CITY OF GLASGOW COLLEGE

Board of Management
Audit & Assurance Committee

Date of Meeting	Tuesday 5 December 2023
Paper No.	AAC2-G
Agenda Item	5.4.3
Subject of Paper	Internal Audit Report – Fraud Prevention, Detection and Response
FOISA Status	Disclosable
Primary Contact	Henderson Loggie
Date of production	28 November 2023
Action	For Discussion and Decision

1. Recommendations

The Committee is asked to consider and discuss the report and the management responses to the internal audit recommendations.

2. Purpose of report

The purpose of this review is to provide management and the Audit and Assurance Committee with assurance on key controls relating to the curriculum and financial plans in place for City of Glasgow College and their alignment with the regional plan for Glasgow and the college student number targets.

3. Key Insights

This internal audit of Fraud Prevention, Detection and Response provides an outline of the objectives, scope, findings and graded recommendations as appropriate, together with management responses. This constitutes an action plan for improvement.

The Report includes a number of audit findings which are assessed and graded to denote the overall level of assurance that can be taken from the Report. The gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

4. Impact and implications

Refer to internal audit report.

Appendix – Internal Audit Report – Fraud Prevention, Detection and Response

City of Glasgow College

Fraud prevention, detection and response

Internal Audit report No: 2023/13

Draft issued: 28 November 2023

Final issued: 28 November 2023

Henderson
Loggie

Contents

Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Fundamental issue subjecting the organisations to material risk which requires to be addressed by management and the Audit and Assurance Committee as a matter of urgency.
Priority 2	Issue subjecting the organisations to significant risk, and which should be addressed by management as a priority.
Priority 3	Matters subjecting the organisations to minor risk or which, if addressed, will enhance efficiency and effectiveness.

Management Summary

Overall Level of Assurance

Good	System meets control objectives.

Risk Assessment

This review focused on the controls in place to mitigate the following risks on the College Risk Register as at April 2023:

Risk ID 6 – Negative impact upon College reputation (Residual Risk Score - 12)

Background

The College has taken forward a number of initiatives to strengthen controls following the significant fraud perpetrated against the College over the period September 2016 to February 2019. This includes particular focus around strengthening the consistent application of controls in the processing of invoices, asset management, and budgetary control. All three of these areas have been subject to internal audit review since the fraud was identified, with clear evidence of improvement in the control environment.

The latest Fraud and Irregularity report for 2022/23 was published by Audit Scotland in July 2023. The report highlights the fact that a number of the significant frauds perpetrated against public sector bodies during financial year 2022/23 were frauds which are already well publicised. However, the failure to consistently apply strong controls to minimize the risk of fraud left these organisations vulnerable to fraudulent activity, which in some cases remained undetected for some time.

Scope, Objectives and Overall Findings

The scope of this audit was to carry out a review of the organisation-wide anti-fraud framework in place within the College.

The table below notes each separate objective for this review and records the results:

Objective		Findings		
The objective of our audit was to ensure that:		**1**	**2**	**3**
		No. of Agreed Actions		
1. Anti-fraud policies and procedures exist within the College that are in line with best practice.	**Good**	-	-	-
2. Clear leadership, roles and responsibilities have been set out for implementation of the anti-fraud framework.	**Good**	-	-	-
3. There is a process in place to assess the nature and extent of the College's exposure to potential external and internal risks of fraud.	**Good**	-	-	-
4. Anti-fraud policies and procedures are embedded and understood throughout the organisation through appropriate training and communication.	**Good**	-	-	1
5. The organisation has put in place a process to monitor and review procedures designed to prevent fraud and make improvements where necessary.	**Good**	-	-	-
6. There are clear procedures for employees and Board members to raise concerns or whistleblow if they believe there has been fraud or other wrongdoing within the organisation.	**Good**	-	-	-
7. Appropriate procedures are in place for the investigation and reporting of a fraud.	**Good**	-	-	-
Overall Level of Assurance	**Good**	-	-	1
		System meets control objectives.		

Audit Approach

Through discussions with former Executive Finance Director, and review of documentation, we established the anti-fraud strategies, procedures and monitoring arrangements in place within the College. These were then evaluated to establish whether they are in accordance with best practice.

Summary of Main Findings

Strengths

- The Fraud Prevention Policy was refreshed as part of a bi-annual review conducted in 2022 and was considered by the Audit and Assurance Committee in September 2022 and formally approved by the Finance and Physical Resources Committee in September 2022;
- The Anti Bribery and Corruption Policy was also refreshed as part of a bi-annual review conducted in 2022 and was considered by the Audit and Assurance Committee in September 2022 and formally approved by the Finance and Physical Resources Committee in September 2022;
- Our review of the Fraud Prevention Policy and the Anti Bribery and Corruption Policy confirmed that, in our view, the policies and procedural framework in place is clearly set out, sufficiently detailed and is in line with good practice;
- From our review of the framework documentation, it is our view that the roles and responsibilities around the implementation of the anti-fraud framework have been clearly set out in a way which can be readily understood by all relevant parties;
- The Audit and Assurance Committee and the Board of Management have responsibility for maintaining oversight of the College's exposure to potential external and internal risks of fraud. This is primarily achieved through the work of the Audit and Assurance Committee in monitoring the College's Risk Register and the overall control environment;
- In order to strengthen the control environment, and to provide additional assurance to senior management and to the Board, the College has created two key roles of Compliance Auditor and Asset Manager. There has also been a particular focus on cyber security and the increased threat of phishing attacks;
- Fraud prevention training was delivered to the Finance team in June 2023, which provided the opportunity to discuss existing and emerging fraud risks and the ways in which these could be combatted;
- The Public Interest and Disclosure (Whistleblowing) Policy was revised in February 2021 and is due to be reviewed again by February 2024. We were advised that a reminder will be issued to all staff, students and Board members when the reviewed Policy is approved and published; and
- Appendix 1 to the Fraud Prevention Policy is a Fraud Response Plan. The purpose of this plan is to define authority levels, responsibilities for action, and reporting lines in the event of a suspected fraud or irregularity.

Weaknesses

- Although training is provided on cyber security and on phishing attacks, there is currently no formal training programme to maintain awareness of the anti-fraud policies and to embed an understanding of existing and emerging fraud risks for staff across the College.

Acknowledgement

We would like to take this opportunity to thank the staff at the College who helped us during our audit.

Main Findings and Action Plan

Objective 1 - Anti-fraud policies and procedures exist within the College that are in line with best practice.

The Fraud Prevention Policy was refreshed as part of a bi-annual review conducted in 2022 by the Vice Principal Corporate Services, the Finance Director, and the Head of Finance and was considered by the Audit and Assurance Committee in September 2022 and formally approved by the Finance and Physical Resources Committee in September 2022. Key changes made were around Procurement and Purchasing, and Standard Tender and Contract Documentation.

The purpose and aims of the Fraud Prevention Policy are defined as follows:

- The objective of this policy is to safeguard the proper use of the College's finances and resources. The College derives much of its income from public funds and, therefore, has a particular responsibility to ensure that income and resources are used solely for the purposes intended.
- For the purposes of this policy, fraud is defined as dishonest, irregular or illegal acts, characterised by a deliberate intent at concealment or false representation, resulting in the diversion of resources, whether or not for personal gain, for the benefit of an individual or group of individuals at a consequent loss to the College.
- The aftermath of fraud is costly, time-consuming and disruptive. The major thrust of any anti-fraud strategy should therefore be prevention.

In addition, the Anti Bribery and Corruption Policy was also refreshed as part of a bi-annual review conducted in 2022 by the Vice Principal Corporate Services, the Finance Director, and the Head of Finance and was considered by the Audit and Assurance Committee in September 2022 and formally approved by the Finance and Physical Resources Committee in September 2022.

The purpose and aims of the Anti Bribery and Corruption Policy are defined as follows:

- Taking a zero tolerance approach towards bribery and/or corruption.
- Communicating this policy to all employees and agents working on behalf of the College.
- Training employees so that they can recognise and avoid the use of bribery.
- Encouraging its employees to be vigilant and to report any suspicion of bribery.
- Rigorously investigating instances of alleged bribery.
- Taking firm and vigorous action against any individual(s) involved in bribery.

Our review of the Fraud Prevention Policy and the Anti Bribery and Corruption Policy confirmed that, in our view, the policies and procedural framework in place is clearly set out, sufficiently detailed and is in line with good practice.

Fraud Prevention, detection and response

Objective 2 - Clear leadership, roles and responsibilities have been set out for implementation of the anti-fraud framework.

Section 4 of the Fraud Prevention Policy sets out the leadership responsibilities around fraud prevention as follows:

"The determinants of the standards of behaviour in most organisations will be the standards observed by senior managers, and the policies and approach to their enforcement promoted by the senior managers.

The College's Board of Management and senior managers must therefore ensure that their behaviour is always of the highest standard.

The Board will, therefore, produce and disseminate clear policies on:

- Code of conduct;
- Registration and declaration of interests;
- Accepting hospitality and gifts;
- Prosecution of perpetrators of fraud.

The police advise that prosecution is a particularly effective deterrent because of the risk of a custodial sentence and a criminal record. However, the threat of prosecution only deters if the threat is real. Therefore, each and every fraud case arising should normally be referred to the police, irrespective of the status of the individual. The decision to involve the police shall be taken by a member of the College's Executive Leadership Team or Chairperson of the Audit Committee".

The Fraud Prevention Policy also sets out the role of internal audit in reviewing internal controls and in assessing their effectiveness and consistent application.

Section 6 of the Anti-Bribery and Corruption Policy sets out the responsibilities of all members of College staff and Board members as follows:

- Required to familiarise themselves with the College's anti-bribery policy;
- Prohibited from offering, promising, or paying a bribe of any kind;
- Prohibited from offering gifts, entertainment or hospitality that they know or believe will breach the gifts and hospitality policy of the relevant third party recipient;
- Prohibited from accepting or soliciting a bribe of any kind (and must report any such offers); and
- Prohibited from accepting "Anything of Value" from a Public Official;

From our review of the framework documentation, it is our view that the roles and responsibilities around the implementation of the anti-fraud framework have been clearly set out in a way which can be readily understood by all relevant parties.

Fraud Prevention, detection and response

Objective 3 - There is a process in place to assess the nature and extent of the College's exposure to potential external and internal risks of fraud.

The Audit and Assurance Committee and the Board of Management have responsibility for maintaining oversight of the College's exposure to potential external and internal risks of fraud. This is primarily achieved through the work of the Audit and Assurance Committee in monitoring the College's Risk Register and the overall control environment.

In order to strengthen the control environment, and to provide additional assurance to senior management and to the Board, the College has created two key roles of Compliance Auditor and Asset Manager. The College has also identified the need for increased focus on procurement compliance and has strengthened the Procurement team to enhance the level of expertise available to support compliance activity across the College. There has also been enhanced focus around the controls in place to ensure that any requests to change standing supplier details are legitimate.

There has also been a particular focus on cyber security and the increased threat of phishing attacks, which seek to exploit vulnerabilities in the College's IT systems. The College has recognised the importance of maintaining awareness of fraud risks, and the associated IT security threats which could provide a conduit for fraudsters to target the College, and has put in place mitigations to raise awareness of these threats.

Fraud prevention training was delivered to the Finance team in June 2023, which provided the opportunity to discuss existing and emerging fraud risks and the ways in which these could be combatted. The session also provided the opportunity to discuss a range of different fraud scenarios and to discuss in a group setting the control failures which allowed these frauds to happen and the mitigations which could have been put in place to prevent them. The slides from this session were also disseminated to the Procurement team.

Fraud Prevention, detection and response

Objective 4 - Anti-fraud policies and procedures are embedded and understood throughout the organisation through appropriate training and communication.			
Observation	**Risk**	**Recommendation**	**Management Response**
As highlighted under Objective 3, above, Fraud Prevention training was delivered to the Finance team in June 2023. Although training is provided on cyber security and on phishing attacks, there is currently no formal training programme to maintain awareness of the anti-fraud policies and to embed an understanding of existing and emerging fraud risks for staff across the College.	Without readily accessible information on fraud, bribery and corruption, managers, staff and Board members may be unclear on their respective responsibilities and the correct steps required to adequately discharge those duties.	**R1** – Senior management should develop a programme of fraud prevention training, which takes into account the fraud risks facing specific groups of staff in agreeing on the content and the frequency of the training required.	A programme of fraud prevention training will be developed with the Colleges organisational development department. The training will be tailored for specific staff groups **To be actioned by:** Chief Financial Officer **No later than:** 30 April 2024

Grade	3

Fraud Prevention, detection and response

Objective 5 - The organisation has put in place a process to monitor and review procedures designed to prevent fraud and make improvements where necessary.

As highlighted under Objective 1, above, the Audit and Assurance Committee and the Finance and Physical Resources Committee provided oversight and approval of the revised Fraud Prevention Policy and the revised Anti Bribery and Corruption Policy.

In addition, the risk management oversight provided by the Audit and Assurance Committee provides a mechanism for emerging fraud risks to be identified by management so that appropriate mitigations can be put in place. This is supplemented by the audit needs assessment conducted by internal audit, which is explicitly linked to the College's key risks, and by the work of the Compliance Officer in providing additional assurances through compliance activity.

Mechanisms are in place to review operational risks and the session delivered to the Finance staff demonstrated that there is now an enhanced understanding of the need to understand the controls which are in place to prevent fraud. It was also apparent that regular team meetings do provide the opportunity to identify opportunities to improve working practices to enhance the control environment.

Fraud Prevention, detection and response

Objective 6 - There are clear procedures for employees and Board members to raise concerns or whistleblow if they believe there has been fraud or other wrongdoing within the organisation.

The Public Interest and Disclosure (Whistleblowing) Policy was revised in February 2021 and is due to be reviewed again by February 2024. We were advised that a reminder will be issued to all staff, students and Board members when the reviewed Policy is approved and published.

This policy and the related procedure is designed to encourage employees and workers, including agency workers and contractors, to raise, at a high level, concerns and/or disclose information which the individual believes shows malpractice, while protecting employees' rights not to suffer detriment. While students do not fall within the scope of the legislation, this policy and related procedure is intended to extend the same assurance to students who disclose information that they will suffer no detriment.

Objective 7 - Appropriate procedures are in place for the investigation and reporting of a fraud.

Appendix 1 to the Fraud Prevention Policy is a Fraud Response Plan. The purpose of this plan is to define authority levels, responsibilities for action, and reporting lines in the event of a suspected fraud or irregularity.

The use of the plan should enable the College to:

- Prevent further loss;
- Establish and secure evidence necessary for criminal and disciplinary action;
- Notify the Scottish Funding Council, via GCRB, if the circumstances are covered by the mandatory requirements of the Audit Code of Practice;
- Recover losses;
- Punish the culprits;
- Deal with requests for references for employees disciplined or prosecuted for fraud;
- Review the reasons for the incident, the measures taken to prevent a recurrence, and any action needed to strengthen future responses to fraud;
- Keep all personnel with a need to know suitably informed about the incident and the institution's response;
- Inform the police and establish lines of communication with the police;
- Assign responsibility for investigating the incident; and
- Establish circumstances in which external specialists should be involved.

Therefore, we are comfortable that the College has appropriate procedures are in place for the investigation and reporting of a fraud.

Henderson Loggie