

Revenue Scotland Counter-Fraud Policy

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REVENUE SCOTLAND COUNTER-FRAUD POLICY

1. Introduction and Scope

Revenue Scotland has a zero tolerance approach to fraud. We will counter fraud by ensuring that a zero tolerance culture to fraud is maintained and that fraud is effectively managed at all levels in the organisation.

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| Purpose | The Revenue Scotland Counter-Fraud Policy, and associated Fraud Response Plan, are closely modelled on the Scottish Government Counter-Fraud Strategy and associated documents. They set out our approach for preventing, detecting, reporting and handling fraud – based on five strategic objectives: awareness, prevention, teamwork, investigation and enforcement . |
| Scope | <p>This Policy covers both external and internal fraud. It applies to all staff, including delegates carrying out functions on behalf of Revenue Scotland, and temporary staff.</p> <p>This Policy does not cover tax evasion by external parties. Collusion by Revenue Scotland staff in actions, or attempted actions, to evade tax would however be covered by this Policy.</p> |

2. Related Policies and Procedures

Fraud Response Plan

[Scottish Government Counter-Fraud Strategy, Policy and Response Plan](#)

[The Civil Service Code](#)

[Civil Service Management Code](#)

Revenue Scotland Whistleblowing Policy

[Bribery Act 2010](#)

[Scottish Public Finance Manual Rules and Guidance on Gifts](#)

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3. Overview of Policy

Strategic overview

1. The Revenue Scotland Counter-Fraud Policy and Fraud Response Plan are closely modelled on the overarching Scottish Government (SG) Counter-Fraud Strategy and associated documents. The SG Counter-Fraud Strategy, together with the SG Counter-Fraud Policy and Fraud Response Plan, outline the approach for the prevention, detection, reporting and handling of fraud. The SG documentation is designed to be accessible not only to all SG staff but to staff in other public sector organisations to which the Scottish Public Finance Manual (SPFM) is directly applicable; these organisations include constituent parts of the Scottish Administration, **including Revenue Scotland**, as well as public bodies sponsored by SG.

2. The Revenue Scotland Counter-Fraud Policy has five strategic objectives which are closely based on those set out in the SG Counter-Fraud Strategy, adapted to take account of Revenue Scotland's specific tax collection and management functions:

(a) **Awareness:** We will prevent fraud by raising awareness of fraud, and its safeguards, within Revenue Scotland, our partner organisations and our stakeholders. We will highlight appropriate danger signs to staff in any high-risk areas including finance and procurement, as well as tax collection and management functions.

(b) **Prevention:** We will prevent fraud through improving our systems and controls to support our business services and our services to taxpayers, their agents and the general public. We will identify fraud risks and preventive measures when undertaking new work or reviewing processes.

(c) **Teamwork:** We will prevent fraud by working together across Revenue Scotland corporate, operational and change functions and with our partners to share information and to develop combined approaches to countering fraud. We will work with colleagues to create a counter-fraud culture where staff are supported to share knowledge, learn lessons and report problems.

(d) **Investigation:** We will handle fraud by being proactive in analysing data to identify areas at risk of fraud, by being effective and professional in our investigations of specific cases and by maintaining a robust whistleblowing procedure. We will use specialist services if necessary to ensure that allegations are investigated thoroughly, fairly and professionally.

(e) **Enforcement:** We will promote a **zero tolerance** approach to all external and internal fraud. There is no acceptable level of fraud. We will handle fraud by continuing to take a tough line on anyone committing fraud by ensuring that appropriate disciplinary action is taken. The Police will also be informed where considered appropriate. **See paragraphs 5.**

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Establishing and maintaining a Counter-Fraud Culture

3. As already emphasised, **Revenue Scotland has a zero tolerance approach to fraud**: There is no acceptable level of fraud. All members of staff have a role in establishing an effective counter-fraud culture by:

- engaging and being alert to the risk of external and internal fraud;
- identifying suspicious activities and control weaknesses; and
- reporting any suspicions quickly and appropriately.

4. Our approach to countering fraud is to ensure that this zero tolerance culture to fraud is maintained and that fraud is effectively managed at all levels, as follows:

- (a) committing to clear ethical standards through this formal Counter-Fraud Policy;
- (b) communicating our attitude to fraud by raising awareness of our counter-fraud policy to all staff;
- (c) supporting all staff in their responsibilities in preventing and detecting fraud through guidance and training;
- (d) providing managers with specialist support in designing, operating and reviewing internal controls;
- (e) maintaining comprehensive procedures for preventing and detecting fraud and ensuring that these procedures are carefully followed and monitored;
- (f) protecting members of staff through a robust process for reporting suspicions of fraud;
- (g) responding to fraud effectively through a comprehensive Fraud Response Plan;
- (h) using data and technology efficiently in systems in place to combat fraud; and
- (i) sharing knowledge of vulnerabilities and lessons learned through strong communication channels.

Revenue Scotland's Counter-Fraud Policy

6. All Revenue Scotland staff are required at all times to act honestly and with integrity and to safeguard the public resources for which they are responsible, in line with [The Civil Service Code](#). Revenue Scotland will not accept any level of fraud or corruption; consequently, any case, or attempted or suspected case, will be thoroughly investigated and dealt with appropriately.

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Definition of Fraud

7. **Fraud is the use of deception with the intention of obtaining personal gain, avoiding an obligation or causing loss to another party.** The term “fraud” can be used to describe a wide variety of dishonest behaviour such as forgery, false representation and the concealment of material facts. It is usually used to describe the act of depriving a person of something by deceit, which may involve the misuse of funds or other resources, or the supply of false information. The fraudulent use of IT resources is included in this definition, and it covers the use of IT equipment to manipulate systems, programmes 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 a fraud.

How fraud occurs

8. Four basic elements are necessary for a fraud to occur:

(a) **people** to carry out the fraud. They may be individuals inside the organisation (internal fraud), outside the organisation (external fraud), or two or more individuals working inside or outside the organisation (collusion);

(b) **assets** to acquire fraudulently;

(c) **intent** to commit the fraud; and

(d) **opportunity**.

Managers must therefore ensure that opportunities for fraud are minimised. A high chance of being caught will also deter.

9. Opportunities to commit fraud will be reduced by ensuring that a sound system of internal control, proportional to risk, has been established and that it is functioning as intended. Risk, in the context of managing fraud risk, is the vulnerability or exposure of Revenue Scotland towards fraud and irregularity. It combines the probability of fraud occurring and the corresponding impact in monetary (or other, for example, reputational) terms. Preventive controls and the creation of the right type of corporate culture will tend to reduce the likelihood of fraud occurring, while detective controls and effective contingency planning can reduce the size of any losses.

Tax Evasion

10. Tax evasion is a very important category of potential external fraud – and is separate from categories such as procurement, purchasing or contract fraud. Revenue Scotland will continue to deter, prevent, detect and take action against tax evasion in various ways through its comprehensive range of compliance systems, policies and activities. Separate

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arrangements are in place for external notification to Revenue Scotland of potential or suspected Scottish Landfill Tax fraud or Land and Buildings Transaction Tax fraud, and will be put in place in relation to air passenger tax and any other devolved taxes for which Revenue Scotland may in future become responsible. This document does not cover tax evasion by external parties; collusion by staff in actions, or attempted actions, to evade tax would, however, be covered by this Policy.

Reducing the Opportunity for Fraud: Separation of Duties

11. The opportunity for fraud must be reduced wherever possible. Allocating responsibility for too many functions to one person can constitute a high risk of fraud and should be avoided. The risk of fraud can be reduced by ensuring proper separation of duties so that, for example, more than one person has to be involved in ordering, receiving and authorising payments for goods or services; handling tax receipts; or making operational tax decisions, for example, involving waiving of interest or penalties.

12. The separation of key functions forms an integral part of systems control and is essential to minimise the potential scope for irregularity by staff acting on their own. The need for proper separation of duties applies as much to systems, policies and procedures for tax collection and management as it does to procurement or purchasing policies and procedures.

13. Without adequate separation of duties, the effectiveness of other control measures is undermined. Where resources are limited and separation of duties is not possible, alternative management controls - such as supervisory checking - must be employed.

Robust Systems of Control

14. Appropriate preventive and detective controls should be put in place to counter the risk of fraud (both internal and external, as well as collusion). Procedures set up to prevent and detect fraud must be proportional to the risk involved and be carefully followed and monitored. Additional information is provided in the SPFM sections on Checking Financial Transactions and on Risk Management. Guidance on the coverage of fraud response plans can be found in HMT guidance on Managing the Risk of Fraud.

15. Preventive controls are designed to limit the possibility of a fraud occurring. Separation of duties, effective procedures and checks should prevent or deter fraud from occurring. Opportunities to commit fraud will be reduced by ensuring that a sound system of internal control proportional to risk has been established and that it is functioning as intended. Some frauds arise because of systemic weaknesses; others are the result of failure to follow proper control procedures. Frauds resulting from collusion may be more difficult to detect and prevent as these types of fraud tend to operate within the normal control environment. In respect of fraud risks, prevention is almost always preferable to

detection. Strong preventive controls should therefore be applied wherever possible. Controls may range across:

(a) physical security which controls and monitors access to assets, documentation and IT systems to ensure that there is no unauthorised use, loss or damage;

(b) clear definition of responsibilities and levels of authority, clear reporting lines and effective spans of command, separation of duties to avoid conflicts of interest or opportunities for abuse;

(c) supervision and monitoring, including random spot checks by managers;

(d) budgetary and other financial controls, which both limit the scope for fraud and may assist detection.

16. Detective controls are designed to spot errors, omissions and fraud after the event e.g. supervisory checks and reconciliations. Well-designed and cost-effective internal controls - including those listed above - are an important tool for identifying actual or attempted frauds. Information from third parties (see paragraph 10 above) or reporting by staff of suspicions of fraud (see paragraphs 24-25 below) can be an important detector and deterrent of fraud. Revenue Scotland will deploy computer assisted audit techniques and analytical tools such as data mining and data matching to identify indicators of possible fraud - always subject to the requirements of data protection legislation and legislative provisions concerning protected taxpayer information (PTI). Fraud indicators or “danger signs” (see paragraphs 21-23 below) may also point the way for further detailed investigation. Support for managers in establishing appropriate controls is provided by the Revenue Scotland finance and analytical functions and by Revenue Scotland internal Audit provided by SG Internal Audit Directorate.

17. Managers with responsibility for taking operational tax case decisions, awarding contracts, making payments and other financial transactions must ensure that clear control procedures are in place. It is very important that:

(a) there is adequate separation of duties and that proper authorisation processes for such decisions, contract awards and payments are in place;

(b) staff dealing with these procedures are familiar with them and abide by them;

(c) accounting and other records, such as cash balances, bank balances, revenue accounts and physical stock counts, are reconciled with the actual position; and

(d) staff who are bankrupt or insolvent are not employed on duties which might permit the misappropriation of public funds.

The Importance of Monitoring

18. Managers in Revenue Scotland have the prime responsibility for ensuring that their systems are sound and that they are operating as intended. Both internal and external Auditors have a role in carrying out independent reviews of systems and the adequacy of controls in place. Many frauds are due to failure to comply with existing controls. It is essential that good control systems are supported by supervisory checking and alertness to the risks of fraud. Additional guidance and procedures on monitoring are included in the HMT guidance on Managing the Risk of Fraud.

19. Additional information on conduct, discipline and management responsibilities is available in the [Civil Service Management Code](#) which sets out the regulations and instructions regarding the terms and conditions of service of civil servants.

Identification of fraud

20. External or internal fraud is not always easy to identify. In many cases, suspicion may be raised but it is not acted on and reported. Fraud is often committed where there is:

- opportunity to commit fraud: for example, where internal controls are weak and access to information, data and assets allows fraud to occur;
- rationalisation that “justifies” fraudulent behaviour. However, Revenue Scotland has a **zero tolerance approach to fraud**; and
- motivation or a need for committing fraud. This may be for reasons of financial advantage or as a result of some other motivating factor, for example, an intention to cause reputational damage to Revenue Scotland.

Danger Signs

21. Managers and staff must always be alert to the risk of fraud, theft and corruption. Danger signs of potential external fraud (including collusion with Revenue Scotland staff) include:

- photocopies of documents when originals would be expected
- discrepancies in information e.g. signatures and dates
- key documents missing or lacking essential information
- unexpected queries from stakeholders or suppliers e.g. bank account detail changes
- requests for non-standard types of payment

- unexpected trends or results e.g. from reconciliations
- suppliers/ contractors who insist on dealing with one particular member of staff
- taxpayers/ agents who insist on dealing with one particular member of staff
- reluctance to take leave
- excessive hours worked; first to arrive in morning, last to leave at night
- refusal of promotion.

22. Danger signs of potential internal fraud (including collusion with externals) include:

- evidence of excessive spending by staff, sudden change of lifestyle
- inappropriate relationships with suppliers or contractors
- inappropriate relationships with taxpayers/ agents
- reluctance of staff to take leave
- excessive hours worked; first to arrive in morning, last to leave at night
- refusal of promotion
- new staff resigning quickly
- a supervisor insisting on opening all incoming mail
- undue possessiveness of, or anomalies between, work records or management of specific tax cases
- pressure from colleagues to avoid normal control procedures
- abnormal Travel and Subsistence claims, overtime or Flexible Working Hours patterns.

23. To spot fraud indicators in specific areas or activities it is important that accepted practices have been established for the area or activity under review and that the reviewer, or Auditor, is familiar with them. Further examples of possible fraud indicators and risk factors are:

- inadequate or no segregation of duties
- absence of controls and audit trails
- inadequate monitoring to ensure that controls work as intended (periodic testing and evaluation)
- crisis management coupled with a pressured business environment
- lack of established code of ethical conduct
- lack of senior management oversight
- lack of rotation of duties
- policies not being followed
- high staff turnover or chronic understaffing in key control functions
- low staff morale/ lack of career progression/ weak management
- consistent failures to correct major weaknesses in internal controls
- frequent overriding by management of internal controls.

Reporting Fraud

24. The danger signs highlighted in this Policy are not exhaustive and any indication of fraudulent activity should be reported. Managers and staff must always be alert to the risk of fraud, theft, bribery or corruption. Managers and staff may also receive notification of suspected fraud (other than tax evasion – see paragraph 10 above) from external sources including partner organisations, taxpayers, agents, professional bodies and members of the public.

25. Fraud reporting procedures within Revenue Scotland are as follows:

(a) In the first instance staff should report any suspicions of occurrence of fraud, or attempted fraud, to their line manager.

(b) If they feel unable, or it would not be appropriate, to raise the matter with their line manager, they should contact another line manager or a senior member in the management chain.

(c) If this does not resolve the issue, or if there is a good reason for not raising a concern within the line management chain, the matter should be reported direct to the Chief Executive.

(d) If staff have a particularly serious and urgent concern, which for whatever reason cannot be raised via the management chain or the Chief Executive, they should report the matter to the Chair of the Board of Revenue Scotland.

Under the Revenue Scotland Whistleblowing Policy all matters will be dealt with in confidence and in strict accordance with the terms of the Public Interest Disclosure Act 1998. This statute protects the legitimate personal interests of staff.

26. In most cases it will be appropriate for suspicions of fraud reported in this way to be passed on to the SG Fraud Response Team within SG Finance Directorate General for purposes of co-ordination under the SG Fraud Response Plan. Consideration may also be given as appropriate to reporting any identified cases of fraud to Fiscal Responsibility Division of SG Finance Directorate General.

27. All discovered cases of actual or attempted fraud must be reported to the Revenue Scotland Audit and Risk Committee; to SG Internal Audit Directorate (as Revenue Scotland's internal Auditors) in order to inform risk assessment of (a) internal controls and (b) the Internal Audit Plan; and to the Revenue Scotland Board. Audit Scotland will also be notified of any cases arising.

Responding to Fraud

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28. Thorough investigations must be undertaken where there is suspected fraud and the appropriate legal and/or disciplinary action should be taken in all cases. Appropriate disciplinary action should also be taken where supervisory or management failures have occurred. See paragraph 40.

29. Investigating fraud is a very specialised area of expertise and those tasked with any investigation work must have received appropriate training, including on the gathering of evidence. **Investigations must not be undertaken by untrained staff.** Specialist advice, including advice from SG Internal Audit Directorate, SG HR Directorate and the Revenue Scotland Head of Legal Services (who will consult SG Legal Directorate and other sources of legal advice as appropriate), must be taken as early as possible. Further details are set out in the Revenue Scotland Fraud Response Plan.

Bribery

30. Fraud may be committed, or attempted, as a result of bribery. A bribe is an offer or promise of a financial or other advantage, designed to induce another person to perform improperly in their position of trust and responsibility. UK provisions in the [Bribery Act 2010](#):

(a) make it a criminal offence to give, promise or offer a bribe and to request, agree to receive or accept a bribe either at home or abroad;

(b) increase the maximum penalty for bribery from seven to 10 years imprisonment, with an unlimited fine; and

(c) introduce a corporate offence of failure to prevent bribery by persons working on behalf of a business.

Acceptance of Gifts or Hospitality

31. Bribery may take the form of offers of gifts or hospitality. Under [The Civil Service Code](#), which applies to members of staff of Revenue Scotland as civil servants in a non-Ministerial Department within the Scottish Administration, it is made clear that staff must not accept gifts or hospitality or receive other benefits from anyone which might reasonably be seen to compromise their personal judgement or integrity. These ethical standards are described in more detail in the Scottish Government HR policies, procedures and guidance, to which Revenue Scotland staff are - following a decision by the Board - also subject. In respect of staff involved in purchasing and contracting, these standards are also laid down in the Scottish Government Procurement Policy Manual.

32. Revenue Scotland is also subject to the rules and guidance on gifts in the [Scottish Public Finance Manual Rules and Guidance on Gifts](#) which sets out the procedures to follow where gifts of cash or other resources are either made or received. This guidance is directly

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applicable to Revenue Scotland as a non-Ministerial Department within the Scottish Administration.

Recording and Accounting

33. Losses due to fraud are subject to the guidance on losses and special payments set out in the SPFM. Details must therefore be brought to the attention of the Scottish Parliament through notes in the Revenue Scotland Annual Report and Accounts. Details must also be reported to the Revenue Scotland Audit and Risk Committee.

4. Responsibilities

34. The Scottish Ministers are responsible for issuing relevant guidance in the SPFM - on which this Policy and accompanying Fraud Response Plan are based - on the prevention, detection, reporting and handling of fraud.

35. In Revenue Scotland, overall responsibility for establishing and maintaining a framework for risk, control and governance – including for managing the risk of fraud – rests with the Board. The Board has delegated to its Audit and Risk Committee responsibility for scrutinising arrangements put in place by the Chief Executive, as Accountable Officer, and staff of Revenue Scotland for risk, control and governance, including the management of fraud risk and appropriate procedures to prevent, deter and detect fraud that are consistent with guidance in the SPFM.

36. The responsibilities of the Chief Executive, as Accountable Officer, in relation to fraud include:

(a) preparing, reviewing, updating and communicating relevant policies and guidance on counter-fraud;

(b) ensuring that financial and tax management systems, policies and processes are designed and operated in such a way as to minimise the risk of fraud;

(c) providing assurance about the effectiveness of counter-fraud policies to the Audit and Risk Committee, and as necessary to the Board, to support the Governance Statement provided as part of the Revenue Scotland Annual Accounts;

(d) reporting as appropriate relevant cases to the SG Fraud Response Team.

37. SG Internal Audit Directorate is responsible for:

- (a) delivering an opinion to the Revenue Scotland Audit and Risk Committee and the Accountable Officer on the adequacy of counter-fraud arrangements in Revenue Scotland;
- (b) helping Revenue Scotland senior managers to review the organisation's risk exposure and to identify the possibility of fraud as a business risk; and
- (c) in conjunction with any others as appropriate and at the request of the Chief Executive, co-ordinating and conducting effective fraud investigations. (Further details in the Revenue Scotland Fraud Response Plan.)

38. Revenue Scotland Heads of Service who have delegated authority as set out in financial responsibility statements from the Accountable Officer are responsible for:

- (a) ensuring that effective internal controls are operating both collectively and within their own areas of responsibility; and
- (b) assessing the types of risk involved in the operations for which they are responsible and responding to minimise the opportunity for fraud.

39. All Revenue Scotland members of staff are responsible for:

- (a) acting with propriety in the use of official resources and the handling and use of public funds;
- (b) conducting themselves in accordance with the principles of the Civil Service Code;
- (c) being alert to the possibility that unusual events, tax management activity or transactions could be indicators of fraud;
- (d) reporting details immediately through the appropriate channel if they suspect that a fraud has been committed or if they see any suspicious acts or events; and
- (e) co-operating fully with whomever may be conducting internal checks, or reviews, or fraud investigations as the case may be.

5. Exceptions

None.

6. Enforcement

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All cases of actual or suspected fraud will be vigorously and promptly investigated and appropriate action will be taken. The Police will be informed where considered appropriate. In addition, disciplinary action will be considered not only against any members of staff found to have perpetrated frauds but also against managers whose negligence is held to have facilitated frauds. Both categories of offence can be held to constitute gross misconduct, the penalty for which may include summary dismissal.

7. Review

This document is subject to review at least annually.

8. Document Control/ History

| Issue | Date | Purpose | Author/ Reviewer/ Authorised |
|-------|------------|----------------------------------|------------------------------|
| 0.1 | 09.02.2016 | Presented to RS Board on 17/2/16 | Alastair Wilson |
| 0.2 | 11.03.2016 | Updated following Board comments | Alastair Wilson |

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