

FRAUD PREVENTION POLICY

Part 1 - Policy for Fraud Prevention, Detection and Investigation

1. Introduction

1.1 Children's Hearings Scotland (CHS) like other public bodies, has a duty to conduct its affairs in a responsible and transparent way and to take into account both the requirements of the Scottish Executive, as funding body and the Nolan principles.

1.2 CHS has a responsibility to its staff, partners, suppliers and the public in general to take all reasonable steps to prevent the occurrence of fraud. The policy on fraud is set out in the "Fraud Policy Statement" (Appendix A). This policy sets out in more detail procedures for—

- fraud prevention and detection; and
- the investigating and reporting of fraud.

1.3 The objectives of this policy are to—

- encourage staff to be aware of fraud;
- bring suspected fraud to notice;
- provide a framework response plan for investigating and reporting fraud (Fraud Action Plan); and
- ensure both alleged and proven fraud are dealt with in a consistent and timely manner.

1.4 CHS has a unique role to play in the community and any instances of fraud or corruption can be damaging to public confidence and support. Losses due to fraud, theft or corrupt practices have a direct effect on the level and quality of service provision. It is wrong to assume therefore that actual financial losses are the only negative outcome of frauds. The full cost is usually much greater than the amount stolen, as the costs associated with correction can often be dramatic. Staff morale and the level of confidence of children and families, partners, suppliers and the Scottish Executive usually decline as a result of successful frauds.

1.5 There is no room for complacency and vigilance is essential since we are all responsible for ensuring that the best possible service is provided and that value for money from the expenditure of public funds is obtained.

1.6 Successful fraud prevention involves creating an environment which inhibits fraud. Taking immediate and vigorous action if fraud is detected is not only necessary to prevent future losses,

but also helps deter other frauds. A manager who is alert to the possibility of fraud and who acts accordingly on a day to day basis is a powerful deterrent against fraud.

2. Fraud Prevention

2.1 Definitions

2.1.1 Fraud can be defined as “any act of wilful dishonesty to gain individual or collective advantage”. It is taken to include theft, misuse of property, corruption (collusion between two or more parties in order to defraud CHS), alteration of financial or other records or any unauthorised act which results directly or indirectly in financial gain to the perpetrator or a third party. Fraud can be perpetrated against CHS by staff, suppliers, and other public sector bodies, Government Agencies or Departments.

2.1.2 Staff should be aware that gifts, including hospitality, offered by contractors, suppliers and service providers may place an employee in a vulnerable position. Even when offered and accepted in innocence, such gifts may be misconstrued by others. Offers of gifts and hospitality of an unreasonable nature should be reported to line managers in line with guidance in the code of conduct for staff.

2.2 Management Responsibility and Risk Management

2.2.1 The prime responsibility for preventing fraud lies with management through—

- identification of risks to which systems and procedures are exposed;
- the implementation, documentation and operation of internal controls;
- establishing an environment that promotes compliance with internal controls;
- promoting fraud awareness amongst staff; and
- fostering an “anti fraud” culture.

2.2.2 However, while managers are responsible for assessing and controlling the level of risk within their areas of authority, it is the responsibility of all staff to be aware of fraud and take the necessary steps to minimise the risk to CHS.

2.2.3 Managing the risk of fraud is the same in principle as managing any other business risk. It is best approached systematically both at organisational and operational level. Managers should identify risk areas, assess the scale of risk, allocate responsibility for managing specific risks and implement and test controls to minimise the risks.

2.2.4 Management also have a responsibility to familiarise themselves with common fraud techniques in areas for which they have control. This should include being alert to signs which indicate that fraud is taking place.

2.3 Internal Controls

2.3.1 Internal controls are the key element in preventing fraud. They should be documented, communicated to all staff and the importance of compliance regularly reminded to staff. It is the responsibility of management to ensure controls in their areas of responsibility have been documented and communicated. CHS' financial regulations are just that - they are not the definitive record of the systems of internal control.

2.3.2 In order to set a good example, managers should be seen to be complying with all controls. The emphasis should be on cultural controls, not on increasing the volume of detailed operational and supervisory checks and controls.

2.3.3 Management should periodically monitor compliance with controls and may also ask the Internal Auditors to test compliance. It should be emphasised that the prime function of internal audit is to evaluate the effectiveness of the overall framework of internal control, with management being responsible for ensuring implementation and monitoring of the framework.

2.3.4 Common excuses for non-compliance with controls are that they are no longer applicable, insufficient time is available or they are not appropriate. It is important that such comments are reported to management so that the need for the controls can be re-evaluated.

2.4 Management Checks

2.4.1 The prevention and detection of fraud and impropriety is only possible where strong internal controls are present and constantly applied. Routine checks and monitoring by management to ensure that procedures are being followed are therefore essential. There are two benefits from implementing a culture of strong management controls—

- a deterrent effect when it is known that management are actively involved in ensuring that procedures are followed; and
- the results of the checks will allow management to identify any operational areas where controls are not being uniformly applied and investigate whether systems have been exploited.

2.5 Corporate Governance

2.5.1 The issue of corporate governance in the public sector was addressed by the Nolan Committee on Standards in Public Life. The Scottish Government monitors CHS' adherence to corporate governance requirements. Development of best practice and recommendations arising from the Nolan and Cadbury reports will continue to be important in the development of an environment in which awareness of responsibility for fraud prevention and detection can flourish.

2.6 Staff/Training

2.6.1 Staff provide the best protection against fraud and corruption. It is important therefore that the policy on fraud prevention and investigation is fully communicated to all staff. The lack of clear guidance and ignorance of procedures will often be the first excuse used by offenders.

2.6.2 The recruitment of suitable staff is the first defence in preventing fraud. Best practice recruitment policies such as detailed application forms including a statement on criminal records, written and verbal communication with referees and past employers and verification of educational and professional qualifications will be strictly adhered to.

2.6.3 Staff awareness of policy and procedures is fundamental to the effective operation of systems. Best practice includes—

- instruction and discussion on control and probity issues as part of staff induction;
- formal staff training on operational procedures;
- desktop instructions for specific tasks;
- publication of the policy on fraud and corruption; and
- regular staff notices regarding changes to control systems, policies and procedures.

2.7 Reporting and Investigating Fraud

2.7.1 Having proper and consistently applied procedures for reporting and investigating fraud will have an important part to play in preventing further fraud. CHS has designed a plan for investigating and reporting of all suspected frauds. Such investigations will by necessity remain confidential, but management will ensure that the lessons to be learnt from each incident are disseminated to the appropriate members of staff.

3. Fraud Detection and Reporting

3.1 The primary responsibility for detecting fraud lies With management through the implementation, documentation and operation of effective systems of internal control. Our internal auditors, through their evaluation of the control framework also have a role to play in preventing and detecting fraud, however this is not the main function of internal audit.

3.2 All staff have a responsibility to be aware of the potential for fraud and take the necessary steps to minimise the risk to CHS. Management should ensure staff in their areas of operation are familiar with the common types of fraud. CHS is not advocating the creation of an overtly suspicious environment, but expects staff to be alert to the potential for fraud in areas where they operate.

3.3 Staff will often be the first to notice the potential for, or actual, fraud. Staff suspicious of fraud should in the first instance report their concerns to their line manager. This requirement to alert management is not confined to suspicions about other members of staff, but includes any misgivings staff may have about contractors, suppliers etc. If for any reason it is felt reporting in this manner is inappropriate, staff may report to a Fraud Response Group Officer in confidence or contact our internal auditors directly.

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| <ul style="list-style-type: none">• Fraud Response Group Officers

Director of Finance (Chair)
Representative from Human Resources (shared service)
Representative for Finance (shared service)• Internal Auditors |
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Staff should not be dissuaded from reporting actual or suspected fraud as all cases will be treated in the strictest confidence. CHS is fully committed to supporting and protecting staff who raise legitimate concerns and the anonymity of individuals who report any suspicions will be preserved if requested unless this is incompatible with a fair investigation. Provided the allegations have been made lawfully, without malice and in the public interest, the employment position of the person will not be disadvantaged for reasons of making this allegation.

3.5 Any action to prevent the reporting or any attempts at intimidation will be treated seriously and CHS will immediately report such action to the police.

3.6 A Fraud Action Plan will be developed by the Fraud Response Group to provide a consistent framework for investigating and reporting fraud. The Fraud Action Plan will address measures to prevent further loss, evidence collection, sanctions against culprits, reporting lines.

3.7 Fraudulent or corrupt activity is regarded as a breach of contract and where there are reasonable grounds for suspicion then suspension, pending the outcome of enquiries, is likely. Where there are genuine grounds to suspect that fraud has occurred or where there is direct evidence of fraud, CHS' policy in all cases is to immediately advise the Police. The Police and Procurator Fiscal will be solely responsible for deciding whether a criminal investigation is required.

3.8 Where fraud is detected then disciplinary procedures will be instigated and this may lead to dismissal of the individual concerned. In all cases CHS will co-operate fully with the Police and pursue prosecutions where possible.

3.9 Line managers should note that suspects have certain rights under the law and no action (such as interviewing staff) should be taken without prior consultation. Failure to follow established procedures in relation to investigating fraud and interviewing the staff involved can invalidate disciplinary action and compromise the success of any future investigation and/or prosecution.

FRAUD POLICY STATEMENT

Children's Hearings Scotland (CHS) is committed to taking all practical steps to prevent all types of fraud within the organisation, and to prevent the organisation being defrauded by outsiders.

We are more likely to deter fraud if we are fully aware of the risks, keep control systems under regular review and respond effectively whenever fraud is suspected or discovered.

We will maintain robust control mechanisms to both prevent and detect fraud. All systems owners and line managers have a responsibility for maintaining documented control systems and must be seen to be setting an example by complying fully with procedures and controls. The effectiveness of controls will be subject to cyclical review by our internal auditors.

All members of staff have a responsibility to protect the assets and reputation of CHS and are expected to be alert to the potential for fraud. Line managers will be expected to brief staff on the common types of fraud perpetrated in their areas of responsibility.

Confidential mechanisms have been established to allow staff to report suspected frauds to management or our internal auditors. All reported suspicions will, in the first place, be investigated by the Fraud Response Group.

If this initial investigation suggests there is a case for further investigation, our auditors and the Police may be immediately informed. The Fraud Response Group will then decide which body is best placed to undertake the further investigation.

If fraud is proven, and to involve staff, disciplinary action will be taken. Such action may be considered not only against those found to have perpetrated the fraud, but also against managers whose negligence may have facilitated it.

Further information for staff on reporting fraud and their role in the prevention and detection of fraud is given in the Policy for Fraud Prevention, Detection and Investigation.