



Audit & Governance Committee  
28 May 2015

**Full-year summary of Internal Audit irregularity  
investigations and counter fraud measures  
April 2014 – March 2015**

**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 between 1 April 2014 and 31 March 2015. This report complements and builds upon the half-year irregularity report presented to Audit and Governance Committee on 1 December 2014.

**Recommendations**

The committee is asked to:

1. Note the contents of this report; and
2. Approve the updated Strategy against Fraud and Corruption, attached at Annex B, and endorse it to Council for inclusion in the Constitution.

**Introduction**

3. 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.
4. The annual Internal Audit Plan for 2014/15 carried 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 counter fraud work and the National Fraud Initiative (NFI), detailed in the latter part of this report.
5. 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. While often linked to concerns raised by management or members, these reviews may also arise during the course of planned audit work.

6. 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.

### Summary of investigations between 1 April 2014 and 31 March 2015

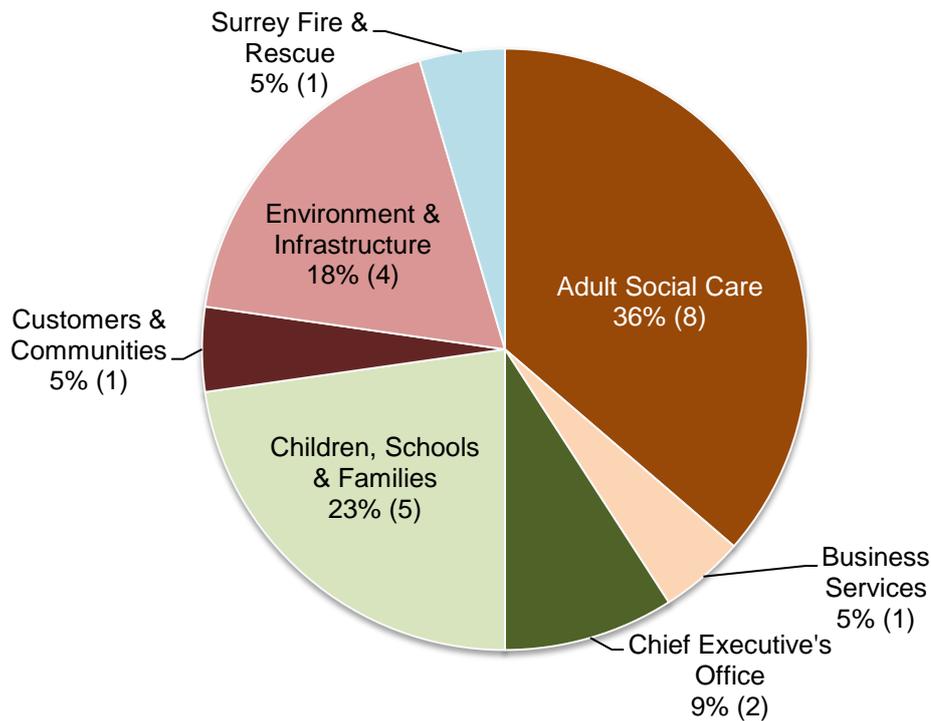
#### Resources

7. 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. Within the Internal Audit team, many of the counter fraud functions are coordinated by a Lead Auditor who is an Accredited Counter Fraud Specialist.
8. During 2014/15 a total of eight officers undertook work on irregularity investigations excluding ad hoc special reviews. The total time spent on investigations was 86 days (55 days in the first half of the year; 31 days in the second half of the year), which approximates to 0.38 of a full time equivalent post. The total comparative time taken in 2013/14 was 87.4 days.
9. Based solely on the hourly rates of these officers, the total amount spent on the investigation of fraud and irregularity in 2014/15 was £15,270 (increasing to £42,103 including average employer pension contributions and overhead charges).

#### Number and types of investigations

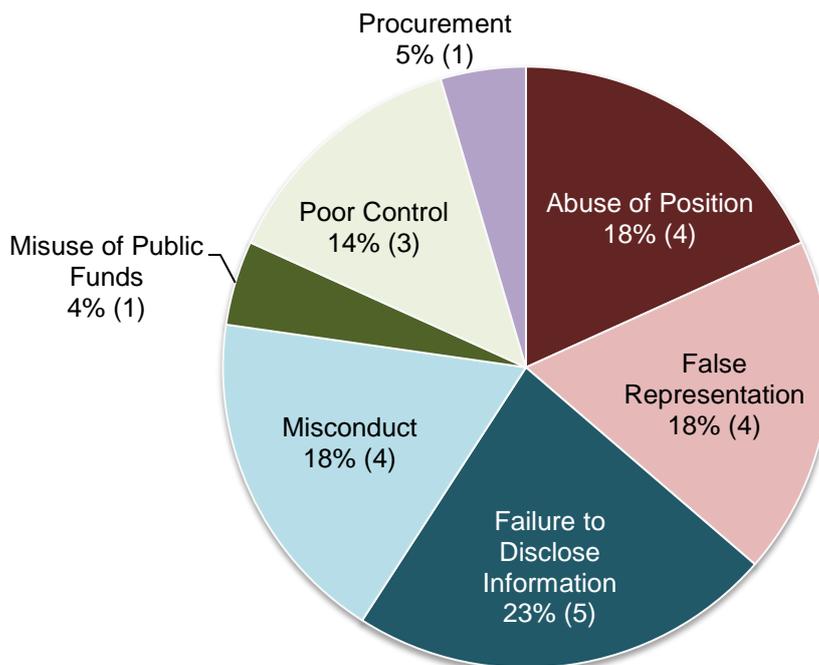
10. In the first six months of 2014/15 a total of 13 investigations commenced excluding ad hoc special reviews. By 31 March 2015 this had risen to 22 cases in total, a decrease from the 29 cases in 2013/14. Although the number of cases has fallen, the number of days spent on investigations is similar to 2013/14. This is mainly due to a particularly complex, 35-day case that required a significant amount of management support.
11. The methods by which cases were brought to the attention of Internal Audit are below:
- 12 were raised by management or Human Resources;
  - 5 arose due to whistle blowing allegations;
  - 3 were reported by other councils or public bodies;
  - 1 was raised by a member; and
  - 1 was the result of Internal Audit work.
12. The proportion of all recorded irregularities across the council's directorates is shown in Figure 1. Surrey Fire and Rescue Service is treated separately for the purpose of this report. The number of investigations is shown in parentheses.
13. Full details of the categories by which fraud and irregularity investigations are reported are attached at Annex A. All proven fraudulent or irregular behaviour by officers may be considered misconduct; similarly, poor controls increase the likelihood of fraud occurring. The categories, however, reflect alleged specific types of fraud or irregularity.
14. Of the 22 investigations started in 2014/15, 7 were proven; 2 are ongoing; and 13 were not proven. For those cases 'not proven', this is based on the specific allegations investigated; for example, while it may not be possible to prove 'theft' has occurred, a conclusion of 'poor control' might still be reached.

**Figure 1.** Investigated irregularities by directorate from 1 April 2014 to 31 March 2015



15. The categories of investigations undertaken are shown diagrammatically in Figure 2, which includes the number of investigations in parentheses. The category and allegations for cases undertaken in the second half of 2014/15 are summarised in Tables 1 to 3, which also detail outcomes for completed cases. Some cases may involve the allegation or investigation of more than one type of irregularity; the summaries therefore show the primary reason for investigation.

**Figure 2.** Summary of irregularities by type from 1 April 2014 to 31 March 2015



**Table 1.** Proven: 6 cases (7 over full year)

| Category                        | Allegation  | Outcome  |
|---------------------------------|---|--|
| False representation            | Payment claimed for hours not worked  | Officer dismissed  |
|                                 | Misuse of Blue Badges by care home employees (not SCC)  | Blue Badges suspended by SCC; information passed on to Quality Assurance Team  |
|                                 | Exaggerated travel claims   | Over £2,500 recovered; verbal warning issued   |
| Failure to disclose information | Failure to declare a pecuniary interest while promoting the use of own company  | Internal Audit supported a service-led investigation; officer dismissed  |
| Procurement                     | Member of the public made applications for flood grants on behalf of others without their consent; included fake quotations | 27 fraudulent applications identified and stopped, preventing £135k of fraud loss; the case will be referred to relevant authority |
| Misconduct                      | Officers disregarded management instruction and breached council policies   | Written warnings issued as part of a disciplinary; upheld following appeal   |

**Table 2.** Not Proven: 4 cases (13 over full year)

| Category          | Allegation   | Outcome  |
|-------------------|--|--|
| Poor control      | Money missing from a petty cash tin  | Unable to determine whether incident was theft or error; management advised on how to strengthen controls.       |
|                   | Book of travel warrants missing  |  |
| Abuse of position | Attempt by school governors to sell school land without following appropriate procedures | No sale was completed. Evidence indicated the act was poor judgement rather than intention to commit an offence. |
| Misconduct        | Officers sleeping while on night duty  | No evidence found to support allegation; management controls strengthened  |

**Table 3.** Ongoing: 2 cases

| Category                        | Allegation   |
|---------------------------------|--|
| Failure to disclose information | Receiving social care payments without entitlement |
| Abuse of position               | Inconsistent decision-making                       |

## Proactive fraud prevention and awareness work

### Fighting Fraud Locally

16. As reported to this committee in December 2014, a Fighting Fraud presentation has been developed highlighting the council's fraud risks and management responsibilities regarding fraud. During 2014/15 the presentation was delivered to more than 500 officers including Shared Services, Cultural Services, Adult Social Care, and Children, Schools and Families.
17. The 2015/16 Annual Audit Plan includes an allocation of 280 days for 'Irregularity and Special Investigations' work. This will be used in part to deliver the Fighting Fraud Plan, which includes NFI work as well as:
  - Conducting a fraud loss measurement exercise to establish the underlying prevalence of fraud across the council;
  - Continued delivery of the Fighting Fraud presentation, including to Procurement;
  - Developing a schools-based programme of proactive fraud work; and
  - Refreshing and promoting the Fraud e-learning package.
18. The data analytics programme for 2014/15, which focussed on financial reporting and vendors, identified a small number of potential irregularities relating to fuel cards and vendor relationships with officers. Full details of the results will be available in the Data Analytics audit report, which will be circulated shortly. Internal Audit will continue to use data analytics to proactively identify fraud. Areas for testing will be influenced by the fraud loss measurement exercise and also the Fraud Risk Register presented to this committee at its Fraud Seminar in January.

### Counter fraud strategy

19. In line with good practice Internal Audit has reviewed the Strategy against Fraud and Corruption, attached at Annex B. The amendments made include the following:
  - The definition of 'fraud' has been brought into line with the definition used in the Transparency Code 2014;
  - References to the Criminal Records Bureau, Audit Commission, UK Border Agency, and National Fraud Authority have been replaced with the Disclosure and Barring Service, Cabinet Office, UK Visas and Immigration, and CIPFA Counter Fraud Centre, respectively;
  - Guidance relating to interviewing under the Police and Criminal Evidence Act 1984 and employing surveillance in line with the Regulation of Investigatory Powers Act 2000 has been reworded to ensure officers seek appropriate advice and authorisation before undertaking such activities; and
  - The requirement to inform the Audit Commission of any fraud losses exceeding £10,000 has been removed as this is no longer a national requirement.
20. As discussed with this committee at its Fraud Seminar in January 2015, the council is already broadly compliant with the five principles set out in CIPFA's Code of Practice on 'Managing the Risk of Fraud and Corruption'. A few specific areas for improvement have been identified, which will be reflected in a more in-depth review and refresh of the Strategy against Fraud and Corruption and Fraud Response Plan during 2015/16.

### Partnership working

21. Following the successful bid for £539k of the Counter Fraud Fund made available by the Department for Communities and Local Government, Internal Audit has created a counter fraud partnership with seven of Surrey's borough and district councils.

22. Part of the funding has been spent on investigative resources to work with housing partners to tackle housing tenancy fraud. Additional workstreams are being developed to address business rates avoidance and housing registers. The partnership expects to generate savings of £800k in 2015/16.

### **National Fraud Initiative**

23. The NFI data matching exercise, overseen by the Cabinet Office following the closure of the Audit Commission, has identified 18,500 data matches across 47 reports for 2014/15. This is a 5% increase from the 17,600 matches identified in the 2012/13 exercise, due entirely to the inclusion of a new data set regarding direct payments.
24. Initial review of the results suggests many of the matches are due to timing issues, such as notification of a pensioner's death, or data input errors. Investigation of the three highest priority matches relating to the immigration status of employees has identified no issues, the match being caused by timing issues or the failure of individuals to update their status.
25. To date, three irregularities warranting further investigation have been identified:
- Two sets of apparently duplicated invoices totalling £3,000;
  - Possible use of an assumed identity to obtain a concessionary travel pass; and
  - Possible receipt of social care payments without entitlement.

An update will be shared with this committee as part of the half-year irregularity report in December.

### **Implications**

#### **Financial and value for money**

26. 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**

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

#### **Risk management**

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

### **Next steps**

No specific action is required.

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