

Swindon Borough Council

Swindon Internal Audit Services

FRAUD AWARENESS

A GUIDE FOR MANAGERS

July 2007



1. Why you should read this?

All organisations are at risk of, or affected by, fraudulent or corrupt activity. As managers you have a key role to play in deterring and tackling such abuse, as this guide explains. Apart from costing taxpayers millions of pounds each year, the reasons you should not ignore fraud and corruption are that it can:

- demoralise you and your colleagues
- strengthen bullies and incompetents
- encourage others to behave in the same way
- divert resources from those who need it
- undermine public and political confidence in public services

The Council has formal policies and procedures in place to respond to suspected fraud: The Anti-Fraud and Corruption Strategy contains guidance on how to react to suspected fraud and corruption and it details procedural steps to be taken when investigating suspected fraud.

As a manager, you should ensure that all your staff know how to raise concerns about fraud. You can obtain a copy of the Anti-Fraud and Corruption Strategy on the intranet (look under the A of the A-Z of services).

The purpose of this guide is to outline the Council's commitment to the protection of public funds and the necessity for harnessing resources in order to minimise losses arising from fraudulent conduct. The guide concentrates on:

- the identification of the types of fraud
- how fraud occurs
- examples of behaviour that might indicate fraud
- indicators of potential fraud in a system
- advice to management and staff re: fraud and corruption
- the reporting of conduct that may be fraudulent

The Financial Regulations do not attempt to provide a detailed approach to fraud investigation, but do make employees of the Council aware of what is expected of them, their codes of conduct and how fraud can be identified and reported.

2. What is Fraud?

Fraud

The Fraud Act 2006 establishes a new general offence of fraud that can be committed in three ways – by false representation, by failing to disclose information and by abuse of position. It also establishes a number of specific offences to assist in the fight against fraud – these include an offence of possessing articles for use in fraud and an offence of making or supplying articles for use in fraud.

Theft

Dishonestly appropriating the property of another with the intention of permanently depriving them of it (Theft Act 1968). 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 intent to cause loss to another or furnishing information which is or may be misleading, false or deceptive (Theft Act 1968).

Bribery and Corruption

The offering, giving, soliciting or acceptance of, an inducement or reward that may influence the actions taken by the authority, its members or officers (Prevention of Corrupt Practices Acts 1889 and 1916).

Deception

Obtaining property or pecuniary advantage by deception (sections 15 and 16 of the Theft Act 1968) and obtaining services or evading liability by deception (sections 1 and 2 of the Theft Act 1978).

Collusion

The term "collusion" in the context of reporting fraud is used to cover any case in which someone incites, instigates, aids and abets, conspires or attempts to commit any of the crimes listed above.

3. How Fraud Occurs

Four basic elements are present when fraud occurs:

- people are involved; they may be people or groups working inside or outside the Council
- assets are at risk
- intent/motive to commit the fraud is present
- opportunity

Managers have a responsibility to ensure that the opportunities for fraud are minimised. While some people would never contemplate fraud, others may if they thought they could get away with it. A high chance of being caught will deter them. Opportunities to commit fraud will be reduced by ensuring that a sound system of internal control has been established and that it is functioning as intended.

4. Examples of where behaviour may indicate Fraud

A number of frauds can come to light because of suspicions aroused by, for instance, the behaviour of certain individuals. Managers and staff should be alert to any warning signs that **might** indicate that fraud is taking place. These may include:

- staff under stress without a high workload
- first to arrive in the morning, last to leave at night
- egotistical (e.g. scornful of system controls)
- a risk taker or rule breaker
- reluctance to take leave
- refusal of promotion

- unexplained wealth
- sudden change of lifestyle
- new staff resigning quickly
- cosy relationships with suppliers/contractors
- suppliers/contractors who insist on dealing with one particular member of staff
- disgruntled at work, a complainer
- greedy, or has genuine financial need

5. Indicators of Potential Fraud in systems

To spot fraud indicators in individual areas or activities it is important that accepted practices have been established for the area or activity under review - the following are examples of possible fraud indicators in a number of areas:

- unusual employee behaviour (e.g. a supervisor who opens all incoming mail, refusal to comply with normal rules and practices, fails to take leave, managers by-passing subordinates, subordinates by-passing managers, living beyond means, regular long hours working, job dissatisfaction/unhappy employee, secretiveness or defensiveness).
- key documents missing (e.g. invoices, contracts)
- inadequate or no segregation of duties
- absence of controls and audit trails
- inadequate monitoring to ensure that controls work as intended (periodic testing and evaluation)
- documentation that is photocopied or lacking essential information
- missing expenditure vouchers and official records
- excessive variations to budgets or contracts
- bank and ledger reconciliations are not maintained or cannot be balanced
- excessive movements of cash or transactions between accounts
- numerous adjustments or exceptions
- overdue pay or expense advances
- general ledger out of balance
- duplicate payments
- ghost employees on the payroll
- large payments to individuals
- crisis management coupled with a pressured business environment
- lack of established code of ethical conduct
- lack of Senior Management oversight
- unauthorised changes to systems or work practices
- lack of rotation of duties
- policies not being followed
- Post Office boxes as shipping addresses
- lowest tenders or quotes passed over with minimal explanation recorded

- single vendors
- unclosed but obsolete contracts
- defining needs in ways that can be met only by specific contractors
- splitting up requirements to get under small purchase requirements or to avoid prescribed levels of review or approval
- vague specifications
- disqualification of any qualified bidder
- climate of fear or an unhealthy culture
- high staff turnover rates in key controlling functions
- chronic understaffing in key control areas
- low staff morale/lack of career progression/weak management
- excessive hours worked by key staff
- consistent failures to correct major weaknesses in internal control
- management frequently override internal control
- when an employee is on leave, the work is left until the employee returns
- lack of common sense controls such as changing passwords frequently, requiring two signatures on cheques or restricting access to sensitive areas
- an employee's lifestyle is more affluent than would be expected from his/her employment

6. Fraud and Corruption

Some **Do's and Don'ts for Managers** in creating the right culture

DO:

- **be open to staff concerns** - we need to encourage staff to voice any genuine concerns. You should reassure staff that if they raise concerns with you, they will be protected from victimisation or reprisal. If someone wishes to discuss a concern in confidence you should respect it, but tell him or her that there may be circumstances (for instance, where their evidence is needed in court) where the matter cannot be resolved unless their identity is revealed.
- **note details** - get as much information as possible from the employee. If he or she has made notes, ask for a copy of these. In addition, note any documentary evidence that may exist to support the concern, but do not interfere with this evidence in any way.
- **evaluate the information objectively** - before you take the matter further, you need to determine whether any suspicions appear justified. Be objective when evaluating it. Consider the facts as they appear, based on the information you have to hand.
- **advise the appropriate person** - the Anti-Fraud and Corruption Policy plan details who is responsible for investigating cases of suspected fraud or misconduct
- **deal with the matter promptly** - the sooner the problem is detected the sooner the damage caused can be repaired.

DON'T:

- **ignore or ridicule concerns raised by staff** - we cannot operate an effective anti fraud environment if employees are reluctant to pass on their concerns to the management. One reason people are reluctant to raise concerns is fear of ridicule or recrimination. As their manager you should reassure them that they will not suffer reprisal if they have genuine concerns, and that victimisation will not be tolerated.
- **approach or accuse any individuals directly** - if the concern seems credible, don't accidentally tip-off a fraudster in case incriminating evidence could be destroyed.
- **convey the concern to anyone other than someone with the proper authority** - we have appointed and trained designated individuals able to deal with and guide you on fraud matters.
- **try to investigate the matter yourself** - If the concern seems credible don't rush into investigating the matter yourself. Pass it on or discuss it as soon as possible with the person or body who has been given that responsibility.

Some **Do's** and **Don'ts** for **staff** who suspect fraud:

- **do raise the matter** - The sooner the problem is raised and looked into, the sooner any wrongdoing can be stopped and the sooner you and others can be reassured things are in order.
- **do pass on any reasonable suspicion to someone in authority**
- **do remember key details** - if possible, make a note of key details, such as what caused your suspicion, when things happened and who was involved.
- **don't ignore it** - if you are worried that some wrongdoing is happening at work, please don't keep it to yourself. Being wise after the event helps nobody.
- **don't investigate the matter** - you may make matters worse if you do. It's your job to raise the concern, not to prove it.
- **don't report your suspicions to someone who doesn't have proper authority** - there are special rules surrounding the gathering of evidence for use particularly in criminal cases. Attempts to gather evidence by people who are unfamiliar with these rules can inadvertently destroy the case.
- **don't delay** - as you won't be asked to prove your concern, raise it when it's a concern. Don't wait for proof.

7. Investigating suspected fraud

Internal Audit is normally the section to investigate cases of suspected fraud. Fraud and corruption investigations must be well managed and carried out by knowledgeable and experienced staff in order to result in the right outcome.

There are special rules surrounding the gathering of evidence for use in criminal cases. Any attempt to gather evidence by people who are unfamiliar with these rules may adversely affect the outcome of the case.

Internal Audit staff are trained in handling fraud and corruption investigations, and are generally the appropriate people to conduct any further investigative work. Remember that a poorly directed investigation may prematurely alert the

suspect and result in the destruction of evidence. Your primary responsibility is to report the issue and all associated facts promptly and accurately to an appropriate person. You should then be prepared to co-operate as instructed in any subsequent investigation. You should not attempt to investigate the matter further yourself.

8. Fraud & Deception legislation

Relevant legislation includes:

- Theft Act 1968
- False Accounting – Section 17: Theft Act 1968
- Making/Using False Instrument: Forgery and Counterfeiting Act 1981
- Criminal Attempts Act 1981
- Aiding and Abetting Counselling and Procuring Accessories and Abettors Act 1861 Section 8
- Conspiracy to Defraud: Criminal Justice Act 1987
- Statutory Conspiracy: Criminal Law Act 1977 (as amended by Section 5, Criminal Attempts Act 1981)
- Prevention of Corrupt Practices Acts 1889 and 1916
- Fraud Act 2006

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The Council's Confidential Whistleblowing Line

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Public Concern at Work

The Council also subscribes to Public Concern at Work who also provide a method of confidential reporting for staff who don't feel they can raise issues directly with the Council. Telephone no. 020 7404 6609

Acknowledgements: Birmingham City Council Audit Department; Sandwell Metropolitan Borough Council Audit Service.