



Ms Ruth Alaile  
Committee on Standards in Public Life  
35 Great Smith Street  
London  
SW1P 3BQ

ES31  
further submission

SENT BY EMAIL: [public@standards.x.gsi.gov.uk](mailto:public@standards.x.gsi.gov.uk)

5<sup>th</sup> September 2009

Dear Ruth,

### **Review of MPs Expenses**

Further to your letter of the 5<sup>th</sup> August and our telephone conversation recently, the Institute of Business Ethics (IBE) would like to submit additional evidence for the Committee's consideration.

There are four areas we would like to address:

1. Submitting claims for reimbursement of expenses
2. Restoring trust
3. Principles and rules
4. Training

#### **1. Submitting claims for reimbursement of expenses**

In essence the basis for all expense claims is common between the private sector and the MPs declaration of "wholly, exclusively and necessarily incurred" in the line of work.

In the private sector there is an implicit understanding that all expenses for which reimbursement is sought have been incurred legitimately in the course of fulfilling duties (executive or non-executive) representing the company the individual works for.

Many companies have explicit guidelines on what expenses can be reclaimed, particularly regarding gifts and hospitality; class of travel by rail or air; subsistence rates when travelling; quality rating of hotels; cost per mile for self drive and so forth.

Receipts for all expenses are the norm, whatever size of claim from taxi to air fare. These need to be produced in order to be reimbursed. This is a control measure within companies to reduce fraud (and in certain

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**Institute of Business Ethics**

Registered Charity No. 1084014

24 Greencoat Place  
London SW1P 1BE

Tel 020 7798 6040  
Fax 020 7798 6044

[info@ibe.org.uk](mailto:info@ibe.org.uk)  
[www.ibe.org.uk](http://www.ibe.org.uk)

instances an HMRC requirement for companies to prepare P11D information for individual employees). In some instances if an individual cannot provide bona fide receipts, claims will be disallowed.

## **2. Restoring trust**

Following any ethical lapse it takes extra effort for a company to restore, to earn back the trust it has lost by nature of the lapse. Some companies never achieve it and fail (such as Enron or Arthur Andersen) or are so weakened they are taken over by another company (such as Ratners and Elf Oil).

Trust is most easily restored by being open, frank and honest, and demonstrating through changed behaviours that lessons have been learnt from the episode and remedial action taken.

A recognition of failure, a statement of how it is being put right, with a process or mechanism to measure improved behaviour is the very least a company can do to restore trust. Doing this in conjunction with a programme of engagement with those felt to have been "wronged" will help. In the corporate sense this is with its shareholders and other stakeholders, whereas with Parliament this is with the public.

## **3. Principles and rules**

Principles provide over arching guidance for an individual leading to decisions "to do what is right". So the principle of expenditure being 'wholly, exclusively and necessarily incurred' for the purpose of parliamentary duties is a broad test relying on sensible judgement and assessment by the individual implying a mindset of understanding. It tends to be more all-embracing than a set of rules seeking to state what acceptable expenditure is and what is not. To be comprehensive for all expenditure the set of rules would need to be extensive, and even then would probably not cover all eventualities, unlike the simply stated principle.

Obviously where an individual is unsure whether expenses incurred are legitimate the matter can be discussed with others prior to a claim (or the expense being incurred) but the principle test can have more clarity than a set of rules, as we would suggest the present principle does.

(See attachment: All about the Mindset)

#### **4. Training**

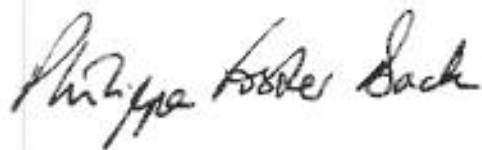
In the private sector, training is regularly given on living up to the company's code of ethics (code of conduct) which would include matters around gifts and hospitality, and reclaiming legitimate expenses and so forth, in the context of anti-fraud training.

A major reason for this is to engender the right behaviours through a common understanding of the issues and ethical business conduct; and to minimise the risk of misconduct and consequential reputational damage for the company. To that end in our letter of June 5<sup>th</sup> it was suggested that training should be given, based on a handbook of ethical conduct.

I enclose for your information a copy of a presentation with cameo, given to an international audience of politicians at the Aspen Institute earlier this year. It is at a high level given the audience but of course can be extended to include specific issues such as expenses claiming and so forth and could form the basis of a training course.

The IBE would be pleased to answer any questions arising from this letter and to assist further.

Yours sincerely,



Philippa Foster Back OBE  
Director





# All about the mindset.....

<b>Principles (Ethics)</b>	<b>Rules (Compliance)</b>
Framework for thinking/behaving	Constant monitoring
Prevention	Detection
Principles based	Law based
Values driven	Fear driven
Implicit	Explicit
Spirit of the law	Letter of the law
Grey	Black and white
Alignment with values	Requires obedience
Discretionary	Mandatory

