



Sheffield City Council

Finance and Commercial
Services

Guidance to Schools on Fraud Risks



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Introduction

Sheffield City Council recognises that all areas are susceptible to fraud. Fraud can lead to significant loss and thus prevent the schools from achieving its objectives with the resources available. Although all schools are different, they all face similar type of fraud risks. This document has been developed to support schools in allowing the management of schools to examine the perceived, risk from fraud in their schools and where there are possible gaps in control to identify these and put in place relevant control measures.

What is Fraud?

A criminal activity where deception is used for possible gain or to cause a loss.

There are three ways of committing fraud, established by the Fraud Act 2006.

Fraud by....

- False representation
- Failure to disclose information
- Abuse of position



How Does Fraud Occur?

When the perpetrator spots an **opportunity**, has a **motivation** to commit fraud and feels able to **justify** their actions.

- Controls not function
- Staff changes/losses
- Tolerance



- Pressure for results
- Financial
- Revenge

- I've earned it
- Nobody will suffer
- It's a "one off"

The Fraud Triangle

It is recognised that fraud is often one end of a spectrum that begins with poor practice. Poor practices are almost invariably found in organisations, including schools, where frauds are discovered. This in turn can lead to a laissez faire attitude with regard to financial control and governance in which weaknesses can be deliberately exploited by an individual with the motivation to commit fraud.

Whilst a poor control environment provides the opportunity and may inevitably lead to fraud, a key issue for schools to consider is the autonomy given by the governing body to the head teacher and other staff involved in financial decisions. If you look at the publicised case studies, it is often these staff who were responsible for the losses. These cases are certainly not unique and there are likely to be many more that remain unreported.

The Department for Education (DfE)'s 'Financial Management Standards in Schools' (FMSiS) and subsequent 'Schools Financial Value Standard' (SFVS), have sought to highlight to governors their role and responsibility for good governance and financial management, and encourage proactive involvement in governing the school.

There is a risk of fraud at all levels, including head teachers, finance managers, teaching staff, caretakers or premises managers who are able to take advantage of opportunities afforded by poor governance and control environments and poor practices.

This document is divided into two parts:

- The first part highlights some of the areas of a school's business that are more susceptible to fraud risk and the risks that are in these areas. These issues were derived from work by CIPFA and its partners in this area. It should be noted that these risks will be prevalent in most schools, but not all. In addition some schools may undertake activities or be configured in a different way to the norm, which may incur additional fraud issues.
- The second part is a self-assessment checklist that can be used by schools in order to check their own health against the fraud risk areas identified. In addition, we have produced an accompanying Excel spreadsheet which schools can use to score their controls in order to obtain a red, amber or green rating to help the organisation in considering fraud risks.

In addition to this package, four key sources of guidance that schools may wish to refer to with regard to fraud awareness and governance, are:

[Keeping Your Balance](#)

[Safer Recruitment in Education](#)

[Full Guide for Employers on Preventing Illegal Working in the UK](#)

[Fraud Risks in Schools: Advice for School Governors](#)

What should happen if fraud is suspected?

If you suspect fraud this should be raised in the first instance with your line manager, who will be able to look into the matter and see if there are issues for investigation.

There is full guidance on the Council's Intranet to aid in the investigation of frauds. All potential fraud cases should be referred to the Council's Internal Audit Service who will be able to provide support and advice in undertaking investigations.

If you suspect fraud is being undertaken by Senior Officers within the School, you can always use the School's Whistle Blowing Policy to raise your concerns. It should be remembered, that in many cases issues which at first sight may look like fraud may well be as a result of a simple mistake, or have another rational explanation.

School Fraud Risks

Staffing

| Type of Risk: Your People | Example Risks |
|--|---|
| Recruitment | <p>Senior member of staff recruits family member or friend, or friends or family members are recruited through an agency rather than as a direct appointment.</p> <p>This may result in the best individual not being recruited for the post, reputational damage to the school, and a lack of objectivity in future decision making by senior staff.</p> |
| Application | <p>An applicant applies for a post and either fails to declare something they are legally required to declare - for example, a relationship or criminal record or declares something that is untrue, e.g. they are allowed to work in the UK when they are not, or have a qualification which they do not have.</p> <p>This may result in the best individual for the job not being recruited, children's safety being put at risk, and/or the school potentially being liable for a fine.</p> <p>Whilst checks on teacher qualifications are more common and therefore easier to do, it is the checks on non-teaching staff and teaching assistant qualifications that can cause problems.</p> |
| Inappropriate Pay Awards including: <ul style="list-style-type: none"> • Increments • Honorariums • Bonuses • Allowances | <p>A member of staff falsifies information in order to obtain an excessive pay award which may include those elements listed opposite.</p> <p>This type of fraud may also include conspiracy or collusion between the head teacher, governing body and financial managers and may result in financial and reputational damage to the school.</p> <p>This also happens as a result of poor judgement by the schools management team or governors, and it is not necessarily fraud.</p> |
| Off Payroll Payments | <p>Payments to staff are made through petty cash or by other means in order to avoid the individual's and the school's duty to pay tax or national insurance.</p> <p>This may result in reputational damage and/or a fine from HM Revenue and Customs. In addition, if unpaid tax / national insurance cannot be recovered from the individual, the employer will be liable, in addition to any fines imposed by HMRC.</p> |
| Long Term Sickness | <p>A member of staff represents themselves as sick and finds employment elsewhere whilst continuing to receive payment from the school.</p> <p>This may result in financial loss as the school may need to appoint extra resources to cover the absence.</p> |

Procurement

| Type of Fraud Risk: Procurement | Example Risks |
|---|--|
| Collusion / corruption in supplier selection can be described as 'an illicit agreement between two or more parties, typically to limit open competition in the procurement process' | <p>A member of staff with responsibility for the award of a contract colludes with the contractor in order to benefit the contractor, sometimes in return for a bribe or favours. Alternatively, the organisation or contractor breaches procurement regulations in order to win or roll-over a contract.</p> <p>This may result in a breach of procurement regulations which may not represent value for money, reputational damage and potential legal action by other contractors.</p> |
| Leasing (particularly ICT hardware such as whiteboards and photocopiers) | <p>A company approaches the school with what appears to be a reasonable scheme for the leasing of IT equipment. However the agreement is overpriced and the school is duped into purchasing more equipment than they need at a price higher than they can afford and, in some cases, using hire purchase arrangements which schools are forbidden from entering into. The companies that create the lease agreement then sell the debt on to other agencies for collection.</p> <p>As a result, the school may be left with debts it is unable to service and ICT equipment that is not fit for purpose.</p> |
| Inappropriate Personal Use of Goods or Services | <p>A head teacher uses school money to procure goods or services for their own use, rather than for the benefit of the school.</p> <p>As a result, the school may suffer financial loss and reputational damage.</p> |

Theft

| Type of Fraud Risk: Theft | Example Risks |
|--|--|
| <p>Cash and Assets:</p> <ul style="list-style-type: none"> Assets e.g.: ICT equipment and inventory, lead flashing, stationery items e.g. from catalogues - printer cartridges, projector bulbs Cash e.g.: Voluntary funds, petty cash, income (e.g. trips, uniform) | <p>There are many areas of school business where there is a risk of theft -</p> <p>The areas listed to the left are typically high risk areas. Some are at risk of internal theft, while other assets are at a greater risk of external theft or collusion.</p> <p>As a result of IT theft, the school may also lose confidential information and may suffer financial loss through penalties and reputational damage.</p> |
| Premises Rental | <p>A member of school staff rents out part of the school building for an event.</p> <p>As a result of the inappropriate use of school premises, the school may lose revenue and the users of the premises may possibly be uninsured.</p> |

False Accounting

| Type of Fraud Risk: False Accounting | Example Risks |
|--|--|
| False Records | Records are falsified or fabricated to disguise theft of school assets and cash. |
| Moving Monies between years Delaying Payments | Goods or services that should be bought and paid for in one financial year are attributed to another financial year, resulting in a misrepresentation of accounts. This is often used to disguise fraud or theft in other areas. |
| Staff Loans | The school gives a loan to a member of staff which is outside of regulations and does not arrange a repayment plan. As a result, the school may suffer financial loss and reputational damage. |
| Inappropriate increase in finance through falsely stating SEN numbers, student numbers, or free school meals | The school exaggerates the number of pupils receiving free school meals, or incorrectly accounts for pupils that leave during the year, and as a result receives funding to which the school is not entitled. This may cause reputational and financial damage to the school. |
| Misuse of Public Money | The school pays for gratuities - for example, flowers or entertainment e.g. staff parties using school funds. This may result in financial loss and reputational damage to the school and is never a proper use of school funds. |

Bribery

| Type of Fraud Risk: Bribery | Example Risks |
|--|---|
| The Bribery Act 2010 defines bribery broadly as giving or receiving a financial or other advantage in connection with the 'improper performance' of a position of trust, or a function that is expected to be performed impartially or in good faith. Areas that may be of particular risk within school are: <ul style="list-style-type: none"> • Results • Procurement | The risk that building contractor offers the head teacher a significant discount on building an extension at their own home (or other inducements) in return for appointing the contractor to deliver work for the school. This may result in reputational damage to the school and may result in a contract that does not represent value for money for the school. |

School Fraud Risk Health Check - Self Assessment Checklist

Staffing

| Type of Risk: Your People | Check | In Place Yes/No |
|--|--|--------------------|
| <p>Governors and Senior Leaders are not familiar with Governance and Financial matters</p> | <p>Has the governing body assessed its governance and financial management skills and put actions in place to address any gaps?</p> <p>Do school governors receive training in governance and finance?</p> <p>Do all school governors effectively and robustly challenge senior school leaders and apply professional scepticism?</p> <p>Do senior leaders, including the head teacher, receive training in governance and finance?</p> <p>Does this training include fraud and bribery risks?</p> <p>Does the school have a clear whistle blowing policy?</p> <p>Does the school encourage staff to raise concerns about financial irregularities through a whistle blowing policy that is communicated and available to all staff?</p> <p>Does the whistle blowing policy allow concerns to be raised outside of the school's management structure? (e.g. to the governors or local authority)</p> <p>Is there a clear and well communicated policy with regard to the declaration of interests, gifts and hospitality?</p> <p>Is the declaration of interests, gifts and hospitality policy adhered to?</p> <p>Are senior staff and governors aware of the way they should deal with declarations of interests, gifts and hospitalities?</p> <p>Does the school receive relevant fraud alerts? (e.g. from the National Anti-Fraud Network, see excerpt at Appendix 2).</p> | |
| <p>Recruitment</p> | <p>Does the school have a clear recruitment process?</p> <p>Does the recruitment process include vacancies being agreed by governors?</p> <p>Is the recruitment process followed?</p> <p>Does the school employ or use family members of the senior leadership team for one off projects / support?</p> <p>Is there a clear separation of duties?</p> <p>Could it be considered that the recruitment of such family members was inappropriate?</p> <p>Does the school require relations employed in the school to be detailed on application</p> | |

| Type of Risk: Your People | Check | In Place Yes/No |
|--|---|--------------------|
| | <p>forms?</p> <p>Does the application form ask for details of right to work in the UK?</p> <p>Are identity documents and qualifications on application forms checked prior to recruitment?</p> <p>Are references checked prior to recruitment?</p> <p>Is a Disclosure and Barring Service check performed?</p> <p>Are there contracts of employment signed by both parties prior to commencement of employment?</p> <p>Is induction training provided?</p> | |
| <p>Pay Awards including:</p> <ul style="list-style-type: none"> • Increments • Honorariums • Bonuses • Allowances - links to examples can be found below | <p>Do school salaries (especially those of the senior leadership team) conform to the School Teachers Pay and Conditions Document?</p> <p>Are governors made aware of increments, honorariums, bonuses, allowances and gratuities paid to staff?</p> <p>Is there appropriate separation of duties with regard to the award of these payments?</p> <p>Is the salary to budget ratio monitored by governors with finance knowledge?</p> <p>Do governors review all pay awards and increments and ensure that these are made in accordance with the School Teachers Pay and Conditions Document?</p> | |
| <p>Payroll (Ghost Employees)</p> | <p>Is access to payroll systems only granted to those who require it?</p> <p>Are payroll functions suitably segregated?</p> <p>Is the process for leavers clear and followed?</p> <p>Have data matching checks been undertaken for duplicate names, addresses and bank account details?</p> <p>Are the monthly pay reports checked and signed?</p> <p>Are budget variations in payroll spend monitored, and are higher than budgeted staff costs accounted for?</p> | |
| <p>False Claims for:</p> <ul style="list-style-type: none"> • Overtime • Expenses • Unauthorised Use of Procurement Cards | <p>Does the school have a clear, comprehensive and well communicated expenses policy setting out exactly what staff can claim for and in what circumstances?</p> <p>Do all expense claims include original supporting documentation?</p> <p>Are explanations sought where this is not the case?</p> <p>Is there a process whereby the head teacher's expenses are reviewed or authorised by governors?</p> | |

| Type of Risk: Your People | Check | In Place Yes/No |
|---------------------------|--|--------------------|
| | <p>Is petty cash only used to reimburse expense claims supported by a receipt, rather than paid out in advance?</p> <p>In instances where advance payments are made, are unexpended funds timely returned and is original documentation for expenditure reconciliation provided?</p> <p>Has the school prohibited the use of credit and debit cards?</p> <p>If procurement cards are issued, are the statements received by the school and not just by the card holder?</p> <p>Are these statements monitored and reconciled to expense claims?</p> <p>Does the school have a 'no exceptions' time limit for the submission of expenses?</p> | |

Procurement

| Type of Risk: Procurement | Check | In Place Yes/No |
|--|--|--------------------|
| Procurement, including: <ul style="list-style-type: none"> • Not following Procurement Guidelines • Splitting Tenders • Nepotism • Bribes • Collusion / Corruption • Rolling Contracts Forwards • Misuse of Single Tender Actions • Procurement Card Abuse | <p>Does the school have a clear and well communicated process with regard to the procurement of goods and services?</p> <p>Is the process adhered to?</p> <p>Are senior staff aware of governance and the requirement to declare interests, gifts and hospitalities?</p> <p>Are relevant contracts (as identified by the scheme of delegated authority) subject to a competitive tendering process?</p> <p>Are standard procurement templates / tools used for transparency and consistency?</p> <p>Is there a segregation of duties in business case approval and the procurement process?</p> <p>Do authorisation limits require anything over a set limit to be signed off by the relevant governors committee?</p> <p>Can the same individual requisition and approve orders?</p> <p>Are the circumstances in which a single tender action may be considered clear?</p> <p>Are any tender waivers agreed by the governing body?</p> <p>Are all single tender actions considered by the governing body?</p> <p>Are undeclared interests that subsequently come to light treated as a breach of contract and a disciplinary offence?</p> <p>All requirements for staff resources and subsequent recommended appointments approved by an independent panel?</p> <p>Are consultants only employed where there is a clear business need with approval and sign off?</p> | |
| Leasing (particularly ICT hardware such as whiteboards and photocopiers) | <p>Have relevant staff within the school been informed / reminded of which leasing agreements are allowed and which are not permitted?</p> <p>Is there a clear channel for advice to be sought from the local authority in order to clarify complex lease agreements?</p> | |

Theft

| Type of Risk: Theft | Check | In Place Yes/No |
|--|--|--------------------|
| Theft / False Accounting including: <ul style="list-style-type: none"> • Bursar making payments to him / herself • Office staff pocketing money raised through fundraising activities • Undeclared revenue - e.g. rental of school premises at weekends | Does the finance manager have too much autonomy? Are the results of fundraising activities publicised? Are records of cash received kept and are all funds including any 'unofficial' fund and petty cash reconciled to cheque stubs and bank accounts by someone other than the bursar? Are the accounts reported and explained to the governing body? | |
| Stolen / Forged / Missing Cheques | Are bank accounts reconciled with cheque stubs and queries followed up with the bank if necessary? | |
| Mandate Fraud (payment diversion resulting from inappropriate changes of account details) | Is there a clear process in place in order that any change requested to a supplier bank account is verified and the veracity of the request ensured? | |