

ANTI-FRAUD STRATEGY

“1 Introduction

- 1.1 The Audit Code of Practice published by the Higher Education Funding Council for England makes it clear that each higher education institution's management is responsible for the prevention, detection and investigation of irregularities, including fraud and corruption. In order to discharge this responsibility the University endeavours to ensure that adequate systems of internal control are operated. Additionally, internal auditors are appointed with a view to reviewing the adequacy and effectiveness of internal controls systems in order to assist in the prevention and detection of fraud.
- 1.2 The University has a written policy on the process to be followed when evidence of a suspected fraud is discovered. An Anti-Fraud Strategy incorporates an approach designed to encourage prevention, promote detection and clarify responses through a defined plan including investigatory action.
- 1.3 The Anti-Fraud Strategy and Fraud Response Plan has been approved by the Audit Committee and Board. The document is available as a University Policy and Regulation (UPR) and there is a link from the Internal Audit StaffNet pages. It should be read in conjunction with the procedures established under the UPR FR04 Fraud and Corruption – Anti-Fraud Anti-Corruption Policy and UPR GV12 ‘Public Interest Disclosure’.
- 1.4 Should you require further information please contact Paul Hammond, Head of the Internal Audit Service, Tel: 01707 285987. (p.hammond2@herts.ac.uk)

2 Definition of Fraud

- 2.1 This Anti-Fraud Strategy covers staff, students and activities of the University, its wholly-owned subsidiary companies and the wholly-owned subsidiaries within the UH Holding Group.
- 2.2 For the purposes of the University's strategy, fraud is defined as the use of deception with the intention of:
 - Gaining an advantage, personally and for family or friends; or
 - Causing financial loss to the University or one of its subsidiary companies or one of the wholly-owned subsidiaries within the UH Holding Group.
- 2.3 The Fraud Act 2006 came into effect on 15 January 2007. The Act creates a new general offence of fraud with three ways of committing it:
 - Fraud by false representation;
 - Fraud by failing to disclose information, and
 - Fraud by abuse of position.
- 2.4 The main types of irregularity are:
 - Theft -This may include the removal or misuse of funds, assets or cash

- False accounting - dishonestly destroying, defacing, concealing or falsifying any account, record or document required for any accounting purpose, with a view to personal gain or gain for another, or with the intent to cause loss to the University or furnishing information which is or may be misleading, false or deceptive
- Abuse of position - abusing authorities and misusing University resources or information for personal gain or causing loss to the University.

2.5 The University's Financial Regulations set out the University's controls to minimise the risk of the above occurring.

2.6 Examples of fraud, which are neither exclusive or exhaustive, include the following:

- Misappropriation of cash e.g. theft of cash from cash boxes, cash registers, and takings from trading outlets, vending machines, or from social fund;
- Theft of stock;
- Fraudulent encashment of payable orders or cheques;
- Misappropriation of other assets including information and intellectual property. This would also include theft of stationery for private use, unauthorised use of University property eg vehicles, computers, other equipment;
- Purchasing or purchase ledger fraud (e.g. approving/paying for goods not received, approving/paying bogus suppliers, approving/paying inflated prices for goods and services, accepting any bribe);
- Travel and subsistence claims overstated or falsely claimed. This may include advances not recovered or forging of counter-signatories;
- Accepting pay for time not worked (e.g. false claim for hours worked, failing to work full contracted hours by any member of staff, false overtime claims, or falsification of sickness self-certification);
- Misconduct relating to research (see below for link to Guide to Good Practice in Research) (http://www.staffnet.herts.ac.uk/documents/research/research-conduct/2013-04-22_UH_Good_Practice_in_Research.pdf); and
- Computer Fraud (e.g. altering or substituting records, duplicating or creating spurious records, or destroying or suppressing records).

2.7 Whilst by no means being proof on their own, the circumstances below (warning signs) may indicate fraud, and should therefore put managers, staff and students on the alert:

- Altered documents (correcting fluid, different pen or handwriting);
- Claim form details not readily checkable;
- Changes in normal patterns, of cash takings or travel claim details (for example);
- Text erratic or difficult to read or with details missing;
- Delay in completion or submission of claim forms;
- Lack of vouchers or receipts in support of expense claims, etc.
- Staff seemingly living beyond their means;
- Staff under constant financial or other stress;
- Staff choosing not to take annual leave (and so preventing others becoming involved in their work), especially if solely responsible for a 'risk' area;
- Complaints from public or staff;
- Always working late;

- Refusal of promotion; and
- Insistence on dealing with a particular individual.

2.8 In addition to the warning signs outlined above, staff and students are advised to take notice of the following "Do's and Don'ts" in respect of possible fraud-related instances or actions:

- If you are suspicious or have concerns DO tell someone - confidentiality will be respected;
- DO keep a record of conversations or actions, including times, dates, locations etc.
- DO keep or copy any document that arouses your suspicions;
- DO be discreet with the information, only discuss it with the nominated individual or people they refer you to;
- DO be responsive to staff concerns;
- DO deal with the matter promptly;
- **DO NOT** keep quiet and hope the problem will go away;
- **DO NOT** confront the individual with your suspicions;
- **DO NOT** try to investigate yourself;
- **DO NOT** discuss with other staff or colleagues;
- **DO NOT** collect evidence (especially computerised information) without specialist advice; and
- **DO NOT** contact the police directly.

3 Prevention and Detection of Fraud

Prevention

3.1 The aftermath of fraud is costly, time-consuming, disruptive and unpleasant. The major thrust of any anti-fraud strategy should therefore be prevention. Measures to be put in place include denial of opportunity, effective leadership, auditing, and employee screening.

a Denial of opportunity

Fraud can be minimised through carefully designed and consistently operated management procedures. Staff should always receive training in the operation of these systems.

The main way to guard against fraud in financial systems is segregation of duties, so that no individual has undue management of payments, income or assets. The largest frauds have involved regular misappropriations over a period of years. This risk can be reduced by regularly rotating staff who have access to financial systems.

The possible misuse of information technology should be prevented by managing the physical access to terminals, and protecting systems with electronic access restrictions.

b Leadership

Key determinants of behaviour in an organisation are influenced by standards observed at the top, and the policies and approach to their enforcement promoted from the top.

Governing bodies and senior managers should therefore ensure that their behaviour is always demonstrably selfless. To this end they should produce and disseminate clear policies on:

- commercial ethics;
- registration and declaration of interests;
- accepting gifts and hospitality; and
- prosecution of offenders.

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 case arising should normally be referred to the police, irrespective of the status of the individual.

c The role of auditors

When new systems are being designed or existing systems are to be modified, internal auditors can advise management on building in ways of preventing or detecting fraud.

A continuous review of systems by internal audit may deter attempted fraud and should result in continuous improvements. To this end the risk of fraud should be a factor in audit plans.

External audit's reviews and validation testing provide further deterrence. Auditors may also wish to assess and advise on systems in place to deter corruption.

d Employee screening

Potential new members of staff should be screened before appointment, particularly for posts with financial responsibility. For example:

- an official employer's reference should be obtained;
- such references should cover a reasonable, continuous period; and any gaps should be explained;
- doubts about the contents of the reference should be resolved before confirming the appointment. If this is done by telephone, a written record of the discussion should be kept to comply with employment law; and
- essential qualifications should be checked before making an offer of employment (for example by requiring original certificates at the interview).

Consideration should be given as to whether a policy on the employment of job applicants who are related to existing staff or governors is appropriate. Recruitment procedures should require applicants to declare any connections with existing governors and staff. Members of recruitment panels should similarly be required to declare such connections.

Detection

3.2 No system of preventative measures can guarantee that frauds will not occur. The University could, however, implement detection measures to highlight irregular transactions.

a Internal management systems

This is the most important measure because the risk of processing an irregular transaction is minimised where transactions are reviewed systematically.

Detective checks and balances should be designed into all systems and applied consistently. These would include segregation of duties, reconciliation procedures, random checking of transactions, and review of management accounting information, including exception reports.

The University management at all levels are responsible for ensuring the effective application of controls.

Systems should identify transactions that 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.

b Public interest disclosure ('whistle-blowing') procedure

The adoption of the Public Interest Disclosure Act will guarantee that concerns expressed in good faith will be looked into, without adverse consequences for the complainant.

c Role of audit

The first lines of defence against fraud are robust preventative measures by management, coupled with sound detective checks and balances.

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.

d Warning signs

Managers must always be sensitive to any warning signs within unexpected patterns of behaviour of staff. These might indicate a desire for concealment (such as taking few holidays, regularly working alone late or at weekends, resistance to delegation, and resentment of questions about work) and should be investigated.

Any indication of addiction to drugs, alcohol or gambling should be addressed by the human resource function as early as possible, both for the welfare of the individual and to minimise the risks to the HEI, which might include fraud.

3.3 The Financial Regulations and appendices state that the Group Finance Director is responsible for the management of all financial matters relating to the University Group. The Regulations explain further that:

3.4 "The Group Finance Director is required to establish appropriate accounting regulations, procedures and controls such that the requirements of the 'Memorandum of Assurance and Accountability Between HEFCE and Institutions', relevant legislation and these regulations are met in respect of all responsibilities assigned to the Group Finance Director."

3.5 However with the scale and diversity of the University, authority has been delegated to Deans/Heads under devolved management for implementing suitable internal controls to safeguard school/SBU assets, monies and other resources. Managers and supervisors are also required as part of these processes of internal control to protect assets, monies and other resources.

3.6 Measures have been adopted centrally that include the development of sound accounting systems and budgetary control procedures, regular monitoring of financial trends and interpretation of financial statistics, defining consistent financial processes and procedures, the provision of financial regulations and other relevant advice and guidance and the continuous presence of an effective internal audit function.

- 3.7 Measures adopted at School/Departmental level will include fundamental control measures such as:
- separation of duties to ensure that more than one employee has to be involved in processing every transaction;
 - restricting authority to commit or spend funds through an authorised signatories list; and
 - reconciling local accounting records to centrally produced management information.
- 3.8 In addition to the internal control framework, the University also requires that all employees adopt high standards of personal conduct. UPR GV12 Bribery and Corruption sets out the standards required including in relation to conflicts of interest and the receipt and acceptance of gifts and hospitality. The Financial Regulations include reference to the University's requirements in relation to private work and purchasing for example.
- 3.9 There are also references in staff disciplinary rules, disciplinary and grievance procedures to help ensure high standards of personal conduct.
- 4 Responsibility to Report a Suspected Fraud**
- 4.1 If a member of staff becomes aware of any matter where he/she suspects that a financial irregularity has occurred, he/she must report the matter immediately to the Head of the Internal Audit Service directly or through their Senior Manager. The Senior Manager must notify the Head of the Internal Audit Service immediately a member of staff reports any financial/non-financial irregularity.
- 4.2 Effective preventative measures must, of necessity, rely upon the vigilance and awareness of those staff whose work incorporates internal control functions. In accordance with UPR FR04 Fraud and Corruption – Anti-Fraud Anti-Corruption Policy it is the duty of all staff to report suspected irregularities, financial or otherwise, to the Head of the Internal Audit Service.
- 4.3 Staff should be aware that failing to report fraudulent activity may itself be actionable. Similarly any complaint or allegation that is found to have been malicious shall be deemed a serious disciplinary offence
- 4.4 The Head of the Internal Audit Service, where he considers the irregularity involves a criminal act or is in any way a disciplinary offence, must report the matter to the Vice Chancellor. The Vice Chancellor will deal with the matter in the way he considers to be in the best interests of the University, subject to legal constraints. The Audit Committee will be notified of the University action taken where the irregularity involves an amount above £25k, or where it is unusual or where there is likely to be public interest.
- 4.5 In recognition of the good faith in which staff may report a suspected financial irregularity the University will protect and support an individual against harassment or victimisation. (The Public Interest Disclosure Act applies).

FRAUD RESPONSE PLAN

1 Initiating Action

Where a member of staff has reasonable grounds for suspecting fraud, corruption or other financial irregularity, they must report their concerns in one of the following ways:

- To their line manager – if they feel able to (the line manager should immediately inform the Vice-Chancellor or his nominee, normally the Secretary and Registrar, and the Head of the Internal Audit Service).
- If they are unable to inform their line manager, the member of staff should inform the Vice-Chancellor or his nominee, normally the Secretary and Registrar, and the Head of the Internal Audit Service directly.
- To the University's designated individuals under the "Whistleblowing" policy.

1.2 In the event that the suspected irregularity involves the Vice-Chancellor the report initial report should be made to the Chairman of the Audit Committee.

1.3 If a member of staff is aware of fraudulent behaviour and fails to report it, they may be suspected of complicity and thereby subject to disciplinary procedures.

1.4 All notifications should be made in strict confidence and if it is possible confirmed in writing, providing:

- a brief outline of the alleged irregularity;
- the estimated scale of or scope for loss;
- any evidence supporting the alleged irregularity; and,
- details of the member(s) of staff suspected of involvement.

1.5 All notifications will be recorded in a 'Fraud Register' held by the Head of the Internal Audit Service, who will provide an acknowledgement of receipt by return to the originating member of staff ('the initiator').

1.6 All reports of alleged or suspected fraud will be managed from the outset by the Fraud Response Group (FRG).

1.7 The Vice Chancellor or his nominee, normally the Secretary and Registrar, will constitute a meeting of the FRG at the earliest opportunity for their discussion of the notification. The FRG is comprised of the following:

- The Vice-Chancellor (or designate);
- The Secretary and Registrar;
- The Group Finance Director;
- The Director of Human Resources;
- Dean of School/Head of SBU affected (if deemed appropriate); and
- Any other parties or specialists deemed appropriate.

1.8 The FRG has full delegated authority from the Board to take such actions it considers reasonable for the purposes of the objective of this Response Plan, including:

- appointing and authorising the cost of solicitors and counsel and third party investigators including forensic accountants and IT specialists;

- notification and engagement as appropriate of the University's internal and external auditors;
- instigating disciplinary proceedings; and,
- where appropriate, criminal or legal proceedings. It may also authorise the use of witness statements from staff in any such proceedings on behalf of the University.

1.9 In the event of one of the officers in the Fraud Response Group being accused of fraud, the Deputy Vice-Chancellor will be appointed to replace the officer on the Group.

2 Initial Review and Investigation

2.1 If as a result of the FRG's consultations it is clear that any possible irregularity is of minimal effect and has arisen by accident, mistake or incompetence rather than wilful intention, the Head of the Internal Audit Service will record the FRG's conclusion in the Fraud Register, and note any action taken. The Head of the Internal Audit Service will inform the initiator of this decision.

2.2 In any other case the Head of the Internal Audit Service in consultation with the FRG conducts a preliminary investigation, in accordance with mutually agreed terms of reference, in order to gather factual information and reach an initial view as to whether a full investigation is required.

2.3 FRG will consider at this stage the involvement of the police in any such investigation. (NB – Under some types of insurance a report to the police may be obligatory). If the case is not reported to the police FRG will advise the Audit Committee why this is the case.

2.4 The FRG shall liaise and co-operate with the police in any case where there has been a report made and which the police decide to investigate. All contact with the police shall be arranged through the FRG. Where the police ask to see members of staff or their work records, the Director of Human Resources must first be involved before any visit is voluntarily agreed or arranged.

2.5 The FRG shall consider all possible steps that will be taken to preserve the evidence. These steps may include the member(s) of staff suspected of involvement being subject to suspension and denied access to all premises and files.

2.6 The Head of the Internal Audit Service will report his findings, conclusions and any recommendations he may have at this initial stage to the FRG at the earliest opportunity, and certainly within seven working days. This report will identify that:

- either insufficient evidence is available to warrant a full investigation;
- or the allegations made prove to have been reasonable but unfounded;
- or the actions appear to have been made by the member(s) of staff suspected of involvement by mistake or incompetence rather than by wilful misconduct.

2.7 The Head of the Internal Audit Service will make a formal record in the Fraud Register to this effect, noting any action taken.

2.8 The Head of the Internal Audit Service will make the FRG aware if as a part of the initial review the allegation proves to be unfounded and of malicious or reckless intent. The FRG will discuss and agree what disciplinary action is to be taken against the initiator for gross misconduct.

2.9 Where there is a prima facie case for full investigation, the FRG shall, as soon as reasonably practical take steps to initiate a formal internal investigation.

- 2.10 Consideration will be given as to whether civil or criminal proceedings should be pursued in order to protect University of Hertfordshire's interests, and again as to whether the matter should be referred immediately to the police.
- 2.11 The Chair of the Audit Committee should be notified if it is considered likely that the loss will be of sufficient size to need reporting to the HEFCE (greater than £25K). The External Audit Partner should also be informed of the situation at this time.
- 2.12 Where those under suspicion are members of staff, the prevailing disciplinary procedure should be activated. At such time as an individual or group of individuals are advised of suspicions or allegations they will immediately be suspended and all access to internal files and papers (electronic and otherwise) will be disabled. Advice on any such actions should be obtained from the Director of Human Resources.
- 2.13 The FRG will consider the following:
- Appointment of an Investigating Officer (normally but not always the Head of the Internal Audit Service);
 - Objectives and strategy of the investigation, with particular consideration given to restricting the scale of loss and maximising the recovery of assets;
 - Composition of the investigation team, to include where necessary staff from backgrounds appropriate to the nature of the investigation;
 - Applicability of the University Disciplinary Procedures to the case;
 - Instruction for any immediate action required at the point of discovery;
 - Need to use external advisors, such as the University's legal advisors;
 - Need to complete the full investigation with all due speed, though without compromising a thorough examination of all the evidence available;
 - Need to safeguard the rights of any staff involved in, or affected by, the investigation;
 - Need to protect the initiator from harassment or victimisation for reporting their suspicions;
 - Need to protect the rights of the member(s) of staff suspected of involvement, particularly as regards providing an opportunity at the appropriate time to comment on the allegations made;
 - Need to minimise the disruption to operational activities and routines;
 - Involvement of the Director of Marketing and Communications in the management of any public information issues that may arise.
- 2.14 The Investigating Officer will report on progress to the FRG (and the Head of the Internal Audit Service if he is not the Investigation Officer or part of the investigation team) on at least a weekly basis during the investigation.

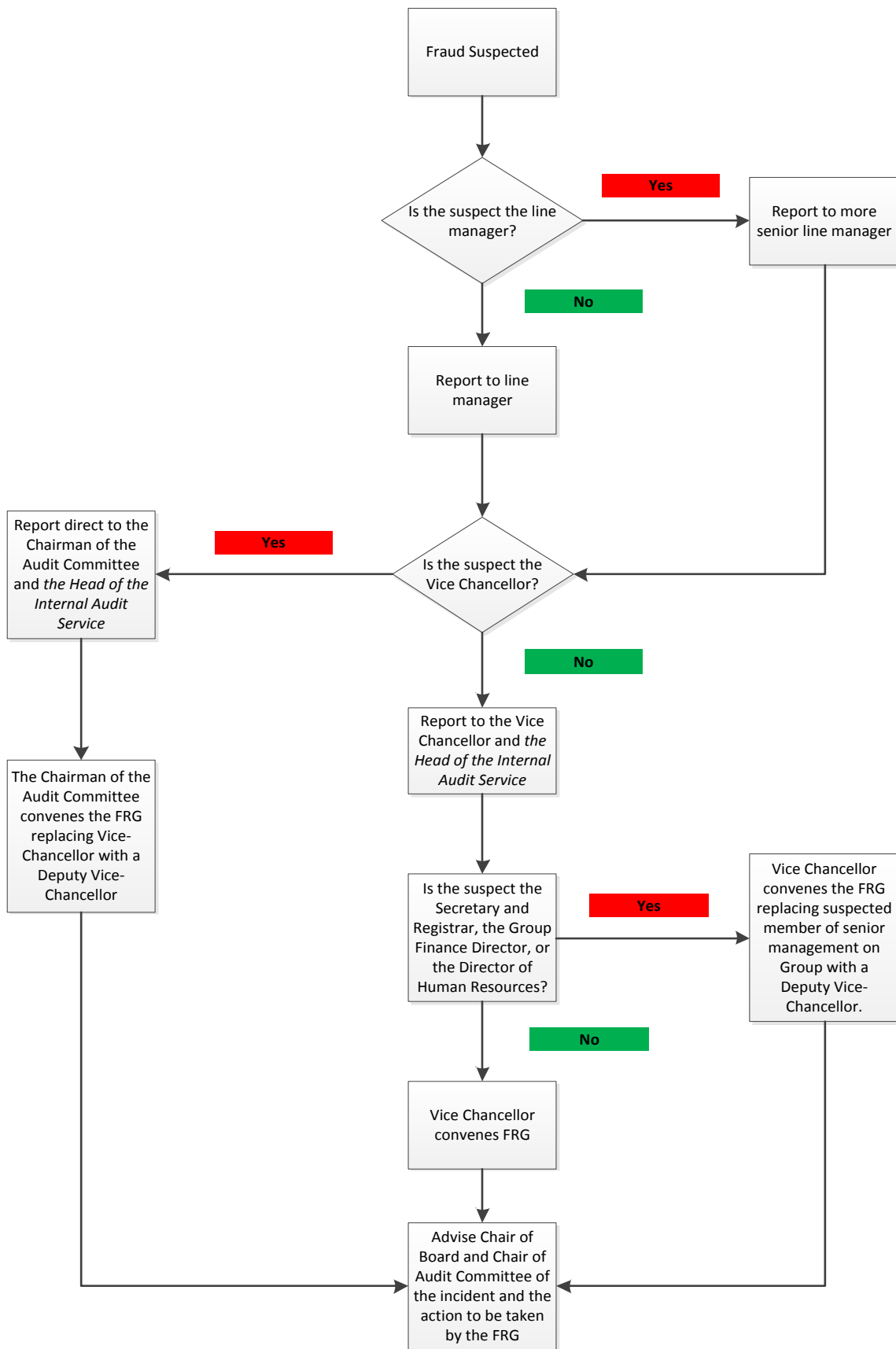
3 Reporting the Results of the Investigation

- 3.1 On completion of the investigation the Investigating Officer will produce a written report for the FRG (and the Head of the Internal Audit Service if he is not the Investigation Officer or part of the investigation team). This report will include the following
- a conclusion as to whether the allegations of fraud, corruption or other financial irregularity have any substance;
 - the comments of the member(s) of staff suspected of involvement in respect of the allegations made;

- the nature and extent of the irregularity;
 - its effects upon the University;
 - who was involved, including those staff and/or management whose failure to exercise appropriate supervision or control may have contributed to the fraud;
 - a statement of internal control weaknesses that may have allowed the irregularity to occur, with recommendations to improve those systems of control.
- 3.2 Following consultation and discussion by the FRG they will produce an Executive Summary of the principal findings and conclusions. This may include if appropriate such recommendations for disciplinary action, in accordance with the procedures, against any members(s) of staff or student(s).
- 3.3 The report may also include, depending on the course of action being adopted, recommendations for:
- proceeding with further legal action through the criminal or civil actions,
 - any action necessary to prevent or detect further fraud, corruption or potentially similar irregularities elsewhere in the Institution.
- 3.4 Any legal proceedings or actions will be conducted or directed by the Director of Legal Services and University Solicitor in conjunction with the Director of Human Resources. Any disciplinary action taken will be in accordance with disciplinary procedures.
- 3.5 The Head of the Internal Audit Service will make a full report to the Audit Committee other than for a minor incident 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; and
 - Any action needed to strengthen future responses to fraud, with a follow-up report on whether or not the actions have been taken.
- 3.6 Where the fraud or irregularity is of sufficient seriousness (as defined in the HEFCE Audit Code of Practice) the Vice-Chancellor will notify the HEFCE.
- 3.7 Any variation from the approved Fraud Assurance Plan, together with reasons for the variation, shall be reported promptly to the Chairs of the Board and the Audit Committee.
- 3.8 The Head of the Internal Audit Service will record in the Fraud Register the detail and actions taken in respect of any notified incident, whether reported to the HEFCE or not.”

Mrs S C Grant
Secretary and Registrar
Signed: **27 November 2015**

FLOWCHART 1 – INITIATION



FLOWCHART 2 – INVESTIGATION

