

TACKLING INTERNAL FRAUD



POLICY FRAMEWORK

This paper sets out PLR's policy and response plan for attempted and suspected fraud within the office. It complies with guidelines set out in DCMS's policy on fraud.

- a) Fraud encompasses a wide range of irregularities and illegal acts including: deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion. The criminal act is the intent to deceive and attempted fraud is therefore treated as seriously as accomplished fraud.
- b) Fraud can be attempted or carried out in a number of ways which include:
- theft of cash, cheques or equipment.
 - the falsification of travel and subsistence or other claims.
 - false claims for overtime or flexible working.
 - unauthorised use of property or services paid for by PLR.
 - irregularities in the tendering for supplies to PLR by contractors of goods, services, works and consultancy (includes all professional advice).
 - irregularities in grant payment from DCMS and in author payments.
 - corruption, which includes receipt of payment or other material advantage as an inducement to award contracts from PLR funds.
 - manipulation of IT systems.

The Registrar takes a most serious view of any attempt at fraud by members of PLR staff, contractors, suppliers etc. Staff involved in an impropriety of any kind can be expected to be subject to disciplinary procedures including prosecution if appropriate.

Personal Conduct

The standards of conduct expected from staff are detailed in the Staff Handbook. All staff are expected to have exceptionally high standards of personal integrity and honesty, but also must not lay themselves open to suspicion of dishonesty, perception of conflict of interest, and/or impropriety.

Roles and Responsibilities

The Registrar will act as **Fraud Liaison Officer** and will take overall responsibility for risk awareness and management of fraud control and investigation.

As Fraud Liaison Officer he will maintain a Register of Fraud which will contain details of all reported suspicions, including those dismissed as unfounded. The Register will contain details of the actions taken in respect all each matter reported. The Register will be held securely at all times with access restricted to the Principal Finance Officer and the Head of Library Policy from the DCMS.

The Principal Finance Officer has delegated responsibility for ensuring the design and efficient operation of PLR's internal financial procedures and controls, ensuring the arrangements for managing the risk of fraud are appropriate and ensuring the Fraud Response Plan is up to date.

All staff must be alert to the possibility that unusual events or transactions could be indicators of fraud. All staff must report immediately to their line manager if they suspect that a fraud or irregularity has been committed or see any suspicious acts or events. All staff have a role in limiting the scope for fraud by abiding strictly to PLR instructions for handling payments and receipts, procurement and for dealing with travel and subsistence and other claims.

All staff should also feel free to bring to their line manager's attention any areas of weakness which they have identified in the procedures that they use and suggest any improvements to reduce the possibility of fraud.

All staff must be aware of PLR's 'Whistle blowing' policy.

Line-Managers are responsible for identifying risks to which systems and procedures are exposed and ensuring an adequate system of internal control exists within their area of responsibility to minimise the identified risks and that controls operate as intended.

Fraud prevention is a component of risk management and managers should pay great attention to areas where the risk of fraud is the greatest.

Line managers should ensure that:

- they avoid reliance on one individual and that as far as practicable more than one member of staff becomes proficient in a particular role;
- all necessary authorisations and audit checks are carried out and that the segregation of duties is not compromised during periods of absence;
- staff are fully trained for the role they perform and internal control instructions are up to date.

Fraud Risk Indicators

The following are warning signs that fraud may be occurring:

- Staff under stress without a high workload
- Always working late or arriving early
- Reluctance to take leave
- Refusal of promotion
- Unexplained wealth
- Sudden change of lifestyle
- New staff resigning quickly
- Cosy relationship with suppliers/contractors
- Suppliers/contractors who insist on dealing with one particular member of staff

Preventing Fraud in Small Organisations

DCMS's Internal Audit Unit have issued specific guidance on fraud for their smaller NDPBs who are particularly vulnerable to fraud because of their size and the consequent difficulty in ensuring adequate segregation of duties especially at times of staff absences.

- Limit reliance on certain individuals
 - Separation of duties for cheque preparation and signing
 - Introduce authorisation levels to include line managers and other senior staff into the process
 - Introduce payment thresholds at the bank for all types of payment
 - Ensure adequate references are obtained for staff in finance positions
- Other measures may include
 - Pre employment screening
 - Rotation of staff

- Priority checks on new partners
- Use of data protection software
- Keep prime records and audit trails up to date
- Checks of cash are essential, regardless of size of the organisation
- Checks of payment instruments (cheques, BACS etc) are also essential
- Ensure an effective response to audit recommendations
 - Auditors need to clearly prioritise recommendations by risk
 - Managers must ensure recommendations are implemented
 - The Board or Audit Committee must be kept informed
- There is a clear need to understand the role of the internal auditors, where this service is externally provided
 - There is a danger of an 'expectation gap' between management and IA, with management placing too much reliance on internal audit and not reviewing their own systems internally.
- The Accounting Officer must ensure that there is comprehensive, independent advice on risks, systems and controls
 - Internal audit reports must be sufficiently explicit on risks and remedial actions needed to mitigate them.
 - External audit management letters must be received and submitted to the audit committee.
- The Accounting Officer must inform the Departmental Accounting Officer if there are insufficient resources available to take effective remedial action.
- There may be a need for additional training for individuals sitting on finance meetings or audit committees.

PLR's Fraud Response Plan

- a) If you suspect or discover fraud it must be reported immediately to your line manager who will in turn report to the Registrar. The Registrar will take necessary advice from DCMS and will take immediate personal charge of any documentation that is relevant.

- b) Act quickly and carefully, do not attempt to undertake investigation of the suspected fraud yourself.
- c) If you have concerns about possible fraudulent activities by your immediate manager, which makes the above procedures inappropriate, you should report directly to the Principal Finance Officer or Registrar.
- d) Should PLR's internal auditors suspect or discover instances of fraud, they should report at once directly to the Registrar, or to the head of PLR's sponsorship unit at DCMS appropriate. The internal auditors will advise DCMS on findings and will undertake investigations of fraud within PLR at the request of DCMS.
- e) Cases of fraud or attempted fraud will be reported to the NAO immediately on discovery by DCMS.
- f) The fraud Liaison Officer will ensure that an appropriate investigation is carried out in every case.
- g) Following the fraud PLR's Management Team will reassess the controls in place on the risk register to identify any weakness and implement improved controls.

Communication

- a) The Fraud Liaison Officer will report the results of an investigation to managers as he believes appropriate.
- b) At critical points in the investigation written reports will be supplied to the DCMS.
- c) The Registrar will decide whether the matter should be reported to the police, but the expectation is that the police should be involved in all but the most exceptional cases. The question of whether proceedings should then take place is solely a matter for the Crown authorities. Therefore, no suspected person should ever be told whether they will be prosecuted, except where a decision has already been made by the Crown authorities.

Response to Media Enquires

Should a particular case of fraud attract enquires from the media, all employees of PLR should be fully aware that under no circumstances should they speak to the media without express authority from the Registrar. Any statement to the media will normally be made by

the Registrar. Any individual disregarding this paragraph will be liable to disciplinary action.

Management Action

- a) Fraud comes within the definition of “gross misconduct” in PLR’s disciplinary procedure. The need to take action and invoke disciplinary procedures will be balanced against the need to avoid prejudicing or compromising any possible criminal investigation. If necessary, the advice of the police should be obtained.
- b) The advice of the HR & Finance Manager must be obtained before invoking disciplinary procedures as a result of suspected fraud.
- c) In order to facilitate a thorough and fair investigation into fraud or other irregularity, it may be necessary to suspend an employee(s) from work. Where this is the case, suspension will be on full pay and the PLR’s disciplinary procedure will apply. A suspended employee(s) may be required to attend work at pre-arranged times in order to co-operate with investigations.
- d) All reasonable means of recovering any identified loss should be pursued regardless of whether criminal proceedings or a criminal conviction is obtained. Where recovery is not possible, DCMS should be consulted with regard to writing off the loss.
- e) Once the circumstances of the case are known the Registrar will take immediate steps to ensure that further loss does not occur. It will be necessary to identify and remedy any defects in the control system and decide on measures to prevent recurrence.

Investigation of Fraud

Introduction

As the nature of fraud can vary considerably and each investigation may require its own unique approach to meet the circumstances which prevail, this plan does not set out to prescribe a detailed programme of action. Instead it highlights the issues which need to be considered when planning an investigation.

Managing the Investigation

- a) DCMS should approve of the objectives of the investigation.
- b) DCMS should agree the scope and timing of the investigation.
- c) DCMS should approve the resources which will be available for the investigation.
- d) The Registrar should ensure that the resources used are monitored against the agreed budget.
- e) An investigation may not lead to criminal proceedings but could still result in disciplinary proceedings as this requires a lesser burden of proof. The fraud investigation report may be tabled as evidence at a disciplinary meeting.

Gathering and Securing Evidence

A diary of events must be maintained by the Fraud Liaison Officer, this should give a detailed explanation of each action and event in the course of the investigation. A successful criminal prosecution can depend on details, which in other contexts could appear unimportant. Also a considerable time could elapse between the start and conclusion of any investigation. Therefore, to aid recall all relevant details must be recorded in the diary of events. The following must be logged:-

- Details of all telephone calls, faxes, electronic mail and any other forms of communication.
- A formal record of all interviews and meetings.
- A clear record of where, when and how documents and other evidence were obtained.

The Fraud Liaison Officer will take immediate charge of any original documentation that is relevant to the discovered fraud. These should be logged in such a way to identify the identification of the source, nature and purpose of each. Access to the suspects work station and document cabinets must be prevented before and during the investigation. The suspect should only be allowed escorted access to the office.

If the alleged fraud involves the use of a computer, then the IT Manager must be involved so that any records on a PC or network relating to the fraud cannot be accessed, destroyed or corrupted prior to the investigation.

Interviews

- a) All interviews should be conducted fairly. The HR & Finance Manager must be consulted before any members of staff are interviewed, whether as suspects or witnesses. An employee may be accompanied by a colleague or legal adviser at any disciplinary meeting but not fact-finding interview.
- b) Under criminal law a person has the right to refuse to answer questions on the grounds that they might incriminate themselves. However, should a member of staff choose to exercise this right at work it should be made clear that refusal to co-operate with a workplace investigation means the investigating manager can only decide on the disciplinary action based on the information collected from other available sources.
- c) Interviews with a suspect may be taped, with their permission, to ensure that an accurate record is kept.

Prevention of Further Fraud

DCMS and the Registrar of PLR will ensure that any lessons learned from a case of fraud are converted into an action plan which should help prevent a similar occurrence in the future.

Other Issues

Dealing With Complaints

If a complaint is made regarding the investigation process, it must be made in writing and the employee receiving it should notify the Fraud Liaison Officer immediately.

Resignations in the Face of Dismissal

Where there are grounds for dismissal for dishonesty PLR may insist on dismissal and therefore may not accept a resignation.

References on Employees Dismissed for Dishonesty

The personnel file of any employee dismissed for dishonesty will contain an extract of the final report and disciplinary papers. Requests for references for ex-employees dismissed

for dishonesty will be truthful in line with PLR's Data Protection Policy and policy on giving references (see Recruitment & Selection).

Further guidance

For further guidance on fraud please refer to:

Managing the Risk of Fraud – A Guide for Managers (HMT May 2003)

NAO & HMT Guide: Good Practice in Tackling External Fraud

Annual Analysis of Frauds in Government Departments

All the above can be found on the Treasury website.

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