

## FRAUD AWARENESS

### Key Contacts

Name	Postal Address	Email
<b>Birmingham Audit</b>	Birmingham Audit PO Box 16587 Birmingham B2 2HW	<a href="mailto:BirminghamAudit@birmingham.gov.uk">BirminghamAudit@birmingham.gov.uk</a>

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## **Fraud Awareness**

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## 1 Introduction

- 1.1 Birmingham City Council wants to create a culture where fraud is not acceptable. This commitment is outlined in the City Council's Anti-Fraud & Corruption Policy. The objective of this section of the Schools Financial Procedures Manual is to provide brief guidance for all staff and governors to help: -
- Recognise fraud when it occurs and be alert to the high-risk areas where fraud could arise.
  - Recognise factors that encourage fraud and factors that can be used to deter fraud.
  - Understand that the governing body of the school regulates the conduct and discipline of all staff in accordance with the Staff Code of Conduct which demands a very high standard of integrity.
  - Know what to do if a fraud is discovered. To be aware of the use of the Anti-Fraud & Corruption Policy, the Fraud and Corruption Response Plan and the Whistleblowing Policy, further details of which can be found at [To report whistleblowing](#)
- 1.2 This section is concerned with the prevention and detection of fraud, and not with the procedures to be followed in investigating fraud. The Birmingham City Council Financial Regulations require that the Corporate Fraud Team, within Birmingham Audit, is informed as soon as an actual or suspected fraud, or other financial irregularity, comes to light so that they can determine whether an audit investigation should be undertaken. They will be happy to discuss issues and provide advice and can be contacted by email at [BirminghamAudit@birmingham.gov.uk](mailto:BirminghamAudit@birmingham.gov.uk).
- 1.3 The Local Authority is committed to the principles of Corporate Governance – the system by which officers carry out their responsibility for ensuring that effective management systems have been put in place, including financial monitoring and control. School staff and governors have a responsibility for complying with the principles of corporate governance.
- 1.4 The guidance contained in the Schools Financial Procedures Manual has a key role in preventing and detecting fraud and must be complied with by all schools covered by the Birmingham Fair Funding Scheme for Financing Schools, including Community Schools, Voluntary Controlled Schools, Voluntary Aided Schools, Community Special Schools, Foundation Schools, Foundation Special Schools and Pupil Referral Units. It sets out guidelines to be followed, states roles and responsibilities, and provides a framework for sound financial control and compliance
- 1.5 Birmingham City Council is responsible for raising awareness of fraud and does this in a number of ways. Fraud awareness training can be given by the Corporate Fraud Team and tailored to the needs of a particular group. Also,

the team, bi-annually, issue *Fraud Spotlight*, a newsletter dealing with fraud-related topics. It is distributed electronically to Birmingham Schools via the Schools Noticeboard. In addition, fraud alerts are sometimes issued through the Schools Noticeboard to warn schools of particular issues. If you would like to discuss any of the topics covered, please contact the team.

## 2 Fraud and Corruption: Definitions and Types

2.1 Fraud can be defined as an intentional misrepresentation for the purpose of deceiving another for financial gain.

Corruption can be defined as the abuse of entrusted power for the purpose of financial gain. In cases of corruption there has been evidence, not only that any employee has acted differently from what might be expected, given the circumstances, but that the employee (or someone connected or associated with them) has received some form of personal 'benefit', for instance, cash inducement; improved purchase terms such as extended credit or interest free loans; 'free' or discounted goods or services; achievement of targets, which may result in improved pay, promotion, or a secured position.

2.2 In practice, and for the purpose of this chapter, both terms are loosely used to describe a multitude of misdemeanours relating to financial crime, including theft, misappropriation, embezzlement, collusion and bribery.

2.3 The Fraud Act 2006, which can be viewed at the government website <https://www.legislation.gov.uk/ukpga/2006/35/contents>, defines the offences of fraud.

The three main offences are as follows:

- Fraud by False Representation – e.g. a person, who uses a school order to obtain goods for their own use, would be guilty of this offence.
- Fraud by Failing to Disclose Information - e.g. a person, who fails to declare details of their income and savings when applying for City Council means tested services, would be guilty of this offence.
- Fraud by Abuse of Position e.g. a member of school staff, who uses their position to obtain funds would be guilty of this offence.

If found guilty of a fraud offence, an individual can be sentenced to an unlimited fine and/or imprisonment up to a maximum of 10 years.

2.4 The following are some of the common risks which staff and governors should be alert to and how these may impact on the school.

<b>Key Fraud Risks Within Schools</b>	<b>Example of Risk</b>	<b>Impact on School</b>
Recruitment	Recruiting family members or friends and not adhering to the recruitment procedures	<ul style="list-style-type: none"> <li>• Person may be either not fit, or the best person to do the job</li> <li>• Accusations of nepotism and lack of objectivity in future decision making</li> </ul>
Job applications	<p>Applicants making false declarations about their experience, qualifications, right to work, criminal past etc.</p> <p>Checks on teaching and non-teaching staff not being undertaken</p>	<ul style="list-style-type: none"> <li>• Person may be either not fit, or the best person, to do the job.</li> <li>• Child safety could be put at risk</li> <li>• School being liable to fines</li> </ul>
Inappropriate pay awards	Paying staff outside of the standard pay and conditions	<ul style="list-style-type: none"> <li>• Inequality and financial loss</li> </ul>
Off payroll payments	Payments made to individuals via petty cash or invoice to avoid the individual's and the school's duty to pay Income Tax or National Insurance	<ul style="list-style-type: none"> <li>• School could be made liable for any unpaid tax or National Insurance along with any fines imposed by HMRC</li> </ul>
Staff sickness	Staff reporting themselves sick and then working elsewhere	<ul style="list-style-type: none"> <li>• Financial loss to cover absence</li> </ul>
Collusion/corruption in supplier selection	Awarding contracts where there is a conflict of interest and not following procurement procedures, often in return for some form of inducement	<ul style="list-style-type: none"> <li>• Not receiving value for money</li> <li>• Potential for legal action by other contractors</li> <li>• Financial loss to rectify poor quality work</li> </ul>
Payments for goods and services	<p>Using the school's ordering and payments systems to purchase items for personal use</p> <p>Cheques being used to pay for non-school related expenditure or being intercepted, altered and negotiated fraudulently</p>	<ul style="list-style-type: none"> <li>• Financial loss</li> </ul>
Bogus invoicing	Suppliers putting on pressure to pay invoices for goods not ordered or received	<ul style="list-style-type: none"> <li>• Financial loss</li> </ul>

Mandate/CEO fraud	Bogus approaches from fraudsters to change supplier bank account details to divert payments, or to request an urgent payment to be made supposedly on the instruction of a senior official	<ul style="list-style-type: none"> <li>• Financial loss</li> </ul>
Inappropriate personal use of goods and services	Using school equipment or materials or services for personal interests	<ul style="list-style-type: none"> <li>• Financial loss to pay for replacement items</li> </ul>
Cash and assets	<p>Using unofficial funds for the benefit of staff rather than the school</p> <p>Theft of cash income and school equipment</p> <p>Loss of data</p>	<ul style="list-style-type: none"> <li>• Financial loss</li> <li>• Inability to provide aspects of the school curriculum</li> <li>• Risk of fine if confidential information is stolen</li> </ul>
Premises rental	Unauthorised use of the school premises for events e.g. hall being used for social events	<ul style="list-style-type: none"> <li>• Event may be uninsured</li> <li>• Loss of potential revenue</li> <li>• Additional cost to provide utilities, cleaning etc.</li> </ul>

All of the above can also have a detrimental impact on the reputation of the school.

### 3 The Fraud Environment

3.1 The presence of factors such as those listed below will render an organisation susceptible to fraud:

- Lack of awareness, at the management level, of the dangers of fraud and the necessary defences.
- No top down commitment to root out and deal with instances of fraud; this means taking effective and punitive action.
- The failure of management to implement sound financial procedures for financial controls and ensuring that all staff are aware of the need to adhere to them and are trained in their use and action taken whenever staff fail to comply.
- Financial control systems which do not provide any segregation of duties and/or allow for adequate internal checks.
- Inadequate provision of financial information to enable considered decision making
- Poor security controls, for instance, no control of safe keys, no control of systems passwords or leaving computers logged on when unattended.

- Employee 'pressure' factors, for instance, high staff turnover and/or staff shortages, resulting in checks not being carried out or being carried out inadequately; lack of supervision; lack of training, so staff are not aware of the importance of policies and procedures, or where their jobs fit in the broader picture, and they are not aware of possible areas where fraud might occur.
  - Lack of understanding by employees of what is expected in their behaviour.
- 3.2 Within schools the main financial systems which control the use of official funds are expected to be robust, but the same should also be true of those systems which regulate unofficial funds. By their very nature, these funds can often 'go under the radar' and experience shows that wherever there is a lack of management oversight, fraud can occur

## 4 Fraud Prevention and Detection

4.1 All staff and governors should be alert to the warning signs that may indicate fraud. It should be remembered that longstanding trusted employees are often in the best position to commit fraud, as they are usually subject to less checking and supervision and so have the opportunity if a motive arises.

4.2 Examples of warning signs are:

### Documents

- unusual accounting entries;
- failure to produce accounts when requested/missing documents;
- unexplained budget overspends and/or bank overdrafts;
- frequent late banking of cash and cheques;
- altered/photocopied/fax documents supporting expenditure;
- invoices for unusual supplies;
- unusually high numbers/value of items from a particular supplier;
- payments just below authorisation thresholds;

### Behaviour

- employees who rarely take annual leave, who work unusually late and/or at weekends, or insist that cover is not needed whilst they are on leave;
- employees who are unusually concerned about visits by auditors or inspectors;
- employees who often break the rules and have scant regard for regulations;
- employees/managers who control all aspects of a particular area of their work;

- managers or supervisors who rule their subordinates with "a rod of iron", and use anger, sarcasm, criticism and bullying, to prevent staff from questioning their decisions;
  - employees who display a lifestyle which is out of step with their salary; e.g. expensive holidays, cars, houses, jewellery, clothes.
- 4.3 The prevention of fraud should be the responsibility of everyone. The governors and senior management should set the tone and lead by example by establishing a culture where fraud is not allowed to flourish.
- 4.4 Policies and procedures governing all aspects of a school's financial dealings should be developed in line with the Schools Financial Procedures Manual and put in place, clearly outlining the roles and responsibilities and conduct of staff. Staff should be trained in the use of these policies and procedures and adherence to them should be mandatory, with any non-compliance being dealt with appropriately.
- 4.5 Specific procedures should be followed to cover the high-risk areas such as cash security, procurement, accounts payable, recruitment and selection and payroll. In addition, there should be specific policies in place to govern staff conduct in relation to declarations of potential conflicts of interest and offers of gifts and hospitality.
- 4.6 Procedures should be designed and operated in a way that minimises the opportunity for a single member of staff to control all aspects of a specific process. This should be supplemented with an independent checking process that provides for dual authorisation of certain transactions, reconciliation of accounting records, and a requirement to report transactions over a certain value.

## **5 Staff Conduct**

- 5.1 The school's governing body must establish procedures for the regulation of the conduct and discipline of school staff as required by the School Staffing Regulations 2003. Also, the standard letter of appointment indicates that an employee should abstain from any occupation that interferes with the performance of his/her duties as in the school.
- 5.2 The BCC Staff Code of Conduct should be considered by the governing body in any case of employee misconduct
- 5.3 Employees are required to disclose to their manager if they are arrested, charged, cautioned or prosecuted for an offence when in employment with Birmingham City Council.
- 5.4 Where there is evidence that an employee has committed fraud in his/her private life, the matter should be investigated. Examples of 'private' matters that should be referred to Birmingham Audit for investigation are as follows:
- An employee is prosecuted for fraud or theft unrelated to work,



- There is evidence that an employee has fraudulently obtained public funds – state benefits, Council Tax Reductions/Exemptions, social housing etc.
  - Evidence of fraud is obtained relating to the employee's involvement in another organisation e.g. a City Council funded voluntary organisation.
- 5.5 All new and existing employees should be made aware of their responsibilities when conducting their private affairs, and should be warned of the consequences if they fail.

## **6. Procedure for Reporting Fraud**

- 6.1 Whenever there is suspicion that fraud has occurred or there are irregularities concerning cash, stores or any other property of the Council, the Governing Body must inform Birmingham Audit immediately in order that the appropriate steps can be taken in accordance with laid down procedures. This should be done via our email address [BirminghamAudit@birmingham.gov.uk](mailto:BirminghamAudit@birmingham.gov.uk) or through the fraud hotline [Report fraud | Birmingham City Council](#)
- 6.2 Fraud may come to light, through a variety of sources, as 'concerns', suspicions, precise allegations, or firm evidence. The sources may be employees, from senior managers to junior members of staff, governors, contractors, members of the public, elected representatives, etc. Informants may wish to remain anonymous. Protection to informants is now provided through the Public Interest Disclosure Act and the City Council has adopted a Whistleblowing and Serious Misconduct Policy to enable disclosures to be made confidentially using [whistleblowing@birmingham.gov.uk](mailto:whistleblowing@birmingham.gov.uk)
- 6.3 The response will vary according to the source. However, all such reports must be taken seriously, until there is good reason for believing the allegation/suspicion to be unfounded.

## **7 Birmingham Audit Investigations**

- 7.1 If, as a result of any review of a school's financial system by Birmingham Audit, or through a referral to the Corporate Fraud Team (CFT), there is evidence of:
- financial mismanagement;
  - serious breaches of the Schools Financial Procedures Manual or financial regulations;
  - negligence that allowed fraud to occur;
  - theft, fraud or dishonesty;

CFT will conduct a special investigation and notify the relevant person(s), i.e. Governing Body, Head Teacher, and the Director of Education & Skills of that fact. CFT may also make reference to the Police and/or other external agencies

- 7.2 Prior to the commencement of an investigation, CFT will draw up an Audit Investigation Planning Memorandum (Terms of Reference), which will be discussed and agreed with the school's Chair of Governors and/or the Head Teacher.
- 7.3 The City Council's Financial Regulations give Birmingham Audit right of access to premises and all records, documents and correspondence, to enable the satisfactory conduct of an audit or special investigation. Birmingham Audit has the authority to require and receive such explanations as are necessary, concerning the matter under investigation.
- 7.4 Where an audit investigation takes place, it may be necessary to speak to various people. One or more may be the subject of the allegations, whereas others will need to be seen to get background information or to obtain evidence.
- Where a person is subject to allegations of misconduct, a formal audit interview will be arranged. All persons being formally interviewed will be contacted in writing at least 7 days in advance of the interview with brief details of the issues under investigation and told that they are entitled to representation at the interview. Interviews will be conducted by two officers and a typed summary of the interview is later provided to the interviewee for their comment and agreement. The person being interviewed will be advised that after the conclusion of the investigation an audit report would be produced and be told to whom the report would be issued, and that further proceedings may ensue as a result.
  - Where a person is not the subject of the allegations, but may have evidence that could be useful to the investigation, an informal meeting will be arranged directly with that person. As there is often a need to meet with several people within the tight timescales for completing an investigation, including for example Finance or HR staff, it is not always practical to do this in the same way that formal interviews are carried out. However, there would be no objection if someone wanted to be represented at any meetings they are asked to attend.
  - Whenever someone, who was originally seen on an informal basis, is later deemed to be implicated in the matter under investigation, a separate formal interview would be arranged with them as described above.
  - All persons will be given advance notification of the purpose of any meetings that we wish to conduct. All persons will be advised at the meeting that they may be called as a witness in any future proceedings that may take place following the investigation. All persons will be provided with a typed summary of the notes taken at the meeting for their agreement.

- 7.5 Birmingham Audit will draw up a formal report of their findings and recommendations. While the report is in draft it will be discussed at an exit meeting with the Head Teacher and/or Chair of Governors, or other appropriate officers. Their comments will be included as to how and when the recommendations contained in the report will be implemented and the name of the person responsible for their implementation prior to being issued. The report will then be finalised and issued to:
- Director of Education & Skills
  - Chair of Governors
  - Other Officers as appropriate
- 7.6 CFT may recommend that formal disciplinary action should be considered. In such circumstances, the governing body may accept or reject the recommendation. In either case, the governing body should seek advice from the Director of Education & Skills, or their representative, in reaching a decision. If the governing body decides to reject the recommendation of disciplinary action, then its reasons for doing so must be clearly stated.
- 7.7 Where the governing body or the Director of Education & Skills recommends disciplinary action, then the school's disciplinary procedures should be followed.
- 7.8 The Final Report is provided on a confidential basis and may only be distributed to the individual for the purpose of the disciplinary process.
- 7.9 At the end of the disciplinary process, the governing body must ensure all appropriate action is taken to rectify any matter discovered as part of the audit investigation and report the decision back to CFT.
- 7.10 Where the role of a governor is itself the subject of an audit investigation, the procedures that will apply will be agreed with the Director of Education & Skills, the Director of Council Management and any other relevant officer in accordance with the appropriate legislation.