



Audit & Governance Committee
7 December 2015

**Half-year summary of Internal Audit irregularity investigations and counter fraud measures
April – September 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 in the first half of this financial year from 1 April to 30 September 2015.

Recommendation

The committee is asked to note the contents of this report.

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 2015/16 carries within it a contingency budget for 'Irregularity and Special Investigations' of 280 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.
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. While often linked to concerns raised by management or members, these reviews may also arise during the course of planned audit work. Examples of such work undertaken in the first half of 2015/16 include investigating a multi-faceted grievance and following up results from data analytic exercises.
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.

Summary of investigations between 1 April and 30 September 2015

Resources

5. As reported to this committee in May 2015, Internal Audit uses a flexible approach to allocate staff resources to investigations such that any auditor may carry out investigative work with support as appropriate. Many of the counter fraud functions are coordinated by a Lead Auditor who is also an Accredited Counter Fraud Specialist.
6. During the first half of 2015/16 a total of six officers undertook work on irregularity investigations excluding ad hoc special reviews. The total time spent on investigations was 28 days, which approximates to 0.25 of a full time equivalent post. The total comparative time taken in 2014/15 was 55 days, although this included a complex case that required a significant amount of management support.
7. Based solely on the hourly rates of these officers, the total amount spent on the investigation of fraud and irregularity was £5,709 (increasing to £15,426 including average employer pension contributions and recovery of overhead charges).

Number and types of investigations

8. In the first six months of 2015/16 a total of 16 investigations commenced and one case was carried forward from 2014/15. For comparison, in the first half of the 2014/15 financial year 13 investigations commenced.
9. The methods by which cases were brought to the attention of Internal Audit are below:
 - 8 were raised by management or Human Resources;
 - 3 arose due to whistle blowing allegations;
 - 3 were referred to Internal Audit by other councils; and
 - 3 were reported by the police or Department for Work and Pensions.
10. The proportion of all recorded irregularities across the council's directorates is shown in Figure 1 while Figure 2 shows the categories of investigations undertaken. The number of investigations is shown in parentheses.
11. 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.
12. Of the 17 investigations carried out, 7 were proven, 6 were not proven, and 4 are ongoing. 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.
13. The category and allegations for cases undertaken in the first half of 2015/16 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 1. Investigated irregularities by directorate from 1 April to 30 September 2015

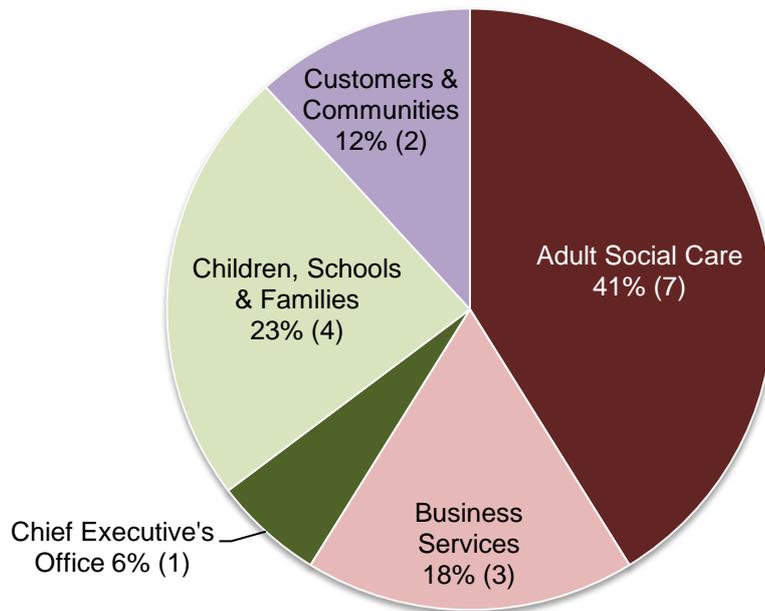


Figure 2. Summary of irregularities by type from 1 April to 30 September 2015

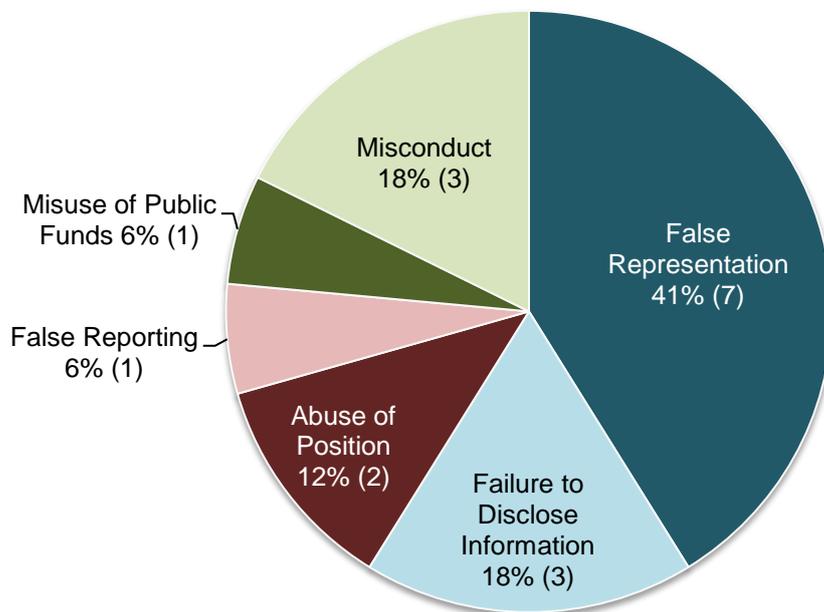


Table 1. Proven: 7 cases

Category	Allegation	Outcome
False representation	Fabrication of the number of concessionary bus fares to obtain payment from the council	£54k being recovered through invoices; case referred to the police
	Employee falsified a supplier contract with the council to obtain investment from an individual	No evidence that council systems were used to create the forgery but the officer resigned pending a police investigation
	Payment of £97k made in response to a fraudulent letter claiming a change of bank details for a council supplier	Advice given to strengthen management controls; case referred to the police
	Employee over-claimed mileage and passenger rates	Verbal warning issued but money not recovered due to low amount and timescale
Failure to disclose information	Individual concealed assets to obtain social care payments	Recovery of £160k being sought as part of a criminal prosecution
Misuse of public funds	Misuse of petty cash and welfare funds at a care home	Evidence of unusual practices but low monetary value; advice given to strengthen controls
Misconduct	Officer misrepresentation to another council to obtain information for their own needs	Disciplinary resulting in dismissal on the grounds of Gross Misconduct

Table 2. Not proven: 6 cases

Category	Allegation	Outcome
False representation	Fraudulent use of a Blue Badge	No evidence found to support allegation
	Individual receiving care services when not eligible	Insufficient evidence found to prove allegation; advice given to service to strengthen controls
Failure to disclose information	Referral from DWP of the concealment of capital by an individual to obtain social care and benefit payments	Capital identified by DWP was actually social care payments; no case to answer
Abuse of position	Referral from another council about a former SCC employee financially abusing individuals with deputyship accounts	No evidence of fraud against SCC but ongoing investigation at the other council
False reporting	Financial misstatement and misconduct in a council-funded project	No evidence found to support the allegations
Misconduct	Former employee accessed council files following resignation	No evidence found to support the allegations

Table 3. Ongoing: 5 cases

Category	Allegation
False representation	Individual receiving care services when not eligible
Failure to disclose information	Undeclared conflict of interest by a council officer
Abuse of position	Misuse of direct payments by a carer (not a council employee)
Misconduct	Unauthorised media recording and employee conduct issues

Proactive fraud prevention and awareness work

Fighting Fraud Locally

14. Internal Audit is continuing to make progress in embedding an anti-fraud culture in the organisation. This is being achieved through specific proactive fraud prevention and awareness work included in the 2015/16 Fighting Fraud Plan. An update on such activities is below.

Fighting Fraud presentations

15. Internal Audit has continued to deliver a Fighting Fraud presentation highlighting the council's fraud risks and management responsibilities regarding fraud to teams across the council. In the first half of 2015/16 more than 270 officers have attended presentations including teams from Procurement, Highways, and Public Health. In addition, fraud risk workshops have been held with two teams in Adult Social Care.
16. Since its launch in August 2014 the presentation has been delivered to 750 officers and sessions are planned with the Finance and Insurance Teams as well as Services for Young People. Surrey County Council came top in a recent benchmarking exercise of fraud awareness training across the seven county councils in the south-east and the presentation has been shared with these councils.

Counter fraud strategy

17. An in-depth review and refresh of the Strategy against Fraud and Corruption and accompanying Fraud Response Plan is underway. In line with the Orbis partnership the Lead Auditor is working with the fraud lead counterpart at East Sussex County Council to produce a strategy that aligns across both councils whilst acknowledging fraud risks specific to Surrey County Council. A full update will be shared with this committee at the Fraud Seminar in February 2016.

Schools audit

18. The Schools Compliance audit included as part of the 2015/16 Annual Audit Plan includes consideration of fraud risks in schools. To date the Senior Auditor has visited 13 schools and identified the following weaknesses in governance arrangements:
- Possible nepotism by a Headteacher relating to the direct appointment of a teacher without advertising the vacancy or interviewing any candidates;
 - Inappropriate procurement processes including regular payments to a supplier with no contract agreement and no evidence of quotations or bids;
 - Discrepancies in the expense claims of a school governor; and
 - Failure to regularly reconcile school income, increasing the risk of loss of funds through fraud and error

19. Each school will receive individual recommendations to improve controls and reduce the risk of fraud.

National Fraud Initiative

20. The NFI exercise, overseen by the Cabinet Office, identified a total of 18,500 data matches across 47 reports for Surrey County Council. The NFI exercise is intended to identify issues such as illegal workers, duplicate invoice payments, and pensions or care packages still in payment after death. Almost half (48%) of the data matches have now been investigated across 20 reports.
21. While the findings in the current exercise have been limited, this provides assurance that the processes and procedures in place are minimising losses through fraud and error. Outcomes to date include:
- No instances of the council employing workers without the right to work;
 - Pursuit of £5,600 in relation to four sets of duplicate invoices;
 - The cancellation of over 2,000 Blue Badges where the individual is deceased; and
 - An ongoing investigation into an officer with secondary employment.

Partnership working

22. The council is continuing to work in partnership with seven of Surrey's borough and district councils following its successful bid for £539k of counter fraud funding from the Department for Communities and Local Government (DCLG).
23. The funding has been used in part to put in place resources to identify and tackle fraud across all partners and training has been provided to organisations beyond the partnership. This has led to the successful recovery of 11 social housing tenancies and the prevention of over 30 potentially fraudulent housing, homeless, and right to buy applications. The partnership has also adopted new measures to tackle business rates avoidance and fraud.
24. The project's half year performance report to DCLG included a revised financial savings figure as it is anticipated that the partnership will exceed its original target of £800k to achieve projected savings of £1.2million in the 2015/16 financial year.

Implications

Financial and value for money

25. 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

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

Risk management

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

Next steps

No specific action is required.

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Sources: Morgan Kai Insight database, irregularity reports

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