



AUDIT & GOVERNANCE COMMITTEE
29 May 2014

**Full-year summary of Internal Audit irregularity
investigations and anti fraud measures
April 2013 – March 2014**

Purpose of the report:

1. The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations and anti-fraud measures undertaken by Internal Audit between 1 April 2013 and 31 March 2014. This report complements and builds upon the half-year irregularity report presented to Audit and Governance Committee on 2 December 2013.
2. Audit reports following irregularity investigations typically help to provide independent evidence to support a management case against an employee under formal disciplinary procedures, or to help tighten control in areas where weaknesses are identified. Irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential nature. This arrangement is formalised within the Reporting and Escalation Policy, agreed by this committee.
3. Due to the confidential aspects of such investigations, and given that some are ongoing in terms of investigation and/or forthcoming disciplinary hearings, this work is reported in a summarised and thematic fashion to committee rather than on a detailed case-by-case basis.

Recommendations

1. The committee is asked to:
 - (i) Note the contents of this report; and
 - (ii) Approve the updated Strategy against Fraud and Corruption, attached at Annex A.

Background

2. The council's Financial Regulations require all matters involving, or thought to involve, corruption or financial irregularity in the exercise of the functions of Surrey County Council to be notified to the Chief Internal Auditor. Internal Audit will in turn pursue such investigations as appropriate. To allow for an adequate resource to investigate alleged fraud and financial irregularity the annual Internal Audit Plan for 2013/14 carried within it a contingency budget for 'Irregularity and Special Investigation Work' of 345 days.

3. This contingency covers work to investigate 'irregularities' (actual or alleged financial impropriety, corruption, and other similar matters) as well as time for Fraud Prevention work, assisting with the Audit Commission's National Fraud Initiative (NFI), reviewing the national Fighting Fraud Locally strategy and using data analytics to test for specific fraud scenarios. This proactive work is considered in more detail in paragraph 28.
4. Special ad hoc reviews are also charged against this contingency if commissioned in-year by members or senior managers and not originally in the agreed annual plan. Examples of such reviews in the latter half of 2013/14 include verification of overseas pensioners; reviewing actions following information governance breaches; and advising a parish council on an irregularity investigation at the request of a member. While often linked to concerns raised by management or members, these reviews may also arise during the course of planned audit work.
5. In the first six months of 2013/14 a total of 16 investigations commenced excluding ad hoc special reviews. By 31 March 2014 this had risen to 29 cases in total, an increase from the 25 cases in 2012/13. The broad type of investigations carried out are shown in the table below, with the 2012/13 figures shown for comparison.

Type of investigation	2012/13	2013/14
Recruitment	1	-
Misuse of public funds	2	1
Fraud or theft	12	12
Corruption*	-	1
Code of Conduct	7	3
Breach of Procurement Standing Orders	1	6
Poor control	2	6
Total investigations	25	29

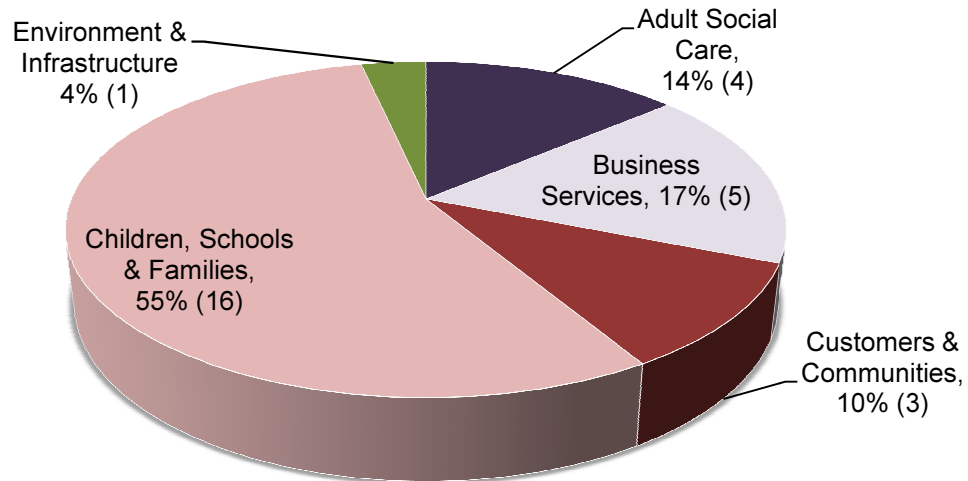
*This category has been introduced during 2013/14 to reflect attempted bribery by a supplier

6. Of the 29 investigations undertaken in 2013/14, seven of these cases arose due to whistle blowing allegations; two arose as a result of a data match from the NFI exercise; and 20 were brought to the attention of Internal Audit by management. Four investigations reached a "Proven" conclusion and criminal proceedings are ongoing for one case.
7. A total of 87.4 days has been used to investigate these cases (51 days in the first half of the year; 37.4 days in the second half of the year). The total comparative time taken in 2012/13 was 129.9 days.
8. These 29 investigations are shown diagrammatically in Figures 1 and 2 (below) to identify the Directorates in which the review fell and the broad type of investigation undertaken. Numbers of investigations in each area are shown in parenthesis.

Summary Of Irregularities Between April 2013 And March 2014

9. Figure 1 illustrates the proportion of all recorded irregularities across the different Directorates of Surrey County Council.

Figure 1: Summary of investigated irregularities by Directorate, April 2013 - March 2014



10. The distribution of investigations across the various Directorates is broadly in line with expectations. The higher proportion of investigations in front-line services reflects the fact that these services typically have more risks associated with access to cash and assets over numerous sites than back-office departments.

11. Figure 2 shows by broad categorisation how the 29 cases of irregularity are defined by typology. In some cases more than one type of irregularity might have been alleged or investigated within one case (for example, both breaching the Council's Procurement Standing Orders and theft of council assets). Figure 1 therefore shows the primary reason for investigation and more detail is provided on specific cases later in this report.

Figure 2: Summary of irregularities by typology, April 2013 - March 2014

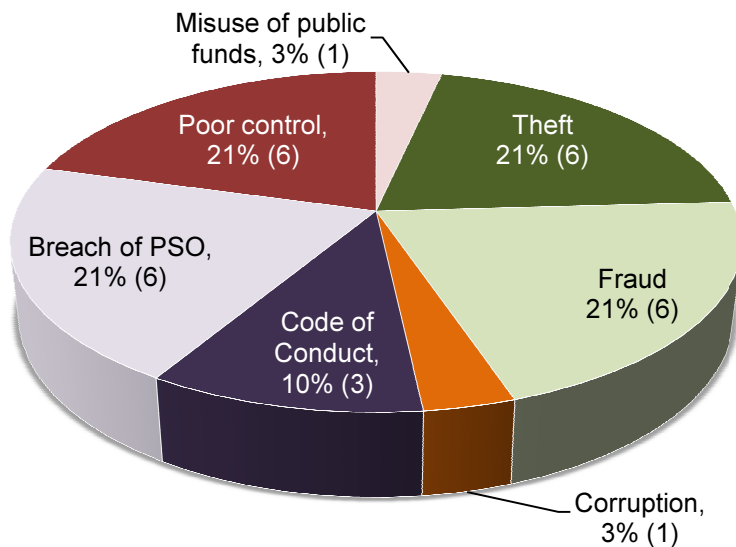


Table 1: Definitions of typologies defining the irregularities investigated 2013/14

Type	Definition
Misuse of Public Funds	This may include misuse of grants by voluntary bodies, of social care payments by individuals, or of private funds held by schools; and ultra vires expenditure of public money.
Theft	The theft of assets (most frequently cash) from council property or from clients under the council's care.
Fraud	Attempts to obtain money by deception, including submission of incorrect travel allowance claims and/or through false accounting.
Code of Conduct	Failure (or alleged failure) to comply with council policies (Code of Conduct, Procurement Standing Orders etc) in respect of declaration of a second employment, pecuniary interests, completing contractual obligations or managerial responsibilities, or declaring appropriately possible material conflicts of interest.
Breach of PSOs	Failure by staff or contractors to comply with the Council's Procurement Standing Orders.
Poor Control	Local or corporate arrangements fail to stop inappropriate payments being made or fail to ensure compliance with council policy.
Corruption	The offering, giving, soliciting or acceptance of any inducement or reward which may influence a person's action or to gain a commercial or contractual advantage

12. To give a better indication of the type of work conducted by Internal Audit across the financial year the following paragraphs summarise examples of specific investigations (appropriately anonymised). This summary focuses on investigations in the period October 2013 to March 2014, as work from the previous six months was reported in the half-year irregularity report. Internal Audit work in this area not only protects the Council's assets and reputation; it acts as a visible deterrent in preventing other irregular activity across the organisation.

Theft

Theft of money from a County Hall Safe

13. In late 2013 the theft of just over £7,500 in cash was reported. The money, which was income from County Hall's staff canteen, was held in five bags handed to a facilities officer as part of weekly cashing up procedures. Despite being allegedly secured in the safe in the Facilities Office in County Hall, the bags were not there when the courier arrived to collect the money to bank at the end of that week. Reconciliation of Surrey Commercial Services income identified the discrepancy in early November.
14. A joint investigation by Internal Audit and Facilities Management identified discrepancies in the receipting of income on that day, and failures to follow the expected process for securing income. The facilities officer in question was unable to give a satisfactory account of what had happened during his management of this money.
15. A disciplinary case was brought against the officer, who was duly dismissed after evidence showed that on the balance of probability he had committed the theft. Surrey Police were consulted and interviewed the individual, but concluded there was insufficient evidence to pursue criminal charges. To date, no recovery of the money has been made although the loss is covered under the council's insurance arrangements.

Breach of Procurement Standing Orders

Aardvark Roofing

16. The Litigation and Insurance Team referred an issue to Internal Audit regarding concerns over a quotation received from Aardvark Roofers for repair work to a school's damaged boiler house roof. Whilst the final work on the roof was undertaken by another company, the Insurance Team were concerned by the absence of any comparative quotations for the work. After challenging the school caretaker over his choice of supplier a quotation from Aardvark Roofers was produced.
17. Internal Audit's investigation found inconsistencies, including a false company address printed on the quotation. Further, it is believed the quotation was obtained after the work was completed. Although the correct procurement process was not followed, there was no evidence to suggest fraud had occurred.
18. The school's Headteacher confirmed seeing a van from the company in the local area and, on balance of probability, it is likely Aardvark Roofers does exist but as a group of itinerant roofers rather than a legitimate company. Controls at the school have since changed to remove the caretaker's role in procurement matters.

Allegation of contract fraud

19. Internal Audit received anonymous whistle blowing allegations against an officer of the council in relation to a supplier. It was alleged that:
 - The officer had family connections within the supplier, leading to a conflict of interests;
 - The contract should have been let to a company within Surrey rather than to the actual supplier, based overseas and near to the home of the accused officer; and
 - The nature of the work being undertaken made it disadvantageous to have such a remote company providing them.
20. Review by Internal Audit revealed that the winning contractor was one of a number of suppliers pre-approved by a Government-led procurement exercise and, in addition to submitting a cheaper bid than other suppliers, the contract was also presented to Procurement Review Group and Cabinet for approval. The investigation concluded that, whilst there is a general principle to award work to Surrey-based companies where this achieves value for money, there is no mandatory need for contracts to be let in this manner.
21. There was no evidence that the officer in question was involved in the procurement exercise in any way that would have influenced the outcome of the tender process. Consequently the allegations were deemed not proven.

Poor Control

Primary school unofficial funds

22. Through a liaison meeting with Babcock 4S it came to the attention of Internal Audit that the unofficial funds for a Surrey primary school had not been audited for a period of ten years. This should have been an annual task for the school's Governing Body in compliance with the Schools' Finance Manual.
23. Although unofficial funds are not in the statutory remit of Internal Audit, the case raised concerns as the former Headteacher of the school between 2002 and 2005 was subject to disciplinary action, and was dismissed from another Surrey school in 2008 for

financial misconduct. Unofficial funds would have been under the direct management of this individual and it was further discovered that he had remained a cheque signatory on the account as late as 2013, some eight years after his departure.

24. Internal Audit inspected available records for substantive evidence of theft or fraud. Although questionable areas of expenditure were identified, including one instance where the former Headteacher's son had completed £2,360 of decking work at the school, no evidence was found of missing income or unexpected expenditure. The school was therefore given assurance that they could move forward with their outstanding audit process.

Proactive Fraud Prevention And Awareness Work

Focus for the new year

25. Internal Audit is continuing to make progress in embedding an anti-fraud culture within the organisation through specific proactive fraud prevention and awareness work.
26. To strengthen the coordination of fraud prevention work and irregularity investigations many of the anti-fraud functions are being brought together under one post. Reem Burton, Lead Auditor, will act as a main contact, overseeing NFI work in addition to studying towards CIPFA's Certificate in Investigative Practice.
27. The 2014/15 Annual Audit Plan includes an allocation of 345 days for "Irregularity and Special Investigation" work. This will be used in part to deliver the Fighting Fraud Plan, which includes NFI work as well as:
 - Developing and piloting presentations highlighting management responsibilities regarding fraud; and
 - Encouraging service ownership of fraud risks through service-specific workshops.

National Fraud Initiative

28. Data for the biennial NFI data matching exercise will be submitted in October. Due to the anticipated closure of the Audit Commission in March 2015, results and reports for this exercise will be coordinated by the Efficiency and Reform Group, a joint Cabinet Office and Treasury initiative.
29. During 2013/14 the council took part in an NFI pilot that matched social care direct payments data with death records. The exercise identified only one case where an individual had died but this coincided with contact from the next of kin to arrange repayment of the overpaid direct payments. It is expected that this data set will form a standard part of future NFI data matching work.
30. In recognition of the fact that NFI matches are limited to UK data, verification of overseas pensioners was carried out. Letters requesting life certificates were sent to 166 pensioners across 16 countries. With a response rate over 90%, there were only two cases where pensioners were deceased, both recently. The overpayments were therefore not significant and Internal Audit concluded the council has good arrangements in place to identify deceased pensioners.

Fighting Fraud Locally

31. In line with good practice Internal Audit has reviewed the Strategy against Fraud and Corruption, attached at Annex A. The strategy was approved by Cabinet in February 2013, and since then there have been only a few minor amendments as follows:
- References to the Financial Regulations have been updated;
 - Change and Efficiency is now shown as Business Services; and
 - Appendix B – the fraud response plan – recognises the Protection of Freedom Act 2012, which modifies the Regulation of Investigatory Powers Act 2000.
32. Internal Audit has been developing data interrogation tests to proactively identify areas of fraud risk. Several areas have already been tested and results indicate occupational fraud is not occurring to any detectable level and that the council's data is of sufficient quality to be considered an asset. The principles of data mining were also presented to Audit and Governance Committee as part of a workshop in March. Data interrogation will continue to be developed and incorporated into audits where appropriate.

Single Person Discount

33. During 2013/14 Internal Audit coordinated a data matching exercise to identify instances of incorrectly claimed Single Person Discount (SPD) on council tax. The exercise was funded through the council's "Invest to Save" fund and all 11 district and borough councils participated.
34. Taking a risk based approach letters were despatched to 55,358 claimants (39% of those claiming SPD) requesting either confirmation, by a given date, of claimants' continuing eligibility to the discount or the date of a change of circumstances that effectively terminated eligibility.
35. In summary the exercise has so far yielded the following results:
- 5.3% of people sent letters "owned up" to a change in circumstances that terminates eligibility; and
 - 9.6% of recipients did not respond to the letter or subsequent reminders.
36. The following table shows the potential additional council tax that may be raised as a result of the findings to date. Realistic estimates of additional council tax raised may be lower than the "potential" figures shown below, as some non-responders may have their entitlement to SPD reinstated on further investigation or enquiry.

	Number of recipients	Potential additional council tax income* 2013/14	Potential additional council tax income* 2014/15
Own-ups	2,935	£584,678	£1,175,167
Non-responders – SPD cancelled	3,339	£1,330,316	£1,336,927
Non-responders – not yet cancelled	1,987	£791,656	£795,589
Total	8,261	£2,706,650	£3,307,683
SCC share (75%)		£2,029,988	£2,480,762

*calculations are based on average council tax per dwelling

37. The amount recorded above in respect of “non-responders not yet cancelled” will be realised only if the billing authorities concerned (i.e. districts and boroughs) actually process cancellations for the claims identified as erroneously or fraudulently made.

Implications

Financial and value for money

38. Public money is safeguarded through Internal Audit investigation of fraud and irregularities, ensuring that perpetrators are appropriately dealt with and recommendations to improve internal control made where necessary.

Equalities

39. There are no known equalities implications in this report.

Risk management

40. Combating fraud will contribute to better internal control and value for money.

Next Steps

41. Subject to Audit and Governance Committee approval of the updated Strategy against Fraud and Corruption, the document will be made available on the council’s intranet and external website.

Report contact: Reem Burton, Lead Auditor, Policy & Performance

Contact details: 020 8541 7009, reem.burton@surreycc.gov.uk

Sources/background papers: Final irregularity reports, Committee reports, Galileo database