

Board of Management:

Finance & Physical Resources Committee

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Primary Contact	Stuart Thompson - VP Corporate Services
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Action	For Approval

Recommendations

The Committee is asked to approve the updated Fraud Prevention Policy.



Fraud Prevention Policy

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Fraud Prevention Policy

1. Introduction

- 1.1. The Policy has been developed to minimise the risk of fraud within the College

2. Purpose and Aims

- 2.1. The objective of this policy is to safeguard the proper use of the College's finances and resources. The College derives much of its income from public funds and, therefore, has a particular responsibility to ensure that income and resources are used solely for the purposes intended.
- 2.2. For the purposes of this policy, fraud is defined as dishonest, irregular or illegal acts, characterised by a deliberate intent at concealment or false representation, resulting in the diversion of resources, whether or not for personal gain, for the benefit of an individual or group of individuals at a consequent loss to the College.
- 2.3. The aftermath of fraud is costly, time-consuming and disruptive. The major thrust of any anti-fraud strategy should therefore be prevention.

3. Denial of Opportunity

- 3.1. Fraud can be minimised through carefully designed and consistently operated management procedures, which deny opportunities for fraud.
- 3.2. The classic way to guard against fraud in financial systems is separation of duties, so that no individual has undue management of payments, income or assets.

4. Leadership

- 4.1. Key determinants of the standards of behaviour in most organisations will be the standards observed by senior managers, and the policies and approach to their enforcement promoted by the senior managers.

- 4.2. The College's Board of Management and senior managers must therefore ensure that their behaviour is always of the highest standard. The Board will, therefore, produce and disseminate clear policies on:
- Code of conduct;
 - Registration and declaration of interests;
 - Accepting hospitality and gifts;
 - Prosecution of perpetrators of fraud.
- 4.3. The police advise that prosecution is a particularly effective deterrent because of the risk of a custodial sentence and a criminal record. However, the threat of prosecution only deters if the threat is real. Therefore, each and every fraud case arising should normally be referred to the police, irrespective of the status of the individual. The decision to involve the police shall be taken by a member of the College's Executive Leadership Team or Chairman of the Audit Committee.

5. The Role of Auditors

- 5.1. A continuous review of systems by internal audit may deter attempted fraud and should result in continuous improvements. The risk of fraud shall, therefore, be a factor in audit needs assessments and related audit plans. External audit's reviews of financial checks and balances and validation testing provide further deterrence, and advice about systems.

6. Employee Screening

- 6.1. Potential new members of staff should be screened before appointment, particularly for posts with financial responsibility. The screening process shall follow the procedures set out in the College's Recruitment & Selection Procedure and Protecting Vulnerable Groups (Disclosure Scotland) Policy for example:
- 6.2. References shall cover a reasonable, continuous period; and any gaps should be explained;
- 6.3. An official employer's reference shall be sought;

- 6.4. Doubts about the contents of the reference should be resolved before confirming the appointment;
- 6.5. Relevant qualifications shall be checked before making an offer of employment; and
- 6.6. Recruitment procedures shall require applicants to declare any associations with existing Board members or members of staff. Members of recruitment panels shall similarly be required to declare such associations.

7. Detection

- 7.1. No system of preventative measures can guarantee that frauds will not occur. The College does implement detection measures to highlight irregular transactions. These are considered in the following sections.

8. Procurement & Purchasing

- 8.1. Many of the largest frauds suffered by the education sector have targeted an institution's procurement system. Preventative measures should, therefore, be taken as follows:
 - Ensuring that all budget account codes are effectively monitored and approved properly.
 - Secure management of the finance system's supplier standing data file, including segregating the origination and approval of new or amended supplier data.
 - Requiring properly authorised purchase orders (electronic) for the procurement of all services (with the exception of utilities and rates), as well as goods.
 - Matching the invoice amounts to the purchase order commitment in all cases and goods receipting.
 - Segregation of duties. The member of staff authorising an invoice should not have authorised the purchase order.

9. Internal Management Systems

- 9.1. This is the most important measure because the risk of processing an irregular transaction is minimised where every transaction is reviewed systematically. Detective checks and balances should be designed into all systems and applied consistently. This would include the separation of duties, reconciliation procedures, random checking of transactions, and review of management accounting information, including exception reports.
- 9.2. Systems should identify transactions, which have not followed normal procedures. However, deception may be used to make improper transactions appear legitimate. The detective elements in each system should therefore be complemented by a general detective approach, to capture suspicions identified through chance, exit interviews and tip-offs.

10. Public Interest Disclosure ('Whistle-Blowing') Procedure

- 10.1. The Committee on Standards in Public Life advocated the adoption of public interest disclosure procedures. These should guarantee that concerns expressed in good faith would be looked into, without adverse consequences for the complainant. The College Secretary shall ensure the College's Whistle-Blowing Policy is made widely available.

11. Role of Audit in Detection

- 11.1. The first lines of defence against fraud are robust preventative measures by management, coupled with sound detective checks and balances. Audit should be regarded as the complementary to strong internal controls.
- 11.2. However, where a high risk of fraud is identified, auditors may use special techniques to identify fraudulent transactions. Given the sensitivity of fraud, there should be an effective two-way flow of information between internal and external audit.

12. Warning Signs

12.1. Patterns of behaviour among staff, which might indicate a desire for concealment (such as taking fewer holidays, regularly working alone late or at weekends, resistance to delegation, and resentment of questions about work), should be investigated by senior managers. Any indication of addiction to drugs, alcohol or gambling should be addressed by the appropriate line manager in conjunction with the HR Department as early as possible, both for the welfare of the individual and to minimise the risks of fraud.

13. Reporting Suspected Fraud

13.1. All actual or suspected incidents should be reported without delay to the Vice Principal Corporate Services or in his/her absence another member of the Executive Leadership Team. If the allegations are against a member of the Executive, then the Chairman of the Board or the Chair of the Audit Committee should be contacted.

14. Investigation

14.1. Fraud or irregularity occurs unpredictably, in any part and at any level in an organisation. It frequently causes disruption, which is out of proportion to the sums involved. Once a fraud is suspected, prompt action is needed to safeguard assets, recover losses and secure evidence for effective legal and disciplinary processes. Meeting these objectives, when the full facts of a case may be unknown, clearly requires contingency planning. This aspect is covered by the College's Fraud Response Plan (see appendix 1).

15. Process of Investigation

15.1. Fraud investigations should normally be independent of management, to ensure impartiality of reporting. Investigations shall normally be undertaken by internal audit, which combine independence, investigative techniques

and local knowledge. If an investigation is carried out by internal audit, then the auditor shall adhere to the College's Disciplinary procedure.

- 15.2. If a culprit is aware that an investigation is in progress, he or she may try to frustrate disciplinary or legal action by destroying or removing evidence. The fraud response plan shall cater for the summary dismissal or suspension, with pay, of personnel under suspicion. Suspects should be given as little notice as possible so that they have no opportunity to destroy or remove property.

16. Fidelity Insurance

- 16.1. Under the provisions of the Scottish Public Finance Manual the College will not normally be allowed to hold commercial fidelity insurance. The Vice Principal Corporate Services shall keep this situation under review. If fidelity insurance is permissible, then insurance will be secured to provide a level of cover in the event of losses through misconduct by employees.

17. Standard Tender and Contract Documentation

- 17.1. The Vice Principal Corporate Services shall ensure anti-corruption clauses are included in contract documentation. This will not strengthen the College's legal position in the event of attempted or actual corruption, because this is covered by legislation. However, it may act as an effective reminder to contractors, suppliers and the College's own employees that selflessness is required in commercial relationships.

- 17.2. The following is an example of an anti-corruption clause for inclusion in standard tender and contract documentation:

- You shall not give, provide, or offer to our staff and agents any loan, fee, reward, gift (except items of negligible intrinsic value) or any emolument or advantage whatsoever. In the event of any breach of this condition, we shall, without prejudice to any other rights we may possess, be at liberty forthwith to terminate the contract and to recover from you any loss or damage resulting from such termination.

18. Registration and Declaration of Interests

- 18.1. Open cultures are less conducive to fraud and irregularity than secretive ones. For this reason, the Second Report of the Committee on Standards in Public Life stressed the need for Board Members to declare and register their interests.
- 18.2. There is a need for staff to declare and register their interests where appropriate. Staff at many levels will have an opportunity to influence the choice of suppliers and contractors. Management procedures should recognise this and should ensure that the selection of suppliers and contractors always reflects the best interests of the College, and not the personal or family interest of any member of the College.
- 18.3. The HR Director shall ensure a register of interest is maintained by the College's senior managers and other resource managers. The register entry for each member of staff shall be checked by his/her line manager plus a member of the Executive Leadership Team.
- 18.4. The College Secretary shall maintain the Board's register of interest, which will be updated annually.

19. Gifts

- 19.1. The College has separate regulations on members of staff and Board members accepting or giving gifts, hospitality or entertainment. These regulations are contained in the College's Anti-Bribery & Corruption Policy. The policy makes clear that staff should not accept any gift, reward or hospitality from any organisation or individual with whom they have contact in the course of their work as an inducement either for doing something or not doing something in their official capacity.

20. Definitions

SFC	Scottish Funding Council
GCRB	Glasgow Colleges Regional Board

21. References

21.1. Policy Framework

Associated Policies and Procedures	Title
Policy	Whistle-Blowing Policy
Procedure	Disciplinary procedure
Policy	Anti-Bribery & Corruption Policy

21.2. Other College Policies and Procedures

Policy / Procedure	Title
Procedure	Recruitment & Selection Procedure
Policy	Protecting Vulnerable Groups (Disclosure Scotland) Policy

21.3. External References

Source	Title
Scottish Government	Scottish Public Finance Manual
Audit Scotland	Audit Code of Practice

22. Document Control and Review

Approval Status	
Approved by	Finance & Physical Resources Committee
Date Approved	2 nd October 2019
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Lead Department	Finance
Lead Officer(s)	Vice Principal Corporate Services
Board Committee	Finance & Physical Resources Committee
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23. Revision Log

Version Date	Section of Document	Description of Revision
V1		Initial post merger policy
V2		Regular update June 2014
V3		Regular update March 2016
V4	Several & job titles	Update in response to recent incident

Appendix 1 - FRAUD RESPONSE PLAN

1. PURPOSE

1.1. The purpose of this plan is to define authority levels, responsibilities for action, and reporting lines in the event of a suspected fraud or irregularity.

The use of the plan should enable the College to:

- Prevent further loss;
- Establish and secure evidence necessary for criminal and disciplinary action;
- Notify the Scottish Funding Council, via GCRB, if the circumstances are covered by the mandatory requirements of the Audit Code of Practice;
- Recover losses;
- Punish the culprits;
- Deal with requests for references for employees disciplined or prosecuted for fraud;
- Review the reasons for the incident, the measures taken to prevent a recurrence, and any action needed to strengthen future responses to fraud;
- Keep all personnel with a need to know suitably informed about the incident and the institution's response;
- Inform the police and establish lines of communication with the police;
- Assign responsibility for investigating the incident; and
- Establish circumstances in which external specialists should be involved.

2. Initiating Action

- 2.1. All actual or suspected incidents should be reported without delay to the Vice Principal Corporate Services or in his/her absence another member of the Executive Leadership Team. If the allegations are against a member of the Executive, then the Chairman of the Board or the Chair of the Audit Committee should be contacted.
- 2.2. The Vice Principal Corporate Services (or other appropriate person) shall, normally within 24 hours, call an Executive Leadership Team meeting to decide on the initial response and agree membership of a fraud project group.
- 2.3. The project group will decide on the action to be taken. This will normally be an investigation, led by the internal auditor. The decision by the project group to initiate a special investigation shall constitute authority to the internal auditor to use time provided in the internal audit plan for special investigations, or contingency time, or to switch internal audit resources from planned audits.
- 2.4. The College's external auditors should be informed of the suspected fraud and kept up-to-date on the work of the above-mentioned project group.

3. Prevention of Further Loss

- 3.1. Where initial investigation provides reasonable grounds for suspecting a member or members of staff of fraud, the project group will decide how to prevent further loss. This may require the suspension, with pay, of the suspects. 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.
- 3.2. In these circumstances, the suspect(s) should be approached unannounced. They 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 keys to premises, offices and furniture should be returned.

- 3.3. The IT Director should be required to advise on the best means of denying access to the College and its ICT systems, while suspects remain suspended (for example by changing locks and informing security staff not to admit the individuals to any part of the premises).
- 3.4. The internal auditor shall 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.

4. Establishing the Facts and Securing Evidence

- 4.1. A major objective in any fraud investigation will be to establish the facts and facilitate appropriate disciplinary action as well as to act as a deterrent to other potential perpetrators. The College will follow disciplinary procedures against any member of staff who has committed fraud. The College will normally pursue the prosecution of any such individual.
- 4.2. The Vice Principal Corporate Services in conjunction with the internal auditor will:
 - Ensure that evidence requirements will be met during any fraud investigation;
 - Establish and maintain contact with the police; and
 - Ensure that members of staff involved in fraud investigations are familiar with and follow rules on the admissibility of documentary and other evidence in criminal proceedings.

5. Notifying the Scottish Funding Council (SFC)

- 5.1. The circumstances in which the College must inform the SFC and GCRB, about actual or suspected frauds are detailed in the Audit Code of Practice.

6. Recovery of Losses

- 6.1. Recovering losses is a major objective of any fraud investigation. The internal auditor shall ensure that in all fraud investigations, the amount of

any loss will be quantified. Repayment of losses should be sought in all cases.

- 6.2. 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. The College would normally expect to recover costs in addition to losses.

7. References for Employees Disciplined or Prosecuted for Fraud

- 7.1. The College's Policy on the Provision of Employee References shall include a requirement that any request for a reference for a member of staff who has been disciplined or prosecuted for fraud shall be referred to the HR Director.

8. Reporting to the Board of Management

- 8.1. Any variation from the approved fraud response plan, together with reasons for the variation, shall be reported promptly to the chairs of both the Board and the Audit Committee.
- 8.2. On completion of a fraud investigation, a written report shall be submitted to the Audit Committee. If fraud has been established, then the report shall contain:
- A description of the incident, the people involved, and the means of perpetrating the fraud;
 - The measures taken to prevent a recurrence;
 - Quantification of losses;
 - Progress with recovery action;
 - Progress with disciplinary action;
 - Progress with criminal action;
 - Actions taken to prevent and detect similar incidents;
 - The internal auditor will normally prepare this report.

9. Responsibility for Investigation

9.1. The internal auditor shall normally lead all fraud investigations.

Management shall not normally undertake fraud investigations, although management should co-operate with requests for assistance from internal audit.

9.2. Some special investigations may require the use of technical expertise, which the internal auditor does not possess. In these circumstances, the project group may approve the appointment of external specialists to lead or contribute to the special investigation.