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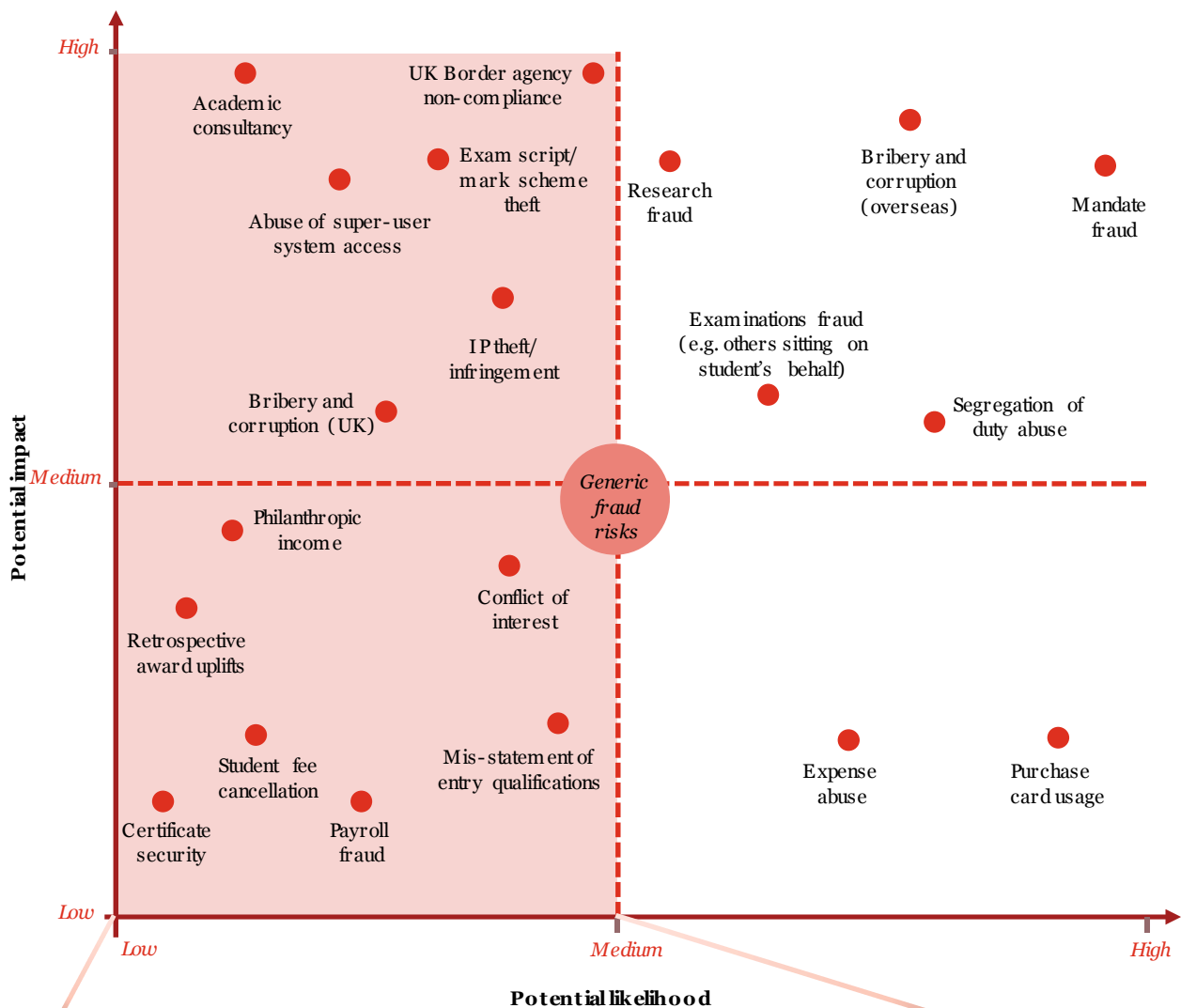
# ***Fraud risks for Higher Education institutions***

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*September 2013*

# Illustrative matrix – Commonly identified HE institution fraud risks

The below risks represent, inter alia, those fraud risks commonly identified. The respective impact and likelihood of each risk will depend on an individual institution’s operational model, control environment and propensity to risk, and is intended for illustrative purpose only.



Despite fraud risk workshop participants typically regarding the above risks as having a low to medium likelihood of occurring, those same participants nevertheless determine stakeholder ability to perpetrate many of those frauds, for example super-user system access abuse, to be highly possible.

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# ***Fraud risks for Higher Education institutions***

PwC's most recent Global Economic Crime Survey indicated that, whilst 51% of all organisations had encountered fraud in the past 12 months (3,877 respondents), only 34% of HE institutions had identified fraud within their own organisations. Perhaps significantly, 38% of HE institutions had not carried out a fraud risk assessment during that period.

A question we regularly pose to our HE clients: *"Is the sector simply less susceptible to fraud risk, or could more be done by HE institutions to proactively prevent and detect this issue?"* That is, universities are only able to report on the incidents they know about.

A common theme emerging from discussions with HE institutions suggests an internal perception of a reduced vulnerability to fraud, added to this a reluctance to publicise cases internally or externally for fear of reputational damage. Recent newsworthy fraud cases within the sector suggest that this view may well be overly complacent.

Within its 'Handbook for Members of Audit Committees', HEFCE note that: *"Management is responsible for implementing policies... in fulfilling these responsibilities, management should identify and evaluate the risks faced by the institution and design, operate and monitor an appropriate system of internal control."* Fraud risk assessments are therefore a crucial exercise to be undertaken by HE institutions, and good practice would be to engage with stakeholders within both directorate and faculty to ensure identified risks reflect the actual, rather than expected, environment in which they operate.

This paper follows on from our 'Current Questions for Higher Education Audit Committees' release, and draws on key themes emerging from a number of fraud risk workshops facilitated by us at HE institutions. This is intended to provoke debate and consideration of emerging issues in the sector of relevance for Audit Committees to facilitate members' engagement, rather than providing comprehensive coverage of these issues.

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**Segregation of duties** A number of fraud cases have come to light recently which stem from an individual's ability to bypass segregation of duty controls. For example, below a certain sign-off limit, a single individual is able to self approve purchase orders, approve (bogus) related invoices and also approve their payment. Those cases publicised indicate senior/executive level perpetrators, where a challenge to that lack of segregation has not been forthcoming.

This is not just a senior level issue however, as rationalisation of roles at junior levels (often following redundancy or extended absence) has witnessed retained staff members obtaining additional system access rights from leavers without any forethought being given to the potential degradation of the level of segregation of duties.

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**Academic consultancy** At many HE institutions, it is not uncommon for members of academic staff to perform outside consultancy work, which may involve the use of university assets and time, earning consultancy fees for the individual staff member concerned. Whilst there are many benefits to such practices for both academic staff member and university alike, the lack of formal arrangements can unwittingly lead to potential issues for the institution itself.

Academic employment contracts are regularly silent on the topic of private consultancy beyond dictating a maximum number of days permitted for those activities. Often it remains unclear who should be the legitimate recipient of those fees – university or academic. Furthermore, where permitted within respective employment contracts, the lack of formal approval process by the university may result in its indemnity insurance failing to cover such activity. This could lead to potential un-capped losses for the institution as litigants may choose to seek restitution from the university itself rather than the individual regardless of whether the institution was aware of the consultancy work being undertaken using its resources.

Formalising arrangements with academics wishing to conduct consultancy work would facilitate risk management of such issues, enabling mitigation where appropriate, and allowing the university to better understand how its resources are being utilised.

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*Mandate fraud*

In recent times there has been a significant increase in the incidence of mandate fraud. Mandate fraud is the simple practise of contacting an accounts payable department, purporting to represent a supplier, requesting that a change in payee banking details be made. Any payments subsequently made to the revised banking details are then misdirected to an account held by the fraudster.

With many large capital projects being carried out at HE institutions, visible in the public domain, it is often easy to identify large suppliers who may be due sizeable payments. Similarly, universities use of small pools of preferred suppliers is often exploited.

In the absence of adequate controls when amending supplier master data such as bank account details, institutions may accept fraudulent details which could result in payments being diverted to fraudsters. Typical losses seen by our Forensic Services team run into £'00,000's.

Many universities believe that they have adequate verification and authorisation measures in place to prevent this, but many have found, to their detriment, that an *absence of scepticism and awareness* amongst purchase ledger staff has led to a failure to apply these controls effectively.

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*Examinations fraud*

With the employment marketplace becoming ever more competitive, the pressure on students to gain good academic qualifications is increasing. Added to which, failure of a course may invalidate the immigration visa of certain international students. As a consequence, HE institutions may find themselves at risk of exam fraud in various guises. These can range from unsophisticated forms of cheating within the exam hall, having others sit papers on a student's behalf, through to gaining access to exam papers or mark schemes ahead of the exam.

Through unauthorised access to an institution's computer systems, misappropriating printed papers or even bribing staff members, we have witnessed exam scripts and mark schemes being extracted for both personal use or in order to sell for monetary gain.

Tight controls over access to exam papers, at the drafting, moderation, printing and pre-examination storage phases, and strict disciplinary procedures against those found in contravention of such control measures are critical to reduce associated reputational risks.

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*Bribery and corruption*

The bribery and corruption risk to HE institutions arises from a multiple sources. Many UK universities have created or are developing overseas campuses, or overseas partnerships, where oversight from the UK may be limited. Such territories often present a higher jurisdictional risk of corruption, for example through overseas recruitment agencies bribing state departments for access to listings of academically gifted and wealthy students, or overseas joint ventures failing to recognise the divergence between local custom and UK legislation.

Furthermore, attempts by students to bribe academics in exchange for higher grades appear more prevalent and the press have highlighted students, facing invalidation of their immigration visa, resorting to bribery.

Within the UK, directorates interacting with sectors synonymous with greater levels of bribery, for example Estates and IT, may find themselves subjected to passive bribery risk.

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*Purchase card usage*

HE institutions often issue purchase cards to facilitate the purchasing of lower value items. An issue commonly raised to us indicates suspicion that individuals, able to self approve spend, use their card to buy items either for personal use or for items which they're not otherwise entitled, e.g. tablet computers. Whilst such tablets may well be used for work purposes, they are typically not registered on the fixed asset register, nor with their IT department. Consequently, there may not be adherence to mandatory information security policies including at the point of disposal.

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*Philanthropic income*

HE institutions have a long history of receiving income through philanthropy. As other sources of income continue to be squeezed, the demand and importance on such financing increases. At the same time, there is ever greater public interest and scrutiny over the dealings of large institutions whether they are corporate bodies or HE institutions. Despite damaging press emerging around HE institutions receiving donations from potentially unethical sources, discussions with universities regularly indicates a lack of investment to understand the provenance of significant donations.

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