



INVEST NI

ANTI-FRAUD POLICY & FRAUD RESPONSE PLAN

JANUARY 2015

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Introduction

1. There is a continuing need to raise awareness of the responsibility of staff at all levels to safeguard public resources against the risk of fraud. The overall purpose of this statement, the Anti-Fraud Policy is to detail responsibilities regarding the prevention of fraud. The procedures to be followed in the event of a fraud being detected or suspected are detailed in the Fraud Response Plan.
2. Invest NI requires all staff, at all times, to act honestly and with integrity, and to safeguard the public resources for which they are responsible. Fraud is an ever-present threat to these resources and must be a concern to all members of staff. Invest NI will not accept any level of fraud or corruption; consequently, any case will be thoroughly investigated and dealt with appropriately. Invest NI is also committed to ensuring that opportunities for fraud and corruption are minimised.
3. In circumstances where legal advice in relation to the handling of fraud is being sought from outside Invest NI, the legal advisers should be apprised of the contents of the Anti-Fraud Policy and Fraud Response Plan and with relevant guidance issued by the Department of Finance and Personnel.

What is Fraud?

4. Prior to the Fraud Act 2006 becoming law in Northern Ireland in January 2007, there was no precise legal definition of the term “fraud”. The Fraud Act, however, created a new general offence of fraud and indicated that fraud could be committed in three ways – by false representation; by failure to disclose information; and by abuse of position. The Fraud Act also established 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. The Fraud Act repealed some of the offences previously covered under the Theft legislation. However, many of the Theft Act (Northern Ireland) 1969 offences remain, most notably Theft itself and False Accounting (Section 1 and 17 offences).
5. While the Fraud Act now provides a legal definition of “fraud”, this Anti-Fraud Policy essentially covers fraud in its widest sense, as understood by a member of the general public. As such it covers cases of theft, false accounting, bribery and corruption, conspiracy to defraud, money laundering etc.

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Theft

Dishonestly appropriating the property of another with the intention of permanently depriving them of it (Theft Act (Northern Ireland) 1969). 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 (Northern Ireland) 1969).

Bribery and Corruption

The Bribery Act 2010 came into effect on 1 July 2011. It defines four new criminal offences of offering or paying a bribe; requesting or receiving a bribe; bribing a foreign public official; and failure of commercial organisations to prevent bribery by persons associated with them. For offences committed before 1 July 2011, which involved the offering, giving, soliciting or acceptance of an inducement or reward that may influence the actions taken by the authority, its members or officers, these will fall under the Prevention of Corrupt Practices Acts.

It is important that, given the nature of the business in which Invest NI is engaged, all staff are cognisant of the requirements and obligations placed upon them by the Invest NI Gifts & Hospitality Policy and Anti-Bribery and Corruption Policy. Failure to comply with these may result in fraudulent activity requiring the enforcement of this Anti-Fraud Policy and Response Plan.

Conspiracy to Defraud

Conspiracy to defraud is a common law crime which has been preserved in Statute. It is an offence for two or more persons to agree by dishonesty to embark on a course of conduct which, if the agreement is carried out in accordance with their intentions, will necessarily amount to or involve some third party being deprived of something which is his or to which he is entitled or might be entitled.

Money laundering

While public sector organisations are not normally covered within the list of “relevant persons” to which the Money Laundering Regulations 2007 apply, as a matter of good practice bodies should consider the risk that their systems and processes are at from being used to launder money. Where there is considered to be a risk of such activity bodies should take appropriate actions which may include appointing a money laundering reporting officer and complying with other elements of the Money

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Laundering Regulations.

Avenues for Reporting Fraud

6. Invest NI has avenues in place for reporting suspicions of fraud which are detailed in the Fraud Response Plan section of this document. Alternatively staff may wish to raise such matters through Invest NI's "whistleblowing" arrangements which are detailed in the Whistleblowing Policy and Guidance Manual for Invest NI, available on the Invest NI intranet. Vigorous and prompt investigations will be carried out into all cases of actual or suspected fraud discovered or reported.

Responsibilities

7. Annex 4.7 of Managing Public Money Northern Ireland sets out the general responsibilities of public sector organisations in relation to fraud.

Invest NI Chief Executive (Accounting Officer)

8. Invest NI's Chief Executive, as Accounting Officer, is responsible for establishing and maintaining a sound system of internal control that supports the achievement of Invest NI's policies, aims and objectives. The system of internal control is designed to respond to and manage the whole range of risks that Invest NI faces. The system of internal control 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.
9. Managing fraud risk will be seen in the context of the management of this wider range of risks.

Executive Director, Finance & Operations

10. Overall responsibility for managing the risk of fraud at an organisational level has been delegated to the Executive Director, Finance and Operations (**EDFO**). The EDFO's responsibilities include:
 - (a) Developing a fraud risk profile and undertaking a regular review of the fraud risks associated with each of the key organisational objectives in order to keep the profile current;
 - (b) Establishing an effective anti-fraud policy and fraud response plan, commensurate to the level of fraud risk identified in the fraud risk profile;
 - (c) Developing appropriate fraud targets;
 - (d) Designing an effective control environment to prevent fraud commensurate with the fraud risk profile;

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- (e) Establishing appropriate mechanisms for reporting fraud risk issues; reporting significant incidents of fraud to the Accounting Officer; reporting to Head of Internal Audit at the Department, who will in turn report to DFP and the Controller & Auditor General (**C&AG**) in accordance with MPMNI Annex 4.7; and coordinating assurances about the effectiveness of this Anti-Fraud Policy and the Fraud Response Plan.
- (f) Liaising with the Invest NI Board Audit and Internal Audit Committees;
- (g) Making sure that all staff are aware of this Anti-Fraud Policy and know what their responsibilities are in relation to combating fraud;
- (h) Developing skill and experience competency frameworks (in association with Invest NI's Learning and Development Team);
- (i) Ensuring that appropriate anti-fraud training and development opportunities are available to appropriate staff in order to meet the defined competency levels;
- (j) Ensuring that vigorous and prompt investigations are carried out by appropriately trained and experienced investigators if fraud occurs or is suspected;
- (k) Taking appropriate legal and/or disciplinary action against perpetrators of fraud;
- (l) Taking appropriate disciplinary action against supervisors where supervisory failures have contributed to the commission of fraud;
- (m) Taking appropriate disciplinary action against staff who fail to report their suspicions of fraud;
- (n) Taking appropriate action to recover assets; and
- (o) Ensuring that appropriate action is taken to minimise the risk of similar frauds occurring in future.

Executive Director, Human Resources

11. The Executive Director, Human Resources (EDHR) is responsible for ensuring all internal fraudulent activity is managed in line with this Policy with respect to:

- (a) Ensuring that vigorous and prompt investigations are carried out if fraud occurs or is suspected;
- (b) Taking appropriate legal and/or disciplinary action against perpetrators

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of fraud;

- (c) Taking appropriate disciplinary action against supervisors where supervisory failures have contributed to the commission of fraud;
- (d) Taking appropriate disciplinary action against staff who fail to report their suspicions of fraud;
- (e) Taking appropriate action to recover assets; and
- (f) Ensuring that appropriate action is taken to minimise the risk of similar frauds occurring in future

The EDHR will also liaise directly with the EDFO in such cases to ensure consistency of approach and reporting.

Operational Managers

- 12.** All operational managers are responsible for preventing and detecting fraud. This includes:
- a. Assessing the types of risk (including fraud risk) involved in the operations for which they are responsible. Each risk should be assessed in terms of likelihood and potential impact;
 - b. Ensuring that an adequate system of internal control exists within their areas of responsibility. This will include the identification of adequate and effective management controls for each risk identified;
 - c. Ensuring that controls are being complied with and their systems continue to operate effectively;
 - d. Regularly reviewing and testing the control systems for which they are responsible;
 - e. Reviewing controls and implementing new controls to reduce the risk of similar fraud occurring where frauds have taken place;
 - f. Reassessing risks as a result of the introduction of new systems or amendments to existing systems;
 - g. Quantifying the occurrence of fraud on an annual basis and updating risk registers and control frameworks to reflect the quantum of fraud within the business area. Where appropriate, strategies should be devised to combat recurrence of fraud and targets set to reduce the level of fraud;
 - h. Promptly implementing (where appropriate) the recommendations of

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Internal Audit and any external auditors; and

- i. Ensuring compliance with Anti-Fraud Policy and the Fraud Response Plan.
13. As fraud prevention is the ultimate aim, anti-fraud measures should be considered and incorporated in every system and programme at the design stage, e.g. the design of application forms, the statement of accountability in respect of the content in completed applications, regular monitoring of expenditure etc. Internal Audit will offer advice to managers on risk and control issues in respect of existing and developing systems / programmes.

Individual Staff

14. Every member of staff is responsible for:

- a. Acting with propriety in the use of official resources and the handling and use of public funds whether they are involved with cash or payments systems, receipts or dealing with suppliers;
 - b. 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;
 - c. Being alert to the possibility that unusual events or transactions could be indicators of fraud and alerting their line manager where they believe the opportunity for fraud exists (Appendix 1 provides examples of indicators of fraud). In addition, Common Methods and Types of Fraud are included in Appendix 2, with Examples of Good Management Practices Which May Assist in Reducing Opportunities for Fraud being detailed in Appendix 3;
 - d. Reporting details immediately through the appropriate channels if they suspect that a fraud has been committed;
 - e. Cooperating fully with whoever is conducting internal checks or reviews or fraud investigations; and
 - f. Assisting Internal Audit, or their agents, in conducting fraud investigations. Staff must assist investigations by making available all relevant information and by co-operating in interviews. Any information provided by staff will be treated confidentially subject to Freedom of Information requirements and/or legal obligations.
15. As stewards of public funds, Invest NI staff must have, and be seen to have high standards of personal integrity. Staff should not accept gifts,

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hospitality or benefits of any kind from a third party, which might be seen to compromise their integrity. Staff should refer to the Invest NI policy on Acceptance of Gifts and Hospitality.

16. It is also essential that staff understand, and adhere to, systems and procedures including those of a personnel / management nature such as submission of expenses claims and records of absence, flexi and annual leave.

Head of Internal Audit

17. The Head of Internal Audit (HIA) is responsible for:
 - a. Providing advice and support to Invest NI staff regarding preliminary fact finding activity and investigations related to attempted or suspected fraud
 - b. Notifying the Department of Finance and Personnel (DFP) and the Comptroller and Auditor General about all discovered fraud, proven or suspected, including attempted fraud, where reported to the HIA by Invest NI.
 - c. Ensuring all cases notified as above are progressed to closure.

Internal Audit

18. Internal Audit is responsible for:
 - a. Delivering an opinion to the Accounting Officer on the adequacy of arrangements for managing the risk of fraud and ensuring that Invest NI promotes an anti-fraud culture;
 - b. Assisting in the deterrence and prevention of fraud by examining and evaluating the effectiveness of control commensurate with the extent of the potential exposure / risk in Invest NI's various operations; and
 - c. Ensuring that management has reviewed its risk exposures and identified the possibility of fraud as a business risk.

Internal Audit does not carry primary responsibility for the prevention and detection of fraud. However internal auditors should be alert in all their work to risks and exposures that could allow fraud. Individual audit assignments, therefore, are planned and prioritised to assist in deterring and preventing fraud by examining and evaluating the effectiveness of control commensurate with the extent of the potential exposure/risk.

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Invest NI Audit & Risk Committee

19. The Invest NI Audit & Risk Committee (supported by Invest NI's internal Audit Committee) will be responsible for advising the Accounting Officer and the Invest NI Board on Invest NI's anti fraud policies and arrangements, whistle blowing procedures and arrangements for investigations.

Accountability and Casework Branch (the Department)

20. The Department's Accountability and Casework Branch is responsible for disseminating guidance on fraud related issues and for periodically reviewing Invest NI's Anti-Fraud Policy and Fraud Response Plan to ensure compliance with the Department's Anti-Fraud Policy and Fraud Response Plan and with developments in best practice.

Fraud Forum

21. The Northern Ireland Civil Service Fraud Forum is made up of representatives from all Northern Ireland departments along with representatives from the Northern Ireland Audit Office and the Police Service of Northern Ireland. The purpose of the Forum is to act as an advisory group to assist departments and their sponsored bodies to develop robust anti-fraud arrangements. Members of the Forum are responsible for ensuring that departmental bodies are advised of fraud related developments and that new guidance is disseminated effectively. A representative of Accountability and Casework Branch attends meetings of the Forum on behalf of the Department (and its NDPBs) and circulates relevant information after each meeting.

National Fraud Initiative

22. Invest NI participates in the National Fraud Initiative along with other public bodies in the United Kingdom. The National Fraud Initiative uses data matching to compare sets of data, such as the payroll, payments or benefits records of a public body against other records held by the same or another public body. This allows potentially fraudulent claims and payments to be identified. Where no match is found, the data matching process will have no material impact on those concerned. Where a match is found it indicates that there may be an inconsistency that requires further investigation.

Fraud Response Plan

23. Invest NI's Fraud Response Plan forms part of this Anti-Fraud policy. It sets out how to report suspicions of fraud and how investigations will be conducted and concluded.

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Malicious Allegations

24. If an allegation is made frivolously, in bad faith, maliciously or for personal gain, disciplinary action may be taken against the person making the allegation.

Sanctions

25. Discipline is the responsibility of the Executive Director of HR. In any case of **serious** internal fraud where the offender is not prosecuted, a decision not to take disciplinary action should be made personally by the EDHR in consultation with the Chief Executive. Where the loss is related to another public body, the relevant Accounting Officer should be consulted.

Conclusion

26. The circumstances of individual frauds will vary. Invest NI takes fraud very seriously and will ensure that all cases of actual or suspected fraud, including attempted fraud, are vigorously and promptly investigated and that appropriate remedial action is taken. Managers should be fully aware of their responsibility to protect public funds and as such, should always be alert to the potential for fraud.
27. Any queries in connection with this policy document should be directed to the EDFO (Mel Chittock (028) 90698639), Executive Director, Human Resources (Amanda Braden (028) 90698338), Director, Business Performance, EU & Risk Management (Damian McAuley (028) 90698275) or Risk Manager (Keith Millar (028) 90698628).
28. Internal Audit is available to offer advice and assistance on risk management / internal control issues. The Head of Internal Audit can be contacted on (028) 90529892

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FRAUD RESPONSE PLAN

Introduction

1. Invest NI has prepared this Fraud Response Plan to act as a procedural guide and provide a checklist of the required actions, which **must** be followed, in the event of a fraud, or attempted fraud, being suspected.
2. This Fraud Response Plan applies to all monies for which Invest NI is accountable.
3. Adherence to the Fraud Response Plan will enable Invest NI to:
 - Take timely and effective action to prevent further losses;
 - Help to recover losses;
 - Establish and secure evidence necessary for possible criminal and disciplinary action;
 - Comply with the external reporting requirements set out in Managing Public Money Northern Ireland (MPMNI); and
 - Highlight areas of weakness in the operating systems to prevent future losses.
3. The overarching theme of this plan is **'IF IN DOUBT, ASK FOR ADVICE'**. This applies at any point in an investigation. Details of contacts are provided at paragraph 31 below.

Notification Stage

4. In the event of a fraud, attempted fraud or other illegal act being suspected, the officer should immediately report the matter to their line manager or in line with the Invest NI Whistleblowing Policy. If there is concern that line management may be involved, the matter should be reported to the next appropriate level. Additionally, management should immediately report the fraud or suspected fraud to the Executive Director, Human Resources (**EDHR**) for internal fraud and Executive Director, Finance & Operations (**EDFO**) for external fraud.

The EDFO or EDHR, in turn, should immediately discuss the circumstances of the case with the Head of Internal Audit Service (**Internal Audit**) so a plan for any preliminary fact finding exercise can be developed. Appendix 4 & 4a provides advice on dealing with reports of suspicions of fraud and irregularity.

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5. Line management **should not** undertake preliminary enquiries until any suspicion has been reported to and advice taken from Internal Audit and the Invest NI EDHR or EDFO. **It is imperative that enquiries should not prejudice subsequent investigations, alert the alleged perpetrator or corrupt or compromise evidence, therefore, IF IN DOUBT, ASK FOR ADVICE.**

Preliminary Fact Finding Stage

6. Internal Audit and the EDHR or EDFO will advise on an initial fact finding exercise. This discreet preliminary enquiry should be carried out as speedily as possible by a member of Invest NI staff as determined by the Executive Director. Where the suspected fraud involves the use of computers, advice must be sought from Invest NI IT Manager / Security Officer before access or removal of computer equipment is attempted. Consideration should also be given to removing the suspect's access to computer systems.
7. The purpose of the preliminary exercise is to determine the facts and assess whether the original allegations can be substantiated. This should involve consideration of the source of discovery, the authenticity of the information initially received and line management's initial assessment of the circumstances involved. It may also involve discreet enquiries with staff or the examination of documents. The steps taken during this exercise should be clearly documented in a summary report. **It is imperative that any enquiries should not prejudice subsequent investigations, alert the alleged perpetrator or corrupt or compromise evidence, therefore, IF IN DOUBT, ASK FOR ADVICE.**
8. If the preliminary enquiry confirms that a fraud has not been attempted or perpetrated, but indicates that internal controls are deficient, management should review their control systems with a view to ensuring that they are adequate and effective. A robust review of the Branch/Divisional Risk and Control Framework should be conducted and where appropriate the Corporate Risk Register should also be reviewed. Internal Audit Service is available to offer advice and assistance on matters relating to internal control, if required.
9. Where the preliminary enquiry confirms the suspicion that a fraud may have been attempted or perpetrated but the circumstances remain unclear, the EDFO or EDHR must be informed immediately. It is then the responsibility of the Executive Director, in consultation with the Head of Internal Audit and/or Head of Division, to determine an appropriate course of action.

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Formal Reporting Stage

10. If the preliminary enquiry confirms the suspicion that a fraud has been attempted or perpetrated, the facts should be reported immediately, internally, to the:
 - Head of Division concerned;
 - EDHR (internal) or the EDFO (external); and
 - The Head of Internal Audit.
11. To remove any threat of further fraud or loss, management should immediately change/strengthen procedures and if appropriate, tell Finance to suspend any further payments pending full investigation.

Liaison with the Police Service of Northern Ireland

12. The Invest NI EDHR (for internal fraud) and the EDFO (for external fraud) should, in consultation with the Head of Internal Audit, ensure that legal and/or police advice covering all aspects of the suspicions of fraud and related investigations is sought, where necessary, at the earliest juncture. The Police Service of Northern Ireland (**PSNI**) Organised Crime Branch (**OCB**) Financial Crime Team is available to give advice and/or guidance in cases where fraud is suspected. Where actual or attempted fraud is confirmed and is of a large or complex nature, the OCB Financial Crime Team may wish to carry out investigations. Smaller cases may be referred to the Criminal Investigation Department at local stations. **Records of all contacts made with the PSNI must be documented and kept.**
13. A Memorandum of Understanding (**MOU**) between the Northern Ireland Public Sector and the PSNI was formally signed on 30 October 2006 and was updated and revised in September 2010. The MOU sets out a basic framework for the working relationship between the PSNI and the Public Sector in respect of the investigation and prosecution of fraud cases. Its aim is to ensure consistency in the way fraud cases are investigated across the range of public sector bodies and a more targeted approach to criminal prosecution cases. A detailed Acceptance Criteria and Evidence Pack, in support of the MOU, are included at Appendix 5. Details of the arrangement are contained in the Accountability and Financial Management Division website, under Fraud and Internal Policy Branch - Fraud Management Guidance – Fraud Forum Acceptance Criteria and Evidence Pack. www.afmdni.gov.uk/fiap

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Action Required for Internal Fraud

14. Where there is the suspicion of staff being involved (internal fraud) the EDHR will decide on the appropriate course of action including internal reporting and oversight arrangements and the full formal investigation arrangements. The investigation should be conducted by at least two appropriately trained and experienced investigators, one of whom should have an understanding of investigative techniques and the requirements of the Police and Criminal Evidence (Northern Ireland) Order 1989 (**PACE**). The EDHR or EDFO will appoint such an officer as required but where no member of Invest NI staff is suitable, support will be requested from Internal Audit Services. Should further expertise be required, e.g. Specialist Fraud Investigators, Solicitors, Forensic Accountants/Engineers, the EDHR or EDFO will engage the appropriate assistance in consultation with the Head of Internal Audit. The EDHR or EDFO will keep the Head of Internal Audit apprised of developments through the provision of regular progress reports.
15. It is Invest NI's policy to suspend an individual suspected of fraudulent activity at any point in the investigation where the investigators feel evidence could be compromised or where it could be reasonably considered they could or should not continue to perform their role. Suspension itself does not imply guilt – it is simply another safeguard to prevent the removal or destruction or alteration of evidence.

Action Required for External Fraud

16. Where a fraud is suspected involving an external organisation or individual it is the responsibility of the EDFO, having consulted with the Head of Division and Head of Internal Audit, to determine an appropriate course of action. If there is sufficient evidence, the EDFO, in consultation with the Head of Division, will notify the police. Thereafter, the investigation will be guided by police advice. The investigation, if not undertaken by the PSNI, should be conducted by at least two appropriately trained and experienced investigators, one of whom should have an understanding of investigative techniques and the requirements of the Police and Criminal Evidence (Northern Ireland) Order 1989 (**PACE**). The EDFO will appoint such an officer as required but where no member of Invest NI staff is suitable, support will be requested from Internal Audit Services. Should further expertise be required, e.g. Specialist Fraud Investigators, Solicitors, Forensic Accountants/Engineers, the EDFO will engage the appropriate assistance in consultation with the Head of Internal Audit.
17. The Department's Senior Finance Director must be advised of all such cases prior to notification to the police. The EDFO will keep the Head of

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Internal Audit apprised of developments through the provision of regular progress reports.

18. For a fraud occurring outside the jurisdiction of the UK, advice should be sought by the EDFO from the Head of Internal Audit or other appropriate persons as to the appropriate authorities to be notified.

Investigation of Suspected Fraud

19. The following best practice guidance must be applied (as appropriate) during any suspected fraud investigation.
 - All aspects of the suspected officer's work should be investigated, not just the area where the fraud was discovered.
 - The investigation will cover the period the officer was responsible for the processes under investigation but consideration should also be given to investigating earlier periods of employment.
 - Potential evidence, including paper files, computer files and records of amendments to files relevant to the case, should be retained securely (in compliance with PACE requirements) and not disposed of per normal routine procedures for disposal.
 - Control weaknesses discovered in procedures during the investigation should be strengthened immediately to ensure that similar frauds or attempted frauds will not recur.
 - The extent, if any, of supervisory failures should be examined.

Post Event Action

20. Appropriate steps will be taken to recover all losses resulting from fraud, if necessary through civil action. Invest NI's Head of Legal Services should be consulted at an early stage on the recovery of assets, for example action that might be taken to trace and freeze assets; action to prevent the release of assets; or obtaining search orders.
21. Where a fraud, or attempted fraud, has occurred, management must make any necessary changes to systems and procedures to ensure that similar frauds or attempted frauds will not recur. Additionally, if a Departmental employee is suspected of involvement, Invest NI's EDHR will consider the appropriate course of action. This may range from close monitoring/supervision to re-location to precautionary suspension. It should be noted, however, that suspension does not in any way imply guilt.

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22. Internal Audit and/or the EDFO are available to offer advice and assistance on matters relating to internal control, if considered appropriate.
23. The Invest NI Audit & Risk Committee should be kept informed of progress during an investigation.
24. Where an investigation may attract the interest of the media the Communications team should be briefed on the details and progress of the investigation.
25. In the event of media enquiries during the course of an investigation, Invest NI's Principal Information Officer should consult with the Head of Internal Audit and Invest NI's EDHR or EDFO to determine what information can be released.
26. Invest NI's EDHR or EDFO and Invest NI's FOI Officer should be consulted in the event of a Freedom of Information Request relating to an investigation being received.
27. Following an investigation, a report will be compiled by the investigating team, documenting lessons learned from all aspects of the fraud or attempted fraud, i.e. the cause, how it was detected, the investigation process and how similar frauds or attempted frauds can be prevented in future. The report will be provided in the first instance to the EDFO and/or EDHR and to the Department's Senior Finance Director and the Head of Internal Audit. If appropriate, the report will be circulated throughout Invest NI. At an appropriate time the NICS Fraud Forum will also be informed of the lessons learned.

Reporting Arrangements

28. The Head of Internal Audit is responsible for notifications to the Department of Finance and Personnel's Fraud and Internal Audit Policy Branch (FIAP) and the Comptroller and Auditor General about all discovered fraud, proven or suspected, including attempted fraud, within or against Invest NI.
29. All frauds (suspected and proven), both internal and external, must be reported promptly in writing by Invest NI's EDFO or EDHR to the Head of Internal Audit to allow compliance with reporting arrangements. This guidance relates to frauds and suspected frauds affecting all public funds (including EU funds) and other assets, not just mainstream funds and applies to funds dispersed to voluntary and other intermediary/third party organisations. The guidance also includes those suspected and proven frauds in organisations/companies supported with public funds from voluntary and/or other intermediary/third party organisations funded by

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Invest NI. Therefore, the Head of Internal Audit should be notified immediately of all such frauds. In cases where the full facts have not been established the Department and Invest NI have agreed to issue a preliminary notification (if required) to the Comptroller & Auditor General stating that a suspected fraud has been detected. **The Board Audit Committee, the EDHR, the EDFO and relevant senior management will also be informed about all cases.**

30. Invest NI Finance team will submit annual fraud returns to the Department and the Department's Accountability and Casework Branch will be responsible for compiling the annual return of frauds to DFP (Fraud and Internal Audit Policy). Annex 4.7 of MPMNI defines requirements.

Conclusion

31. Further advice on good practice while handling any queries in connection with this Fraud Response Plan can be obtained from the EDHR (Amanda Braden (028) 90698338) or the EDFO (Mel Chittock (028) 90698639).

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Appendix 1

Fraud Indicators

Fraud indicators are clues or hints that a closer look should be made at an individual, area or activity. Examples of issues that could be investigated to ensure fraud is not taking place include:

- Unusual employee behaviour (e.g. a supervisor who opens all incoming mail, refusal to comply with normal rules and practices, failure 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).
- Unrecorded transactions or missing records (e.g. invoices, contracts).
- Disorganised operations in such areas as accounting, purchasing or payroll.
- Crisis management coupled with a pressured business environment.
- Absence of controls and audit trails (e.g. Inadequate or no segregation of duties, lack of rotation of duties).
- Low levels of review or approval.
- Policies not being followed.
- Inadequate monitoring to ensure that controls work as intended (periodic testing and evaluation).
- Lack of interest in, or compliance with, internal controls.
- Documentation that is photocopied or lacking essential information.
- Alterations to documents.
- Missing documents such as 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.
- Duplicate payments.
- Large payments to individuals.

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- Unexplained differences between inventory checks and asset or stock records.
- Transactions not consistent with the entity's business
- Deficient screening for new employees including casual staff, contractors and consultants.
- Employees in close relationships in areas where segregation of duties is a key control.
- Unauthorised changes to systems or work practices.
- 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 controls.
- Suppliers/contractors who insist on dealing with one particular member of staff.
- Vague specifications.
- Disqualification of any qualified bidder.
- Chronic understaffing in key control areas.
- Excessive hours worked by key staff.
- Consistent failures to correct major weaknesses in internal control.
- Management frequently override internal control.
- Lack of common sense controls such as changing passwords frequently, requiring two signatures on cheques or restricting access to sensitive areas.

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Appendix 2

Common Methods and Types of Fraud

- Payment for work not performed convertible for value
- 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
- Inappropriate use of assets like air/rail tickets/vouchers -

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- 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
- Skimming odd pence and rounding
- Running a private business with official assets
- Incorrect facsimile signatures
- False compensation and insurance claims
- Stealing of discounts
- Selling waste and scrap.

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Appendix 3

Examples of Good Management Practices That May Assist in Reducing Opportunities for Fraud

Introduction

The absence of proper control and the failure to observe existing control procedures are the main contributory factors in most frauds.

Managers must ensure that the opportunities for fraud are minimised. Separation of duties, effective procedures and checks should prevent or deter fraud from occurring. Opportunities to commit fraud may be reduced:

- By ensuring that a sound system of internal control proportional to risk has been established and that it is functioning as intended;
- Through the “fear factor” (i.e. the risk of being caught or the severity of the consequences);
- By changing attitudes to fraud; and
- By making it too much effort to commit.

Internal Control

“Control” is any action, procedure or operation undertaken by management to increase the likelihood that activities and procedures achieve their objectives. Control is a response to risk – it is intended to contain uncertainty of outcome.

Some frauds arise because of a system weakness such as a lack of proper control over e.g. placing of purchase orders. Other frauds are the result of failures to follow proper control procedures. It may be the result of carelessness in carrying out a check, or it may be that too much trust has been placed in one individual with no effective separation of duties. Frauds that result from collusion may be more difficult to detect and prevent as these types of fraud tend to operate within the normal control environment.

In designing control, it is important that the control put in place is proportional to the risk. In most cases it is normally sufficient to design control to give a reasonable assurance of confining loss within the risk appetite of the organisation. Every control action has an associated cost and it is important that the control action offers value for money in relation to the risk that it is controlling. Generally speaking the purpose of control is to contain risk to a reasonable level rather than to remove it entirely.

When risks and deficiencies in the level of control are identified it is necessary to choose the most appropriate type of controls within the above guidelines. In respect of fraud risks prevention is almost always preferable to detection. Strong preventive controls should therefore be applied wherever possible.

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The following range of controls should be considered always ensuring that a balance between identified risk and value for money is maintained:

Physical security: this is a preventive measure which controls or monitors access to assets, documentation or IT systems to ensure that there is no unauthorised use, loss or damage.

Assets can range from the computer terminal that sits on the desk to the cheques sent out to pay suppliers. As a general principle all assets should be held securely and access to them restricted as appropriate. The control should apply not only to the premises but also to computers, databases, banking facilities, documents and any other area that is critical to the operation of the individual organisation. It may even be appropriate to restrict knowledge of the existence of some assets.

Access to computer systems is an important area that should be very tightly controlled, not only to prevent unauthorised access and use, but also to protect the integrity of the data - the Data Protection Act requires computer and data owners to secure information held on their systems which concerns third parties. The threat to computers can come from both inside and outside an organisation. This threat may increase with the introduction of systems to meet the e-Government target (e.g. to allow the public to do business electronically with government departments, to link public sector computer systems etc). Computers are also vulnerable to theft, both in terms of hardware and software. This type of theft has the additional cost of potential major disruption to the core operations of an organisation.

Organising: organising involves the allocation of responsibility to individuals or groups so that they work together to achieve objectives in the most efficient manner. Major principles in organising relevant to fraud are:

- Clear definition of the responsibilities of individuals for resources, activities, objectives and targets. This includes defining levels of authority. This is a preventive measure which sets a limit on the amounts which may be authorised by individual officers. To be effective, checks need to be made to ensure that transactions have been properly authorised;
- Establishing clear reporting lines and the most effective spans of command to allow adequate supervision;
- Separating duties to avoid conflicts of interest or opportunities for abuse. This is also largely a preventive measure which ensures that the key functions and controls over a process are not all carried out by the same member of staff (e.g. ordering goods should be kept separate from receipt of goods); similarly authorisation and payment of invoices; and

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- Avoiding undue reliance on any one individual.

Supervision and checking of outputs: supervision is the function by which managers scrutinise the work and performance of their staff. It provides a check that staff are performing to meet standards and in accordance with instructions. It includes checks over the operation of controls by staff at lower levels. These act as both preventive and detective measures and involve monitoring the working methods and outputs of staff. These controls are vital where staff are dealing with cash or accounting records. Random spot checks by managers can be an effective anti-fraud measure.

Audit trail: this is largely a detective control, although its presence may have a deterrent effect and thus prevent a fraud. An audit trail enables all transactions to be traced through a system from start to finish. In addition to allowing detection of fraud it enables the controls to be reviewed.

Monitoring: management information should include measures and indicators of performance in respect of efficiency, effectiveness, economy and quality of service. Effective monitoring, including random checks, should deter and detect some types of fraudulent activity.

Evaluation: policies and activities should be evaluated periodically for economy, efficiency and effectiveness. The management of the operation may perform evaluations, but they are usually more effective when performed by an independent team. Such evaluations may reveal fraud.

Staffing: adequate staffing is essential for a system to function effectively. Weaknesses in staffing can negate the effect of other controls. Posts involving control of particularly high value assets or resources may need the application of additional vetting procedures. Rotation of staff between posts can help prevent or detect collusion or fraud.

Asset accounting: asset registers used for management accounting purposes can help detect losses that may be caused by fraud.

Budgetary and other financial controls: use of budgets and delegated limits for some categories of expenditure and other accounting controls should ensure that expenditure is properly approved and accounted for by the responsible manager. This should limit the scope for fraud and may result in some types of fraud being detected.

Systems development: controls over the development of new systems and modifications to existing systems or procedures are essential to ensure that the effect of change is properly assessed at an early stage and before implementation. Fraud risks should be identified as part of this process and the necessary improvements in control introduced.

These are only some examples of the types of control that can be used to

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prevent or detect fraud. For examples of internal controls in specific areas see the DFP publication “Managing the Risk of Fraud – A Guide for Managers”.

The Deterrent Effect of Clear Policies

Major deterrents to perpetrating fraud are the risk of being caught and the severity of the consequences. The most important fact about deterrence is that it derives from *perceived* risk and not *actual* risk. Organisations may manage to increase the actual risk of detection but it will only achieve a deterrent effect if it ensures that *perceptions* of risk change too. Ways in which organisations can do this include:

- Warnings on forms such as: “false statements may lead to prosecution”;
- General publicity;
- Increasing the severity of penalties; and
- Always taking appropriate action against known perpetrators of fraud.

Changing Attitudes to Fraud

The most effective strategies designed to change attitudes rely on motivation rather than fear. They aim to persuade people of the undesirability of a particular behaviour. Attitude changing strategies rely to a large extent on publicity campaigns to achieve their effect so it is important that departments carry out a full appraisal of the benefits of any proposed advertising campaign and to establish some way of measuring the outcomes of such campaigns. Organisations need to be clear about the objectives and targets of their campaigns.

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Appendix 4

BEST PRACTICE FOR DEALING WITH REPORTS OF SUSPICIONS OF FRAUD AND IRREGULARITY

If staff become aware of a suspected fraud or irregularity, write down the concerns immediately. Make a note of all relevant details, such as what was said in phone or other conversations, the date, the time and the names of anyone involved. It may necessary to handover any notes and/or evidence you have gathered to the appropriate investigator.

STAFF MUST NOT DO ANY OF THE FOLLOWING:

- Contact the suspected perpetrator in an effort to determine the facts.
- Discuss the case facts, suspicions, or allegations with anyone outside Invest NI or the Department of Enterprise, Trade and Investment.
- Discuss the case with anyone within the Department other than the people detailed in the **Anti-Fraud Policy** and **Fraud Response Plan**.
- Attempt to personally conduct investigations or interviews or question anyone.

ACTION BY MANAGERS

If Line Management have reason to suspect fraud or corruption in the work area, they should:

- Listen to the concerns of staff and treat every report received seriously and sensitively;
- Make sure that all staff concerns are given a fair hearing. Line Management should also reassure staff that they will not suffer because they have told them of their suspicions;
- Get as much information as possible from the member of staff, including any notes and any evidence they have that may support the allegation. Do not interfere with any evidence and make sure it is kept in safe place; and
- Not try to carry out an investigation themselves; this may damage any criminal enquiry. They should seek advice from Internal Audit and the Departmental Establishment Officer before taking any action.
- **Report the matter immediately to Line Management, EDHR and EDFO, who will keep the Head of Internal Audit informed as appropriate.**

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Appendix 4a

Source: DAO (DFP) 06/11 (8 December 2011) Managing the Risk of Fraud Guide

Good Practice: Steps to be taken when a Fraud is Discovered

The guidance was developed by the Fraud Forum to assist organisations in developing and implementing their Fraud Response Plans.

Initial Action

The officer named in the Fraud Response Plan with responsibility to coordinate action should consider the following aspects when a suspected fraud is reported (Note the term responsible officer is a generic term used to encompass all the variations in arrangements adopted by organisations as described in organisational Fraud Response Plans):

- The source of discovery of the suspected fraud;
- The authenticity of the information initially received; and
- The line management's initial assessment of the circumstances involved.

The responsible officer should inform the officers named in the Fraud Response Plan as responsible for oversight. This normally includes the Director of Personnel, the Finance Director, the Head of Internal Audit and the Counter Fraud Unit (if one exists). An urgent meeting of the above, or their representatives should be held, including, if appropriate, the line management of the business area concerned. This Group, referred to as the Fraud Investigation Oversight Group, should determine and record the action to be taken. The Fraud Investigation Oversight Group should ensure that the involvement of the responsible officer does not create a conflict of interest and should oversee all the decisions taken.

Seek Advice

If fraud is a possibility the Fraud Investigation Oversight Group should take the following steps:

Seek advice from a counter-fraud specialist within the department or from another organisation if experience is not available internally. Following consideration of the advice received and the circumstances of the case, the Fraud Investigation Oversight Group should determine if there is a need to liaise with the PSNI.

Notify

The Fraud Investigation Oversight Group should ensure that the officer responsible for notifying DFP and the C&AG makes an immediate notification of all frauds (proven or suspected), including attempted fraud.

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Actions

If the evidence suggests a fraud may have occurred, the expert advice from the PSNI is likely to include some/all of the following actions:

- Secure the evidence and ensure the preservation of records both paper and electronic;
- Ensure the procedures are strengthened and action has been taken to end the loss;
- Remove the suspect's access to computer systems; and
- Relocate the suspect in another building if suspension is not warranted initially.

The Fraud Investigation

The Fraud Investigation Oversight Group should set up an investigation team independent from the business area where the suspected fraud took place. The investigation team should have appropriate financial and audit skills which is expected to include knowledge and experience of the provisions of PACE. Ideally the investigation should be led by an experienced counter-fraud specialist. Organisations that do not have counter-fraud expertise in-house should seek advice from another organisation's counter-fraud specialists or the PSNI at the outset and during the investigation.

The Fraud Investigation Oversight Group should agree the Terms of Reference for the investigation team and an oversight/checkpoint plan for the various stages of the investigation. The Group should ensure that best practice guidance is applied during the investigation including ensuring that all aspects of the suspected officer's work are investigated, including earlier periods of employment; that potential evidence is retained securely; that control weaknesses are strengthened immediately; and that the extent of any supervisory failures are examined.

Communication

The following steps should be taken:

- Arrangements should be in place to ensure the Audit Committee is kept informed of developments during the investigation;
- If appropriate, a lessons learned document should be circulated throughout the organisation, in due course;
- Identify whether the organisation's Fraud Response Plan needs to be updated and circulate any changes throughout the organisation;
- If appropriate, consideration should be given to informing other public sector organisations; and
- The NICS Fraud Forum should be informed at the appropriate time including of lessons learned.

Sanction and Redress

There are three main actions an organisation may pursue as part of its fraud investigation:

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- Conduct the investigation to a criminal standard to maximize the opportunities for a criminal prosecution. This course of action may include the preparation and submission to the PSNI of an evidential pack. Alternatively, where in-house expertise is available, the investigation can be taken forward with a view to presenting a file to the Public Prosecution Service for direction;
- Seek redress of any outstanding financial loss through the Civil Courts, if necessary; and
- Pursue a disciplinary process which may, if there is clear evidence of supervisory failures, include other officials.

Organisations should carefully consider the options available to them and decide the most appropriate course of action/actions to take in each case. It is important that any civil/disciplinary action does not impair a criminal investigation.

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Appendix 5

REFERRAL TO PSNI: *ACCEPTANCE CRITERIA*

1. These criteria set out the conditions necessary for a suspected fraud case to be referred to the PSNI. **However, the decision to accept a case for investigation rests fully with the PSNI who will provide their decision in writing.**
 - It must be established that there are reasonable grounds to believe that a criminal offence has been committed.
 - Deliberate criminal intent needs to be clearly defined. The fraud needs to be more than an error or omission.
 - The allegations should concern recent events and should not have become stale by reason of age. Incidents, which are over two years old before discovery, need to be judged individually on their merits, including availability of documentary evidence and the reliability of witness evidence.
 - To comply with the rules governing disclosure, the department/body will identify and preserve all original documents and other exhibits relating to any intended complaint.
 - The department/body should be prepared to supply all original relevant documents and exhibits to the police if an investigation is accepted and commenced. Such evidential material should be securely held, in accordance with PACE provisions, before formal hand over to the PSNI.

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PSNI AGREED FORMAT OF EVIDENCE PACK

1. Evidential packages should contain a detailed summary of all relevant information surrounding the allegations made. This should include the nature of the allegations against the suspect, including the full name, address and date of birth of the suspect.

2. The package should also include: -
 - All available details of any other parties suspected of involvement in the alleged fraud, including the reasons for the suspicions;
 - A brief summary of the allegations including estimated values of alleged crime and relevant dates;
 - A full description of the nature of the crime and the circumstances surrounding it. This should include full details of any investigations already undertaken by the department/body or anyone acting on their behalf;
 - Copies of all relevant documents, each individually numbered and identified in the summary;
 - Copies of all statements obtained from suspects;
 - Names and addresses of all witnesses identified at the time of reporting to the police, including copies of any statements;
 - Any police reference numbers, which may already apply to any part of the case; and
 - A name and contact point.

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