



**Audit & Governance Committee  
26 May 2016**

**Full-year summary of Internal Audit irregularity  
investigations and counter fraud measures  
April 2015 – March 2016**

**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 2015 and 31 March 2016. This report complements and builds upon the half-year irregularity report presented to this committee on 7 December 2015.

**Recommendation**

The committee is asked to:

1. Note the contents of this report; and
2. Note the Fighting Fraud Plan 2016/17, attached at Annex B.

**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 2015/16 carried 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.
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. Examples of such work undertaken in the second half of 2015/16 include project support for the implementation of Liquidlogic Adults' Social Care System and assisting Human Resources with an employee investigation.
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 2015 and 31 March 2016**

#### **Resources**

7. During the 2015/16 financial year a total of nine officers undertook work on irregularity investigations excluding ad hoc special reviews. The total time spent on investigations was 107 days (28 days in the first half of the year; 79 days in the second half of the year), which equates to 0.48 of a full time equivalent post. The total comparative time taken in 2014/15 was 86 days.
8. Based solely on the hourly rates of these officers, the total amount spent on the investigation of fraud and irregularity was £20,126 (increasing to £54,564 including average employer pension contributions and recovery of overhead charges).

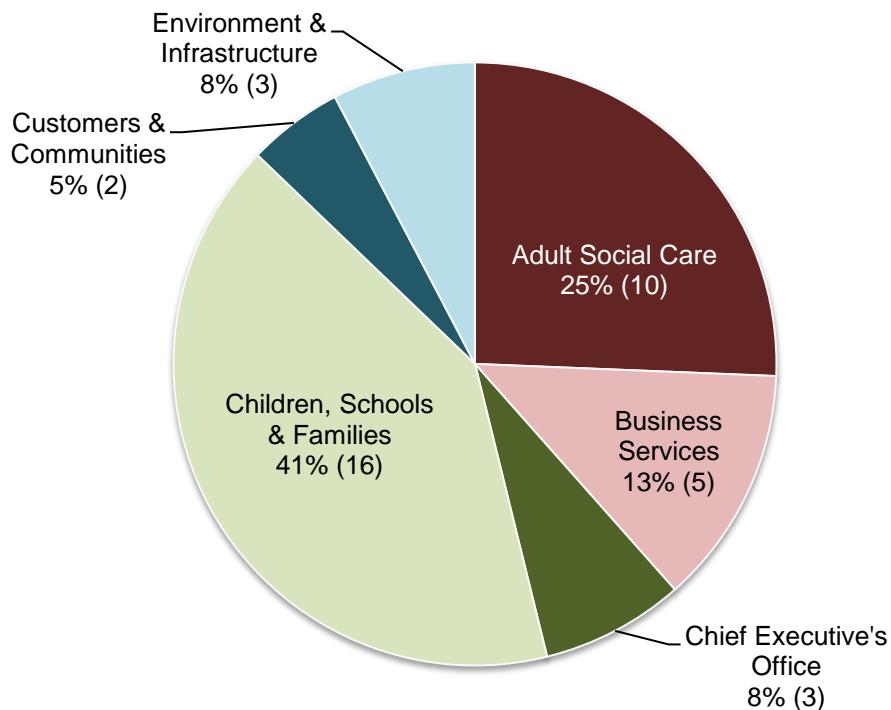
#### **Number and types of investigations**

9. In the first six months of 2015/16 a total of 16 investigations commenced and one case was carried forward from 2014/15. By 31 March 2016 the total number of cases had risen to 39, a significant increase from the 22 cases in 2014/15.
10. The increase in the number of investigations is partly due to an increase in referrals from whistle blowing and other public sector bodies. The methods by which cases were brought to the attention of Internal Audit are shown in the table below, with the figures from 2014/15 shown for comparison.

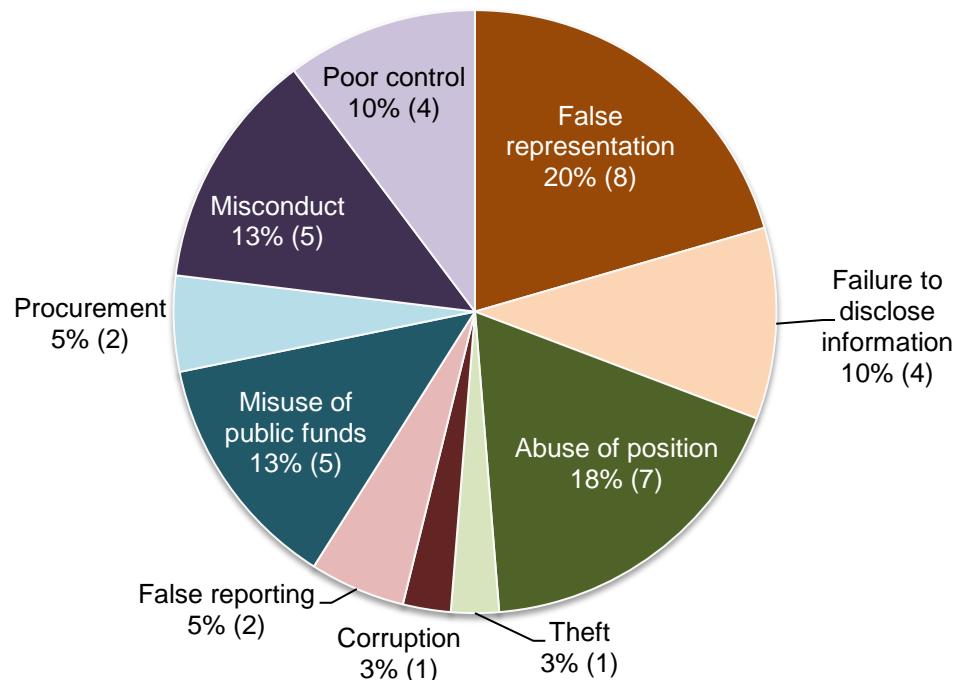
<b>Source of referral</b>	<b>2014/15</b>	<b>2015/16</b>
Management or Human Resources	12	14
Whistle blowing	5	14
Other council, police or DWP	3	6
Complaint	-	1
Member	1	-
Internal Audit	1	4
	<b>22</b>	<b>39</b>

11. Of the 39 investigations undertaken in the 2015/16 financial year, 12 were proven, 20 were not proven, and 7 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.
12. 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.
13. 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.

**Figure 1.** Investigated irregularities by directorate from 1 April 2015 to 31 March 2016



**Figure 2.** Summary of irregularities by type from 1 April 2015 to 31 March 2016



14. The category and allegations for cases undertaken or concluded in the second 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.

**Table 1.** Proven: 4 cases (12 over full year)

<b>Category</b>	<b>Allegation</b>	<b>Outcome</b>
False representation	Member of the public fraudulently displayed a blue badge relating to a deceased individual	Badge cancelled but no further action due to low monetary value
Corruption	Misconduct by a council officer and receipt of bribes and other payments from a supplier	Officer resigned; case being referred to the police
Poor control	Irregularities in the process for agreeing and calculating a head teacher's residential emolument	Overpayment of £6,600 being recovered and advice given to strengthen controls
Theft	Officer misused a council fuel card to fuel their own vehicle	Officer resigned and agreed to repay the full amount of £836. Case referred to the police.

**Table 2.** Not proven: 11 cases (20 over full year)

<b>Category</b>	<b>Allegation</b>	<b>Outcome</b>
Failure to disclose information	Intentional failure by the council to pay correct mileage rates	Weak management controls rather than fraud by SCC; corrective action being taken
Abuse of position	Misuse of school funds and purchase cards by a school bursar	Bursar now retired; support offered to the school
	Carer unduly awarded additional allowances due to a personal relationship with a manager	No evidence found to support the allegations
False reporting	Under-reporting of data breaches and manipulation of performance data	Weak management controls rather than fraud; advice given to service
Misuse of public funds	Supernumerary post set up unfairly	No evidence found to support the allegations
	Inappropriate use of council funds for accommodation and food for management	Weak management controls rather than fraud; advice given to service
	Irregularities in funding given to a trust through member allocations	No evidence found to support the allegations
Procurement	Improper extension of a contract	No evidence found to support the allegations
Misconduct	Dual working by an officer undertaking hours in one post while on leave from another post	Weak management controls rather than fraud; advice given to service
Poor control	Lack of transparency and accountability for member allocations made to a project	No evidence found to support the allegations
	Money missing from petty cash relating to two youth centres	No evidence found to support the allegations

**Table 3.** Ongoing: 7 cases

<b>Category</b>	<b>Allegation</b>
Abuse of position	Officer receiving payments from an elderly neighbour who receives social care support from the council
	Irregularities in a head teacher's salary, pension and leave
	Unfair appointment of a team leader
Misuse of public funds	Failure by a provider to fulfil a contract and dual working by a council employee with the provider
Procurement	Irregularities in the purchase of specialist equipment
Misconduct	School officer undertaking additional work during suspension
Poor control	Youth centre cash income unaccounted for and not banked

### **Proactive fraud prevention and awareness work**

#### **Fighting Fraud and Corruption Locally (FFCL)**

15. In March 2016 the Department for Communities and Local Government (DCLG) published the updated 'Local government counter fraud and corruption strategy'. The strategy provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities.
16. The FFCL Companion includes a checklist to enable councils to assess their fraud management arrangements. An initial review suggests the council is in a good position to tackle fraud and corruption although improvements in the following areas will be addressed in 2016/17:
  - Raising awareness of fraud and corruption through publicity of successful cases;
  - Audit review of disclosures of gifts and hospitality; and
  - Strengthening the Fraud Response Plan to ensure all areas of counter fraud work are covered.
17. The FFCL Strategy identifies a number of increasing fraud risks, including procurement and cyber frauds, both of which will be assessed. In recognition of the increasing fraud risks associated with insurance, in 2015/16 Internal Audit supported the council's Insurance Team in updating procedures for risk assessing claims. The emerging fraud risks relating to 'No recourse of public funds' will be reviewed during an audit included as part of the 2016/17 Internal Audit Plan.

#### **Fighting Fraud Plan 2016/17**

18. The Internal Audit Plan for 2016/17 includes a contingency budget of 340 days for irregularity and special investigations including fraud prevention. Internal Audit is continuing to strengthen its programme of proactive fraud and corruption work.
19. To ensure wide coverage of all areas, proactive fraud work will be carried out according to four overarching themes: fraud awareness; data analytics; alignment with the FFCL Strategy; and partnership working. Details of specific activities are shown in the Fighting Fraud Plan 2016/17, attached at Annex B.

## **Strategy against Fraud and Corruption**

20. Following a full review of the council's Strategy against Fraud and Corruption, a refreshed strategy has now been drafted. The intention is for the main body of the strategy to be shared among Orbis partners to provide a collaborative and consistent approach to tackling fraud.
21. The new strategy has been prepared in accordance with CIPFA's Code of Practice on managing the Risk of Fraud and Corruption as well as the FFCL Strategy. The strategy is based on the principles Acknowledge, Prevent, and Pursue. It will be supported by a Fraud Response Plan outlining the council's approach to investigating suspected fraud.
22. The new strategy will be shared with the Chief Executive, statutory officers and Human Resources for comment before being presented to this committee for approval and endorsement to Council for inclusion in the Constitution.

## **National Fraud Initiative**

23. Over 75% of the 18,500 data matches identified as part of the 2014 NFI exercise have been investigated, including all matches for key reports such as payroll, pensions, direct payments, and creditors. There are no additional outcomes to report since the last update, presented to this committee in December 2015.
24. A total of almost £6,000 has been recovered as a result of the exercise. Only a small number of errors have been identified and the data matches have not revealed any instances of fraud. This provides assurance that the processes and procedures in place are minimising losses through fraud and error.
25. The exercise highlighted the importance of maintaining up to date records for employees, pensioners and individuals receiving social care services. To this end all local issues have been followed up with services both to improve practice and in preparation for the submission of data in October 2016 as part of the 2016 NFI exercise.

## **Partnership working**

26. While DCLG funding for the Surrey Counter Fraud Partnership ended in 2015/16, the council has committed to continuing its partnership working with ten of Surrey's borough and district councils. The partnership has also expanded to include Surrey Police and Trading Standards.
27. Since forming in 2014/15 the partnership has successfully generated £3.7million in savings, including over £0.5million in business rates. Other success includes:
  - The recovery of over 30 properties allowing reallocation to families in genuine need;
  - The prevention of 22 property allocations and the rejection of 25 Right-to-Buy applications on the basis that applicants were not eligible or had lied to enhance their application; and
  - The return of two properties and a number of referrals for further investigation following a key amnesty pilot in one borough.
28. Partners now have access to commercial property data to provide intelligence to target business rates avoidance and, after the elections, the partnership plans to launch another awareness campaign.

## Implications

### Financial and value for money

29. 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

30. There are no known equalities implications in this report. All individuals responsible for managing or receiving public money are dealt with on an equal basis.

### Risk management

31. Combating fraud will contribute to improved internal control and value for money.

## Next steps

32. The Internal Audit team will deliver the 2016/17 Fighting Fraud Plan and outcomes will be reported in line with the Reporting and Escalation Policy.

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

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