



AUDIT & GOVERNANCE COMMITTEE
6 December 2012

**Half-year summary of Internal Audit irregularity investigations
April – September 2012**

SUMMARY AND PURPOSE:

1. The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations undertaken by Internal Audit in the first half of this financial year, from 1 April to 30 September 2012.
2. Typically audit reports following irregularity investigations 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:

4. The Committee is asked to note the contents of this report.

BACKGROUND:

5. The Council's Financial Regulations require all matters involving, or thought to involve, corruption or financial irregularity in the exercise of the functions of the 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 Annual Plan for 2012/13 carries within it a contingency budget for 'Irregularity and Special Investigation Work' of 301 days.
6. 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) and implementing practice from the national Fighting Fraud Locally strategy. This proactive work is considered in more detail in paragraph 44.
7. 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 first half of 2012/13 include an update to Corporate Board in June

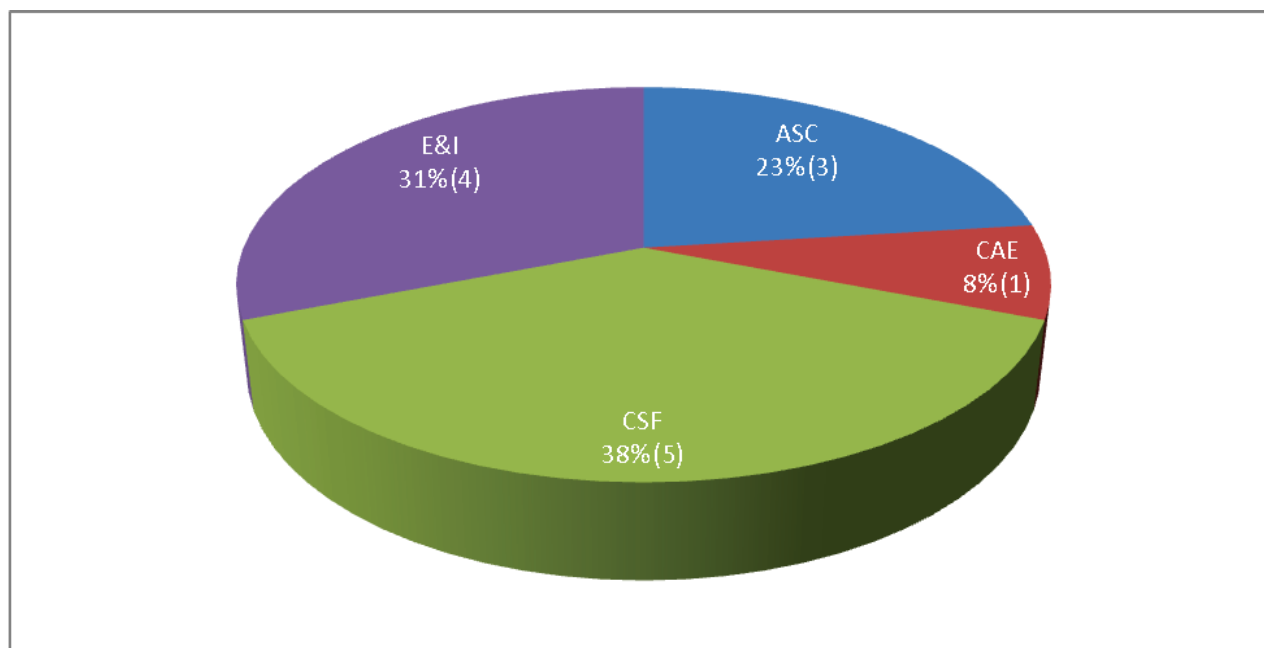
on officer declarations in respect of gifts and hospitalities, the use of Arval fuel cards, and a review of the LASER contract governance arrangements following the fraud at Kent County Council. Often such reviews are linked to concerns raised by management.

8. In the six months since April 2012 13 investigations commenced excluding ad hoc special reviews. 6 of these cases have been directly investigated by Internal Audit as cases of possible fraud or theft; 4 were cases where there were serious breaches of the Code of Conduct; 1 case involved concerns raised about a recruitment process; 1 case investigated a misuse of public funds; and 1 case investigated poor control that led to alleged irregular practice.
9. These 13 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. The total time taken to investigate these cases has been 88.2 days in the first half-year period.
10. Of the 13 investigations undertaken, 4 arose following whistle blowing allegations and 1 from information passed to Internal Audit following a complaint made to the Chief Executive. 7 investigations reached a 'Proven' conclusion, and 2 are still in progress.

SUMMARY OF ALL TYPES OF RECORDED IRREGULARITY: APRIL-SEPTEMBER 2012

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

Figure 1: Summary of investigated irregularity by Directorate, April-September 2012 (13 cases)



12. The proportion of investigations undertaken across the various Directorates is broadly in line with expectation, reflecting the fact that front-line services typically have more of these investigations as the associated risks of access to cash and assets over numerous sites are higher than in more back-office Directorates.
13. Figure 2 shows by broad categorisation how the 13 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 2 shows the primary reason for investigation, and more detail is provided on specific cases later in this report.

Figure 2: Irregularities investigated in total, April-September 2012 (13 cases)

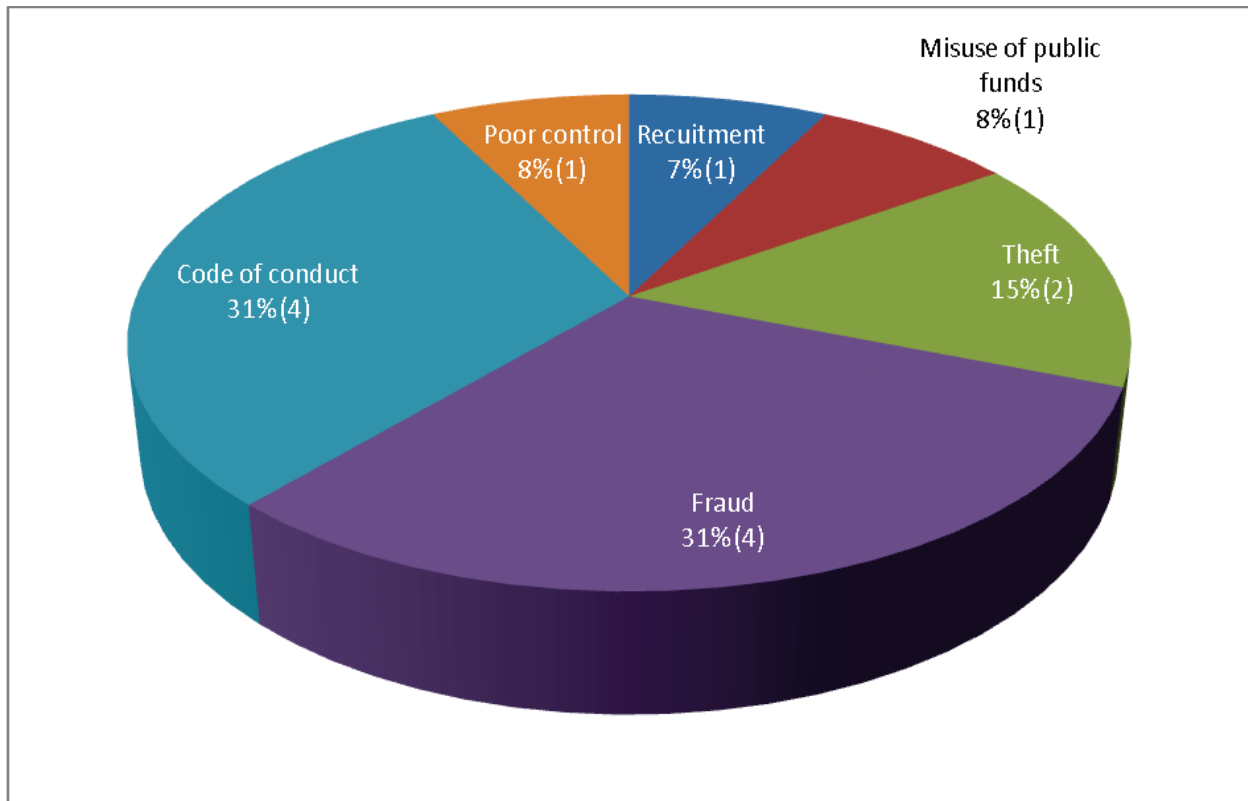


Table 1: Definitions of typologies defining the irregularities investigated 2012/13 to date

Type	Definition
Misuse of Public Funds	In this context cases could include misuse of grants by voluntary bodies, of social care payments by service users, or of private funds held by schools.
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) or for staff or members in respect of declaration of a second employment, pecuniary interests, completing contractual obligations or managerial responsibilities, or declaring appropriately possible material conflicts of interest.
Poor Control	Examples where local or corporate arrangements fail to stop inappropriate payments being made, or fail to ensure compliance with council policy, etc.
Recruitment	Includes investigations into illegal immigrant workers, staff with forged documentation (visa and passports), or incorrect leave to remain documentation. Could also refer to staff in multiple full-time employments with SCC and another employer (identified through NFI data-matching), inappropriate use of agency staff, or neglect in checking references or employment documentation during recruitment and employment of staff.

14. To give a better indication of the type of work undertaken by Internal Audit in the first half of the financial year the following paragraphs identify examples of specific investigations (appropriately anonymised). 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.

Misuse of Public Funds

Misuse of School Fund money by a Head teacher

15. Internal Audit were asked by a school to review transactions in their School Fund (private monies held by the school, separate from delegated funds) as concerns had been raised by the bursar concerning the management of the fund by the now retired former head teacher, who had sole control over the Fund since his appointment in the 1980s.
16. The audit demonstrated that in the period since 2009 (records could not be found prior to this period) the former Head had borrowed without authority a total of £19,000 from the Fund to fund personal short-term cash-flow issues. Money was repaid to the Fund (or, on occasion, to charitable recipients that the Fund had traditionally supported) and so the investigation was not one of theft, but of misuse of the money.
17. On advice from Internal Audit the school has contacted the Police, and a meeting is scheduled for late November to see if there is sufficient evidence to bring criminal charges against the individual.
18. Internal Audit has also provided the school with advice and recommendations to improve the overall governance arrangements surrounding the School Fund account.

Theft

Misuse of a council purchasing card

18. During a routine audit of the use of corporate purchasing cards Internal Audit identified an individual within the Environment & Infrastructure Directorate who had misused their card. The total expenditure being questioned amounts to around £3,000 and a process is ongoing to validate the legitimacy of specific items of spend.
19. Examples of the misuse included the officer paying for their spouse's private car to have an M.O.T. and breakdown cover, the purchase of an inflatable dinghy for a family member, and personal use of the card to buy fuel, tools and food items.
20. A disciplinary process is now underway, supported by Internal Audit.

Theft of residents' money at a care home

21. An agency worker in the post of Assistant Team Manager (ATM) in the Adults Social Care Directorate received a total of £2,000 in cash from two residents at a residential home in early 2012. The purpose of this money was supposedly to book a holiday on behalf of the two service users.
22. At the beginning of April a managerial review at the home identified that the holidays had not been booked, nor the cash not returned to the service users. The Team Manager subsequently met with the ATM who returned the £2,000 on 23 April. The Police were involved from the outset of this case to handle the case against the agency worker, whilst Internal Audit provided advice to the home on the management of cash and internal controls surrounding client monies and the safe.
23. The agency worker is no longer employed by Surrey County Council, and Internal Audit understands that no prosecution was made by the Police against the individual.

Fraud

Concerns over legitimacy of payments made by a music studio within a Youth Centre

23. Concerns were raised with Internal Audit regarding payments made by the council to a music recording studio located at a youth centre. These payments related to annual maintenance charges of £1,000 per year dating back to April 2010. Concerns were also raised about the ownership of assets between the studio and the council, and the possible use of council assets for the benefit of a private business.
24. Audit review identified no evidence of irregular practice, but improvements to the existing arrangements were recommended. The auditor concluded that historic verbal agreements between the former Youth employees had enabled a local working culture to develop that lacked transparency and clarity.

Allegations of financial impropriety within an ASC team

25. As part of a wider safeguarding investigation managed within ASC, Internal Audit were asked to look into whistleblowing allegations made against officers that service users paid for accommodation and meals for staff accompanying them on trips, and that service users were required to pay sleep-in allowances to staff, possibly in cash.
26. The audit identified limited evidence to support the allegations made, and no case of fraud could be proven against the named individuals. However, it was established that there were poor financial procedures and processes in place within the team, and the manager responsible for ensuring robust governance was in place later left the council on competency grounds.

Code of Conduct

An officer failing to comply with Procurement Standing Orders

27. An officer in Procurement was suspended following the identification of irregularities in the procurement of works and the running and involvement in projects work at a residential home and at a day centre. The issues came to light as other staff stepped in to cover the officer's duties whilst he was on sick leave.
28. The EPM business support team reporting that 33 orders, totalling £87,494, had been raised by this officer for works at the residential home. It was established that Procurement Standing Orders had been broken by this action, and the orders were cancelled. In addition, work had been commissioned at the day centre which had been unknown to EPM management.
29. Additional information came to light during the course of the investigation that identified failings of the officer to observe Health & Safety legislation in the course of personally removing the fittings of a kitchen at the day centre, including a failure to comply fully with Fire Safety Regulations.
30. In light of the evidence a disciplinary hearing was held, and the officer dismissed on the grounds of Gross Misconduct.

An officer breached the Code of Conduct to benefit a business run by their spouse

31. Internal Audit received anonymous whistleblowing allegations that an officer within Surrey Commercial Services was unfairly giving work to their spouse's company kitchen, which specialised in kitchen refits, and that the company was getting unfair deals on ovens through the Surrey employee that they were using in contracts with another councils.

32. The preliminary investigation proved both allegations beyond reasonable doubt and demonstrated that the officer had been misusing their position. Over £32,000 of kitchen equipment at favourable rates had been procured for the company, and the officer was using SCS budgets to pay for the items, subsequently invoicing the spouse's company for the money. At the time of the audit, over £23,500 of orders had not been properly invoiced to the company, some dating to six months after equipment had been sent to them. This has now been rectified and the money recovered.
33. It was also established that the officer had failed to declare their interest appropriately to their Head of Service, and that this officer's access to commercially sensitive pricing information and knowledge of forthcoming job orders in the area of kitchen refits across Surrey establishments was giving the spouse's company unfair commercial advantage in bidding for work.
34. Following a disciplinary hearing the officer was dismissed for Gross Misconduct in failing to comply with specific aspects of the Code of Conduct, and for taking actions inside work which brought the council's reputation into disrepute and which might seriously affect public confidence in its ability to deliver effective services.

Sale of playing field land at a Surrey school

35. Concerns were expressed to a County Councillor regarding the sale of a 70m² area of school playing field land by Surrey County Council to a private individual for the sum of £3,000. The owner of the land was Surrey County Council, not the school itself. The basis of the concern was to seek assurance that the handling of the sale had followed due process and was robust.
36. As the purchaser of the land was closely connected with the school the audit focused upon compliance with the Code of Conduct and whether the transaction (if deemed valid) should be declared as a related-party transaction in the Council's accounts.
37. The issues considered by Internal Audit were:
 - Whether due process was followed at both the school and at the council during the course of the sale;
 - Whether the nature of the purchaser's employment at the school would have made any difference to the way the sale was handled had it been declared; and
 - Whether the purchaser was able to influence the sale unduly as a result of their position at the school.
38. The outcome of the audit was assurance could be taken that due process had been followed, and that no advantage was obtained by the individual in the course of the land sale due to their position at the school. Further, the processes undertaken by the local borough council allowed for local concerns about the proposed sale to be received and considered as part of the planning process, enabling an additional level of transparency. It was not considered necessary to declare the sale as a related-party transaction.

Poor Controls

Poor compliance with an internal policy, giving rise to complaint to the Chief Executive

39. A complaint was received by the Chief Executive in which an officer alleged that unspecified teams within the council were hiring rooms at an external venue (a facilitated set of business offices) rather than achieving value for money by using a council property next door. The matter was investigated by Internal Audit and findings shared with the complainant.

40. Whilst no direct evidence could be found to substantiate the specific allegation, it was clear from an overview of venue hire by services that a number of occasions existed when external venues had been used as opposed to internal ones, which raised questions about compliance with the existing policy and value for money. The matter will be considered for inclusion as a value for money audit in the 2013/14 annual plan.
41. As a result of the review the current process and policy will be re-launched by Procurement via S:Net to increase officer awareness of the requirement to follow the specific policy in the booking of venues.

Recruitment

Whistleblowing alleging a failure to observe proper recruitment process

42. Internal Audit became involved in an investigation where a whistleblower alleged that proper processes had not been followed during recruitment to a post within the council. The allegations included a suggestion that the successful applicant did not have the basic minimum professional qualifications to fulfil the role.
43. The outcome of the investigation is that the processes had, in fact, been fully complied with and that there was no case to answer.

Proactive Fraud Prevention and Awareness work

44. Within the past six months Internal Audit has made continued progress in embedding an anti-fraud culture within the authority through specific proactive fraud prevention and awareness work.
45. Activities that have been of particular note include:
- Supporting the Audit Commission's National Fraud Initiative through the upload of data from council systems. This will allow for the matching of key data sets across and between participating public sector organisations to detect potentially fraudulent activity;
 - Actively participating in the Fighting Fraud Locally initiative, including an assessment of the council's preparedness for a counter-fraud culture. The outcome of this work was reported to Audit & Governance Committee in October 2012;
 - Collaborative working taking place between district and borough partners to combat fraud in Single Person Discounts for Council Tax;
 - Internal Audit attending fraud-related discussions at the London Audit Group and at the Home Counties Chief Internal Auditors Group;
 - Fraud awareness e-learning, which has continued to develop and roll-out across the authority to raise staff awareness of common risks and signals that they should be alert to; and
 - The revised Strategy Against Fraud and Corruption will be presented to Cabinet in December 2012. This has been updated following the launch of the NFA's Fighting Fraud Locally Strategy and now includes a Fraud Response Plan in line with best practice.

IMPLICATIONS:

Financial

46. Internal Audit investigation of fraud and irregularities to ensure that perpetrators are appropriately dealt with and recommendations made where necessary to improve internal control, will ensure that public money is safeguarded.

Equalities

47. There are no direct equalities implications of this report.

Risk management

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

WHAT HAPPENS NEXT:

49. No specific action is required.

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Sources/background papers: Final irregularity reports and Galileo database.