

Fraud Policy and Procedures

Revised March 2023

Part 1: Fraud policy statement

The College has a duty to its stakeholders to take all responsible steps to prevent fraud occurring, whether perpetrated by staff, students, contractors and suppliers, other organisations or members of the public.

The College will maintain robust control mechanisms to both prevent and detect fraud. All line managers have a responsibility for maintaining documented control systems and must be seen to be setting an example by complying fully with procedures and controls. The effectiveness of controls will be subject to cyclical review by the College's internal auditors.

All members of staff have a responsibility to protect the assets and reputation of the College and are expected to be alert to the potential for fraud. Line managers should brief staff on the common types of fraud perpetrated in their areas of responsibility.

Confidential mechanisms have been established to allow staff to report suspected frauds to management. All reported suspicions will initially be investigated by the fraud investigation group. The members of such a group may include:

- Executive Director of Finance, HR & Development (Chair)
- Head of HR & Professional Development
- Head of Internal Audit

This fraud policy statement is incorporated in the College's financial regulations as Appendix K (i). The financial regulations are available to all staff as published on *Connect* (the College intranet). Further information for staff on reporting fraud and their role in the prevention and detection of fraud is provided in the College's policy for fraud prevention, detection and investigation, which is included as Part 2 below and is incorporated in the financial regulations as Appendix K (ii).

Part 2: Procedure for fraud prevention, detection and investigation

Introduction

The College's procedure for fraud prevention, detection and investigation is set out below. The objectives of the procedure are to:

- encourage staff to be aware of fraud
- bring suspected fraud to notice
- provide a framework response plan for investigating and reporting fraud (set out in Part 3 below and incorporated in the financial regulations at Appendix K (iii))
- ensure that both alleged and proven fraud are dealt with in a consistent and timely manner.

The College has a unique role to play in the community and any instances of fraud or corruption may be damaging to public confidence and support. Losses due to fraud, theft or corrupt practices can have a direct effect on jobs and the level and quality of service provision. Vigilance is essential since all staff are responsible for ensuring that the best possible service is provided to the College's students and that value for money is secured from public funds.

Successful fraud prevention involves creating an environment which inhibits fraud. Taking immediate and vigorous action if fraud is detected is not only necessary to prevent future losses, but also helps deter frauds. A manager who is alert to the possibility of fraud and who acts accordingly on a day-to-day basis is a powerful deterrent to fraud

Fraud prevention

Fraud can be defined as *any act of wilful dishonesty to gain individual or collective advantage*. It is taken to include theft, misuse of property, corruption, the alteration of financial or other records or any unauthorised act which results directly or indirectly in financial gain to the perpetrator or a third party. Fraud can be perpetrated against staff, students, suppliers, government agencies or departments or the public.

Staff should be aware that gifts, including hospitality, offered by contractors, suppliers and other service providers may place employees in a vulnerable position (see the financial regulations).

Management responsibility for risk management

The prime responsibility for preventing fraud lies with management through:

- identifying risks to which systems and procedures are exposed
- designing, implementing, documenting and operating internal controls
- establishing an environment that promotes compliance with internal controls
- promoting fraud awareness amongst staff
- fostering an anti-fraud culture.

However, while managers are responsible for assessing and controlling the level of risk within their areas of authority, it is the responsibility of all staff to be aware of fraud and to take the necessary steps to minimise risk to the College. Managing the risk of fraud is the same in principle as any other business risk. It is best approached systematically both at

organisational and at operational level. Managers should identify risk areas, assess the scale of risk, allocate responsibility for managing specific risks and implement and test controls to minimise the risks.

Managers also have a responsibility to familiarise themselves with common fraud techniques in the areas for which they have control. Managers should also ensure that staff in their areas of operation are familiar with common types of fraud.

Internal controls

Internal controls are the key element in preventing fraud. They include both financial and non-financial controls, for example annual leave records, and those that are in place to safeguard the misuse of College assets, including computing systems. The financial regulations are one example of these controls. The College's financial and other non-financial procedures are the definitive guide and are available to all staff as published on *Connect* (the College intranet). It is the responsibility of management to ensure that controls in their area of responsibility have been documented and communicated.

In order to set a good example, managers should be seen to be complying with all controls. The emphasis should be on creating a culture of honesty and fraud detection, not increasing the volume of detailed operational and supervisory checks and controls unnecessarily.

Management checks

The prevention and detection of fraud and impropriety is only possible where strong internal controls are present and constantly applied. Routine checks and monitoring by management to ensure that procedures are being followed are, therefore, essential. The benefits of implementing a culture of strong management controls are:

- a deterrent effect when it is known that management is actively involved in ensuring that procedure are followed
- the results of the check will allow management to identify any operational areas where controls are not being uniformly applied and investigate whether systems have been exploited.

Periodic monitoring of compliance with controls by management will be supported and reinforced by reviews conducted by internal audit. It should be emphasised that the prime function of internal audit is to evaluate the effectiveness of the overall framework of internal control with management being responsible for ensuring the implementation and monitoring framework.

Common excuses for non-compliance with controls is that they are no longer applicable, there is insufficient time available or they are not appropriate. It is important that such comments are reported to line managers so that the need for such controls is evaluated

Staff training

Staff adhering to procedures, and who are not inhibited to challenge matters which do not appear to be correct, provide the best protection against fraud and corruption. It is important, therefore, that the College's policy on fraud prevention and investigation is fully

communicated to all staff. The lack of clear guidance and ignorance of procedures will often be the first excuse used by offenders.

The recruitment of suitable staff is the College's first defence in preventing fraud. Best practice recruitment policies such as detailed application forms including a statement on criminal records, communication with referees and past employers and verification of educational and professional qualifications must be strictly adhered to.

Staff awareness of policy and procedures is fundamental to the effective operation of systems. The College will comply with best practice, including:

- instruction in and discussion of control and probity issues as part of staff induction
- formal staff training on operational procedures
- desktop instructions for specific tasks
- publication of the College's policy on fraud
- regular staff notices regarding any changes to financial procedures.

Fraud detection

The primary responsibility for the detection of fraud lies with management through the implementation, documentation and operation of effective systems of internal control. The College's internal auditors through their evaluation of the control framework also have a role to play in preventing and detecting fraud.

All staff have a responsibility to be aware of potential fraud and to take necessary steps to minimise risk to the College.

Proper and consistently applied procedures for reporting and investigating fraud play an important part in preventing further fraud. The College expects that reported suspicions will be investigated. The College's fraud response plan, set out as Part 3 below and incorporated in the financial regulations at Appendix K (iii), must be implemented where fraud is suspected.

Part 3: Fraud response plan

Introduction

Management and staff are likely to have little experience of dealing with fraud and when suspected cases arise, may be unsure of the appropriate action to take. The objectives of this response plan are to:

- provide a documented framework which the College can refer to in the event that fraud is suspected or reported
- ensure that in the event of fraud, timely and effective action is taken to prevent further losses, identify fraudsters, safeguard evidence, minimise publicity, reduce adverse effect on business and learn lessons.

Fraud investigation checklists for line managers and the fraud investigation group are included at Appendix K (iv) of the financial regulations and are shown in Part 4 below.

Reporting fraud

All actual or suspected incidents of fraud should be reported without delay to the Executive Director of Finance, HR & Development or other member of the fraud investigation group. The members are:

- Executive Director of Finance, HR & Development (Chair)
- Head of HR & Professional Development
- Head of Internal Audit

When staff report suspected fraud, it is important that their suspicions are treated seriously and that all details provided by the reporting employee are recorded accurately and in a timely manner. They should be repeated back to the reporting employee to confirm understanding. It is essential that staff are put at ease, since the decision to report the suspected fraud may be traumatic for the individual concerned. Those reporting fraud should be assured that all information will be dealt with in the strictest confidence and that anonymity will be preserved if requested, unless that is incompatible with a full and fair investigation. The anonymity of any whistleblower must be guaranteed at the initial investigation stage.

Once the Executive Director of Finance, HR & Development has recorded the details of the case, he or she should, within 24 hours, hold a meeting of the fraud investigation group to decide on the initial response.

At this stage management should also take whatever steps are necessary to prevent further losses, for example by changing procedures or suspending payments without compromising the quality of evidence or alerting the fraudsters.

All fraud, including any suspected or attempted fraud, should be reported by the College to Action Fraud to help identify systematic risks potentially affecting whole sectors (for example cybercrime). Action Fraud monitors the cost of fraud across the UK and has been set up to provide a single point of reporting and information for individuals and organisations.

Initial enquiry

On receiving the details of the suspected fraud, the fraud investigation group should undertake as limited review as necessary to establish whether further action needs to be taken. This will normally be an investigation, led by internal audit. The decision by the group to initiate a special investigation shall constitute authority to internal audit to use time provided in the internal audit plan for special investigations, or contingency time, or to switch internal audit resources from planned audits.

If this initial investigation suggests that suspicions are confirmed, the group will decide which body is best placed to undertake further investigative work and will inform the CEO & Principal, the Chair of Audit Committee, the Chair of the Corporation, auditors, the funding body and the police as appropriate. The circumstances in which the College must inform the funding body of actual or suspected fraud are set out in the funding body's audit code of practice. The CEO & Principal is responsible for informing the funding body of any such incidents.

Prevention of further loss

Where the initial investigation provides reasonable grounds for suspecting a member or members of staff of fraud, the fraud investigation group will need to decide how to prevent further loss. Fraudulent or corrupt activity is regarded as a breach of contract and where there are reasonable grounds for suspicion then suspension, with or without pay, of the suspects is likely, pending the outcome of enquiries. The rights of staff on suspension must be acknowledged, for example their right to union representation and to be informed of the reason for their suspension.

It may be necessary to plan the timing of suspension to prevent the suspects from destroying or removing evidence that may be needed to support disciplinary or criminal action. Suspect(s) should be supervised at all times before leaving the College's premises. They should be allowed to collect personal property under supervision, but should not be able to remove any property belonging to the College. Any security passes and keys to premises, offices and furniture should be returned.

Advice should be obtained on the best means of denying access to the College while suspects remain suspended (for example by changing locks and informing security staff not to admit the individuals to any part of the premises). Similarly, access permissions to the College's computer systems should be withdrawn without delay.

Internal audit should consider whether it is necessary to investigate systems other than that which has given rise to suspicion, through which the suspect may have had opportunities to misappropriate the College's assets.

At this stage, the College should decide if external parties including the funding body and the police are to be involved. Delays in contacting the police may prejudice future enquiries and alerting them immediately is important since they will be able to advise the College on how best to proceed and the most effective methods to gather evidence.

Conducting a fraud enquiry

Once it has been agreed that there is sufficient evidence to justify a fuller investigation, the fraud investigation group should meet with the police where appropriate to decide who is

best placed to undertake further investigation. Should it be decided that an internal investigation is appropriate, either in tandem with a police investigation or on its own, it is important that it is undertaken by individuals with experience of fraud investigations. This is most likely to be internal auditors, supported as necessary by the College's staff, who may have specialist knowledge, and external specialists where appropriate.

Where fraud and corruption are suspected, contact by the Executive Director of Finance, HR & Development and the Head of Internal Audit with the local fraud squad should be considered in order to agree an appropriate course of action.

For internal investigations, the fraud investigation group should agree the following:

- detailed remit and scope for the investigation; for example, is it to confirm that there is sufficient evidence to support the allegations, to gather evidence for the police, or does the College wish to quantify the total potential loss?
- who should undertake the investigation
- reporting procedures and deadlines
- a programme of regular meetings.

There is a clear requirement to record all details fully, accurately and in a manner that is accessible. The police should be able to advise on an appropriate recording format.

Developing a simple form to log all events and contacts made will provide a quick summary, ease the recording process and provide documented support for any future enquiries or possible prosecution.

Recovery of losses

It is important that any losses incurred by the College are fully and accurately recorded and that costs are correctly apportioned. In addition to the direct cost of losses attributable to fraud, all costs associated with enquiries should be recorded. These will be required under loss reporting procedures and may also be required by the courts if the decision to prosecute is taken and in determining any assessment of costs or compensation and insurance recoveries.

Where the loss is substantial, legal advice should be obtained without delay about the need to freeze the suspect's assets through the court, pending conclusion of the investigation. Legal advice should also be obtained about prospects for recovering losses through the civil court, where the perpetrator refuses repayment.

Staffing issues

A major objective in any fraud investigation will be the punishment of the perpetrators, to act as a deterrent to other personnel. The College must follow disciplinary procedures against any member of staff who has committed fraud.

The College will normally pursue the prosecution of any such individual. Of crucial importance is the need to conduct enquiries within the parameters of relevant laws and regulations. Employees have certain statutory rights, and if infringed, the likelihood of success of disciplinary action is diminished. It is vital, therefore, that any interviews with suspects are undertaken strictly in accordance with established procedures. No interviews should take place without first seeking advice from the police and from the Head of HR & Professional Development on the relevant procedures and rules to be followed. In particular

all those involved in interviewing suspects should have knowledge of the 1994 Police and Criminal Evidence Act.

Internal audit will need to:

- maintain familiarity with the College's disciplinary procedures, to ensure that evidence requirements will be met during any fraud investigation
- establish and maintain contact with the police where appropriate
- establish whether there is a need for audit staff to be trained in the evidence rules for interviews under the Police and Criminal Evidence Act
- ensure that staff involved in fraud investigations are familiar with and follow rules on the admissibility of documentary and other evidence in criminal proceedings.

If fraud is proven which involves staff, appropriate disciplinary action will be taken. Such action may be considered not only against those found to have perpetrated the fraud, but also against managers whose negligence may have facilitated it.

Reporting during the investigation

The fraud investigation group should provide a confidential report to the Chair of the Corporation, the Chair of Audit Committee, the CEO & Principal and the external audit partner at least monthly, unless the report recipients request a lesser frequency. The scope of the report should include:

- quantification of losses
- progress with recovery action
- progress with disciplinary action
- progress with criminal action
- estimate of resources required to conclude the investigation
- actions taken to prevent and detect similar incidents.

Any variation from the approved fraud response plan, together with reasons for the variation, should be reported promptly to the Chairs of both the Corporation and the Audit Committee

Concluding an investigation

At the end of a case, irrespective of the outcome, it is important that the progress of the investigation is reviewed to see what lessons can be learned and to assess the effectiveness of the action taken. Such reviews will help identify any weaknesses in internal control that initially led to the fraud and should highlight any deficiencies in these systems for reporting and investigating, enable more effective future enquiries and precipitate changes to internal procedures designed to prevent reoccurrence.

On completion of a special investigation, a written report should be submitted to the Audit Committee for consideration and discussion containing:

- a description of the incident, including the value of any loss, the people involved, and the means of perpetrating the fraud
- the measures taken to prevent a recurrence
- any action needed to strengthen future responses to fraud, with a follow-up report on whether or not the actions have been taken.

This report will normally be prepared by internal audit.

References for employees disciplined or prosecuted for fraud

The staff handbook includes a requirement that any request for a reference for a member of staff who has been disciplined or prosecuted for fraud should be referred to the Head of HR & Professional Development. The Head of HR & Professional Development should prepare any answer to a request for a reference having regard to employment law.

Review of the fraud response plan

This plan will be reviewed for fitness of purpose at least annually or after each use. Any need for change will be reported to the Audit Committee for approval.

Part 4: Fraud investigation

Checklist for line managers

The following is a checklist of points for consideration following the reporting of an alleged fraud to management:

- Do not rush in – consider all options and plan the approach.
- Establish the facts without alerting anyone.
- Maintain confidentiality.
- Make an immediate note of everything reported. Repeat these notes to whoever is reporting the details to ensure clear understanding.
- Take steps to minimise any immediate further losses.
- Secure any evidence.
- Inform the Executive Director of Finance, HR & Development or member of the fraud investigation group.

Checklist for the fraud investigation group

The following is a checklist of points for consideration following the reporting of an alleged fraud by line management to a member of the fraud investigation group:

- Convene a meeting of the group to consider the allegation.
- Conduct an initial investigation to establish the substance of the allegation.
- Inform Action Fraud of all fraud, including any suspected or attempted fraud
- Consider legal implications.
- If substantiated, inform the CEO & Principal, etc.
- Agree if further investigation is required and who will undertake it.
- Agree a remit, and establish scope and reporting deadlines for the investigation.
- Ensure the investigating team has adequate resources, including secure storage.
- Prepare for interviews thoroughly.
- Ensure existing staff disciplinary procedures are followed.
- Secure any evidence.
- Assume the worst-case scenario in terms of losses and staff involved.
- If not already requested to undertake the investigation, inform the police and the funding body as appropriate.
- Hold regular progress meetings at which progress and agreed action are documented.
- Identify all internal and external sources of information and evidence.