

EXECUTIVE DIRECTOR SPONSOR: AMELIA MORGAN

COUNTER FRAUD POLICY

Purpose

The Board to review and approve the Counter Fraud Policy in the format attached as Appendix 1.

Priority

Routine.

Background

The Board reviews and approves the Counter Fraud Policy annually in accordance with the Matters Reserved to the Board in line with its Annual Forward Planner.

Key Points for Noting

The Counter Fraud Policy, attached as appendix 1, is consistent with the Scottish Public Finance Manual. It provides an overview of what constitutes fraud and sets out Scottish Canals' commitment to, and its employee's responsibilities in respect of, fraud compliance. There are no substantive amendments to highlight. All references to the Director of Corporate Services have been replaced with a reference to the Director of Finance and Business Services.

Corporate Considerations

- Strategic Priorities: The annual review of the Counter Fraud Policy ensures stewardship of internal controls in accordance with the Corporate Plan 2020-23
- Health & Safety: There are no Health & Safety issues to report.
- Risk/Risk Appetite: There are no new risks to raise.
- Legal: There are no legal implications to report.
- Financial: There are no financial implications for Scottish Canals' budget.
- Human Resources: There are no HR issues to report.
- Fair Work First: There are no Fair Work First issues to report.

- Communication: The Counter Fraud Policy will be communicated to all staff via NETconsent.
- Community & Third Sector: There are no Community & Third Sector issues to report.
- Commercial: There are no Commercial issues to report.
- Asset: There are no Asset issues to report.
- Environment: There are no Environment issues to report.
- Health & Safety: There are no Health & Safety issues to report.

Conclusions and Recommendations

It is recommended that the Board approve the Counter Fraud Policy in the format attached as appendix 1 for circulation to all employees via NETconsent.

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Counter Fraud Policy

Scottish Canals requires all staff at all times to act honestly 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 members of staff. Scottish Canals will not accept any level of fraud or corruption; consequently, any case will be thoroughly investigated and dealt with appropriately.

This mandatory Policy sets out your responsibilities regarding both the prevention of fraud and the approved process to be followed where a fraud is detected or suspected.

1. What is fraud?

Fraud is the use of deception with the intention of obtaining personal gain, avoiding an obligation or causing loss to another party. Fraud can be used to describe a wide variety of dishonest behaviour such as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion. The fraudulent use of IT resources is included in this definition, where its use is a material factor in carrying out a fraud.

2. Reducing the opportunity for fraud - separation of duties

The opportunity for fraud must be reduced wherever possible. Allocating responsibility for too many functions to one person can constitute a high risk of fraud and should be avoided. The risk of fraud can be reduced by ensuring proper separation of duties so that, for example, more than one person has to be involved in ordering, receiving and authorising payments for goods or services.

The separation of key functions forms an integral part of systems control and is essential to minimise the potential scope for irregularity by staff acting on their own.

Without adequate separation of duties, the effectiveness of other control measures is undermined. Where resources are limited and separation of duties is not possible, alternative management controls – such as supervisory checking - must be employed.

3. Robust systems of control

Appropriate preventive and detective controls should be put in place to counter the risk of fraud. Procedures set up to prevent and detect fraud must be proportional to the risk involved and be carefully followed and monitored.

Preventive controls are designed to limit the possibility of a fraud occurring e.g. separation of duties. Detective controls are designed to spot errors, omissions and fraud after the event e.g. supervisory checks and reconciliations. Support for staff in establishing appropriate controls is provided by the appropriate finance business partners and internal audit.

Managers with responsibility for awarding contracts, making payments and other financial transactions must ensure they have clear control procedures. It is important that:

- There is adequate separation of duties and proper authorisation processes for payments
- Staff dealing with these procedures are familiar with them

- Accounting and other records, such as cash balances, bank balances, physical stock counts, are reconciled with the actual position
- Staff who are bankrupt or insolvent are not employed on duties which might permit the misappropriation of public funds.

Managers have the prime responsibility for ensuring their systems are sound and that they are operating as intended. Both internal and external auditors have a role in carrying out independent reviews of systems and the adequacy of controls in place.

Many frauds are due to failure to comply with existing controls. It is vital that good control systems are supported by supervisory checking and alertness to the risks of fraud.

4. Identification of fraud

External and internal fraud is not always easy to identify. Often suspicion may be raised but it is not acted on and reported. Fraud is often committed where there is:

- Opportunity to commit fraud. This is where internal controls are weak and access to assets and information allows fraud to occur.
- Rationalisation that justifies fraudulent behaviour. This can be for a variety of reasons. Scottish Canals has a zero-tolerance approach to fraud.
- Motivation or a need for committing fraud. This can be for financial reasons or other motivating factors.

5. Danger Signs

All staff must always be alert to the risk of fraud, theft and corruption.

Danger signs of external fraud include:

- Photocopies of documents when originals would be expected
- Discrepancies in information e.g. signatures and dates
- Unexpected queries from stakeholders or suppliers e.g. bank account detail changes
- Requests for non-standard types of payment
- Unexpected trends or results e.g. from reconciliations.

Danger signs of internal fraud include:

- Evidence of excessive spending by staff in cash/contract work
- Inappropriate relationships with suppliers
- Reluctance of staff to take leave
- Undue possessiveness of or anomalies between work records
- Pressure from colleagues to avoid normal control procedures
- Abnormal Travel and Subsistence claims, overtime or Flexible Working Hours patterns.

6. Responsibilities

The Board is responsible for safeguarding the assets and taking reasonable steps for the prevention and detection of fraud and other irregularities. The Board has delegated responsibility to the Audit & Risk Committee to oversee the effectiveness of the internal control

environment. Each individual is responsible for regulating his or her own conduct in all aspects of their work and seeking advice where apparent conflicts arise.

7. Code of Conduct

Scottish Canals has adopted a Code of Conduct which details the standards which should be followed by staff in their day to day duties. They affect the way we deal with each other, with customers and with our suppliers. In addition to demonstrating that our actions are in the public interest, adherence to the Code of Conduct will protect staff from being unnecessarily and unfairly accused of impropriety.

The Code of Conduct also contains some practical guidance notes dealing with:

- business gifts
- hospitality
- outside work

8. Responding to Fraud

8.1 Dealing with worries

All staff have a responsibility to uphold the reputation of Scottish Canals and to ensure that it acts in accordance with best practice. Scottish Canals gives high priority to achieving such standards.

Staff are encouraged to raise worries they may have, where there is any risk to Scottish Canal's reputation or where any of the standards are not being met. The concerns should be taken to their line manager or, if they so wish, to any Director or to the Chair of the Audit & Risk Committee. At this initial discussion the whistleblower will be offered the option of confidentiality and, if taken up, will be given assurances that their identity will not be disclosed, or, if disclosure is approved, offered assurances of protection from possible reprisals or victimisation.

8.2 Dealing with suspected irregularities

In straightforward cases of theft of cash or other property where the premises have been broken into, the Police must be informed immediately. The Director of Finance & Business Services and Chair of the Audit & Risk Committee should be advised, as soon as possible, of the circumstances and the action taken. In all other cases where fraud or theft is suspected, the Director of Finance & Business Services must be advised immediately and an appropriate investigation to be commenced. Action will then be decided on in conjunction with the Chief Executive Officer and Chair of the Audit & Risk Committee as appropriate.

9. Investigating fraud

Irrespective of the course of suspicion, it is for line management to undertake an initial enquiry to ascertain the facts. This enquiry should be carried out as speedily as possible after suspicion has been aroused. Prompt action is essential. It confirms or repudiates the suspicions which have arisen so that, if necessary, further investigation may be instigated. Internal Audit is always available to offer advice to you on any necessary course of action.

The factors which give rise to the suspicion should be determined and examined to clarify whether a genuine mistake has been made or an irregularity has occurred. An irregularity is any incident or action which is not part of the normal operation of the system or the expected course of events. Preliminary examination may involve discrete enquiries with staff or the review of documents. Any irregularity of this type, however apparently innocent, should be notified.

If initial examination confirms the suspicion that a fraud has been perpetrated then, to prevent the loss of evidence which may prove essential for subsequent disciplinary action or prosecution, all original documentation must be lodged with the Secretary to the Board and locked away in a safe place pending further investigation. Additionally, Scottish Canals may suspend any employee involved pending the outcome of an investigation. Suspension itself does not imply guilt. It is another safeguard to prevent the removal or destruction of evidence.

10. Action and recovery

The appropriate action will be taken against any employee following the investigation and will follow laid down disciplinary procedures.

Action will be taken to recover any theft or losses from fraud. The action will depend on the likelihood of success and the costs of recovery.

Any process found to be ineffective by the investigation will be improved to provide effective control. Such actions may include:

- better segregation of duties
- more frequent management checks introduced
- improved management information
- regular independent checks introduced
- responsibilities allocated to named individuals
- delegated financial authorities introduced
- physical access to buildings, storerooms improved
- restricted access to computer data improved
- more comprehensive checking of potential new employees
- complete overhaul of internal control system

11. Reporting on fraud

The Audit & Risk Committee receives details on any losses including those arising from fraud.

As a matter of good practice, any serious incident that has resulted or could result in a significant loss of funds or a significant risk to the Scottish Canals' property, work, beneficiaries or reputation should be reported to the Scottish Government. This will be done by the Director of Finance & Business Services on behalf of the Board. Serious or significant incidents are, in no particular order:

- significant financial loss;
- threats to national security, specifically terrorism;
- criminality and/or illegal activity within or involving the organisation;
- sham entities set up for an illegal or improper purpose;
- organisations deliberately being used for significant private advantage;
- where an organisation's independence is seriously called into question;

- issues that could damage the reputation of Scottish Canals or the Scottish Government;
- issues that could damage public trust and confidence of the Scottish Government.

VERSION CONTROL

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