

January
2015

Whole School

Fraud, Corruption and Financial Impropriety Policy & Practice 2014-15

Contains relevant information on Potential Fraud and includes Fraud Investigation Plan, Code of Conduct, Declaration of Interest, Gifts and Donations and Conflict of Interest, etc.



FRAUD, CORRUPTION AND FINANCIAL IMPROPRIETY POLICY AND PRACTICE

Introduction

Stanley School is determined to discharge its responsibility to safeguard public funds and is committed to combating fraud and corruption from sources both internal and external to the School. Fraud and corruption undermine standards of service and reduce the resources available for the good of the whole community.

The School expects all staff to carry out their duties in accordance with appropriate legal requirements, internal codes, rules and procedures and to act at all times with honesty and probity in the discharge of their functions. It also expects that all outside individuals and organisations, including suppliers, contractors and claimants will act towards them with honesty and integrity. If fraud or corruption is attempted or discovered, Stanley School will take appropriate action against the perpetrators and, wherever possible, will take action to recover losses suffered.

The vast majority of staff, contractors and clients have the highest level of probity and honesty and they are an important element in the School's stance against fraud and corruption. As they are intimately involved in the School's activities, they are well placed to identify any impropriety and this statement supports their vigilance in ensuring resources are properly applied to the areas intended and authorised.

Instances of fraud are much publicised but could happen at any school. Key controls are in place at Stanley School to prevent and detect the following activities:

- Theft, for example retaining cash collected for school dinners or trips for personal use or taking away school assets for personal use.
- False claims, for example for travel which did not take place for unworked overtime.
- Unauthorised purchase of equipment for personal use.
- Improper use of petty cash for personal purposes.
- Failing to charge appropriately for goods or services, for example not charging for school rooms used for private functions or providing improper gifts or hospitality.
- Processing false invoices for goods or services not received and pocketing the proceeds.
- Making false entries on the payroll, such as inventing a fictitious employee and arranging to be paid an additional salary.
- Payment of inappropriate bonuses.
- Misusing school financial systems to run a personal business.
- Improper recruitment, for example employing a family member or individual known personally to a member of staff without following appropriate recruitment procedures.
- Buying from a supplier or contractor known personally to a member of staff without following or declaring a business interest.
- Separating purchases to avoid tendering thresholds and suppliers, or contractors failing to deliver the agreed goods or services but still being paid in full.

What might arouse suspicions?

Suspicious could be aroused by many things:

1. Failure to separate out duties so that one person is carrying out all or most aspects of a transaction.
2. A member of the finance team works excessive hours for no clear reason, making requests for excessive overtime or not taking holidays that are due.
3. A change in personal circumstances where a lifestyle change which appears beyond their salary or there are known personal financial problems.
4. Poor accounting records or accounting routines involving the persistent late production of budget monitors or accounting records that lack clarity, possible because of a large number of journals that are raised routinely.
5. Bank reconciliations not completed each month, or reviewed.
6. Unusual use of cash and cheques and large amounts of money are being retained on school premises before being banked or there are regular delays in banking money.
7. Suppliers regularly querying non-payment possibly because a member of staff is making cheques payable to themselves but posting payments to supplier accounts.

8. Concerns being raised by the headteacher, governors and school staff not addressed or a failure to respond to audit queries and put new systems in place.

A periodic review of financial procedures, given the above, through circumvention or collusion, can facilitate resolution; the question to ask is, "If someone wanted to use school money for their own purposes, how could they achieve this?"

Prevention measures

- Governors and senior managers championing the School's policies on conflicts of interest, hospitality and gifts.
- Training employees on the school's financial regulations, policies for segregation of duties, data security and conflicts of interest.
- Implementing a continuous review of systems and transactions by a 'responsible officer'.
- Screening new members of staff before appointment, particularly for posts with financial responsibility, by: using CV verification; checking essential qualifications before making an offer of employment; obtaining official employer references and resolving doubts about the contents of references before confirming the appointment; where a post carries significant financial responsibility, carrying out DBS checks.

Maintain sound cash management procedures

- Segregation of duties – financial systems should prevent one person from receiving, recording and banking cash. Segregation should be maintained during periods of leave or sickness absence.
- Reconciliation procedures – an independent record of cash received and banked may deter and detect fraud. Ideally, documents used in reconciliation processes, such as paying-in slips, should not be available to the person responsible for banking.
- Audit trail - receipts should normally be issued in return for cash received to provide an audit trail.
- Physical security – keys and access codes should be kept secure.
- Frequent banking.
- Banking all cash intact, without any deductions for petty cash. The petty cash float should only be reimbursed from the school's bank account.

Maintain sound purchasing and cheque management procedures

- Segregation of duties between ordering, receiving and paying for goods and services.
- Following the DfE's new procurement guidelines regarding quotes, tenders and value for money
- Vetting potential suppliers to ensure that they are genuine before adding them to lists of authorised suppliers.
- Requiring written orders for all purchases.
- Matching purchase invoices to orders and deliveries before payment.
- Restricting access to unused cheques.
- Ensuring that more than one employee has access to records of payments made.
- Reviewing the suppliers' ledger on a monthly basis to ensure that only authorised suppliers are being used and invoices are being paid promptly.
- Providing clear instructions to debtors about payee details and the address to which cheques should be sent.
- Performing frequent and accurate bank reconciliations, which are reviewed by an independent employee.

Be certain that you are only paying your own employees at the rates authorised by the governing body

- Having a termly independent check carried out by a person other than the person who sends the payroll input to the payroll provider to ensure that no 'dummy' employees have been included on the payroll.
- Ensuring that no employees can authorise changes to their own salary. Amendments to the headteacher's salary should be authorised by the Chair of Governors.

- Ensuring that all overtime claims are authorised and reflect overtime worked. In the case of a school caretaker, matching the claim back to known events requiring overtime, such as lettings.
- Ensuring that all expense claims are supported by till receipts or invoices and that mileage logs are completed for all mileage claims.

Maintain adequate control over your school's assets

- Put into operation an asset register and spot check for completeness and loss of assets. Select some assets from the register and then locate and inspect those assets. Select some assets in school and check that they are recorded in the register.
- Ensure that all disposals are authorised so that an asset cannot be misappropriated and then reported as a disposal.
- Maintain a loan book, with an appropriate level of authorisation, recording any assets taken off site.

Maintain the same controls over private and voluntary funds

- Ensure that these are audited annually. The Charity Commission website provides useful guidance about audits and independent examinations and who should be appointed to carry out the exercise, depending on the value of these funds.
- Ensure that any fidelity guarantee insurance covers private and voluntary funds as well as public funds.

Make whistle blowing policy available to all staff

This helps to develop a culture of protection of school funds and assets.

Develop a fraud response procedure

To define authority levels, responsibilities for action and reporting lines in the event of suspected fraud or irregularity. Those investigating a suspected fraud should:

1. Quantify the loss and seek its repayment
2. Liaise with the school's insurer
3. Establish and secure evidence necessary for criminal and disciplinary action
4. Inform the police
5. Notify the local authority, YPLA or DfE as appropriate
6. Endeavour to recover losses
7. Take appropriate action against those responsible
8. Keep internal personnel, and outside organisations with a need to know, suitably informed, on a confidential basis, about the incident and the school's response to it.
9. Review the reasons for the incident, the measures taken to prevent a recurrence and any action needed to strengthen future responses to fraud.

Reference: Christine Dickson, Chartered Accountant and Managing Director of CEFM, 'Fraud – could it happen at your school?' *School Financial Management, Issue 130, December 2011/January 2012*

Stanley School documents associated with fraud prevention and impropriety, include:

- Financial impropriety and irregularity against employees and members of staff policy statement (to staff 05/01/2011)
- Anti-fraud/corruption procedures
- Fraud investigation plan
- Procedures for Codes of conduct, declaration of conflicts of interest, gifts and hospitality and pecuniary interests
- Whistleblowing Policy (to staff September 2010)

Key Principles and Culture

All staff are aware of the possibility of fraud and corruption (Whistleblowing/Codes of Conduct documents to staff biannually). They are expected and positively encouraged to raise any concerns relating to fraud and corruption which they become aware of. These can be raised through a Line Manager, Head Teacher or

Governor and confidentially as described in the School's Whistle blowing Policy. Whichever route is chosen, they can be assured that concerns raised in good faith will be fully investigated and, wherever possible, they will be dealt with in confidence.

Managers receiving concerns should refer to the Fraud Investigation Plan in order to ensure that any investigation is carried out in accordance with agreed procedures.

Customers, suppliers and members of the public are also encouraged to be aware of fraud and corruption. Should they have any concerns they can raise these via the procedures set down in the School's Whistle blowing policy.

Any cases that appear to indicate that a criminal offence has been committed will be investigated in accordance with the School's Fraud Investigation Plan and the details shared with the Police and external auditor immediately. This demonstrates the School's commitment to transparency and openness in all of its activities whilst not committing to prosecution at an early stage.

Although Stanley School encourages staff to report all concerns in good faith, any maliciously motivated and unfounded allegations may be dealt with through the School's disciplinary procedures.

Minimising Risk

Stanley School has in place a range of policies and procedures that provide a corporate framework to counter fraudulent activity. These have been formulated in line with appropriate legislative requirements, and include:

- Codes of Conduct for staff.
- Financial procedures rules.
- Accounting Procedures and records.
- Sound internal control systems.
- Effective Recruitment and Selection procedures.
- Disciplinary procedures.
- Fraud Investigation Plan.
- Risk Management Policy.
- Whistle blowing Policy
- Procedures for the declaration of conflict of interests, gifts and hospitality and pecuniary interests.

Stanley School has put in place systems and procedures to manage and discharge its functions in an effective and efficient manner. These systems incorporate internal controls to prevent and deter fraud and corruption, including adequate separation of duties where appropriate. It is the responsibility of managers to ensure that controls are in place, they are properly maintained and staff ensures that working practises comply with the systems.

Internal Audit shall be responsible for regularly checking the existence, appropriateness and effectiveness of the controls and for making recommendations that will improve the control environment. Therefore, it is essential that wherever possible managers ensure that Internal Audit recommendations are implemented.

Code of Conduct

Appointments

All appointments are made on the basis of merit. Stanley School adheres to the detailed rules relating to appointments found in the Council's standing orders – paragraphs 64-67 and in the Personnel Handbook – Section 3.

Conditions of Service

Stanley School has adopted the NJC Scheme of Conditions of Service (Section 7), which is concerned with official conduct. Paragraph 70 of the Scheme states, "The public is entitled to demand of a local government officer conduct of the highest standard and public confidence in his integrity would be shaken were the least suspicion, however ill-founded, to arise that he could in any way be influenced by improper motives.

An officer's off-duty hours are his personal concern but he should not subordinate his duty to his private interest or put himself in a position where his duty and his private interest conflict. The employing authority

should not attempt to preclude officers from undertaking additional employment, but any such employment must not, in the view of the authority, conflict with or react detrimentally to the Authority's interests, or in any way weaken public confidence in the conduct of the Authority's business".

Declaration of Interest

The Governing Body has a responsibility to avoid any conflict between their business and personnel interests and affairs of the school. Any member of the school staff or the Governing Body must disclose any interest that he or she may have, including that of friends or relatives, in any purchasing decision. Any individual, who faces such a conflict, should not participate in the decision to place the contract, including the appointment of staff.

A register of business interest is maintained and is freely available for inspection by Governors, staff and parents kept in the School Business Manager's office. This register includes all business interests such as directorships, share holdings and other appointments of influence within a business or other organisation that may have dealings with the Stanley School. The disclosures also include business interests of relatives and other individuals who may have influence. The register is up to date (within 12 months) and is complete, including all Governors and staff in School. Nil returns are recorded where no interest applies.

Gifts and Donations

The School adheres to the Council's set of rules relating to the receipt of personal gifts and hospitality based on the NJC conditions of Service. The rules are set out in the Management and Resource Handbook and the general rule is that officers should not accept gifts and hospitality except in very limited circumstances. Even then the receipt of gifts and hospitality should be registered in the register maintained for that purpose.

Staff should be aware of the provisions of the National Code of Conduct in relation to gifts and hospitality and are advised to enter details of any gifts and hospitality received in the Register.

All staff should be aware that it is a criminal offence to accept money, gifts or hospitality (including holidays) in return for special favours and the onus is on them to prove that corruption was not involved. See the Public Bodies Corrupt Practices Act 1889, the 190-5 and 1916 Prevention of Corruption Acts and the Local Government Act 1972.

All gifts and donations received for School are entered into a ledger and banked immediately. All donors are acknowledged by letter and a receipt issued if requested.

Conflict of Interest

Stanley School adheres to the Council's set of rules relating to Conflicts of Interest, which can arise when an employee undertakes outside work for payment or when some other factor exists which could give rise to such a conflict.

Other Employments

Paragraph 71 of the NJC scheme states that, 'Staff above Scale 6 shall devote their whole-time service to the work of their School and shall not engage in any other business or take up any other additional appointment without the express consent of the School'. The position can be summarised as follows resulting from the application of paragraphs 70 and 71 to other employments:

- '(a) staff at all levels are required to avoid getting into a position of conflict by undertaking outside work. It is considered that conflict arises when an employee is to be paid by a member of the public or any outside organisation or body for work, which is in any way connected within the scope of his/her official duties. Such work should not be accepted.'
- '(b) A member of staff graded above Scale 6 needs specific permission to undertake outside work even if, in his view, the work could not possibly conflict with his duty as an employee of the School. He must submit his application to the Head Teacher who will consider it.'

Contractual Conflicts

All staff should note the requirement (standing order 21) to notify the Borough Solicitor and Secretary in writing of any contract they have a financial interest unless it is entered into in their own name. Section 117 of the Local Government Act 1972 reads as follows:

'If it comes to the knowledge of an officer employed by a Local Authority that a contract in which he has any pecuniary interest, whether direct or indirect, (not being a contract which he is himself a party) has been or is proposed to be entered into by the Authority or any committee thereof, he shall as soon as practicable give notice in writing to the Authority of the fact that he is interested therein.'

Stanley School adheres to the rules relating to contracts, which are set out in the Council's standing orders – Section 3 – and in the Financial Guidelines issued by the Director of Finance. The provisions of the EU Directives on public procurement must also be considered where appropriate and there are a number of legislative requirements, which must also be borne in mind. These include:

- Local government (Planning and Land) Act 1980 – requirement for competition in certain contracts such as building, highways and maintenance.
- Local Government Act 1988 – requirement for competition in certain professional services and the avoidance of non-commercial behaviour.
- Local Authority Goods and Services Act 1970 – restrictions on work, which can be carried out for external bodies.

The onus is the Head Teacher to ensure that proper procedures exist for obtaining quotations and tenders in accordance with the relevant rule. In addition, to be responsible for the following:

- To assume responsibility for monitoring contract compliance issues.
- To assume responsibility of monitoring compliance with European Directives concerning public procurement.

The Head Teacher will meet regularly with corporate groups and will have access to advice from the Director of Finance and the Borough Solicitor and Secretary.

The essence of the rules relating to contracts is that the Council must be able to demonstrate that it has sought competitive quotes or tenders in accordance with standing orders and any statutory rules or directives and those decisions have been made on the basis of the best value for money. Standing orders can only be suspended in exceptional circumstances on the basis of a written report to a council committee. Any proposal to suspend standing order 37 (Competitive Tenders) must be recorded in a register maintained by the Borough Solicitor and Secretary and reviewed annually.

Other Conflicts of Interest

The Internal Audit Section has produced the following guidelines to which Stanley School adheres: 'As a local government officer, it is expected that you perform your job impartially in accordance with specified procedures and make decisions based solely on the circumstances of cases. You **MUST NOT** take action because of personal friendships or family relationships. To do so would be contrary to your Conditions of Employment and the Criminal Law. Consequently, if you find yourself in a position where your motives could be questioned, you **MUST** declare any relationship that could be seen as affecting your judgement, and not be involved in any actions relating to the case. Full declaration should be made to your Line Manager and recorded in the register.'

Delegation Scheme

It is important that all staff understand the extent to which committees, sub-committees, panels and chief officers can make decisions under delegated powers. The details of delegation are set out in the Council's approved Delegation Scheme and in relevant parts of the standing orders to which Stanley School adheres. The Head Teacher ensures that all staff understands the parameters of their delegated powers.

Property Matters

Stanley School adheres to the attention drawn to standing order 73, which precludes staff from negotiating the purchase or sale of land on behalf of the Council. The Director of Property Services pursuant to the Delegation Scheme and relevant legislation must deal with all such negotiations. Normally when disposing of land the Council must obtain the best consideration reasonably obtainable – see section 123, Local Government Act 1972.

Schedule of Rates/Select List

Stanley School adheres to the statement that the Council has decided that, subject to certain limited exceptions, all work carried out on behalf of the Authority must be undertaken by contractors on the approved lists maintained by the Director of Property Services and the Borough Engineer. In the case of certain categories of work this involves contractors who have been awarded contracts under agreed schedules of rates. Professional work of a technical nature must be carried out by the above named officers or under arrangements approved by the Director of Property Services.

Financial Control

All staff in Stanley School shares the responsibility for ensuring that the fundamental rules for financial control, particularly separation of duties and adequate audit trails are applied. Rules for financial transactions, particularly the receipt and accounting for income and control and certification of payments, are contained in the "Financial Guidelines" which are adhered to by all staff.

Stanley School staff members with access to computer facilities refer to the "Audit Guidelines for Computer Systems". Both these booklets are available upon request from the Internal Audit Section in the Finance Department, if not already in use at each workplace.

Fraud Investigation Plan

A financial irregularity is the deliberate action by an employee that is not in accordance with established and authorised rules or procedures. Irregularities can involve the cash, accounting, stores or property of Stanley School. If the intention is for the employee to obtain some financial gain or preferential treatment from public office, then the actions may be contrary to the criminal law concerning fraud and corruption. The Members Code of Conduct may also be contravened and, if employees are involved, the School's disciplinary procedures should be invoked.

It is the responsibility of all staff to prevent and detect fraud and corruption in the School's dealings but it is the specific duty of management to implement systems to detect fraud and follow this plan when investigating allegations of fraud. Accounts and Audit Regulations place a responsibility on the Director of Finance to ensure that financial systems are effective and particularly that they include measures to prevent and detect inaccuracies and fraud. Internal Audit reviews systems for the Director of Finance to determine if the measures are adequate and makes recommendations where appropriate. The Manager ensures adherence to approved systems.

Anyone found to have perpetrated a fraudulent or corrupt act will be subject to the following action:

- Police investigation
- Disciplinary Procedures
- Civil Recovery Action

The Head Teacher shall be informed immediately of any suspected financial irregularity. He will liaise directly with the Director of Finance who will in turn liaise with the Council's Monitoring Officer, as is appropriate, and may require the Internal Audit Section to conduct an investigation. If criminal offences have been committed, or are suspected to have occurred, then consideration will be given by the Director of Finance to reporting the matter to the Police, following consultation with the Head Teacher and the Governors of Stanley School.

The reasons for reporting suspected irregularities to the Police can be summarised as follows:

- Their investigations are completely independent
- They have access to any criminal records and cautions of individual offenders.
- They have expertise and authority.
- They have access to other powers, e.g. arrest and search warrants, which can facilitate investigations.
- Referral to the Police may be necessary to recover larger sums from either the Fidelity Guarantee Policy or the Money Policy, which are an aspect of the Council's insurance.
- A Police investigation can demonstrate the seriousness and gravity with which the Authority views criminal activities.
- Publicity given to prosecutions may have a deterrent effect.

Criterion to be taken into account includes the following:

- Where **corruption** is suspected it **must** be reported to the Police. “Corruption” is showing favouritism by accepting a gift, e.g. making a decision for other than proper, professional reasons.
- The nature and extent of the suspected criminal act.
- The seniority or level of responsibility of the individual. (i.e. the more senior the more likely to be reported so as “cover-ups” cannot be alleged).
- Any special circumstance, e.g. irrespective of the seniority of the officer or the extent of the crime, the degree of trust placed in an individual must be taken into account.
- The recommendation of the Police after informal discussion

If it is considered inappropriate to make a formal report to the Police, a note should be made of the reasons and retained on file to protect the staff involved against allegations of improperly concealing offences. The circumstances that could be relevant in deciding not to take such action include:

- Small amounts of money or low value items involved.
- Previous record of suspected person.
- Attitude of suspected person, e.g. if before the offence was revealed a confession was made and the person helped to explain the circumstances and offered restitution.
- Personal circumstances or medical condition of the suspected person.

It is important that independent evidence of any of these circumstances is obtained and held on file if not formal action is to be followed.

The Internal Audit Section has established links with Merseyside Police and can obtain guidance and advice, particularly having regard to Police willingness and ability to carry out a full and prompt investigation. The final decision whether to report should be taken by the Director of Finance in consultation with the Head Teacher of the School in which the alleged offence took place and the Monitoring Officer as is appropriate. Speed of reporting is essential to preserve evidence so it can be undesirable to consult a wider range of staff that may be unavailable immediately, further expertise of the officers listed in Paragraph 5 will provide vital information and advice if time permits. The Police will not take any action unless a complaint statement is signed.

If corruption is suspected, or large sums of money or senior people are involved, the Monitoring Officer must be notified. He should decide the appropriate course in any case where the Director of Finance and the relevant Head Teacher cannot agree. If the Monitoring Officer and Director of Finance cannot agree upon a case within either of their own Departments the Chief Executive should decide.

In the event of a Police investigation, all staff should assign a high priority of full cooperation to enable the investigation to be completed quickly. If the suspect is a member of staff, this will reduce the time the person has to be kept off site and so will help control the loss to the Authority and reduce the stress on the suspect. A Police investigation normally would take priority over any disciplinary action which may subsequently be taken. The Director of Corporate Services will provide detailed advice and should be consulted in all such cases.

The reason for the action taken should be documented in a report by the Investigation Officer(s) and submitted to the Chief Internal Auditor to enable the Fraud Report required by the Audit Commission to be completed.

All employees are encouraged to report any concerns without fear of intimidation. There are a variety of ways of making report, both personally and anonymously, by using the “Whistle blowing Policy”, reporting to management at any level or to Internal Audit. However, it must be emphasised that abusing the process by raising malicious allegations will be treated as a disciplinary matter.

Training

Stanley School recognises that the success and credibility of its Anti-Fraud and Corruption Policy depends largely upon how effectively it is communicated throughout the School and beyond.

Stanley School supports the provision of training in this area, particularly for staff involved in internal control systems and investigations, to ensure that their responsibilities and duties in this respect are regularly highlighted and reinforced. The possibility of disciplinary action against staff who ignore such training and guidance is clear. It is the responsibility of the Head Teacher to communicate the Anti-Fraud and Corruption Policy to his staff and to promote a greater awareness of fraud within the School.

Commitment

Stanley School has a corporate determination to create an anti-fraud culture within the School and to take appropriate action when fraud, corruption and irregularities come to light.

Stanley School is also determined to ensure that the arrangements in place keep pace with any future developments, in both prevention and detection techniques. To this end, Stanley School will maintain a continuous overview of its controls, systems and framework in order to keep the strategy up to date.