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1. Introduction

1.1 One of the basic principles of public sector organisations is the proper use of public funds. It is therefore important that all those working in the private sector for the public are aware of the risk of wrongdoing and the means of enforcing the rules against it. The aim of this document is to set out the company's policy and response plan for suspected or detected irregularities.

2. Policy

2.1. The company is committed to a culture of honesty, openness and fairness. It is therefore also committed to the elimination of any fraud and corruption and to the rigorous investigation of any such cases and the punishment of those involved.

2.2. The company actively encourages anyone having reasonable suspicion of irregularities to report them. It is also the policy of the company that no employee should suffer as a result of reporting reasonably held suspicions.

2.3. The company will always seek to recover fully all losses from those responsible in proven cases of fraud or corruption including all costs incurred in the pursuit of action against them.

3. Definition

3.1. There is no offence in law of Fraud, but the term encompasses criminal offences involving the use of deception to obtain some benefit or to be to the detriment of some person or organisation.

3.2. Corruption, in its broadest sense, involves the taking of decisions for inappropriate reasons - e.g. awarding a contract to a friend, appointing employees for personal reasons, or the giving or accepting of gifts as an inducement to take some course of action on behalf of the organisation.

3.3. The Audit Commission defines Fraud as – “the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain”.

3.4. Corruption is defined by the Commission as – “the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person”.

4. Discovery of financial irregularities

4.1. Financial irregularities can come to light in a number of ways. They are usually discovered as a result of:-

- Manual & Craft employees or Office Staff becoming aware of or suspecting that management controls are not being complied with
- Routine work, or Audit testing
- Information (tip-off) from a third party, internal or external to the organisation.

4.2. Any allegation, but particularly an anonymous one, should be treated with caution and discretion, because what appears to be suspicious circumstances may have a reasonable explanation. There is also a risk that some reports may be malicious.

4.3. Under no circumstances should information about any suspected irregularity, be passed to a third party or to the media without the express authority of the Chief Executive or Internal Auditor.

5. Responsibility of employees

5.1. Employees who are aware of, or suspect that a financial irregularity is taking place, or has taken place, have a duty to report their suspicions, since by doing nothing, they may be implicating themselves. Employees who may feel uncomfortable referring suspicions to line managers are

encouraged to contact their line manager or the Internal Auditor. If these reporting lines are unacceptable to an employee, an alternative is available in the companies "Whistle Blowing Procedure".

5.2. If an employee suspects that a financial irregularity of any type has occurred or is in progress, they should immediately inform their line manager. The only exception to this rule is where the employee suspects that the line manager might be involved in the irregularity. In that event, the employee should advise the managing director.

5.3. Employees must not attempt to investigate suspected irregularities themselves or discuss their suspicions other than with more senior managers in accordance with the guidance above.

5.4. Examples of the types of financial irregularity that might be suspected are: -

- Theft or abuse of Board property or funds
- Deception or falsification of records (e.g. fraudulent time or expense claims)

6. Responsibility of managers

6.1. It is Management's responsibility to maintain system controls to ensure that the company's resources are properly applied in the manner, on the activities, and within the limits approved. This includes responsibility for the prevention and detection of fraud and other irregularities.

6.2. Where a manager receives a report from an employee or other party of a suspected financial irregularity, they should immediately inform the Managing Director, who in turn will notify the duly appointed Internal Auditor.

6.3. Line Managers should not themselves attempt to undertake any detailed investigation of the possible irregularity and should not discuss their suspicions or those reported to them, other than with the Managing Director and the Internal Auditor.

6.4. In cases of suspected irregularities, it is often necessary to suspend a suspect from duty. Before an employee is suspended, advice should be sought from the Managing Director. The purpose of suspension is to prevent any suggestion of a suspect having the opportunity to continue with the act complained of, falsify or destroy records, influence witnesses, etc. Suspension is not a punishment, nor does it imply any fault or guilt on the part of the employee concerned.

7. Response plan

7.1. Upon receiving a report of suspected financial irregularity, the Internal Auditor will launch an investigation, and a record will be made in the company's Fraud Log. The Log will record all reported suspicions including those dismissed as unsubstantiated, minor or otherwise not investigated. It will also contain details of actions taken and conclusions reached.

7.2. The Internal Auditor will confer with the Managing Director to agree the action plan to be adopted in the light of the particular circumstances.

7.3. The Internal Auditor will notify the External Auditor of all frauds over £10,000 or those considered by the Managing Director to be significant.

7.4. When a prima facie case of fraud or corruption has been established, the following procedure will apply regarding referral to the Police: -

7.4.1. Minor cases misappropriation of cash, etc. In minor cases of suspected fraud and/or cash misappropriation by employees, as soon as reasonable evidence has been acquired and speedy action is considered imperative in order to prove fraud, the Internal Auditor may call in the Police without reference to other officers. He will however advise the Managing Director as soon as practicable afterwards.

7.4.2. Major and more complex frauds:

1. The Internal Auditor will discuss the case with the Managing Director, and consultation with the Police will normally be approved.
2. Depending upon Police advice, the case will be reviewed by the above officers who will decide if it should be referred officially to the Police for investigation. If it is decided to do so the Managing Director will authorise the official complaint.
3. Following the official report to the Police, any further investigations by the Internal Auditor that are considered necessary, will be planned and executed in close cooperation with the Police, with the MD.

4. The circumstances of the particular case will dictate when the Police and external auditors are informed, but it is recommended that the Police should be informed when:-
 - There is evidence of an irregularity which needs to be confirmed by witness interview if criminal prosecution is contemplated;
 - Interview of the suspect is desirable to confirm the evidence of records;
 - A prima facie case of fraud has been established but the perpetrator could not be identified.

8. Involving the police

8.1. Internal Auditors and MD may be reluctant to involve the Police in the belief that:

- They are only interested if the alleged criminal offence is greater than a specific monetary value.
- They will not be interested because of the potential complexity of the issues involved which render little chance of a successful prosecution.
- The organisation prefers to deal with such incidents internally, avoiding publicity but implementing dismissal and recovery through civil action.
- The Police will want hard evidence before they will pursue investigations, but when it is provided they advise that the rules of evidence have not been complied with.

8.2. Protracted internal investigations often unnecessarily delay involving the Police, thereby diminishing the value of co-operation with them. However, properly organised investigations, conducted by individuals with an inside working knowledge of the organisation, will be of great assistance to any subsequent Police enquiry, and management should therefore not be discouraged from liaising with the Police as soon as the issues are identified.

