

Financial Regulations

Fraud Policy & Procedures – Appendix H

Manager Responsible: Deputy Principal Finance & Corporate Services

Version Number: 3.0

Approval Date:	02 Nov 2022
Approved by:	Policy Sustainability & Resources Committee
Minute number:	
Ratified by:	Board of the Corporation
Minute number:	
Review Date :	01 Nov 2024
Author / Editor:	hurstd@chelmsford.ac.uk

Intended Audience: <i>(Check appropriate box)</i>			
Staff:	<input checked="" type="checkbox"/>	Governors:	<input checked="" type="checkbox"/>
Students:	<input type="checkbox"/>	External:	<input type="checkbox"/>

AMENDMENT SUMMARY

<u>Version</u>	<u>Date</u>	<u>Remarks</u>
2.0	[20/08/2018]	Overhaul of existing policy (2007) to include an updated policy, procedures and Fraud response plan.
3.0	17/10/2022	Policy Review

Age, Disability, Gender & Race Equality Statement

Age, Disability, Gender and Race Equality Impact Measures will be set and monitored through analysis of all data related to potential suspected or actual abuse of this policy.

A copy of the Equality Impact Assessment Initial Screening Form is attached as an Annex to this document

CONTENTS

1	FRAUD POLICY STATEMENT	2
2	FRAUD PREVENTION, DETECTION AND INVESTIGATION PROCEDURES	2
3	FRAUD RESPONSE PLAN	5
4	FRAUD INVESTIGATION CHECKLIST.....	9

1 FRAUD POLICY STATEMENT

- 1.1 The College has a duty to its stakeholders to take all reasonable steps to prevent fraud occurring, whether perpetrated by staff, students, contractors, suppliers, other organisations or members of the public.
- 1.2 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 fully complying with procedures and controls. The effectiveness of controls will be subject to cyclical review by the College's internal auditors.
- 1.3 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.
- 1.4 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 the group are:

- Deputy Principal Finance & Corporate Services
- General Manager – Essex Shared Services Ltd
- Human Resources Manager
- Any other relevant persons (Chair of Audit Committee, Internal Auditor, Chair of Policy, Sustainability & Resources Committee)

Further information for staff on reporting fraud and their role in the prevention and detection of fraud is provided in the Colleges' procedures for fraud prevention, detection and investigation including in this document.

2 FRAUD PREVENTION, DETECTION AND INVESTIGATION PROCEDURES

2.1 Introduction

The Colleges' procedures 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 investigation and reporting fraud (see out at section 3)
- 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 fraud. 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.

2.2 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. (Please refer to the section gifts & hospitality in the financial regulations)

2.3 Management responsibility for risk management

The prime responsibility for preventing fraud lies with management through:

- Identifying risk 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, although 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 to be approached systematically at both organisational and 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 area for which they have control. Managers should also ensure that staff in their areas of operation are familiar with common types of fraud.

2.4 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 computer systems. The financial regulations are one example of these controls. The College's financial and other non-financial procedures are the definitive guide and area available to all staff. 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 operational and supervisory checks and controls unnecessarily.

2.5 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 essential. The benefits of implementing a culture of strong management controls are:

- A deterrent when it is known that management is actively involved in ensuring that procedures 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 focus 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.

2.6 Staff recruitment

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.

2.7 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 that the College's policy on fraud prevention and investigation is communicated to all staff. The lack of clear guidance and ignorance of procedures will often be the first excuse used by offenders.

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 instruction for specific tasks
- Publication of the College's policy on fraud
- Regular staff notices regarding any changes to financial procedures

2.8 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 the reporting investigating fraud play an important part in preventing further fraud. The College experts that reported suspicions will be investigated. Section 3 of this documented iterates the College's fraud response plan.

3 FRAUD RESPONSE PLAN

3.1 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 the fraud response plan are to:

- Provide a documented framework with the College can refer to in the event that a 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 effects on the business and learn lessons
- To minimise the possibility of subsequent recurrence

Fraud investigation checklists for line managers and the fraud investigation group are show at Section 4 of this document.

3.2 Reporting fraud

All actual or suspected incidents of fraud should be reported without delay to the Deputy Principal Finance & Corporate Services or other member of the fraud investigation group. The members are:

- Deputy Principal Finance & Corporate Services
- General Manager – Essex Shared Services
- Human Resources Manager
- Other relevant person (Chair or Audit Committee/Internal Auditor)

When staff report 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 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 initial investigation stage. (See separate policy on Whistleblowing)

3.3 Investigation steps

Once the Deputy Principal Finance & Corporate Services has recorded that a loss has actually occurred the following actions should be carried out.

- 3.2.1 Call a meeting of the fraud investigation group within 24 hours of the fraud being notified.
- 3.2.2 Consider immediate action in accordance with the College Disciplinary Policy and take appropriate action to mitigate risk, without compromising the quality of evidence or alerting fraudsters, such as:
 - Notify banks and consider the temporary suspension of cheques, if relevant
 - Consider the position of a suspect employee if there is sufficient evidence
 - Change passwords and combinations if necessary
 - Withdraw any approvals of the suspect, if appropriate
 - Secure control of the suspect's office, computer and paper files.
- 3.2.3 Start investigating the fraud and establish the scale. The Deputy Principal Finance & Corporate Services / Human Resources Manager will agree to appoint an appropriate investigating Manager subject to confirmation from the Police that the College can proceed with the internal investigation without compromising any Police process.
- 3.2.4 Reorganise responsibilities where necessary.
- 3.2.5 Inform the Principal and Chair of the Corporation.
- 3.2.6 Inform the Police.
- 3.2.7 Consolidate action to trace and secure assets and accounting records controlled by the suspect, associates and key witnesses.
- 3.2.8 Contact solicitors and the external auditors is appropriate.
- 3.2.9 Address any questions of public relations and publicity.
- 3.2.10 Start asset recovery proceedings
- 3.2.11 Identify and correct flaws in accounting and other systems
- 3.2.12 Assess accounting implications.

3.3 Initial Enquiry

On receiving the details of the suspected fraud, the fraud investigation group should undertake a limited review as necessary to establish whether further action needs to be taken. This will normally be an investigation, led by internal audit and the Deputy Principal Finance & Corporate Services will agree the terms of this appointment in relation to the internal audit plan.

If the 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 Principal & the Chair of the Corporation. 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 Principal is responsible for informing the funding body of any such incidents.

3.4 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 reasons 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.

3.5 Conduction 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 chief financial officer 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 enquires or possible prosecution.

3.6 Recovery of loss

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.

3.7 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.

3.8 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 human resources 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.

3.9 Reporting during the investigation

The fraud investigation group should provide a confidential report to the chair of the governing body, the chair of audit committee, the 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 governing body and the audit committee

3.10 Concluding and 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.

3.11 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.

4 FRAUD INVESTIGATION CHECKLIST

4.1 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 Deputy Principal Finance & Corporate Services or member of the fraud investigation group.

4.2 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.
- Consider legal implications.
- If substantiated, inform the principal, etc.
- Maintain confidentiality, agree who needs to know and why.
- 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.

Equality Impact Assessment (EIA) Initial Screening Form

Name of the Policy, Procedure, Practice or Proposal being screened:

Fraud Policy and Procedures

Provide a brief description of its purpose:

The College has a duty to its stakeholders to take all reasonable steps to prevent fraud occurring, whether perpetrated by staff, students, contractors, suppliers, other organisations or members of the public. This document describes the Policy and Procedures that should be followed by managers to prevent fraud and the procedure to be followed should a fraud be identified.

Are there controls in place to monitor the uniform application of this practice? (if no please explain below)

Yes

Does the policy or process have the potential to affect a particular group disproportionately in either a positive or negative way? Please provide comments with supporting evidence:

If you have identified a medium or high equality impact please complete the following, otherwise leave blank. Add additional comment below the questions as necessary.

Are there any other policies or practices that need to be assessed alongside this screening?

Yes

No

Should the policy or practice proceed to a full Equality Impact Assessment?

	No
--	-----------

--

If the answer to the above question is no, please give the reasons for this decision:

The policy applies to all staff. The policy will be communicated to all staff.
--

If a full impact assessment is required, please give the date by which it will be completed

--

(Note – If you have assessed a negative impact as high, you must seek advice and conduct a full EIA on a high priority basis)

Declaration:

We are satisfied that an initial screening has been carried out and a full Equality Impact Assessment is not required at this time.

(If a full EIA is required, a template form is available within the EIA Guidance Notes which must be read before completing a full EIA).

Manager:

Signature:

Deb Hurst

Date:

17 Oct 2022

Countersigned

Signature:

D Warnes

Date:

01 Nov 2022
