



## **SECTION 11**

# **FRAUD POLICY**

## 1. INTRODUCTION

1.1 The objective of this Policy is to create a working environment in the University that encourages all staff to be alert to the possibility of fraud and know how to deal with it if it is suspected.

1.2 The purpose of this Policy is to provide details in relation to the following:

- a definition of fraud;
- responsibilities for fraud prevention and detection;
- procedures for reporting suspected and proven cases of fraud; or attempted fraud; and
- responsibilities for the investigation of suspected fraud and the prosecution of offenders.

1.3 The use of the Policy should enable the University to:

- Prevent further loss.
- Establish and secure evidence necessary for civil, criminal and/or disciplinary action, if appropriate.
- Comply with the reporting requirements contained with the Financial Memorandum between the University and the Department for Employment and Learning.
- Minimise and recover losses, including complying with any reporting requirements under the University's insurance policies.
- Ensure that appropriate action is taken against anyone who is found to have committed a fraud against the University.

1.3 The University requires all staff, at all times, to act honestly and with integrity and to safeguard the resources for which they are responsible. Fraud is an ever present threat and must be a concern to all members of staff. The purpose of this Policy is to set out the various responsibilities regarding both the prevention of fraud, and the procedures to be followed when a fraud is detected or suspected.

The University has a zero tolerance rate in relation to fraud and is resolved to take all steps to eradicate it.

This Policy should be read in conjunction the following:

- The Whistleblowing Policy;
- The Bribery Act Policy;
- The Acceptance of Gifts, Gratuities and Hospitality Policy;
- The Register of Interests Policy; and

All of the above Policies are available at the following link [www.qub.ac.uk/home/RegistrarsOffice](http://www.qub.ac.uk/home/RegistrarsOffice).

It should be noted that all references in this Policy to Fraud include theft (actual or suspected over a value of £500).

## 2. SCOPE AND RANGE OF THE POLICY

### 2.1 This Policy applies to:

- all individuals working at every level and grade whether employed on a permanent, fixed-term or temporary contract, consultants, trainees, seconded staff, placement students, non staff employees (NSP), agency staff, sponsors, or any other person associated with the University, or any of the University's related companies or their employees, wherever located; and
- members of Senate and lay members of University Committees in relation to their activities as members of such bodies.

## 3. APPROVAL OF THE POLICY

### 3.1 This Policy was approved by the Audit Committee on XXX 2014.

## 4. DEFINITIONS

### 4.1 Fraud Act 2006

For the purposes of this Policy, the University applies the definition of fraud as contained within the Fraud Act 2006 and other non-financial frauds as detailed below. The Fraud Act 2006 repeals the Theft Acts of 1968 and 1978 and replaces them with a single offence of fraud which can be committed in three different ways:

- **False representation** – this is defined in the Act as a case where a person makes “any representation as to fact or law...express or implied” for example the falsification of records.
- **Failure to disclose information** – this is defined in the Act as when a person fails to disclose any information to a third party when they are under a legal duty to disclose such information, for example if financial information was to be dishonestly concealed from the External Auditors in order to gain or cause loss then the person(s) involved may be guilty of an offence.
- **Abuse of position** – this is defined as a case where a person occupies a position where they are expected to safeguard the financial interests of another person, and abuses that position. This includes both an omission to act and an overt act.

In all three types of fraud, the person must have acted dishonestly and/or they have to have acted with the intention of making a gain for themselves or anyone else, or inflicting a loss on another.

The Act also creates new offences of possession of articles used in a fraud and the making or supplying of articles used in frauds.

The Act also covers fraudulent trading, obtaining services dishonestly and other minor provisions.

### 4.2 Financial Fraud

Financial fraud can be broadly defined as an intentional act of deception involving transactions for the purpose of a personal gain.

Key indicators of financial fraud include the following:

- Low morale amongst staff;
- Untaken holiday;
- Dominant line management;
- High staff turnover;
- Lifestyles of employees not commensurate with salary; and
- Unusual, irrational or inconsistent behaviour.

#### 4.3 Non-financial Fraud

There are other non-financial frauds which this Policy covers, for example:

- Computer fraud – this is where information technology equipment has been used to manipulate programs or data dishonestly (for example, by altering, substituting or destroying records) or where the use of an IT system was a material factor in the perpetration of fraud. Theft or fraudulent use of computer time and resources is included in this definition;
- Abuse of sick leave, contract of employment or timesheets;
- Abuse of confidential information;
- Breach of Data Protection Act; and
- Identify Theft.

Fraud can be perpetrated by persons outside as well as inside an organisation.

Attempted fraud within the University is considered to be as serious as accomplished fraud.

#### 4.4 Definition of Money Laundering

The Proceeds of Crime Act 2002 states that it is an offence to:

- assist another person to launder proceeds of crime; and/or
- fail to report knowledge or suspicions of the laundering of the proceeds of crime.

An example of money laundering in a University context relates to the payment of tuition fees by international students. This could occur where a student overpays his/her fees and then requests a refund in the form of a cheque drawn on the University's bank account. In this way, the identity of illegally obtained money is concealed, as it appears to have come from a lawful source.

### 5. RESPONSIBILITIES

5.1 The University, as a charitable organisation must demonstrate the highest standards of good governance. All actual or attempted frauds should be reported and action taken as described in this Policy.

#### 5.2 Role of Management

It is the responsibility of management to detect fraud and to implement systems of internal control, to minimise the risk of fraud within their areas of responsibility. Management must assess the types of risk involved, regularly review and test the control systems, ensure firstly that the controls are being complied with and that the

control systems continue to operate effectively. In establishing and maintaining effective controls it is desirable that:

- Whenever possible, there is a separation of duties so that control of a key function is not vested in one individual.
- Backlogs are not allowed to accumulate.
- In designing new systems, consideration is given to building in proper safeguards against internal and/or external fraud.
- There are clear definitions of the responsibilities of, and the authority delegated to, Heads of School, Directors and their staff.
- There is a comprehensive planning process supported by detailed operational plans and budgets, which are reviewed regularly and updated as necessary.
- An effective Internal Audit function is established together with an Audit Committee which approves an annual audit programme.
- Ongoing training is provided to relevant staff.

It is important to note that an established control framework can only provide reasonable, not absolute, assurance against fraud.

### 5.3 Internal Audit

It is the responsibility of Internal Auditors to:

- Provide the governing body, the accountable officer and the other managers in the University with assurance on the adequacy and effectiveness of risk management, control and governance arrangements. Responsibility for these arrangements remains, however, fully with management, who should recognise that Internal Audit, can only provide 'reasonable assurance' and cannot guarantee against material errors, loss or fraud (under the current Financial Memorandum between the University and the Department for Employment and Learning (DEL)).
- Assess the adequacy of the arrangements in place to prevent and detect irregularities, fraud and corruption.
- Assist in the deterrence and prevention of fraud by examining and evaluating the effectiveness of controls commensurate with the extent of the potential exposure/risk in the various segments of the University's operations.
- Ensure that management have reviewed its risk exposures and identified the possibility of fraud as a business risk.
- Assist management in conducting fraud investigations, when required;
- Have sufficient knowledge of fraud to be able to identify indicators that fraud might have been committed.
- Be alert to opportunities, such as weaknesses of control, that could allow fraud.
- Notify the Accounting Officer (or nominee if appropriate) if fraud is suspected.
- Liaise with External Audit when appropriate.

The Internal Auditors are available at all times to offer advice and assistance on control issues as necessary. If a member of staff requires guidance in a particular area then they should firstly consult their line manager and/or the Director of Finance.

### 5.4 External Audit

It is the responsibility of External Audit to:

- Properly plan, perform and evaluate their audit work so as to have a reasonable expectation of detecting material misstatements in the financial statements, whether caused by fraud, other irregularities or errors.
- Evaluate and test those systems of internal control upon which they seek to place reliance.
- Liaise with Internal Audit.
- Notify the Audit Committee of any weakness in control.
- Notify the Chair of the Audit Committee and Vice-Chancellor if fraud is detected.

## 5.5 Employees

Every member of staff has a duty to ensure that University funds are safeguarded. Staff should alert their Head of School/Director (or the Director of Finance, if preferred) where they believe that the opportunity for fraud exists because of poor procedures or lack of effective oversight. In addition, it is the responsibility of every member of staff to report details immediately to their Head of School/Director (or the Director of Finance, if preferred) should they suspect that a fraud has been committed or be aware of any suspicious acts or events. Staff should also assist in any investigations by making available all relevant information and by co-operating in interviews.

Line managers should be alert to the possibility that unusual events or transactions could be symptoms of fraud or attempted fraud. Fraud may also be highlighted as a result of specific management checks or be brought to management's attention by a third party. Additionally, irregularities occasionally come to light in the course of audit reviews.

## 6. INVESTIGATIONS

### 6.1 Initial Investigation

Irrespective of the source of the suspicion or concern, it is for line management to undertake an initial investigation to ascertain the facts. However, line management may seek advice and/or guidance from the Director of Finance, at this stage, if required, particularly if it is felt that the review may require specialist assistance. This investigation should be carried out as speedily as possible after suspicion has been noted / highlighted - prompt action is essential. The purpose of the initial investigation is to ascertain the facts and confirm or repudiate the suspicions which have arisen so that, if necessary, further investigation may be instigated. It is good practice to establish a file and retain all supporting documentation in a secure location. It should contain a dated index of progress referenced to notes of interviews, meetings and decisions taken. The investigation should be conducted in a disciplined manner, enquiries made in a logical sequence, and all relevant material assembled chronologically and kept in safe custody.

If after the initial investigation it is concluded that a fraud (actual or attempted) is suspected or believed to have occurred then management must report the matter to the Director of Finance as soon as possible in order to allow for the necessary reporting to be made (see Section 7.2 for further details).

### 6.2 Further Investigation

As noted above, once it has been concluded, after the initial investigation, that a fraud (actual / attempted) has occurred or management suspect that one has occurred then a

more thorough detailed investigation is required. This process has been described in detail at Appendix A.

## 7. REPORTING

7.1 There are a number of reporting requirements which must be adhered to when addressing suspected / actual fraud. As noted above the initial investigation will be completed with the Director of Finance being informed as soon as possible if it is concluded that a suspected, attempted or actual fraud has occurred.

At this stage the Director of Finance will report the matter to Vice-Chancellor, as the University's Accounting Officer, who in turn will report, or nominate a member of the senior management team, the matter to the following as soon as possible:

- The Chair of the Audit Committee;
- Internal Auditors (if they have not already been involved in the initial investigation);
- Security Officer (in matters of theft);
- Insurance Officer;
- the Purchasing Office (who will liaise with the Equipment Liaison Officer at the relevant School / Directorate) (in matters of equipment theft));
- Head of School/Director (if not previously aware);
- Director of Human Resources;
- Department for Employment and Learning (if the value exceeds £5k– see below for further details).
- The Higher Education Funding Council for England (HEFCE) (if over £25k – see below for further details).
- Other members of the senior management team, as appropriate, for example the Director of Information Services and / or the Director of Estates, particularly if a decision has been taken by Senior Management that access to systems / premises needs to be restricted.
- The Police (please see Section 7.5) for further details.

### 7.2 Financial Memorandum

Under the current Financial Memorandum, in place between the University and DEL, the University is required to report all suspected, attempted and actual frauds, immediately to DEL if the value is over £5k. This function is the responsibility of the Director of Finance and consequently, it is imperative that all such incidences are reported to the Director of Finance at the earliest opportunity by relevant staff.

The notification, to DEL, will include the following information:

- i) The circumstances of each case;
- ii) Any action that is proposed or has been taken against the individual concerned along with the proposed timescales; and
- iii) Any steps taken or to be taken to avoid re-occurrence.

This is additional to the HEFCE requirements outlined below and the annual DEL returns regarding fraud.

Additionally, under the Financial Memorandum the Vice-Chancellor, as the University's accountable officer, must report any attempted or actual frauds to all of the following:

- Chair of the Audit Committee;
- Chair of Senate;
- Permanent Secretary of the Department as Accounting Officer;
- Head of Internal Audit; and
- External Auditors.

### 7.3 Reporting to HEFCE

Under the Audit and Accountability: HEFCE Code of Practice all significant frauds should be reported to HEFCE. The Code of Practice describes a significant fraud as any theft, fraud, loss of charity assets or other irregularity where the sums of money involved are, or potentially are:

- in excess of £25,000 (this figure aligns with reporting requirements for charities and we will keep it under review and notify changes through our annual accounts direction); or
- where the particulars of the fraud, theft, loss of charity assets or other irregularity may reveal a systemic weakness of concern beyond the institution, or are novel, unusual or complex; or
- where there is likely to be public interest because of the nature of the fraud, theft, loss of charity assets or other irregularity, or the people involved.

### 7.4 Internal and External Audit Liaison

In the event of any known incidences of fraud or suspected fraud within the University, Internal and External Auditors should liaise, where appropriate.

### 7.5 PSNI Liaison

If it is believed that an arrestable offence has been committed, the Vice-Chancellor, or nominated officer, must, under the Criminal Law Act 1967, report the matter to the Police Service of Northern Ireland (PSNI).

In the event of a refusal by the Vice-Chancellor to report the matter to the police any other person who believes that an arrestable offence has been committed must report the matter to the police directly (*Criminal Law Act 1967*).

A framework defining the basic relationship between PSNI and the University, in respect of the investigation and prosecution of suspected fraud cases, has been documented in a Memorandum of Understanding (MOU) between the Northern Ireland Public Sector and PSNI. The MOU records the agreed best practice to be followed but is purely advisory and does not impose any obligations on the parties.

### 7.6 Annual Report

An annual report on fraud, or attempted fraud, should be brought to the Audit Committee. As a consequence, the findings, and any associated recommendations, may be incorporated within the Audit Committee Annual Report to Senate.



## **8. FOLLOW UP ACTION**

8.1 Where a fraud has occurred management within both the Finance Directorate and the relevant School / Directorate must make any changes to systems and procedures to ensure that similar frauds will not recur. In addition management has a responsibility to ensure that satisfactory procedures exist to pursue recovery of the loss. It should be noted that the University has insurance arrangements in place and if it is believed that an item is stolen, or this is suspected then in line with this Policy the following actions must be completed:

- The relevant Head of School / Director should be informed as soon as possible.
- The Head of School / Director should undertake an initial investigation to ascertain the facts of the case.
- The Head of School / Director should report the matter to the Director of Finance and the University's Security Officer.
- The School/Directorate should also liaise with the Insurance Section, within the Finance Directorate, as it may be possible to have the item replaced or the cost reimbursed to the University.

If appropriate, the Internal Auditors can advise management on steps which should be taken to improve systems and thereby limit the potential of a recurrence.

## **GUIDANCE ON CONDUCTING AN INVESTIGATION**

### **1. INTRODUCTION**

- 1.1 As noted at Section 6 of the Policy, line managers must complete an initial investigation as soon as concerns are raised / identified in order to ascertain the facts and determine if it is believed that a fraud has occurred. Whilst line management will generally complete this review, with the Director of Finance being informed, if management are of the opinion that specialist advice is required or there is a conflict of interest etc then a decision may be taken to obtain help elsewhere, for example, the Finance Directorate / Internal Audit. Once the initial investigation has been completed a more thorough investigation will be carried out. Below, guidance has been provided regarding the steps which should be taken.

### **2. INVESTIGATIONS**

#### **2.1 Project Team**

The person charged with the responsibility of completing the review may wish to establish a project team consisting of appropriate personnel such as the Director of Finance (or nominated officer), a Personnel Officer (if appropriate), Internal Audit (if appropriate) and a senior member of the Directorate/School in which the suspected fraud took place. The membership of a project team will depend on the circumstances involved and consequently may vary on each occasion.

#### **2.2 Review of documentation**

In the later stages where there is enough evidence to indicate that a fraud has occurred the objective is to collect sufficient evidence to prove the offence and identify the person(s) responsible.

A necessary part of any investigation will be the collection, review and assessment of available documentation.

##### **(i) Collection of documentation**

All necessary documentation must be collected and retained. This can be either paper or computer based. It may, as such, be necessary to liaise with other senior staff, for example the Director of Information Services in order to assess how best to fully extract the necessary information from the system in question. With regards to paper based documentation, this should be retained in a file with original copies being sought if possible. The file should be secured at all times. It is imperative to remember that this documentation may need to be used at a later date by various parties such as an internal disciplinary panel and / or the police and as such the integrity of the information should not be jeopardised.

(ii) Review of documentation

Once all the relevant information has been gathered it should be reviewed by the Project Leader (or team) in order to assess if there are any outstanding issues / queries.

(iii) Assessment of documentation

The documentation should finally be assessed in order to determine the next steps required, for example, what staff will be interviewed.

Having determined, or found reasonable evidence, that a fraud has been attempted or committed a decision will need to be taken regarding whether the suspect(s) can be identified. If there is a suspect(s) then the investigation should be extended to cover all aspects of his/her work. The premise to be followed is that if a person has committed or attempted to commit fraud in one area of his/her activities then he/she may well commit offences in other areas if the opportunity arose.

### 2.3 Interviews

Various members of staff will more than likely need to be interviewed irrespective of whether there is a suspect(s) or not in order to ascertain certain facts, clarify queries etc. All those selected will have to be interviewed formally to hear their explanation of the facts answer particular queries etc. At this stage the Director of Human Resources, or nominee, must be involved.

Before conducting an interview some very careful planning needs to be completed and the following points in particular will have to be decided:

- The matters on which further information is required.
- The time and place for the interview bearing in mind the need to avoid any interruptions.
- The people who will be present.
- The interviewee should be afforded the opportunity to be accompanied or a union representative.

It is important to ensure that a proper record of the meeting is prepared.

The interviewers must use acceptable and proper techniques for example:

- Detailed, polite and probing questions.
- Do not show anger, sarcasm or use threatening behaviour.
- Explain information and conclusions drawn.
- Re-word questions if necessary, repeat until it is clear that answers will not be forthcoming.
- If an obvious lie is told challenge the interviewee.
- Do not be intimidated by an aggressive attitude.

In making a report on the interview and in assessing what the person has said it is extremely important to check the facts, particularly if there is the possibility of a subsequent court case.

## 2.4 Retention of documentation

All documentation and supporting evidence must be kept in a safe and secure location. Additionally, if a member of staff is suspended from duty, then steps must be taken to prevent them from gaining access to the building or interfering with the investigation. Please see Section 3.1, of this Guidance, for further details.

## 3. PREVENTION OF FURTHER LOSS AND RECOVERY OF LOSSES

- 3.1 Where initial investigation provides reasonable grounds for suspecting a member(s) of staff of fraud, the project group will decide how to prevent further loss. This may require the suspension, with or without pay, of the suspect(s). It may be necessary to plan the timing of the suspension to prevent the suspect(s) from destroying or removing evidence that may be needed to support disciplinary or criminal action.

In these circumstances, the suspect(s) should be approached unannounced. They should be supervised at all times before leaving the University premises. They should be allowed to collect personal property under supervision, but should not be able to remove any property belonging to the University. Any security passes and keys to premises, offices and furniture should be returned immediately. The Estates and Information Services Directorate must be informed as soon as possible in order to ensure that access to systems and / or University premises is restricted.

- 3.2 Recovering losses is a major objective of any fraud investigation. The Director of Finance shall ensure that, where possible, the amount of any loss will be quantified for all fraud investigations. Repayment of losses should be sought in all cases.

Where the loss is substantial, legal advice should be obtained without delay about the options available.

## 4. REPORTING

- 4.1 The person responsible for completing the investigation shall provide the project group with reports on the progress of investigations, no less frequently than fortnightly. The scope of the report shall include quantification of losses, progress with recovery action, progress with disciplinary action, progress with criminal action, estimate of resources and timescale to complete the investigation, and actions taken to prevent and detect similar incidents.

On completion a written report shall be submitted to the Audit Committee 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
- Further internal controls required to prevent future frauds with a follow-up report on whether actions have been taken.