

# FRAUD POLICY AND FRAUD RESPONSE PLAN

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## Version Control

<b>Version</b>	<b>Date</b>	<b>Reason for change</b>
1	August 2013	Changes of titles
1.1	January 2014	Revision to membership of the Fraud Response Group
2	August 2014	Revision to membership of the Fraud Response Group and following the publication of the Memorandum of assurance and accountability between HEFCE and institutions 2014/12
2.1	August 2015	Changes of titles
2.2	August 2016	Changes of titles
2.3	October 2017	Revisions to take account of changes in University roles including <ul style="list-style-type: none"><li>• Defining key roles and responsibilities</li><li>• Replacing the Director of Finance and Corporate Services with the Chief Financial Officer and removing the Chief Operating Officer</li><li>• Clearer definition of fraud</li><li>• More emphasis on legal advice</li><li>• Liaison with University Officers and the Police</li><li>• More emphasis on confidentiality</li><li>• Reporting frauds to the Audit Committee</li></ul>
2.4	February 2018	Addition of procedure for contacting Police

# Part A: INTRODUCTION

The University is, and wishes to be seen by all as being, honest and opposed to fraud and corruption in the way it conducts University business. The objective of the Fraud Policy and Response Plan is to safeguard the proper use of the University's finances and resources, including the finance and resources of its subsidiary companies, against fraudulent or corrupt acts; and to comply with the law and relevant regulations. This document sets out the University's policy and procedures for preventing, detecting, investigating and reporting the risk of fraud or corruption. To minimise the risk and impact of fraud, the University's objectives are:

- firstly, to create a culture which deters fraudulent and corrupt activity, encourages its prevention and promotes its detection and reporting; and
- secondly, to ascertain and document its response to cases of fraud and corrupt practices.

To achieve these objectives, the University has taken the following steps:

1. The development and publication of a formal statement of its expectations in this area on standards of personal conduct, propriety and accountability (Appendix 1 section 1.1);
2. The establishment of adequate and effective systems of internal financial and management control (and a clear requirement to comply with them), an Audit Committee and an independent Internal Audit Service with an ongoing responsibility to review and report on these systems (Appendix 1 section 1.2);
3. The development and publication of a fraud policy and a fraud response plan which sets out the University's procedures to be invoked following the reporting of possible fraud, corruption or the discovery of an actual fraud;
4. The establishment of a Corporate Social Responsibility Business Conduct Policy that sets out the University's commitment to the highest standards of openness, integrity and accountability.
5. The operation of a University Public Interest Disclosure (Whistleblowing) Policy and hotline that gives individuals the right to raise legitimate concerns about possible fraud, as well as other/irregularities

## Definitions

### Fraud

The term fraud is a broad and widely-used term to describe many fraudulent-type activities that include theft, false accounting, misappropriation, bribery, corruption, deception and collusion. Fraud can arise through the symptoms of poor internal controls, Management override of internal controls, collusion between employees, collusion between employees and third parties.

In general, a fraud may be described as any type of deception that results in a gain to one party and/or a loss to another, in this case the University. The Fraud Act 2006 outlines three classes of fraud:

1. Fraud by false representation
2. Fraud by failing to disclose information

### 3. Fraud by abuse of position

The Fraud Act also created new offences:

- Possession and making or supplying articles for use in fraud
- Fraudulent trading (sole traders)
- Obtaining services dishonestly.

Additionally, theft - such as the removal and/or misuse of funds, assets or cash - is not prosecuted as a fraud but falls under the various Theft Acts.

In terms of the University's Fraud Response Plan, fraud may be defined as deception with the intention of:

- Gaining an advantage, personally and/or for friends and relatives
- Avoiding liability or
- Causing a financial and/or reputational loss to the University or one of its subsidiary organisations.

The main types of irregularity are:

- Theft: As above
- False accounting: dishonestly destroying, defacing, concealing or falsifying any account, record or documents 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 subsidiary or furnishing information which is or may be misleading, false or deceptive
- Abuse of position: This is where fraud is committed by a person or people by virtue of their position, or authority where they are expected to safeguard another's financial interests (e.g. that of the University as their employer) or not act against those interests.

Whilst they can be very varied in nature, some examples of these irregularities within the University context include:

- Abuse of the expenses process and system
- Abuse of recruitment processes, including failure to disclose relevant information
- Use of the University logo and/or letterhead for personal gain
- Abuse of the research grants, including misrepresentation and/or 'siphoning' of funds for personal gain
- Abuse of procurement processes
- Conflicts of interest.

Whilst by no means being proof on their own, the examples below 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
- Erratic or difficult to read text or with details missing

- Delay in completion or submission of claim forms
- Lack of vouchers or receipts in support of expense or other claims
- 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
- Insistence on dealing with a particular individual.

### **Bribery and corruption**

The Bribery Act 2010 came into force on 1 July 2011 and sets out the following specific bribery offences:

- Two general offences - a general offence covering the offering, promising or giving of a bribe (in the UK or overseas); and a general offence covering the requesting, agreeing to receive, or acceptance of a bribe
- And for organisations only, failing to prevent bribery (whether actual or attempted) by their associates (in the UK or overseas) such as employees, agents, joint venture partners, subsidiaries which results in benefit (this is termed the corporate offence)
- A discrete offence of bribery of a foreign public official.

The above legislation shows that fraudulent or corrupt behaviour could involve internal disciplinary action, and prosecution in the courts.

Full details of the Act are available at [www.legislation.gov.uk/ukpga/2010/23/contents](http://www.legislation.gov.uk/ukpga/2010/23/contents)

## **Part B: KEY ROLES, FRAUD POLICY**

### **Key roles**

**Council and Audit Committee** are responsible for approving policy with regard to fraud and receiving reports on any fraudulent activity and the actions taken to prevent further occurrences.

**The Vice-Chancellor** is the Designated Officer of the University under the terms of the Memorandum of Assurance and Accountability with HEFCE. The Memorandum states that "*The HEI's accountable officer must report any material adverse change without delay – such as a significant and immediate threat to the HEI's financial position, significant fraud, or impropriety or major accounting breakdown – to all of the following: the chair of the HEI's audit committee; the chair of the HEI's governing body; the HEI's head of internal audit; the external auditor; the HEFCE chief executive*".

**The Chief Financial Officer** is responsible for the design and establishment of the internal financial control system, managing fraud risk in the context of overall risks to the institution.

**The Chief Strategy Officer and University Secretary** is responsible to the Vice-Chancellor for the organisation of the investigation of fraud in consultation with the Director of Internal Audit Services.

**The Director of Internal Audit Services** is responsible for:

- Investigation of allegations of fraud
- Gathering evidence, taking statements and writing reports on suspected frauds
- Liaising with the University Secretary and Chief Financial Officer where investigations conclude that a fraud has taken place
- Liaising with other University officers that may be involved with an investigation
- Liaising with the Police
- Providing reports on fraud to the Audit Committee
- Identifying weaknesses which contributed to the fraud
- Making recommendations for any necessary remedial action
- Following up any agreed remedial action

## **Fraud Policy**

The University will not tolerate fraud or corruption, and expects the following standards of conduct and behaviour (further detailed at Appendix 1 section 1.1).

- All staff, students, members of the Council or Committees established by the Council, should behave in a fair and honest way in any dealings related to the University. This applies equally to both internal conduct, and also externally in relation to our suppliers, partners and other business associates
- All staff should apply themselves diligently to their work and the execution of their duties. Specifically, they should have due regard to the need to rigorously apply those internal controls, rules and regulations which are designed to prevent, deter and detect fraud
- As well as operating within the law and any specific agreements or contracts, all external organisations dealing with the University must conduct themselves in accordance with normal ethical business standards consistent with the University's charitable status and public-sector funding
- Staff, students, members of the Council or Committees established by the Council, should be aware of the University's Public Interest Disclosure (Whistleblowing) Policy and the right this gives them to raise legitimate concerns about possible fraud, as well as other problems/irregularities
- Any member of staff, students, members of the Council or Committees established by the Council, supplier, partner or associate should promptly report to the designated contact within the University, ie the University Secretary or the Director of Internal Audit Services, all legitimate concerns about suspected fraud or irregularity.

Where any fraud is committed against the University, consideration will always be given to prosecuting the person/organisation responsible through all criminal and/or civil means available.

A major objective in any fraud investigation will be the punishment of the perpetrators, to act as a deterrent to others. The University will follow disciplinary procedures against any member of

staff or student who has committed fraud. The University will normally involve the Police and pursue the prosecution of any such individual.

## **Part C: FRAUD RESPONSE PLAN**

The Fraud Response Plan defines authority levels, responsibilities for action and reporting lines to ensure that all allegations and reports of fraud or dishonesty are properly followed up, are considered in a consistent and fair manner and that prompt and effective action is taken to:

- Assign responsibility for investigating the fraud
- Minimise the risk of any subsequent losses
- Reduce any adverse operational effects
- Specify the degree of confidentiality required
- Implement damage limitation (to assets and reputation)
- Establish and secure evidence necessary for criminal and disciplinary action
- Improve the likelihood and scale of recoveries
- Inform the Police and liaise with insurers
- Review the reasons for the incident and improve controls to mitigate future fraud risks.

The main elements of the University's plan are as follows:

### **1. INITIATING ACTION**

#### **Reporting of any suspicions of fraud or irregularity**

Staff are encouraged to come forward and give information where they honestly believe someone may have committed or be about to commit an act of fraud or corruption. A formal Public Interest Disclosure (Whistleblowing) Policy has been established to provide a framework for this and to afford protection to employees who supply information, provided this is undertaken in good faith and without malice.

All actual or suspected incidents should be reported to the University Secretary, the Director of Internal Audit Services or the Whistleblowing hotline as soon as possible. Any reports will be treated in absolute confidence. Notes of any relevant details such as dates, times and names should be written and evidence collected together in preparation to hand over to the appropriate investigator.

The person reporting the fraud should not:

- Contact the suspect to determine facts or demand restitution
- Discuss case facts outside of the University
- Discuss the case with anyone within the University other than those staff mentioned above
- Attempt to carry out investigations or interviews unless specifically asked to do so by the Director of Internal Audit Services.

## **Fraud Response Group**

As soon as is practicably possible and usually within one working day the University Secretary will hold a meeting with some or all the following staff to consider the initial response, dependent upon the nature of the report. These staff will comprise the 'Fraud Response Group' (FRG) and the University Secretary will act as Chair of the Group:

- University Secretary (or nominee)
- Director of Internal Audit Services (or nominee)
- Chief Financial Officer (or nominee).

Dependent on the nature and likely exposure the meeting may take the form of an email exchange or teleconference which will be formally recorded.

If any suspected fraud directly involves any of the persons referred to above, then the relevant reference should be replaced by the Vice-Chancellor.

The University Secretary will be responsible for informing the Vice-Chancellor of any action taken by the FRG (unless the suspected fraud directly involves the Vice-Chancellor). The University Secretary will also be responsible for ensuring the Chair of the Audit Committee is informed where losses potentially exceed £10,000.

The FRG will determine what further investigative action (if any) is necessary. The following issues will be considered:

- Who to involve in the investigation
- Whether to appoint an officer to lead the investigation (this would normally be the Director of Internal Audit Services)
- Whether there should be any restrictions on who needs to know about the suspected fraud and level of confidentiality
- The suitable timing of Police involvement as necessary (see below), and/or whether civil action is required
- Whether more specialist expertise may be required to assist with the investigation
- Action under the terms of the University's insurance policy to ensure prompt reporting
- Action to ensure that, in the short-term, damage to the University is limited by:
  - a) Isolating the employee from the immediate work environment
  - b) Preventing access to University computers, and the workplace
  - c) Restricting the movement of assets
  - d) Ensuring compliance with HR policies
  - e) Ensuring any interview is timely and has clear objectives.

## **Reporting incidents to the Police**

The Director of Internal Audit Services will report a fraud incident to the Police as soon as a criminal act has been determined from preliminary investigations. In order to progress matters quickly, the Chair of the Fraud Response Group, or nominee, will agree the timing of the notification of the incident to the Police and, in turn, inform the Chair of the Audit Committee of the intention to do so.

It is essential that any action or gathering of evidence does not prejudice the University's ability to prevent fraudulent activity or recover losses incurred through fraud. Staff reporting fraud should follow advice from the Director of Internal Audit Services or the Chair of the FRG.

## **2. PREVENTION OF FURTHER LOSS**

Where initial investigation provides reasonable grounds for suspecting a member or members of staff of fraud, the Fraud Response Group will decide how to prevent further loss. This may require the suspension, with or without pay, of those under suspicion.

It may be necessary to plan the timing of suspension to prevent the destruction or removal of evidence that may be needed to support disciplinary or criminal action. However, it should be recognised that there may occasionally be circumstances where it is decided to allow a fraud - and associated losses - to continue to identify, for example, further culprits.

In these circumstances, the suspect(s) should be approached unannounced by at least two people (one of whom should be part of the FRG) and personal safety of staff should be considered. The suspect(s) 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. Any security passes and keys to premises, offices, and furniture should be returned.

The Campus Services Director should advise on the best means of denying access to the University while suspects remain suspended.

The Director of IT should be instructed to withdraw the suspect's access permissions to all the University's computer systems immediately.

The Director of Internal Audit Services shall, after approval by the FRG, 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.

## **3. ESTABLISHING AND SECURING EVIDENCE**

The University will follow standard and established disciplinary procedures against any member of staff who has committed fraud. Additionally, the University will normally consider prosecution of any such individual. Internal Audit Services and any other investigator, if applicable, will ensure that either directly, or through collaboration with the Police, that

- Evidence standards are met during any fraud investigation
- Staff involved in performing fraud investigations are familiar with the rules on the admissibility of evidence in criminal proceedings.

When interviewing employees under suspicion it must be made clear whether it is a formal interview or an informal discussion. The grounds of suspicion should be explained clearly and the employee given adequate time to respond.

If it is decided that formal questioning is needed because potential involvement in a criminal offence is suspected, then the Police will be involved and an interview under caution conducted in accordance with the requirements of Police and Criminal Evidence Act (PACE). Guidelines are available on the Home Office Website (eg right to legal advice, silence, accurate interview recording etc).

Ideally, statements should be taken from witnesses using their own words. The witness must be happy to sign the resulting document as a true record - the witness can be given a copy of the statement if desired. It is also very important to keep contemporaneous notes on file, in the event that they are needed for future reference (e.g. court, tribunal or disciplinary hearing). When Internal Audit Services are involved they will:

- Carry out initial fact-finding to confirm or dismiss the suspicion
- Ensure any evidence, including IT facilities, is secure
- Establish and maintain contact with the Fraud Response Group and the Police as necessary.

#### **4. ASSOCIATED RESPONSIBILITIES, LEGAL ADVICE, CONFIDENTIALITY**

##### **Responsibility for investigation**

All special investigations shall normally be led by the Director of Internal Audit Services under the direction of the FRG. Some special investigations may require the use of technical expertise which the University's Internal Audit Services does not possess. In these circumstances, the FRG may approve the appointment of external specialists to lead or contribute to the investigation.

##### **Legal advice**

The need and scope for legal advice should be considered on a case by case basis, and in particular where a fraud occurs outside of the UK jurisdiction (item 5 below).

##### **Confidentiality**

The need for confidentiality must be explained to, and maintained by, relevant parties during any investigation.

##### **References for employees disciplined or prosecuted for fraud**

Any requests for a reference for a member of staff who has been disciplined or prosecuted for fraud shall be referred to the Director of Human Resources (or Deputy). The HR Department should prepare any answer to such a request.

#### **5. RECOVERY OF LOSSES**

Recovering losses is a major objective of any fraud investigation. Internal Audit Services shall ensure that in all fraud investigations, the amount of any loss will be quantified. Repayment of losses should be sought in all cases.

Where the loss is substantial, legal advice should be obtained without delay about the need to freeze the suspect's assets through the court, pending conclusion of the investigation. Legal advice should also be obtained about prospects for recovering losses through the civil court

where the perpetrator refuses payment. The University would normally expect to recover costs in addition to losses.

The University insurers should be made aware of the pursuit of any such claims.

## **6. INTERNAL CONTROL ASSESSMENT**

The Director of Internal Audit Services will, at an appropriate time, consider the results of the investigations and assess whether there is a weakness in the University's systems of internal control which needs to be addressed urgently, and will report accordingly.

## **7. REPORTING**

On completion of a special investigation, a written report, prepared by the Director of Internal Audit Services, will be submitted to the University Secretary and the Chair of the Audit Committee. The report will include:

- A description of the incident, including the value of any loss, the people involved and the means of perpetrating the fraud
- The outcome of the investigation
- The measures taken to prevent a recurrence.

### **Identified Frauds**

A summary of fraud related incidents during the year will be reported to the Audit Committee.

### **Notifying the Funding Body**

The University Secretary or the Director of Internal Audit Services on behalf of the Vice-Chancellor should notify the HEFCE Chief Executive of the following serious incidents\*:

- Loss of assets through fraud, theft or other cause where the value of the loss is in excess of £25,000
- Donations of more than £25,000 from unknown donors, or where the source cannot be verified
- Abuse or mistreatment of a charitable beneficiary involved in activities of the University;
- Disqualification of a trustee
- Known or alleged links (other than for bona fide academic reason) with proscribed organisations or terrorism; this applies to trustees, staff, students or anyone else associated with the University
- Loss, fraud or theft where the value of the loss is less than £25,000 but:
  - Reveals systematic weaknesses of concern beyond the University
  - Is novel, unusual or complex
  - There might be public interest because of the nature of the loss or the people concerned.

\*The Memorandum of assurance and accountability between HEFCE and institutions (July 2017/08) refers.

## **8. FRAUD POLICY AND FRAUD RESPONSE PLAN REVIEW**

The Director of Internal Audit Services will review the response plan annually, or after each use in an investigation to ensure it is relevant and appropriate. Any need for change will be reported to the Audit Committee for approval.

Date: February 2018

## 1.1 Personal Conduct

The University aims to promote an organisational culture which encourages the prevention of fraud and corruption by raising awareness of the need for high standards of personal conduct. To help ensure that all employees are aware of the University's expectations regarding standards of personal conduct, appropriate guidance is provided in the following key statements within the University Financial Regulations, Guide to Policy and Procedures and Procurement Policy.

- i. Terms and Conditions of Service state that an appointment is subject to the Charter, Statutes, Ordinances and Regulations of the University and the Rules for Staff as may from time to time be in force.
- ii. Compliance with the financial regulations is compulsory for all officers, staff and students. Refusal to comply with the financial regulations will be grounds for disciplinary procedures. (Financial Regulation 2.5)
- iii. Professors, Readers, Senior Lecturers, Lecturers and certain other defined staff are subject to Statute XXXIII which provides for dismissal for 'good cause'. As to other staff, the Disciplinary Code clearly states that an employee may be summarily dismissed for gross misconduct e.g. theft, fraud, deliberate falsification of records, deliberate contravention of the University's financial regulations, etc. (Disciplinary Procedure on the HR website at [http://www.reading.ac.uk/web/FILES/humanresources/humres-Disciplinary\\_procedure.pdf](http://www.reading.ac.uk/web/FILES/humanresources/humres-Disciplinary_procedure.pdf))
- iv. A member of Council, or a member of staff, having a material, personal, financial or other beneficial interest in any transaction between the University and third parties shall disclose his or her interest in writing in advance of any discussion or decision regarding that transaction. In the case of a member of Council the disclosure should be made to the University Secretary, and in the case of a member of staff, to the Head of School or Service. (Financial Regulation 22.15)
- v. University employees must never use their authority or office for personal gain and must seek to uphold and enhance the standing of the University of Reading.
- vi. Staff are not permitted to authorise any payment to themselves, their spouses, partners, relatives or any organisation with which they, their family or relatives have a connection, or permit a member of their staff to do so. (Financial Regulation 18.2)
- vii. All members of the University staff or students must notify immediately the University Secretary or the Director of Internal Audit Services of any financial irregularity, or any circumstance suggesting the possibility of irregularity, affecting the financial procedures, cash, stores or other property of the University. Due respect will be given to the confidentiality of those raising such concerns. (Financial Regulation 22.9)
- viii. It is a disciplinary matter if anyone knowingly makes a false or malicious allegation against another member of the University. (Financial Regulation 22.9)

- ix. The University has also issued guidelines in respect of matters in connection with the Public Interest Disclosure Act 1998 (Whistleblowing), to ensure the highest standards of openness, probity and accountability are achieved and that employees are given legal protection against being dismissed or penalised by their employers as a result of disclosing a serious concern. The Public Interest Disclosure Policies and Proceedings, is available on the website at [http:// http://www.reading.ac.uk/web/FILES/office-of-the-university-secretary/Public-Interest-Disclosure-Policy-CURRENT\\_\(2\).pdf](http://http://www.reading.ac.uk/web/FILES/office-of-the-university-secretary/Public-Interest-Disclosure-Policy-CURRENT_(2).pdf)
- x. The Corporate and Social Responsibility Business Conduct Policy at <http://www.reading.ac.uk/web/FILES/finance//B3BusinessConductPolicyAnnex1.pdf> further outlines the University's expected code of behaviour regarding financial regulations and procedures, fraud, conflicts of interest, gifts and hospitality, confidentiality, the Public Interest Disclosure Act 1998 and the Bribery Act 2010.

In addition, the Travel and Other Expenses, Benefits, Hospitality and Gifts Policy (August 2016) provides guidance concerning gifts and hospitality, confidentiality, competition, declaration of interests and expenses.

Taken together, these regulations represent a statement of the framework within which officers and employees are expected to conduct themselves.

## **1.2 Systems of Internal Control**

The next line of defence against fraud is the establishment of operating systems which incorporate adequate and effective internal controls designed to minimise the incidence of fraud, limit its impact and ensure its prompt detection. These controls include high level management controls such as budgetary control (designed to identify fraud which results in shortfalls in income or overspendings against expenditure) and organisational controls such as separation of duties, internal check and staff supervision. HR policies are also a key part of setting the culture and deterring fraud. This includes taking appropriate steps during the course of the recruitment process to reduce the risk of employing dishonest staff.

The general framework of responsibilities for financial management and the policies relating to the broad control and management of the University are documented in the Financial Regulations. The Financial Regulations are issued and updated periodically by the Chief Financial Officer following approval by the Strategy and Finance Committee on behalf of the University Council. They are binding on all officers, members of staff, students and constituent parts of the University and are distributed to Deans, Heads of Service/School/Department/Unit Managers and Financial Administrators. The Chief Financial Officer also maintains a Financial Manual which sets out in greater detail controls which should operate within the key operational systems.

The University has also established an Audit Committee and an independent Internal Audit Service which provides advice to management in respect of control matters and which conducts a cyclical programme of reviews of the adequacy and effectiveness of the systems which have been put in place (including those intended to minimise the potential exposure to fraud and corruption). Internal Audit Services also highlight any areas which they consider should be documented in greater detail within the Financial Regulations or Procedures and are able to advise on systems of internal financial control.

The University has also issued guidelines in respect of matters in connection with the Public Interest Disclosure Act 1998, to ensure the highest standards of openness, probity and accountability are achieved and that employees are given legal protection against being dismissed or penalised by their employers as a result of disclosing a serious concern.