18.6: Prevention of fraud and other losses

One of the duties of the PI in a trial is to ensure that there are systems in place to try to prevent or expose fraud. Preventing fraud is far better than exposing it after the event, so it is best to put systems in place in advance to check for potential fraud and to ensure that all relevant staff know that such checks are going to be carried out, in order to dissuade them from committing fraud.

One key mechanism for preventing fraud is through the separation of duties. This includes ensuring that a different person has custody of assets and cash from the person who does the recording of the related accounting entries. This provides a safeguard against any misuse of funds but also protects the individuals involved from any unfounded or malicious allegation of misuse. Separation of duties may be difficult to achieve where there are a limited number of personnel, but wherever possible:

- staff responsible for ordering goods or services (procurement) should not also have the power to authorize payment for the goods
- staff who raise cheques should not have the authority to sign them
- the reconciliation of the bank statement to the cash/bank book should be carried out by a different person from the one who writes up the cash/bank book. It must always be checked and authorized by a senior member of staff
- staff responsible for selecting and engaging new staff should not also operate the payroll system
- petty cash and banking should be checked by a member of staff who does not normally have access to the cash and bank records.

Areas where fraud is particularly common include purchasing, debtors, and cash payments.
6.1 Purchasing

In many countries, it is possible for the purchasing officer to arrange with the supplier whereby the supplier increases the price of the goods or services and the supplier and the purchasing officer share the mark-up between them. Insisting on three quotations may help avoid this but does not get round the problem if the purchasing officer has a similar arrangement with all three suppliers. A standard way that is used to try to get around this problem is the institution of a Tender Committee which is responsible for the evaluation of tenders from the potential suppliers prior to procurement. However, it is very rare that the members of a Tender Committee have insider information on the real minimum costs of items, and so they usually have to accept the information provided to them by the purchasing officer and can only spot obvious problems such as the purchasing officer recommending a supplier known to be unreliable simply because they have given the lowest quotation. An effective way to get round this problem is to periodically ask a trusted person (for example, from a different organization) to also price out some of the items, and the quotations can be compared with those obtained by the purchasing officer.

A purchasing plan should be made well ahead of time to try to ensure that all purchases are made according to plan. This is both to avoid delays due to late availability of key items, but also to avoid last minute purchases where it is not possible to check for the lowest possible prices. This is particularly important for items that are much cheaper if bought in a large city or imported.

Purchasing of fuel is a specific area that is a common source of fraud. Often, it will be a driver who has to purchase the fuel, rather than a professional purchasing officer. In some places, it is possible to get a receipt for more fuel than has actually been put into the vehicle, and the purchaser shares the mark-up with the supplier. Alternatively, some unscrupulous drivers have been known to siphon fuel out of the tank. One way of trying to avoid both of these problems is to allocate each vehicle to a specific driver and insist that the vehicle tank is always, or at least once per month, filled to its maximum capacity. It is then possible to monitor the fuel consumption accurately, i.e. from full tank to full tank. If the driver is made aware that this is going to be done and is given feedback on their vehicle’s fuel consumption each month, this can make such fraud less likely.

6.2 Debtors

Some of these may be staff who have been given loans or advances, so that they can make payments on behalf of the trial (such as for overnight accommodation, travel expenses, cash payments to local assistants in the field, etc.). It is sometimes difficult for the accountant to insist on repayment by their friends (or relatives) on the staff, including the accounts staff themselves, or to resist the temptation to do a deal, so that the loan is accounted for as an expenditure and never recovered. To avoid this, each debtor should have a separate account within the advances ledger, in which all debts and their repayment are entered. These should be monitored by the accountant and checked by someone else at least once a quarter, so that action can be taken to follow up on debt retrieval.

As far as possible, staff should only be given advances or loans for specific and exceptional reasons, such as so that they can pay their rent in advance, since many landlords require a deposit that is only returned at the end of the rental period. Unless the advances ledger is kept up to date and checked against the payroll each month, advances can be very difficult for the accounts department to keep track of, and their repayment makes preparation and checking of the payroll complicated. Outstanding advances are difficult to recover at the end of a staff member’s contract, especially if
the staff member leaves at short notice. Staff have been known to deliberately get as many advances as possible just before they leave without notice, knowing that it will probably be too much trouble to pursue them. Where an advance is given to cover the purchase of a large item, such as a vehicle or for a rental down payment, it is advisable to require the original receipt for the item or rental agreement to be deposited with the trial office where it must, of course, be stored in a secure place such as in a safe. Where other advances are given to staff, it is rarely a good idea to allow these to exceed 1 month’s net salary, as this is likely to be recoverable, even if someone leaves their post without giving notice.

6.3 Cash payments

These must always be signed for. Even so, it is relatively easy to either get a friend to sign or to fabricate a signature. It is important therefore that checks are made, such that payments are reasonable and reflect the activities carried out. Many projects insist that all cash payment vouchers are countersigned by a senior member of staff.

Box 18.4 gives a checklist for good financial practice.

Box 18.4 Financial good practice checklist

Budget management

- At least annual budget preparation/review.
- Monthly (or at least quarterly) budget monitoring, including:
  - variance analysis
  - forecast, balance sheet, cash flow report.
- Process to manage exchange rate movements.

Accounting records

- Maintain and keep original supporting documentation for all financial transactions.
- Maintain books of account recording all financial transactions, comprising as a minimum:
  - cash/bank book for each bank account
  - petty cash book
  - assets register.
- Undertake monthly bank reconciliations, and investigate any inconsistencies.
- Undertake weekly petty cash book reconciliations, and on a surprise basis from time to time, and investigate any inconsistencies.
- Regularly summarize records to feed into budget monitoring.
- Use a cost codes system.

Financial and related policies and procedures

- Have a written financial manual that details the budgeting and accounting procedures that will be used.
- Use standard forms, such as payment vouchers, receipt vouchers, petty cash vouchers, purchase order forms, travel and subsistence expenses claims, assets register, vehicle logs, bank reconciliations, journal vouchers, advance/loan applications, storekeeping forms such as stock cards/bin cards, goods received vouchers, and stock
taking forms.

- Have clear procedures for managing internal risk, including:
  - delegated authority
  - separation of duties
  - cash control
  - physical controls such as having a safe, adequate security, and insurance cover

- Have clear rules and procedures for:
  - procurement and tendering
  - expense claims
  - storekeeping
  - asset management (including vehicle management)
  - payroll
  - tracking for loans, advances, and repayments
  - audit arrangements.

Other policies and procedures

- Governance arrangements, such as a constitution for the organization hosting the trial, with a governing body that meets on regular occasions, procedures for declaring and handling potential conflicts of interest, etc.

- Staff management arrangements, including for:
  - recruitment and selection
  - induction
  - discipline and grievance
  - contracts of employment.

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