



Audit & Governance Committee  
1 December 2014

**Half-year summary of Internal Audit irregularity investigations and counter fraud measures  
April – September 2014**

**Purpose of the report:**

The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations and proactive counter fraud work undertaken by Internal Audit in the first half of this financial year from 1 April to 30 September 2014.

**Recommendation**

The committee is asked to note the contents of this report, which has been prepared in line with requirements of the Local Government Transparency Code.

**Introduction**

1. The council's Financial Regulations require all officers and members of the council to notify the Chief Internal Auditor of any matter that involves, or is thought to involve, corruption or financial irregularity in the exercise of the functions of the council. Internal Audit will in turn pursue such investigations in line with the Strategy against Fraud and Corruption.
2. The annual Internal Audit Plan for 2014/15 carries within it a contingency budget for 'Irregularity and Special Investigations' of 335 days. This contingency covers time to investigate 'irregularities' (actual or alleged financial impropriety, corruption, and other similar matters) as well as time for proactive fraud prevention and detection work, detailed in the latter part of this report.
3. Special ad hoc reviews not originally included in the agreed annual plan are also charged against this contingency if commissioned in-year by members or senior managers. Examples of such reviews in the first half of 2014/15 include follow up work on a previous investigation and supporting a district council whistle blowing case. While often linked to concerns raised by management or members, these reviews may also arise during the course of planned audit work.

## Summary of investigations between 1 April and 30 September 2014

4. Audit reports following irregularity investigations typically help to provide independent evidence to support a management case against an employee under formal disciplinary procedures, or help strengthen controls in areas where weaknesses are identified. As formalised in the Reporting and Escalation Policy, agreed by this committee, irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential nature.
5. In line with reporting requirements set out in the Local Government Transparency Code (the Code), published by the Department for Communities and Local Government (DCLG) in October 2014, the counter fraud and irregularity work undertaken by Internal Audit in the first half of 2014/15 is presented in a new format below.

### Resources

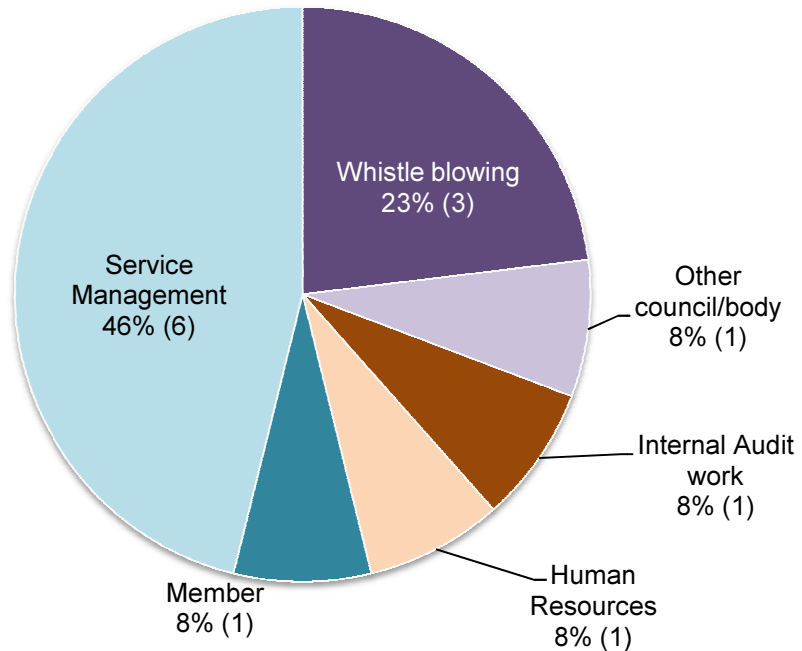
6. A flexible approach is used to allocate staff resources to investigations whereby any officer in the Internal Audit team may carry out investigative work with support as appropriate. As reported to this committee in May 2014, many of the counter fraud functions are coordinated by a Lead Auditor who is expected to become an Accredited Counter Fraud Specialist (ACFS) in March 2015.
7. In the first half of 2014/15 a total of eight officers undertook work on irregularity investigations excluding ad hoc special reviews. Since the council does not administer housing benefits or council tax discounts, on no occasion did officers use powers under the Prevention of Social Housing Fraud Regulations 2014 or Council Tax Reduction Schemes Regulations 2013.
8. The total time spent on investigations was 55 days, which approximates to 0.49 of a full time equivalent post. Based solely on the average hourly rates of these officers, the total amount spent on the investigation of fraud and irregularity is £9,970 (increasing to £27,105 including average employer pension contributions and overhead charges).
9. It should be noted that 32 of the days used for investigations relate to a particularly complex case that required a substantial amount of management support and for which disciplinary action against two officers is ongoing.

### Number and types of investigations

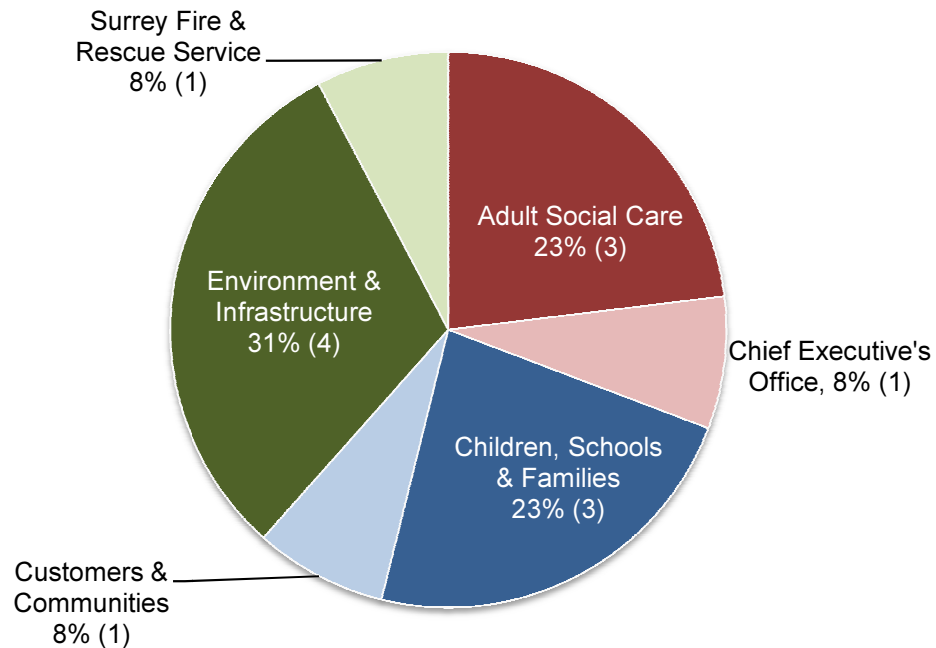
10. The Code refers to the Audit Commission's report, 'Protecting the Public Purse', which defines fraud as:  
  
*"An intentional false representation, including failure to declare information or abuse of position, that is carried out to make gain, cause loss or expose another to the risk of loss. It includes cases where management authorised action has been taken including, but not limited to, disciplinary action, civil action, or criminal prosecution."*
11. Accordingly, the categories by which fraud and irregularity investigations are reported have been updated as detailed in Annex A. All proven fraudulent or irregular behaviour by officers may be considered misconduct; these categories, however, reflect specific types of fraud or irregularity.
12. In the first half of 2014/15 a total of 13 investigations commenced excluding ad hoc special reviews. The methods by which these cases were brought to the attention of Internal Audit are shown in Figure 1.

13. Figure 2 illustrates the proportion of all recorded irregularities across the different directorates of the council. Surrey Fire and Rescue Service is treated separately for the purposes of this report. The number of investigations is shown in parentheses.

**Figure 1:** How irregularities were reported between 1 April and 30 September 2014



**Figure 2:** Investigated irregularities by directorate from 1 April to 30 September 2014



14. Of the 13 investigations started in the first half of 2014/15, one has been proven, nine were not proven, and three are ongoing. The category and allegations for each case are summarised below, as well as outcomes for completed cases. Some cases may involve the allegation or investigation of more than one type of irregularity, for example, both false representation and misconduct. The summaries therefore show the primary reason for investigation.

*Proven: one case*

<b>Category</b>	<b>Allegation</b>	<b>Outcome</b>
Misconduct	An officer obtained and commenced work in a new job while still employed by the council.	Recovery of the overpaid salary is being arranged.

*Not Proven: nine cases*

<b>Category</b>	<b>Allegation</b>	<b>Outcome</b>
False representation	Duplicate travel claims	Error rather than fraud; advice provided to help improve processes
Failure to disclose information	Additional employment and pecuniary interest	Advice and information provided to management to help improve processes
	Housing benefit fraud by an officer of the council	No case to answer based on evidence reviewed
	Pecuniary interest	No case to answer based on evidence reviewed
Abuse of position	Financial abuse of an individual receiving social care	Investigated by borough council; no case to answer based on evidence reviewed
	Nepotism	No evidence found to support allegation
Misuse of public funds	Ultra vires expenditure	No case to answer based on evidence reviewed
Misconduct	Intentional data breach	No case to answer based on evidence reviewed
Poor Control	Money missing from a safe	Unable to determine whether incident was theft or error; management advised on how to strengthen controls

*Ongoing: three cases*

<b>Category</b>	<b>Allegation</b>
Failure to disclose information	Pecuniary interest
Misconduct	Disregarding management instruction
Procurement	Collusive tenders and fake quotations

15. The Code recommends publication of the monetary value of fraud and irregularity instances detected and recovered. While publication of these figures is not a mandatory requirement, Internal Audit will aim to provide this information in the 2014/15 full-year irregularity report.






## Proactive fraud prevention and awareness work

### Fighting Fraud Locally

16. As part of the 2014/15 Fighting Fraud Plan a presentation on combating fraud in the council has been developed and delivered to more than 100 officers in Shared Services, Cultural Services, and Surrey Fire and Rescue. The presentation highlights management responsibilities regarding fraud and is tailored to each service to encourage discussion of fraud risks in each area. Presentations are currently being arranged in Adult Social Care and Children, School and Families.
17. A fraud survey launched in the last week of October has received more than 380 responses to date. The purpose of the survey is to gain a better understanding of employees' attitude towards fraud in terms of both recognising and reporting fraudulent or irregular behaviour. Although the survey was launched outside of the reporting period of this report, the results from the survey will influence the approach adopted to tackle fraud.

### Counter fraud strategy development

18. The Chartered Institute of Public Finance and Accountancy (CIPFA) recently issued a new Code of Practice on 'Managing the Risk of Fraud and Corruption'. It defines five principles essential to achieving effective standards for countering fraud and corruption. At the time of writing, full guidance to accompany the Code of Practice is due for publication. This guidance is intended to replace CIPFA's current guidance, 'Managing the Risk of Fraud', commonly known as the 'Red Book'.
19. A review of the arrangements in place to manage fraud and corruption is currently underway to ensure the council's approach is in line with new guidance and requirements. A full update will be shared with members of the Audit and Governance Committee at the Counter Fraud Seminar in January 2015. In the interim, the current position of the council in relation to the five principles is summarised below.

Principle	High level assessment	Current position
Acknowledge responsibility		<ul style="list-style-type: none"> <li>This is highlighted through the Fighting Fraud presentations to all levels of staff</li> <li>A planned refresh of the Fraud e-learning course will remind staff of their responsibilities</li> </ul>
Identify risks		<ul style="list-style-type: none"> <li>Internal Audit has started work to identify and assess the level of fraud risk across the council</li> <li>Work will be undertaken with the Risk and Governance Manager to integrate fraud risk into normal risk management processes</li> </ul>
Develop a strategy		<ul style="list-style-type: none"> <li>The current Strategy against Fraud and Corruption will be reviewed against new CIPFA guidance</li> <li>Results from the survey on Fraud Culture will be used to influence the approach to tackling fraud</li> </ul>
Provide resources		<ul style="list-style-type: none"> <li>Staff resources are adequate and proportionate by nature of the fact that all Internal Audit officers are able to undertake investigations</li> <li>A Lead Auditor should achieve the ACFS qualification in March 2015</li> </ul>
Take action		<ul style="list-style-type: none"> <li>The council already has in place all policies outlined in the framework</li> <li>The council already participates in data matching exercises both locally and nationally</li> </ul>

## Partnership working

20. In partnership with seven of Surrey's district and borough councils a bid was submitted for a share of the Counter Fraud Fund made available by the DCLG. If successful, the funds will be used to prevent, detect and investigate fraud. Savings across the participating partners as a result of the planned work are estimated to be approximately £400k for 2014/15 and £800k for 2015/16.
21. Internal Audit has also conducted a pilot data matching exercise with one of Surrey's borough councils aimed at identifying housing tenancy fraud. This exercise utilised technical expertise within Internal Audit to improve proactive fraud management in a borough council.

## National Fraud Initiative

22. Data for the biennial data matching exercise was submitted to the Audit Commission in October. Data including payroll, pensions, creditors, and insurance claimant information will be compared with that of more than 1,300 other organisations to identify fraud and error. Additional data requirements introduced this year include information about individuals in receipt of direct payments and additional contact information supplied by employees. Data matches are expected in early 2015.

## Implications

### Financial and value for money

23. Public money is safeguarded through Internal Audit investigation of fraud and irregularities. This ensures that perpetrators are appropriately dealt with, monies are recovered where possible, and recommendations to improve internal control are made where necessary.

### Equalities

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

### Risk management

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

## Next steps

26. No specific action is required.

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**Sources:** Galileo database, Morgan Kai Insight database, final irregularity reports