



Fraud procedures

Scope and purpose

These procedures underpin the Fraud Policy. They are to help prevent fraud and corruption and to develop an anti-fraud culture.

They apply to all members of staff, students and external contractors.

Relationship of Fraud Procedures to Human Resources (HR) Disciplinary Procedures

Reference to investigation in the Fraud Procedures will supplant the initial fact-finding and formal investigations described in the HR procedures. HR disciplinary procedures must be followed when disciplinary action is taken.

Background

The procedure is published on the Finance website in the Policies and Procedures page:

<https://www.edweb.ed.ac.uk/finance/for-staff/financial-regulations-policies-and-procedures/policies-and-procedures>.

The procedures are set out in sections A-C

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Fraud Procedures

Section A: Governance and Responsibilities

Laws

Criminal Finances Act 2017

An Act to amend the Proceeds of Crime Act 2002; make provision in connection with terrorist property; create corporate offences for cases where a person associated with a body corporate or partnership facilitates the commission by another person of a tax evasion offence; and for connected purposes.

The [Criminal Finances Act 2017](#) (the 'Act') received Royal Assent on 27 April 2017. Part 3 of the Act sets out the corporate offences of failure to prevent the criminal facilitation of criminal tax evasion.

HMRC published [updated guidance on the offence](#) in September 2017 (the 'HMRC guidance'). The HMRC guidance is of general application and, as HMRC acknowledges, it is not a 'one-size-fits-all document'.

Public Interest Disclosure Act 1998

An Act to protect individuals who make certain disclosures of information in the public interest; to allow such individuals to bring action in respect of victimisation; and for connected purposes.

The University has established arrangements for staff to report any concerns they may have without fear of prejudice or harassment. This applies to concerns relating to fraud and to any other concerns within the context of the Public Interest Disclosure Act 1998. See Section C: Fraud Response Plan – Reporting Fraud.

Regulation of Investigatory Powers (Scotland) Act 2000

An Act of the Scottish Parliament to regulate surveillance and the use of covert human intelligence sources.

In order to comply with the Regulation of Investigatory Powers (Scotland) Act 2000, line managers must not undertake covert surveillance of employees.

Prevention and actions on discovery

To counter and prevent fraud and corruption we will:

- develop and maintain effective controls to prevent fraud;
- monitor financial transactions;
- ensure rigorous and prompt investigations of suspected fraud;
- take disciplinary and legal action in all cases, where justified;
- review systems and procedures to prevent similar frauds;
- investigate whether there has been a failure in supervision and take appropriate disciplinary action, in line with Disciplinary Policy and Procedures, where supervisory failures occurred; and
- record and report all discovered cases of fraud.

Managers in Colleges, Schools and Departments and Financial Information, Reporting & Strategy Team (FIRST) are responsible for monitoring financial transactions.



Fraud Procedures

Section A: Governance and Responsibilities

Reporting fraud

When members of staff, students or members of Court suspect fraud or irregularity in the University they should report it as soon as possible as follows:

Position	Report to
Staff/Student	Line/Responsible manager
Managers	Head of School or PS* Group
Head of School or PS* Group	Director of Finance (if absent Deputy DoF)
Court members	Director of Finance (if absent Deputy DoF)
Director of Finance	Principal, Convener of the Audit & Risk Committee, University Secretary, Director of Corporate Services, Chief Internal Auditor.

*Professional Services Group

If the actual or suspected incident concerns or implicates the Director of Finance, it should be reported without delay to the Principal, the University Secretary, and the Convener of the Audit & Risk Committee.

Concerns to be reported

Acts by Staff

If you suspect or have witnessed the following you must report it:

- any dishonest or fraudulent act;
- forgery or alteration of documents or accounts;
- misappropriation of funds, supplies or other assets;
- impropriety in the handling or reporting of money or financial transactions;
- profiting from an official position;
- disclosure of official activities or information for advantage;
- accepting or seeking value from third parties by virtue of official position or duties; and
- theft or misuse of property, facilities or services.

Acts by External contractors

- being offered a bribe or inducement by a supplier;
- receiving fraudulent (rather than erroneous) invoices from a supplier;
- allegations of corruption or deception by a supplier.

Responsibilities

Court and senior staff - behaviour

The Court and senior staff should ensure that their behaviour is demonstrably selfless and open, and should champion the University's policies on conflicts of interest, hospitality and gifts.

Court and Director of Finance – internal control system

The University Court, advised and assisted by the Director of Finance, is responsible for establishing the internal control system designed to counter the risks faced by the University, and for the adequacy and effectiveness of these arrangements. Managing fraud risk should be seen in the context of the management of this wider range of risks.



Fraud Procedures

Section A: Governance and Responsibilities

Director of Finance	<p>The Director of Finance is responsible for:</p> <ul style="list-style-type: none">• making arrangements for investigating allegations of fraud including the appointment of a suitably qualified senior member of staff to lead the investigation. (Section C: Fraud Response Plan/ Fraud Investigation Group);• receiving the report of the investigating officer and considering an appropriate response.
Director of Human Resources	<p>The Director of Human Resources will be responsible for the provision of confidential advice to staff who suspect a member of staff of fraud and for supporting the process of:</p> <ul style="list-style-type: none">○ disciplinary action;<ul style="list-style-type: none">▪ against the perpetrators of fraud;▪ against staff in a supervisory capacity where supervisory failures have contributed to the commission of fraud;○ civil action against the perpetrators of fraud.
Investigator	<p>The Investigating Officer must be suitably trained and experienced in undertaking fraud investigations. To ensure impartiality of reporting, investigations are usually undertaken by the Chief Internal Auditor or their team, who combine independence, investigative techniques and local knowledge</p> <p>This is particularly important as their findings may need to be referred to the Police and evidence needs to be collected to criminal evidence standards.</p> <p>The appointed senior member of staff will be responsible for investigating allegations of fraud including:</p> <ul style="list-style-type: none">• carrying out a thorough investigation if fraud is suspected, with the support of Internal Audit, where necessary;• gathering evidence, taking statements and writing reports on suspected frauds;• liaising with the Director of Finance where investigations conclude that a fraud has taken place;• identifying any weaknesses which contributed to the fraud; and if necessary;• making recommendations for remedial action. <p>To carry out these duties the investigator will have unrestricted access to the Director of Finance, the Director of Human Resources, the Audit & Risk Committee, the University's Internal and External Auditors, and its legal advisers.</p>



Fraud Procedures

Section A: Governance and Responsibilities

Managers

Managers are the first line of defence against fraud. They should be alert to the possibility that unusual events may be symptoms of fraud or attempted fraud and that fraud may be highlighted as a result of management checks or be brought to attention by a third party. They must:

- be aware of the potential for fraud e.g. an employee not taking annual leave;
- ensure that an adequate system of internal control exists within their area of responsibility, appropriate to the risk involved and those controls are properly operated and complied with;
- review and test control systems to satisfy themselves the systems continue to operate effectively.

Managers should inform their Head of School or Professional Services Group:

- if there are indications that an external organisation (such as a contractor or client) may be trying to defraud (or has defrauded) the University or its staff carrying out their duties;
- if they suspect their staff may be involved in fraudulent activity, impropriety or dishonest conduct.

As time is of the essence, managers should inform the Director of Finance directly if their Head of School or Professional Services Group Director is absent.

Head of School, Director of Professional Services Department

The Head or Director must:

- contact the Director of Finance immediately on being alerted to suspicions. In the absence of the Director of Finance, the Deputy Director of Finance should be informed;
- take care to avoid doing anything which might prejudice the case against the suspected fraudster.

There are three Colleges and three Professional Services Groups each with various schools or departments – see Organisational structure at Section D.

Security manager

Any security passes and keys to premises, offices and furniture should be returned.

The Security manager should advise on the best means of denying access to the University while an employee suspected of fraud remains suspended, for example by changing locks and informing security staff not to admit the individual to any part of the premises.

Head of Information Services

The Head of Information Services should be instructed to withdraw, without delay, access permissions to the University's computer systems.



Fraud Procedures

Section A: Governance and Responsibilities

Fraud Response Plan

The immediate aftermath of the discovery or allegation of fraud can be a difficult time.

Everyone should take care to avoid doing anything which might prejudice the case against a suspected fraudster.

This is particularly important in relation to the preservation of evidence and on how to deal with the individuals involved.

To ensure we make the right decisions our Fraud Response Plan sets out guidance to senior staff in the event of fraud being discovered or suspected, responsibilities and procedures to be followed – see Section C.

The Fraud Response Plan is circulated to designated staff involved in reporting or investigating individual allegations of fraud.

Anti- Bribery and Corruption Policy

For more detail on bribery and corruption see the Anti- Bribery and Corruption Policy. https://www.edweb.ed.ac.uk/files/atoms/files/anti-bribery_and_corruption_policy_1_august_2019.pdf



Fraud Procedures

Section B: Minimising the opportunities for fraud

Minimising the opportunities for fraud

Training

Fraud can be minimised through carefully designed and consistently operated management procedures, which deny opportunities for fraud.

Staff must comply with and should receive training in the University's policies on segregation of duties, data security and conflict of interest, and the University's financial regulations.

Finance should continue fraud training. This should be monitored to ensure effectiveness.

Review by Internal Audit

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

Recruitment screening

References

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

- an official employer's reference should be obtained. This should cover a reasonable, continuous period of at least three working years 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.

Qualifications

Essential qualifications should be checked before making an offer of employment, for example by requiring original certificates at the interview.

Disclosure Scotland checks

Where a post carries significant financial responsibility, Disclosure Scotland checks should be considered; the University Secretary's Office should be consulted.

Overseas checks

Equivalent checks should be made for overseas' appointments.

Segregation of duties

Segregation of duties is critical to effective internal control; it reduces the risk of both erroneous and fraudulent actions.

In general, we separate the approval function, the accounting/reconciling function, procurement duties and the custody of assets among employees. When we cannot separate these functions, a detailed supervisory review of related activities is required as a compensating control activity. Segregation of duties is a deterrent to fraud because it requires collusion with another person to perpetrate a fraudulent act.

Segregation of duties should continue during periods of leave or sickness absence.



Fraud Procedures

Section B: Minimising the opportunities for fraud

Systems

Internal controls will be designed into all relevant systems and applied consistently, including segregation of duties, reconciliation procedures, random checking of transactions, and review of management accounting information, including exception reports. Systems should identify transactions which have not followed normal procedures.

Systems should prevent one person from receiving, recording and banking cash.

Where there are many outlets, management should incorporate additional supervisory management, and unannounced spot checks.

To provide communications security, third party software for the administration of purchase and credit cards will use Transport Layer Security (TSL) encryption only. Cardholder spend will be reviewed periodically to ensure this is within University expenditure guidelines.

Cash and cheques

Reconciliations

Management of cash and cheques should include the following:

- frequent bank reconciliations - some frauds can go undetected for long periods if accounts have not been reconciled promptly, or because discrepancies have not been fully investigated;
- An independent record of cash received and banked may deter and detect fraud. Documents used in reconciliation processes should not be available to the officer responsible for banking.

Mail

Central opening of all post by more than one person, and recording of all cash and cheques received.

Cash should never be sent through the mail.

Receipts

Receipts should be issued in return for cash received, to provide an audit trail.

Physical security

Physical security, such as key pad controlled cashiers' offices and safes; keys and access codes should be kept secure.

Cash should be banked frequently.



Fraud Procedures

Section B: Minimising the opportunities for fraud

Cheques

Cheques are often completed in ways which facilitate opportunist fraud. Cheques are sometimes intercepted by organised criminals who falsify payee and value details using sophisticated techniques. Debtors may also be told to make cheques payable to a private account, possibly using an account name which is similar to that of the University.

The following preventative measures should be taken:

- Physical security - unused, completed and cancelled cheques should never be left unsecured. If cheques are destroyed, more than one officer should be present, and a record of the serial numbers should be maintained;
- Use of bank account names which it is difficult to represent as personal names, to prevent the simple theft of cheques in the post and their conversion into cash;
- Clear instructions to debtors about correct payee details and the address to which cheques should be sent. The address should normally be the accounts department, not the department which has provided the goods or services;
- Rotation of staff responsibilities, including the regular rotation of counter-signatories in accounts departments, to reduce the risk of collusion;
- Training in secure completion of cheques.

Alternatives to cash and cheques

Use electronic funds transfer (EFT) as an alternative to cheques.
Use purchase cards for expenditure under £500.
Use credit cards with pre-agreed spending limits (see below).

Checks with bank

At least once a year FIRST (Financial Information, Reporting & Strategy Team) should check with local banks to ascertain whether they hold any accounts which contain the University's name, or name of subsidiaries or other undertakings to identify any potential clones.

Purchase and credit cards

Management

Use company cards to expedite travel or small irregular payments:

Cards are managed via RBS SDOL which allows management to oversee spending as required, reporting by merchant, and department.
Cards are issued only against an approved business case.
Misuse or non-compliance with FIRST regulations as to month end returns, will result in the card being suspended.
All expenditure is approved by staff member's line manager.
Expenditure on Purchase cards is only against a valid SciQuest Purchase Order and reconciled to log books monthly.
Expenditure on credit cards is reviewed no later than working day 10 by managers and FIRST team.



Fraud Procedures

Section B: Minimising the opportunities for fraud

Physical security

- Cards and pin numbers are issued separately.
- Cards are held in a locked drawer until they are issued to, and signed for, by the card holder.
- Credit and purchase cards issued on cardholder signature.

Purchasing

- Many of the largest frauds suffered by higher education institutions have targeted the purchase ledger. Preventative measures should be taken as follows:

Suppliers

- All suppliers should be vetted to establish that they are genuine and reputable companies before being added to lists of authorised suppliers;

Processes

- Minimising little used or unusual account codes;
- Ensuring that all account codes are effectively monitored and approved by line management;
- Segregation of duties;
- Secure management of the creditors' standing data file, including segregating the origination and approval of new or amended data;
- Requiring purchase orders for the procurement of all services, as well as goods;
- Matching the invoice amounts to the purchase order commitment in all cases. Where service order variations occur, these should be supported by an authorised variation order;
- A certified delivery note should be matched to the invoice for payment.

Behaviour patterns

Managers and staff should be aware of suspect patterns of behaviour among staff dealing with financial transactions and where appropriate report them in line with above procedure, for example:

- living beyond apparent means;
- taking few holidays;
- regularly working alone out of normal hours; and
- resistance to delegation.

Any indication of addiction to drugs, alcohol or gambling should be addressed promptly, for the welfare of the individual and to minimise risks to the University.



Fraud Procedures

Section C: Fraud Response Plan

Purpose	The purpose of this fraud response plan is to define authority levels, responsibilities for action and reporting lines in the event of suspected fraud or irregularity.
Investigation	<p>Those investigating a suspected fraud should:</p> <ul style="list-style-type: none">• aim to prevent further loss;• liaise with the University's Insurance Officer;• establish and secure evidence necessary for criminal and disciplinary action;• inform the police<ul style="list-style-type: none">▪ the decision to inform lies with the Director of Legal Services▪ the investigating officer should inform the police• notify SFC (Scottish Funding Council), if necessary;• seek to recover losses;• take appropriate action against those responsible;• keep those internal staff and outside organisations with a need to know suitably informed, on a confidential basis, about the incident and the institution's response;• 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. <p>An individual who suspects wrongdoing should, on no account, conduct their own investigations or interviews.</p>
Recording information	<p>The investigating officer should record all details of the facts and circumstances relating to the suspected irregularity in an indexed file including details of:-</p> <ul style="list-style-type: none">• Telephone conversations;• Face to face discussions /interviews;• A record of documents / computer files reviewed;• Tests undertaken with results and conclusions drawn. <p>Files must be marked confidential and must be held securely at all times. Where details of allegations and any subsequent investigation are held digitally, they must be password protected and file name(s) must not identify either.</p>
Reporting Fraud	Suspected fraud should be reported as soon as possible as outlined in Section A – Reporting Fraud.



Fraud Procedures

Section C: Fraud Response Plan

Fraud Investigation Group (FI Group)

The Director of Finance should, as soon as possible (and with the aim of acting within 24 hours), convene and chair a meeting of the following people to decide on the initial response, using properly appointed nominees where necessary:

- Director of Finance,
- University Secretary and/or Director of Corporate Services,
- The Head of College or Director of Professional Services Group of the College/ Professional Services Group involved,
- Director of Human Resources.

Where the Director of Finance is suspected of fraud, the University Secretary will lead the Fraud Investigation Group. Should the incident concern or implicate any other member of this Group, the Director of Finance will appoint a substitute.

Initiating Investigation

The Fraud Investigation Group (FI Group) will decide on the action to be taken.

To ensure impartiality of reporting, investigations are usually undertaken by the Chief Internal Auditor and their team, who combine independence, investigative techniques and local knowledge.

A decision by the FI Group to initiate an investigation will constitute authority to the Chief Internal Auditor to use time provided in the internal audit plan for investigations, or contingency time, or to switch internal audit resources from planned audits.

Prevention of further loss

Where initial investigation provides reasonable grounds for suspecting a member or members of staff or others of fraud, the FI Group will decide how to prevent further loss.

While the investigation take place this may require the suspension of the employee/s suspected, under the appropriate disciplinary procedure. It may be necessary to plan the timing of suspension to prevent suspected employees from destroying or removing evidence that may be needed to support disciplinary or criminal action.

Dealing with suspect

Approaching suspect

In order to prevent concealment of wrongdoing an employee suspected of fraud should be approached unannounced.

They should be supervised at all times before leaving the University's premises. They should be allowed to collect personal property under supervision, but should not be able to remove any property belonging to the University.



Fraud Procedures

Section C: Fraud Response Plan

Security	<p>Any security passes and keys to premises, offices and furniture should be returned.</p> <p>The Head of Security should be required to advise on the best means of denying access to the University while the employees remain suspended, for example by changing locks and informing security staff not to admit the individuals to any part of the premises.</p> <p>Similarly, the Head of Information Services should be instructed to withdraw without delay access permissions to the University's computer systems.</p>
Investigation of systems	<p>The FI Group will 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 University's assets, establishing and securing evidence.</p>
Disciplinary procedures	<p>The University will follow disciplinary procedures against any member of staff or student who is found to have committed fraud, and will normally report any such individual to the criminal authorities.</p>
Conduct of investigation	<p>The Director of Finance or Deputy Director of Finance in the Director of Finance's absence will:</p> <ul style="list-style-type: none">• ensure that evidence requirements are met during any fraud investigation;• ensure that staff involved in fraud investigations are familiar with and follow rules on the admissibility of documentary and other evidence in criminal proceedings.
Reports on investigation	<p>The FI Group will provide regular, confidential reports to the Principal, the Convener of Court and Convener of the Audit & Risk Committee, which will include:</p> <ul style="list-style-type: none">• 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. <p>There will also be ongoing reports on the status of live and completed investigations.</p>
Audit & Risk Committee	<p>Progress on investigations will be reported to the Audit & Risk Committee as a standing item on its agenda.</p>



Fraud Procedures

Section C: Fraud Response Plan

Report to Scottish Funding Council (SFC)

The Director of Finance will, on behalf of the University, notify the SFC Chief Executive of any attempted, suspected or actual fraud or irregularity where:

- the sums involved are, or potentially are, in excess of £10,000;
- the particulars of the fraud are novel, unusual or complex;
- there is likely to be public interest because of the nature of the fraud or the people involved.

Recovery of losses

The Chief Internal Auditor will endeavour to ensure that the amount of any loss is quantified.

Repayment of losses will be sought in all cases. Where the loss is substantial, legal advice should be obtained about what processes may be available to preserve the suspects assets, pending conclusion of the investigation.

Legal advice may be obtained about prospects for recovering losses through the civil court, where the perpetrator refuses repayment.

The University will normally expect to recover costs in addition to losses.

Final report

On completion of a special investigation, a written report, normally prepared by the Chief Internal Auditor, shall be submitted to the Audit & Risk 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;
- action needed to strengthen future responses to fraud, with a follow-up report on whether the actions have been taken.

Communication with perpetrator

The final outcome will be reported to the perpetrator.

Any request for a reference for a member of staff or student who has been disciplined or prosecuted for fraud must be referred to the University Secretary for advice.

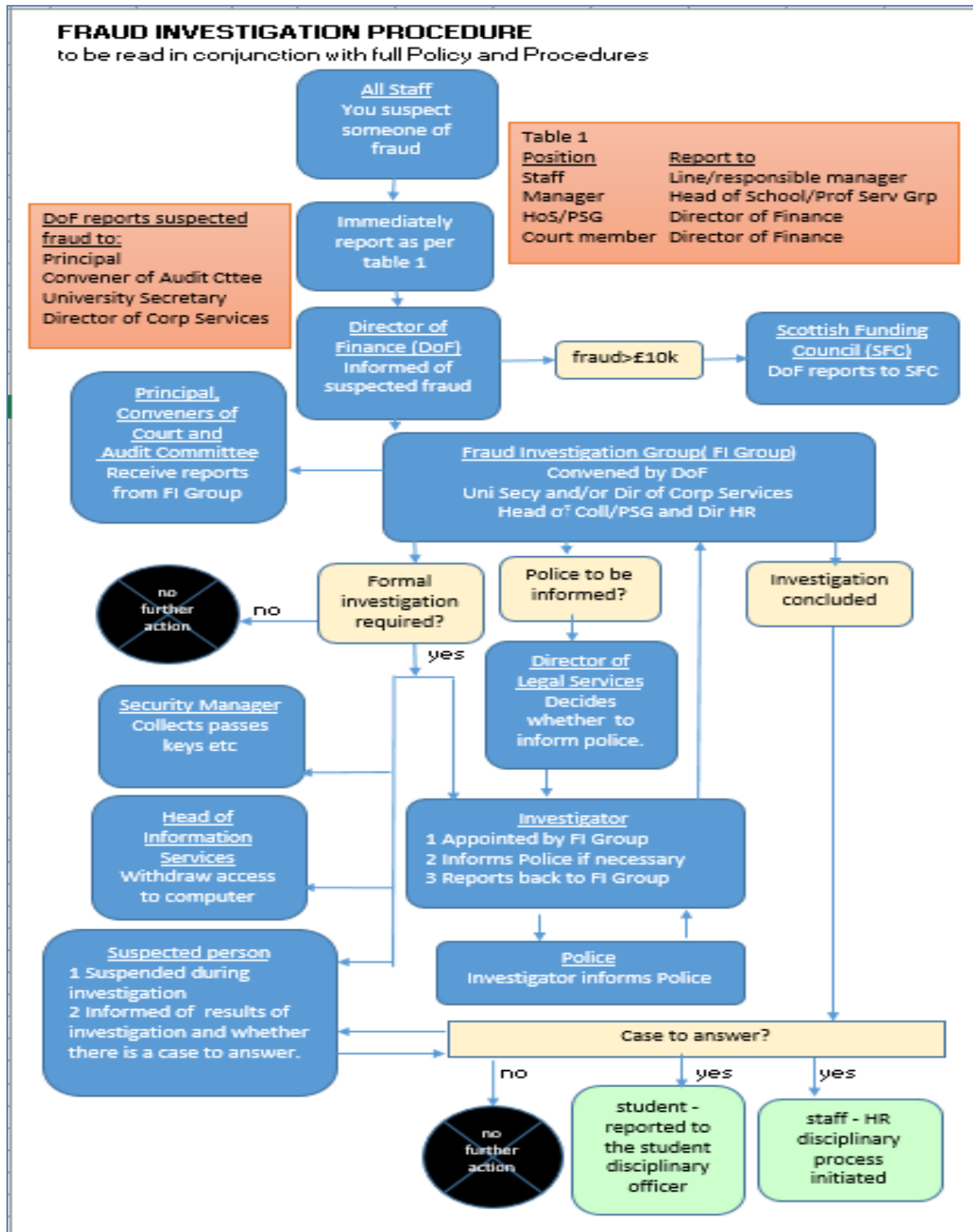
Review of fraud response plan

This plan will be annually reviewed for fitness of purpose. Any recommended change will be reported to the Audit & Risk Committee for consideration and to Court for approval.



Fraud Procedures

Section D: Flowchart – Fraud Investigation Procedure





Fraud procedures

Document control

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