

## Countering Fraud in Education

It should come as no surprise that schools are as vulnerable to fraud as the private sector or indeed other public bodies.

The Audit Commission report 'Protecting the Public Purse' (2014) suggested that in the year 2013/14 there were 206 detected cases of fraud in schools, worth £2.33 million, with an average value of £11,313. Over half of cases (54%) and almost 2/3 of the value (62%) involved fraud by staff. These figures represent both a case number increase since 2012/13 of 8% and total value increase of 1%.

These figures only reflect the fraud cases in LA maintained schools, and as a result present a very partial view of the cost of fraud in all schools. The true cost of fraud is likely to be much higher, and the case studies later in this factsheet highlight the impact of fraud in various types of schools.

It is therefore essential that all reasonable steps are taken to help reduce your school's exposure to any potential fraud. This factsheet outlines types of fraud and what is and isn't fraud, countering fraud, and behavioural signs of fraud to help you think about countering fraud in your school.

### Types of fraud and what is and isn't fraud

Fraud can be broadly categorised into two forms - internal and external. External fraud involves an outside party attempting to extract money from a school. Internal fraud is committed by a connected party - this does not have to be an employee but can be any person who has access to the financial systems or assets.

Many cases of fraud are not instigated by school employees. Even with controls in place, there are ways to circumvent them. There are people who are clever enough to find the gaps in school procurement processes. If the right questions are not asked, unscrupulous providers can take advantage of the situation.

There should be a clear distinction between fraud and poor internal controls that may give the appearance of fraud but actually turn out to be either a compliance issue or a procedural policy not being followed.

### Collusion

In this context, collusion means the practice of two or more people who conspire to deceive others, generally for their own benefit, at the expense of both the school and ultimately the public funding which provides for education.

One of the case studies below shows collusion between the business manager and his wife, who orchestrated one of the largest frauds (in financial terms) to have ever taken place within a school, using a bank account abroad to send money, allegedly the business manager's wife's account.

Other cases of collusion may occur outside of the school, and whilst they may not directly affect school budgets, the potential for other issues is clear. A case a few years ago shows how a [school in Abingdon was a victim of collusion](#), committed by two men who claimed to have rid the school of

asbestos following their falsification of a report suggesting they had carried out work at the school – work which had never taken place. The HSE investigated this case and this led to prosecution of the colluding pair.

### **Behavioural signs of fraud and the importance of identifying fraud early on**

It is impossible to gain 100% protection from fraud. Anybody who is intent on committing fraud could potentially find a way. Similarly, school staff will generally be exceptionally trustworthy, however things can sometimes go wrong.

Research by the Association of Certified Fraud Examiners (2014) suggests that in 92% of the nearly 1,500 cases of fraud they reviewed across occupational backgrounds and global regions, at least one common and detectable behavioural ‘red flag’ was present prior to making the discovery.

The research also highlights in financial terms the importance of early detection, whereby the average loss is significantly smaller in cases where fraud is detected within the first 6 months compared to longer-term frauds which can sometimes extend beyond 4-5 years. Obviously the longer the fraudster has to extract financial resources from your school, then the more likely it is that the cost will be higher.

The behavioural ‘red flags’ in perpetrators are as follows, and of course, more than one of these could be present as part of a multitude of reasons for carrying out the fraud:

Living beyond their apparent means

Financial difficulties

Having unusually close associations with a customer or vendor

Displaying control issues or an unwillingness to share duties

Attitudes which indicate unscrupulous behaviour

### **Countering fraud in your school**

Firstly, it is important that the school sets out a clear message or statement about fraud, outlining zero tolerance. It might be useful for the school to set up fraud policy statement, a fraud strategy and fraud response plan.

#### Governance, administration and school leadership

The triangulation of governance, administration and school leadership underpins a robust assurance regime and commitment to regularity.

Appropriate financial delegation, segregation of duties and effective whistleblowing procedures are essential.

Whether schools have the necessary professionals internally (this may include governors) or need to buy in professional help, they must have access to the following:

- Knowledge and experience of contract management
- Procurement expertise
- Experience with tender processes and EU limits
- Ability to develop a product or service specification
- Strong financial control experience
- Strong budget planning and monitoring experience

The role of a strong school business manager should not be underestimated here. Internally, schools should not be afraid to introduce accountability measures at every management level. A head teacher should not be in a position to veto a finance director (or equivalent) where a risk of impropriety has been brought to their attention.

Equally, structures need to ensure that the head teacher is never placed in an untenable position by members of the governing body. Sub-committees allow for a healthy distribution of decision-making power and provide a structure of accountability.

It is also good practice to avoid having the same individuals on multiple committees. Actions from all committee meetings should also be shared with the full governing body, again to ensure appropriate and greater transparency within the decision making process.

#### Finance systems and policies

All schools should have finance policies in place that are designed to minimise the risk of fraud and ensure that relevant controls are implemented to stop fraud from occurring. All too often controls are only tested retrospectively and, therefore, the potential for fraud is still a real threat. Proactively countering the scope for fraud is a much more effective option than retrospective testing.

To ensure the robustness of a school's financial controls, finance systems should enforce:

- Segregation of duties
- Staff access limited to their authorised duties
- Control over any changes to Master Records

The school (academy) should appoint a Responsible Officer responsible for assisting in the monitoring and checking of financial management operations.

The next section outlines their role, and who they are in relation to others within the governing body.

#### The School Risk Register

All schools keep a risk register, generally recording risks to operations and finance, strategic and reputational risks, and compliance risks. The risk register will be the responsibility of the Audit

Committee within the school. The Governing Body will have responsibility for the Risk Management Policy.

The EFA Library contains various other factsheets and templates, including a risk register:

<http://www.nasbm.co.uk/EfA-Academies-Library.aspx>

### **Does our school require a Responsible Officer?**

Schools can appoint a Responsible Officer, who is responsible for assisting in the monitoring and checking of financial management operations within the school. Appointing an RO however is no longer mandatory and the school can opt for audit or peer review, per section 2.4 of the Academies Financial Handbook, as schools/academies have choice over how they deliver internal scrutiny. The following section however provides an overview of the RO role.

### **Role of the Responsible Officer**

The RO post is intended to provide an independent oversight of the academy's financial affairs. The main duties of the RO are to provide the governing body with on-going independent assurance that:

- the financial responsibilities of the governing body are being properly discharged;
- resources are being managed in an efficient, economical and effective manner;
- sound systems of internal financial control are being maintained; and
- financial considerations are fully taken into account in reaching decisions.

The programme of checks to be performed should be agreed with the governing body or Finance & General Purposes Committee (as appropriate). After each checking session the RO should provide the governing body or the Finance & General Purposes Committee with a written report. The RO should not be a member of the Finance & General Purposes Committee, as he or she may find it necessary to criticise the workings of that Committee. Instead, the RO should report to the Finance & General Purposes Committee in an advisory capacity.

### **Who is the Responsible Officer?**

**The RO should be a governor (but not the chairman), or an appropriately qualified and experienced individual not on the academy staff, with the necessary financial interest and skills to be able to perform the role competently.**

A recognised professional qualification is not necessary. However, the person selected must be able to show that the responsibilities being undertaken are fully understood and the importance of the role is fully recognised. The RO should have sufficient understanding to recognise any irregularities which may arise and sufficient authority to ensure they are addressed. The governing body should consider carefully who would make the most appropriate RO and if they are unable to appoint an RO who complies with the above guidelines they should discuss the appointment with the Department. Alternatively, the governing body can engage a firm of auditors to aid the RO in this function.

**If your school does become a victim of fraud, you need to report this to Action Fraud, the UK's national reporting centre for fraud and internet crime:**  
<http://www.actionfraud.police.uk/>

### **Case studies of Fraud**

As the school system becomes increasingly complex, it is increasingly important that SBMs understand what can go wrong and what these cases tell us about preventing fraud in schools. The next section provides several case studies where major fraud has taken place.

The cases incorporate various types of internal and external fraud, including theft by employees, leasing scams (see the NASBM factsheet on leasing to learn more about best practice), where governance has gone wrong or where conflicts of interest exist, allowing fraudsters to operate in schools. These are in some cases, extreme, but highlight the potential devastating financial effects of fraud within schools.

#### **Case Study 1: Not using funds for their intended purpose**

One recent case of internal fraud meant the Head-teacher was under investigation after auditors discovered monies provided by the DfE were 'not being used [for their] intended purpose.'

<http://www.telegraph.co.uk/education/educationnews/10924000/Head-of-free-school-arrested-again-over-fraud-allegations.html>

<http://www.telegraph.co.uk/education/educationnews/10561768/Free-school-principal-arrested-in-fraud-investigation.html>

<http://www.theguardian.com/education/2014/apr/01/kings-science-academy-questions-over-free-schools-policy>

On initially hearing the allegations, the DfE referred the case over to Action Fraud for further investigation.

#### **Case study 2: Theft**

Another recent case of internal fraud involved the loss of £2million to a Federation School, a MAT operating in London. The fraud involved a single member of staff, but was orchestrated over a period of 7 years. The case is said to represent the biggest ever loss of money in a school due to fraud.

<http://www.bbc.co.uk/news/uk-england-london-28267071>

<http://www.dailymail.co.uk/news/article-2699331/Nigerian-accountants-4million-fraud-academies-Gove-hailed-Staff-member-said-spent-cash-extravagant-lifestyle.html>

#### **Case Study 3: Issues with external party systems and schools operating without relevant checks of employees**

A man with 95 crimes to his name worked in a Maryport school for seven months because his Criminal Records Bureau check was delayed.

The 'persistent fraudster' was caretaker and site manager at a school, had the master keys and alarm codes as well as being in charge of the CCTV cameras.

The head teacher said the system had taken too long, but the caretaker had no direct responsibility for children.

He had access to all areas of the secondary school and in the evenings worked unsupervised. He appeared in court to be sentenced for two counts of fraud.

One charge related to his job interview for the school, when he did not own up to his criminal past and pretended to have a first class degree in electrical engineering. The other concerned lies he told about his qualifications to previous employers.

He started work at the school in June 2009 and, until January 2010, no suspicions were raised about either his character or work.

Then a laptop was stolen and a member of staff noted he was 'uncomfortable' when she told him about the theft.

<http://www.newsandstar.co.uk/news/cumbria-school-caretaker-was-serial-fraudster-1.799106?referrerPath=news>

#### **Case study 4: Schools Lease Scam**

The school was approached by a company called Direct Technology Solutions Limited which offered to take on the contract for supplying the school's photocopiers. Their sales person phoned us up and said: 'We've managed to source about 1,000 laptops, would you like any?'

When the school explained it could not afford the equipment, they were told it would not be a problem as the equipment would be free and part of a promotion, so the school agreed to take on 100 computers on the basis that it would not cost anything. The school says they were told they had to sign an agreement to satisfy EU regulations, but were assured that DTS Limited would cover the cost of the equipment. In fact, they had unwittingly signed long-term leases on the laptops. This meant they were effectively hiring the equipment from a finance company.

Initially, this caused them no difficulties because the first few payments on the lease were covered by DTS Limited. But then the company went into administration, leaving the school exposed to an estimated £500,000 worth of liabilities owed to Clydesdale Bank.

The DfE says there is lots of advice available for head teachers, but the Leasing Advisory Service, a claims management company which represents victims of mis-sold leases says it has identified a particular problem with schools leasing computer equipment. Under such schemes, schools effectively hire equipment from a supplier by taking on a loan from a bank that funds the supplier.

An accountancy firm which is investigating the non-payment of leases by schools on behalf of one of the banks which financed the agreements says that this school is just one of dozens of victims. And not only are they facing huge and unexpected costs, but they have also been significantly overcharged.

'For example, a laptop that has a price of between £350 and £400 is charged at £3,750,' one accountant said, adding: 'Some schools were having 100-200 laptops delivered at this price'.

In a statement, Clydesdale Bank said: 'We can confirm that we have financed the purchase of equipment for a small number of local authority schools through a third party.

'We have acted in good faith and have had no involvement with the supply of the equipment itself, nor have we had any financial relationship with Direct Technology Solutions Limited, who had been selected by the schools as their preferred supplier.'

'We are carrying out our own investigations and have provided information to the police.'

Many other schools have knowingly signed up to lease agreements for photocopiers and other equipment but have still been significantly overcharged by their suppliers.

The Finance and Leasing Association, which represents the banks and other companies financing leases for schools, urged schools to be wary of signing agreements which sound too good to be true. It has recently issued new guidance on leasing in schools and said it would be monitoring developments.

A DfE spokesman said: 'Schools need to be absolutely sure of what they sign up to and read the small print because it is usually very difficult to legally challenge or break these type of contracts'.

'These issues tend to be a combination of very poor decision making from schools and opportunistic / predatory sales tactics from suppliers - so schools need to be clued up.'

'We always help schools as best we can who may be locked into poor deals, but many are reluctant to come forward for help.'

It added that the department was happy to support individual head teachers concerned about their existing or potential leasing agreements.

<http://www.bbc.co.uk/news/education-16441186>

### **Anti-fraud checklist/ good practice arrangements**

This section provides a checklist to help prevent fraud within your school.

School risk register: Is the school risk register in place and up to date? Who updates this? Has this been carried out recently? What is the update cycle for this document?

Training: those who are responsible for financial management, governance and risk monitoring – do they need any training to bring them up-to-date with any new or recent changes? What are the schools arrangements for this?

Segregation of duties: Are duties sufficiently divided? Who is monitoring this? When was this last checked?

Policies and strategies: Is there a fraud statement, policy, strategy and response plan(s) in place? If so, are there any required updates? Do the staff need to be updated?

Staff access: is this limited to their authorised duties? Are there sufficient controls in place for making changes to Master Records? Who checks this? When was this last checked? What is the update cycle for this?

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/278547/anti-fraud\\_checklist.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/278547/anti-fraud_checklist.pdf)

### **Other related resources on auditing and management accounts**

Much of this work will relate to the schools auditing of accounts, internal control and scrutiny and management accounting.

You can access factsheets on all of these topics from the EFA Library: <http://www.nasbm.co.uk/EfA-Academies-Library.aspx>

The EFA provides Financial Assurance guidance in order to provide assistance to schools: <https://www.gov.uk/academies-financial-assurance>