

Northern Ireland Audit Office

Anti-Fraud Policy

Introduction

1. The Northern Ireland Audit Office (NIAO) is committed to the prevention of fraud and the promotion of an anti-fraud culture. The overall purpose of this policy statement is to provide a definition of fraud and to outline the key responsibilities regarding the prevention of fraud. The procedures to be followed in the event of a fraud being detected or suspected are detailed in our Fraud Response Plan. This policy should be read in conjunction with the following NIAO documents:

- ◆ Statement of Vision, Mission and Values
- ◆ Code of Conduct
- ◆ Fraud Response Plan
- ◆ Internal Whistleblowing Policy
- ◆ External Whistleblowing Policy

These are available on NIAO's intranet.

2. NIAO operates a **zero tolerance** attitude to fraud. It requires staff at all times to act honestly and with integrity, to safeguard the public resources for which they are responsible and to report all suspicions of fraud. Staff are assured that any information which they provide will be treated confidentially. Every case of attempted, suspected or proven fraud will be thoroughly investigated and where appropriate referred to the Police Service of Northern Ireland (PSNI) at the earliest juncture. NIAO will seek to recover funds and assets lost through fraud. After full investigation, NIAO will take civil, criminal and/or disciplinary action in all cases where it is appropriate to do so. The Office is committed to ensuring that opportunities for fraud are reduced to the lowest possible level of risk.

3. This policy is concerned with internal and external fraud committed against the NIAO by NIAO employees, suppliers of goods and services, contractors in the course of their work or other persons. Guidance on issues arising from the private and personal activities of staff which may impinge on the performance of their duties or risk bringing discredit to the Office is contained in Section 6 of the Office's Code of Conduct.

What is Fraud?

4. The term fraud is commonly used to describe the use of deception, to deprive, disadvantage, or cause loss to another person or party. This can include theft, the misuse of funds or other resources or more complicated crimes such as false accounting and the supply of false information. The term fraud is used generically in this policy and covers criminal acts such as bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation and collusion.
5. The key legislation which may be used to prosecute fraud is the Fraud Act 2006. The Act refers to three main offences of fraud. An individual can be prosecuted under the Fraud Act 2006, if he makes a false representation, fails to disclose information or abuses his position.
 - ◆ ***Fraud by false representation***, ie if he dishonestly makes a false representation and intends by making the representation to make a gain for himself or another, or to cause loss to another or expose another to risk of loss. A representation is false if it is untrue or misleading, and the person making it knows that it is, or might be, untrue or misleading;
 - ◆ ***Fraud by failing to disclose information***, ie if he dishonestly fails to disclose to another person information which he is under a legal duty to disclose and intends, by failing to disclose the information, to make a gain for himself or another, or to cause loss to another or expose another to risk of loss; and

- ◆ ***Fraud by abuse of position***, ie if he occupies a position in which he is expected to safeguard, or not to act against, the financial interests of another person, and he dishonestly abuses that position, and intends, by means of the abuse of that position, to make a gain for himself or another, or to cause loss to another or to expose another to a risk of loss.
6. The Fraud Act supplements other legislation, such as the Theft Act (NI) 1969 and the Theft (NI) Order 1978. In addition, the UK Bribery Act 2010 clarifies the law in relation to bribery and corruption.
7. Examples of frauds that may be perpetrated against the NIAO are:
- ◆ dishonest use of a NIAO credit card to pay for items;
 - ◆ the dissemination of an email to large groups of people falsely representing that the email had been sent by NIAO;
 - ◆ theft, the misappropriation or misuse of assets for personal benefit;
 - ◆ bribery and corruption - offering, giving, soliciting or accepting an inducement or reward that may influence the actions taken by the Office or its staff, for example in the procurement of goods and services;
 - ◆ false accounting and/or making fraudulent statements with a view to personal gain or gain for another: for example falsely claiming overtime, travel and subsistence, sick leave or special leave (with or without pay);
 - ◆ externally perpetrated fraud against the NIAO, for example in the procurement and delivery of goods.

Anti Fraud Culture

8. NIAO is committed to preventing fraud from occurring and to developing an anti-fraud culture. To achieve this, NIAO will:

- ◆ develop and maintain effective controls to prevent fraud;
 - ◆ ensure that if fraud occurs a vigorous and prompt investigation takes place without regard to position held or length of service;
 - ◆ take appropriate disciplinary and legal action in all cases, where justified; and
 - ◆ review systems and procedures to prevent similar frauds.
9. It is NIAO policy that there will be consistent handling of all attempted, suspected or proven fraud cases without regard to the position held or length of service of the individual(s) involved.

Key Responsibilities

Comptroller and Auditor General

10. The Comptroller and Auditor General (C&AG) is the Office's Accounting Officer and he is responsible for establishing and maintaining a sound system of internal control that supports the achievement of office policies, aims and objectives. The system of internal control is designed to respond to and manage the whole range of risks faced by NIAO. It is based on an on-going process designed to identify the principal risks, to evaluate the nature and extent of those risks and to manage them effectively. Managing fraud risk will be seen in the context of the management of this wider range of risks.

Finance Director

11. Overall responsibility for managing the risk of fraud has been delegated to the Corporate Services' Assistant Auditor General (AAG), in her capacity as Finance Director. Responsibilities include:

- ◆ developing a fraud risk profile and undertaking a regular review of the fraud risks;
- ◆ designing an effective control environment to prevent fraud commensurate with the fraud risk profile;
- ◆ establishing well-publicised, appropriate mechanisms for staff and members of the public to report their suspicions of fraud;
- ◆ regularly reviewing NIAO's anti-fraud policy statement and fraud response plan and compliance therewith to ensure they remain effective and relevant to the needs of the business;
- ◆ investigating all allegations of fraud using trained and experienced personnel;
- ◆ commencing disciplinary and/or legal action where appropriate and seeking to recover losses; and
- ◆ reporting to senior management on all aspects of fraud risk management.

Internal Audit

12. The Office's Internal Auditor is responsible for:

- ◆ assisting in the deterrence and prevention of fraud by examining and evaluating the effectiveness of controls; and
- ◆ ensuring that management has reviewed its risk exposures and identified the possibility of fraud as a business risk.

NIAO Staff

13. NIAO staff must have, and be seen to have, the highest ethical and personal standards and be honest and objective in their work. Every member of staff is responsible for:
 - ◆ acting with propriety in the use of official resources;
 - ◆ conducting themselves in accordance with the seven principles of public life set out in the first report of the Nolan Committee “Standards in Public Life”. They are: selflessness, integrity, objectivity, accountability, openness, honesty and leadership;
 - ◆ being alert to the possibility that unusual events or transactions could be indicators of fraud and alerting management where they believe the opportunity for fraud exists - Appendix 1 provides examples of fraud indicators. In addition, common methods and types of fraud are included at Appendix 2, with examples of good management practice which may assist in combating fraud in Appendix 3;
 - ◆ reporting known or suspected frauds. Examples of the types of concerns that should be reported are included in paragraphs 5 and 6 of the Office’s Fraud Response Plan;
 - ◆ assisting in the investigation of suspected fraud; and
 - ◆ liaising with PSNI, where required to do so.

14. All staff are advised to consider their personal and business activities and whether these may be considered to conflict with their duty to the office. Any potential conflict of interest should be reported to the Director of Corporate Services for inclusion in the Register of Interests.

Avenues for Reporting Suspicions of Fraud

15. NIAO has in place avenues for reporting suspicions of fraud, without fear of prejudice or harassment, including the Office's whistleblowing website, set up for the purpose - whistleblowing@niauditoffice.gov.uk. Details of how to report fraud are set out in the Office's Fraud Response Plan.
16. All matters will be dealt with in confidence and in strict accordance with the terms of the Public Interest Disclosure (Northern Ireland) Order 1998.
17. Staff should not attempt to investigate any suspicions of fraud themselves.

Fraud Response Plan

18. NIAO has established guidelines on how NIAO staff and others should report suspicions or allegations of fraud and how NIAO will handle them. A copy of the fraud response plan can be found on the NIAO website. This plan forms part of the NIAO's anti-fraud policy statement.

Review

19. This policy will be reviewed annually. Staff wishing to receive clarification on this policy and/or suggest improvements should contact the Office's Counter Fraud Unit.

Indicators of Fraud

- Missing expenditure vouchers and unavailable official records
- Crisis management coupled with a pressured business climate
- Profitability declining
- Excessive variations to budgets or contracts
- Refusals to produce files, minutes or other records
- Related party transactions
- Increased employee absences
- Borrowing from fellow employees
- An easily led personality
- Covering up inefficiencies
- Lack of Board oversight
- No supervision
- Staff turnover is excessive
- Figures, trends or results which do not accord with expectations
- Bank reconciliations are not maintained or can't be balanced
- Excessive movement of cash funds
- Multiple cash collection points
- Remote locations
- Unauthorised changes to systems or work practices
- Employees with outside business interests or other jobs
- Large outstanding bad or doubtful debts
- Officers with excessively flamboyant characteristics
- Employees suffering financial hardships
- Placing undated/post-dated personal cheques in petty cash
- Employees apparently living beyond their means
- Heavy gambling debts
- Signs of drinking or drug abuse problems
- Conflicts of interest
- Lowest tenders or quotes passed over with scant explanations recorded
- Employees with an apparently excessive work situation for their position
- Managers bypassing subordinates
- Subordinates bypassing managers
- Excessive generosity
- Large sums of unclaimed money
- Large sums held in petty cash
- Lack of clear financial delegations
- Secretiveness
- Apparent personal problems
- Marked character changes
- Excessive ambition
- Apparent lack of ambition

Appendix 1

Indicators of Fraud (Continued)

- Poor morale
- Excessive control of all records by one officer
- Poor security checking processes over staff being hired
- Unusual working hours on a regular basis
- Refusal to comply with normal rules and practices
- Personal creditors appearing at the workplace
- Non taking of leave
- Excessive overtime
- Large backlogs in high risk areas
- Lost assets
- Unwarranted organisation structure
- Absence of controls and audit trails.
- Socialising with clients – meals, drinks, holidays
- Seeking work for clients
- Favourable treatment of clients – e.g. allocation of work
- Altering contract specifications
- Contract not completed to specification
- Contractor paid for work not done.
- Grants not used for specified purpose – e.g. Leasing capital equipment instead of purchasing them

Corporate Fraud

- Lack of thorough investigations of alleged wrongdoing
- Pecuniary gain to organisation – but no personal gain

Common Methods and Types of Fraud

- Payment for work not performed
- Forged endorsements
- Altering amounts and details on documents
- Collusive bidding
- Overcharging
- Writing off recoverable assets or debts
- Unauthorised transactions
- Selling information
- Altering stock records
- Altering sales records
- Cheques made out to false persons
- False persons on payroll
- Theft of official purchasing authorities such as order books
- Unrecorded transactions
- Transactions (expenditure/receipts/deposits) recorded for incorrect sums
- Cash stolen
- Supplies not recorded at all
- False official identification used
- Damaging/destroying documentation
- Using copies of records and receipts
- Using imaging and desktop publishing technology to produce apparent original invoices
- Charging incorrect amounts with amounts stolen
- Transferring amounts between accounts frequently
- Delayed terminations from payroll
- Bribes
- Over claiming expenses
- Fraudulent use of office resources- claiming more time than incurred; use of office time for personal purposes (eg. Inappropriate Internet usage)
- Time recording- claiming more time than incurred
- Skimming odd pence and rounding
- Running a private business with official assets
- Using facsimile signatures
- False compensation and insurance claims
- Stealing of discounts
- Selling waste and scrap.

Examples of Good Management Practices Which May Assist in Combating Fraud

- All income is promptly entered in the accounting records with the immediate endorsement of all cheques
- Regulations governing contracts and the supply of goods and services are properly enforced
- Accounting records provide a reliable basis for the preparation of financial statements
- Controls operate which ensure that errors and irregularities become apparent during the processing of accounting information
- A strong internal audit presence
- Management encourages sound working practices
- All assets are properly recorded and provision is made known or expected losses
- Accounting instructions and financial regulations are available to all staff and are kept up to date
- Effective segregation of duties exists, particularly in financial accounting and cash/securities handling areas
- Close relatives do not work together, particularly in financial, accounting and cash/securities handling areas
- Creation of a climate to promote ethical behaviour
- Act immediately on internal/external auditor's report to rectify control weaknesses
- Review, where possible, the financial risks of employees
- Issue accounts payable promptly and follow-up any non-payments
- Set standards of conduct for suppliers and contractors
- Maintain effective security of physical assets; accountable documents (such as cheque books, order books); information, payment and purchasing systems
- Review large and unusual payments
- Perpetrators should be suspended from duties pending investigation

Examples of Good Management Practices Which May Assist in Combating Fraud (Continued)

- Proven perpetrators should be dismissed without a reference and prosecuted
- Query mutilation of cheque stubs or cancelled cheques
- Store cheque stubs in numerical order
- Undertake test checks and institute confirmation procedures
- Develop well defined procedures for reporting fraud, investigating fraud and dealing with perpetrators
- Maintain good physical security of all premises
- Randomly change security locks and rotate shifts at times (if feasible and economical)
- Conduct regular staff appraisals
- Review work practices open to collusion or manipulation
- Develop and routinely review and reset data processing controls
- Regularly review accounting and administrative controls
- Set achievable targets and budgets, and stringently review results
- Ensure staff take regular leave
- Rotate staff
- Ensure all expenditure is authorised
- Conduct periodic analytical reviews to highlight variations to norms
- Take swift and decisive action on all fraud situations
- Ensure staff are fully aware of their rights and obligations in all matters concerned with fraud