

LMC

Livestock & Meat Commission

Anti-fraud Policy

1 Introduction

This policy outlines the commitment LMC places on the prevention and detection of fraud and irregularity and provides guidance to staff on these important issues. All public servants are required to act honestly and with integrity, to safeguard resources for which they are responsible. The opportunity to commit fraud is ever-present, and hence must be a concern to all members of staff. It is everyone's responsibility to prevent fraud and follow LMC's procedures where fraud is suspected or detected.

LMC operates a "zero tolerance" policy with regard to fraud. LMC will investigate all instances of actual, attempted and suspected fraud committed by staff, consultants, suppliers and other third parties and will seek to recover funds and assets lost through fraud. Perpetrators will be subject to disciplinary and/or legal action.

This policy should be read in conjunction with LMC's Whistleblowing Policy, Gifts and Hospitality Guidance, Anti-Bribery Policy, Managing Public Money Northern Ireland (MPMNI) Annex 4.7 and Managing the Risk of Fraud (NI) A Guide for Managers.

1.1 Definition of fraud

The Fraud Act 2006 which became law in Northern Ireland in January 2007 introduced a new general offence of fraud which can be committed in three ways:

- By false representation;
- By failing to disclose information; and
- By abuse of position.

The term "fraud" is the obtaining of financial advantage or causing of loss by implicit or explicit deception. It is the mechanism through which the fraudster gains unlawful advantage or cause unlawful loss. Fraud may include such acts as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion.

Obviously fraud can be perpetrated by persons outside as well as inside an organisation. The criminal act is the attempt to deceive and attempted fraud is therefore treated as seriously as accomplished fraud.

The Fraud Act established a number of specific offences to assist in the fight against fraud. These include an offence for possessing articles for use in fraud and an offence of making or supplying articles for use in fraud.

Fraud can be committed in an infinite number of ways including false representations, altering, concealing or destroying manual or computer records, the misuse of computer facilities or changing computer programmes.

Computer fraud is where information technology equipment has been used to manipulate programs or data dishonestly (e.g. by altering, substituting or destroying records, or creating spurious records), or where the use of an IT system was a material factor in the perpetration of fraud. Theft or fraudulent use of computer facilities, computer programs and the internet is included in this definition. The suspicion that any of these acts have taken place should be regarded as potentially fraudulent.

2 Responsibilities

The main responsibilities are set out in Managing Public Money Northern Ireland (MPMNI).

2.1 LMC Board Responsibilities

The LMC Board are responsible for:

- Identifying, itemising and assessing how the organisation might be vulnerable to fraud
- The development and maintenance of effective controls to prevent and detect fraud
- Evaluating and responding to the fraud risk
- Measuring the effectiveness of the fraud risk strategy
- Reporting fraud to DAERA, DoF and the Comptroller and Auditor General (C&AG)
- To carry out vigorous and prompt investigations if fraud occurs. This will include ensuring that staff who carry out fraud investigations are properly trained
- To take appropriate legal and/or disciplinary action against perpetrators of fraud
- To consider disciplinary action where supervisory failures have contributed to the commission of fraud
- To establish and maintain systems for recording and subsequently monitoring all discovered cases of fraud.

In the formulation of policy, legislation and related guidance, and in the design of working systems, the Board must ensure that:

- The prevention of loss and fraud is taken into account
- The risk of fraud and loss are assessed when changes are being considered
- Weaknesses are identified and rectified when the opportunity arises.

2.2 Accounting Officer Responsibilities

The CEO as Accounting Officer has overall responsibility and is accountable for the effectiveness of fraud risk management. The Accounting Officer is responsible for establishing and maintaining a sound system of internal control that supports the achievement of LMC's policies, aims and objectives. The system of internal control is designed to respond to and manage the whole range of risks that LMC 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. Managing fraud risk is viewed in the context of managing risk. Although the Accounting Officer bears overall responsibility and is liable to be

called to account for specific failures, these responsibilities fall directly on Senior and Line Management and may involve other individual staff.

2.3 Senior Management Responsibilities

Senior Management are responsible for:

- Identifying the risks to which systems and procedures are exposed
- Developing and maintaining effective controls to prevent and detect fraud
- Ensuring fraud awareness within the organisation
- Ensuring that controls are being complied with
- Reporting significant incidents of fraud to the Accounting Officer, reporting to DAERA, DoF and the C&AG in accordance with MPMNI Annex 4.7
- Ensuring prompt investigations are carried out if fraud occurs. This will include ensuring that staff who carry out fraud investigations are properly trained
- Taking appropriate legal and/or disciplinary action against perpetrators of fraud, including appropriate action to recover assets
- Taking disciplinary action where supervisory failures have contributed to the commission of fraud
- Establishing and maintaining systems for recording and subsequently monitoring all discovered cases of fraud
- Providing assurance to the Accounting Officer on their risk and internal control procedures.

2.4 Line Management Responsibilities

Managers are required to:

- Identify the risks to which systems and procedures are exposed
- Develop and maintain effective controls to prevent and detect fraud
- Ensure that controls are being complied with;
- Raise fraud awareness amongst staff including knowledge of LMC's anti-fraud policy, and at induction training
- Implement new controls to reduce the risk of similar fraud occurring where fraud has taken place
- Inform Senior Management or the Board when a fraud has occurred or is suspected.

Managers must ensure that opportunities for staff to commit fraud are minimised. In establishing and maintaining effective controls it is desirable that:

- Wherever possible there is a separation of duties so that control of a key function does not rest with one individual
- There is adequate monitoring and checking of outputs
- Backlogs are not allowed to accumulate
- Staff are adequately trained and have documented procedures available to them.

2.5 Staff Responsibilities

Individual members of staff should:

- Act 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
- Conduct 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
- Be alert to the possibility that unusual events or transactions could be indicators of fraud
- Alert their Line Manager or next most senior person where they believe the opportunity for fraud exists because of poor procedures or lack of effective supervision
- Report details immediately through the appropriate channels if they suspect that a fraud has been committed
- Co-operate fully with whoever is conducting internal checks or reviews or fraud investigations
- Assist management in conducting fraud investigations
- Inform management of any outside interest which might impinge on their discharge of duties
- Inform management of any gifts, hospitality or benefits of any kind offered by a third party as detailed in the Gifts and Hospitality Policy, Anti-Bribery Policy and the Staff Code of Conduct where applicable.

2.6 Internal Audit

Internal Audit is responsible for the provision of an independent and objective opinion to the Accounting Officer on risk management, control and governance. Internal Audit has no responsibility for the prevention or detection of fraud, however they assist by examining and evaluating the adequacy and effectiveness of management’s action to fulfil their obligation. Internal Audit is responsible for:

- Delivering an opinion to the Accounting Officer on the adequacy of arrangements for managing the risk of fraud and ensuring that the organisation promotes an anti-fraud culture
- 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 LMC’s operations
- Ensuring that management has reviewed its risk exposures and identified the possibility of fraud as a business risk.

2.7 Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee is responsible for advising the Accounting Officer and Board on:

- Management’s assessment of the organisation’s risk from fraud and the appropriateness of their response to it
- The organisation’s anti-fraud policies and arrangements, whistleblowing procedures and arrangements for investigations.

2.8 External Audit

The role of the external auditor is to determine if the financial statements represent a “true and fair view” and that funds reported have been “applied to the purposes intended by the NI Assembly”. In doing so External Audit will obtain reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether caused by fraud or error. If the auditor identifies a fraud or obtains information that indicates a fraud may exist, the auditors will communicate these matters to the appropriate level of management. It is for management to investigate such cases. It is not however the responsibility of external audit, or indeed internal audit, to prevent or detect cases of fraud. This is primarily a management responsibility.

3 Reporting suspicions

There are various signs and indicators that are clues that fraud may be taking place. Some indicators relate to staff themselves and others to actual work performance and working procedures.

Examples of indicators include:

- Unusual employee behaviour
- Unrecorded transactions or missing records (e.g. invoices, contracts)
- Absence of controls and audit trails (e.g. inadequate or no segregation of duties, lack of rotation of duties)
- Inadequate monitoring to ensure that controls work as intended (periodic testing and evaluation)
- Documentation that is photocopied or lacking essential information
- Alterations to documents
- Unsatisfactory explanations of actions taken
- Expected expenditure exceeded
- Falsification of management information documents
- Suppliers / contractors who insist on dealing with one particular member of staff

A full list of indicators can be located in Appendix 1.

The Public Interest Disclosure Act 1998 protects employees who raise concerns about certain matters of public interest in good faith (see LMC’s Whistleblowing Policy). LMC has established procedures to encourage staff to report actual, attempted or suspected fraud and/or other forms of illegal activity without fear of reprisal.

Staff should not attempt to investigate any fraud themselves.

4 Fraud Response Plan

LMC has in place a Fraud Response Plan which can act as a checklist of actions and a guide to follow in the event of either internal or external fraud being suspected.

4.1 Plan

4.1.1 Staff must report details immediately to their Line Manager or next most senior person if they suspect that a fraud has been committed or see any suspicious acts or events. Staff should also assist in any investigations by making available all relevant information and by co-operating in interviews. Staff may also refer to LMC's Whistleblowing Policy for further guidance. 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 the Department
- Discuss the case with anyone within the department other than the people detailed in the policy and response plan
- Attempt to personally conduct investigations or interviews or question anyone.

4.1.2 Irrespective of the source of suspicion, managers must undertake an initial investigation to determine the facts. This investigation should be carried out as speedily as possible and certainly within 24 hours. It is imperative that such enquiries should not prejudice subsequent investigations or corrupt evidence therefore managers may need to seek advice on how to proceed. The purpose of the initial investigation is to confirm or repudiate the suspicions that have arisen so that, if necessary, further investigation may be instigated. The Accounting Officer should be advised of the position in advance of the preliminary investigation. The facts should be established quickly by the investigating manager, any threat of further frauds or losses should be removed immediately.

4.1.3 Preliminary investigation may involve discreet enquiries with staff or the examination of documents. It is important for staff to be clear that any irregularity of this type, however apparently innocent, will be investigated.

4.1.4 If the preliminary investigation confirms that a fraud has not been attempted nor perpetrated but internal controls are deficient, management should review their control systems with a view to ensuring they are adequate and effective. Internal Audit is available to offer advice and assistance on matters relating to internal control if required.

4.1.5 If preliminary investigation confirms the suspicion that a fraud has been attempted or perpetrated, then, to prevent the destruction of evidence that may provide essential support for subsequent disciplinary action or prosecution, management should take steps to ensure that all original documentation is preserved in a safe place for further investigation. If the removal of documents would impair the efficient operation of work, management should arrange for copies to be made for continued use while retaining the originals. The facts should be established quickly by the investigating managers; any threat of further frauds or losses should be removed immediately, for example, by changing procedures or suspending payments.

4.1.6 In addition, any member of staff involved in suspected fraud may be suspended pending the outcome of the investigation. Suspension itself does not imply guilt; it is

another safeguard to prevent the removal or destruction of evidence and to avoid repetition of the offence.

- 4.1.7 Decisions regarding interviewing suspects must be taken by Senior Management. All interviews must be conducted in properly controlled conditions in order to ensure that any statement taken and subsequently used as evidence will not be rejected as inadmissible. Senior Management may need to seek advice on the interview process.
- 4.1.8 If, after investigation, management is satisfied that a prima facie case of fraud has occurred, LMC will consider the appropriate course of action. LMC should seek advice from Head of Counter Fraud Activities and Head of Internal Audit before taking any action. Managing Public Money (NI) Annex 4.7 requires NICS departments to report immediately, to DoF and the C&AG, all frauds (proven or suspected), including attempted fraud, which affect their departments or the agencies and Non Departmental Public Bodies (NDPBs) sponsored by them.
- 4.1.9 LMC will take all necessary steps to recover assets and this may include the freezing of assets, obtaining search orders and the prevention in releasing assets.
- 4.1.10 Following any fraud incident, LMC Senior Management in conjunction with the LMC Board must review controls in order to mitigate the threat of a future fraud. Lessons learned must be disseminated where there are implications for LMC as a whole.

A Memorandum of Understanding (MOU) has been developed between the Northern Ireland Public Sector and the Police Service of Northern Ireland (PSNI). The MOU sets out the framework for the working relationship between LMC and the PSNI in respect of the investigation and prosecution of suspected fraud cases. The MOU is available at <https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/mou-public-sector-and-psni.pdf>

The acceptance criteria and agreed format of evidence pack provides guidance on the procedures to follow when formally referring a suspected fraud case to the PSNI and can be obtained directly from the PSNI.

For additional guidance the Head of Counter Fraud Activities in DAERA can also be contacted.

5 Conclusion

While the circumstances of individual frauds will vary, it is important that all are vigorously and promptly investigated and that appropriate action is taken. LMC views fraud very seriously.

This policy is endorsed by the Commission and is reviewed regularly. You are encouraged to raise concerns at an early stage wherever possible.

Appendix 1 – List of fraud indicators

- Unusual employee behaviour (e.g. a supervisor who opens all incoming mail, refusal to comply with normal rules and practices, fails to take leave, managers by-passing subordinates, subordinates by-passing managers, living beyond means, regular working of long hours, 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
- 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

Appendix 2 – Examples of good management practices which may assist in combating fraud

- All income is promptly entered in the accounting records with the immediate endorsement of all cheques
- Regulations governing contracts and the supply of goods and services are properly enforced
- Accounting records provide a reliable basis for the preparation of financial statements
- Controls operate which ensure that errors and irregularities become apparent during the processing of accounting information
- A strong internal audit presence
- Management encourages sound working practices
- All assets are properly recorded and provision is made known or expected losses
- Accounting instructions and financial regulations are available to all staff and are kept up to date
- Effective segregation of duties exists, particularly in financial accounting and cash/securities handling areas
- Close relatives do not work together, particularly in financial, accounting and cash/securities handling areas
- Creation and maintenance of anti-fraud culture
- Act immediately on internal/external auditor's report to rectify control weaknesses
- Review, where possible, the financial risks of employees
- Issue accounts payable promptly and follow-up any non-payments
- Set standards of conduct for suppliers and contractors
- Maintain effective security of physical assets; accountable documents (such as cheque books, order books); information, payment and purchasing systems
- Review large and unusual payments
- Perpetrators should be suspended from duties pending investigation
- Proven perpetrators should be dismissed without a reference and prosecuted
- Query mutilation of cheque stubs or cancelled cheques
- Store cheque stubs in numerical order
- Undertake test checks and institute confirmation procedures
- Develop well defined procedures for reporting fraud, investigating fraud and dealing with perpetrators
- Maintain good physical security of all premises
- Supervision by managers and checking of outputs
- Randomly change security locks and rotate shifts at times (if feasible and economical)
- Conduct regular staff appraisals
- Review work practices open to collusion or manipulation
- Develop and routinely review and reset data processing controls
- Regularly review accounting and administrative controls
- Set achievable targets and budgets, and stringently review results
- Ensure staff take regular leave
- Rotate staff
- Ensure all expenditure is authorised
- Conduct periodic analytical reviews to highlight variations to norms
- Take swift and decisive action on all fraud situations
- Ensure staff are fully aware of their rights and obligations in all matters concerned with fraud