES OF FRAUD

48. Instances of corruption, fraud and any losses incurred will be reported in the OAG's annual report.

EXTERNAL FRAUD

49. External frauds are frauds perpetrated by third parties against the OAG (e.g. contract fraud). Procedures for responding to suspected external fraud, insofar as they are appropriate to the particular case, may include the following:

- a report by operational management on the circumstances;
- a formal assessment of whether the evidence tends to substantiate fraud. Any invalid claims or invoices that could reasonably be argued were submitted in good faith should not normally be regarded as fraud;
- notification of the Police where appropriate;
- recovery action; and
- consideration of stringent internal control procedures and lessons learned.

50. If there is any suspicion of collusion on the part of OAG members of staff in a suspected or discovered external fraud, the procedures relating to internal fraud should apply as appropriate, given any requirements arising from ongoing Police investigations.

51. If there is suspicion of internet scams, e-mail fraud or phishing, it will normally be sufficient to alert the relevant IT team (currently Computer Services Department of CIG). If fraud by a supplier is suspected, the appropriate finance officials in the Ministry of Finance should be kept informed of developments which may impact the wider public service. Cases of straightforward theft (which does not qualify as fraud) should be reported to the police for action.

REFERENCE DOCUMENTS

52. In addition, to the OAG Fraud and Corruption Policy. Exhibit 2 provides a number of other policies and laws to assist in the management of fraud and corruption:

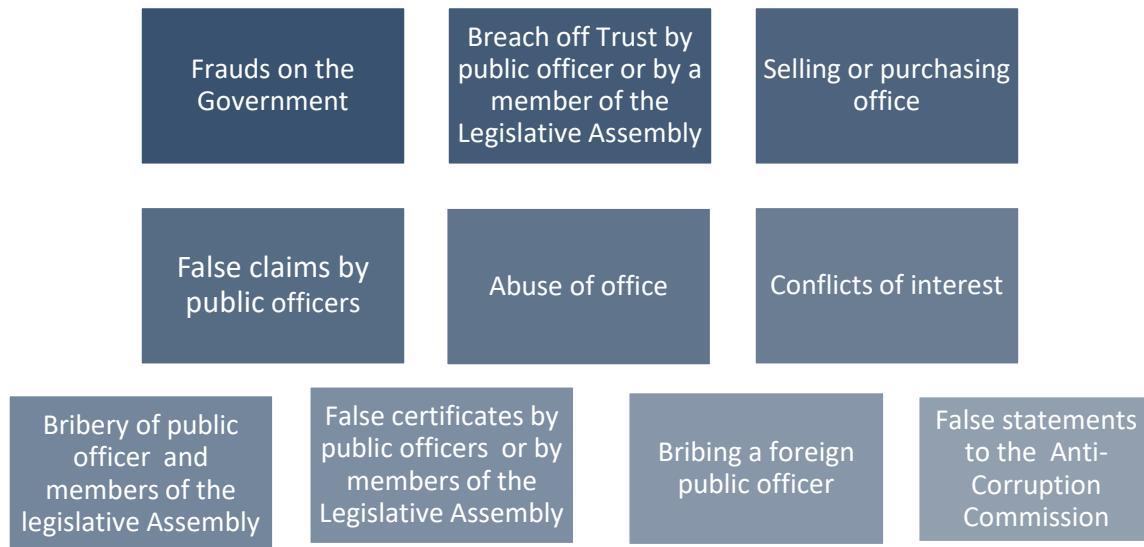
Exhibit 2 – Other laws and policies

Public Management and Finance Law (2020) Revision	Public Service and Management Law 2012	Standards in Public Life Law 2014	Anti Corruption Law (2018 Revision)	Procurement Law 2016
Whistleblower Protection Law 2015	Proceeds of Crime Law (2017 Revision)	Freedom of Information Law 2007	Data Protection Law 2017	Public Authorities Law 2017
OAG Code of Conduct		Register of Interest Policy	Ethics and Independence Policy	CIG Anti-Fraud Policy

Note: These do not represent a comprehensive list of laws and policies that are implemented within the CIG to prevent or detect potential fraud.

53. The *Anti-Corruption Law* sets out a summary of corruption offences in the Cayman Islands as outlined in Exhibit 3.

Exhibit 3 - Anti-Corruption Law - corruption offences



INTERNATIONAL BODIES IN THE FIGHT AGAINST CORRUPTION

52. A number of global organisations have been encouraging and supporting countries to develop their approaches and build capacity in the fight against corruption, including:

- The United Nations Convention Against Corruption - an international organisation who has a number of initiatives to combat corruption and is committed to take action on issues confronting humanity in the 21st century. Its main purposes are to promote and strengthen measures to prevent and combat corruption more effectively and efficiently, to promote integrity, accountability and proper management of public affairs and public property.
- Organisation for Economic Co-operation and Development (OECD) - is an international organisation that works to build better policies for better lives of people around the world. The OECD established an Anti-Bribery Convention, aimed at reducing corruption in developing countries.
- Transparency International (TI) – Aims to bring about change in the fight against corruption and recognises that corruption can be kept in check only if representatives of government, business and civil society work together to develop standards and procedures that they all support.

- International Monetary Fund (IMF) - works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
- World Bank - considers corruption to be a major challenge to its goals for ending poverty by 2030. It believes that for anti-corruption efforts to be effective, they need to be jointly led by politicians, senior government officials, the private sector, citizens, communities and civil society organisations.