



Audit & Governance Committee
5 December 2016

**Half-year summary of Internal Audit irregularity investigations and counter fraud measures
April – September 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 in the first half of this financial year from 1 April to 30 September 2016.

Recommendation

The committee is asked to:

1. Note the contents of this report; and
2. Approve the new Counter Fraud Strategy and Framework, attached at Annex A, 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 current Strategy against Fraud and Corruption.
4. The annual Internal Audit Plan for 2016/17 carries within it a contingency budget for 'Irregularity and Special Investigations' of 340 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 first half of 2016/17 include assisting Human Resources with an employment tribunal and undertaking additional assurance work in Children, Schools and Families directorate.

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 and 30 September 2016

Resources

7. During the first half of 2016/17 a total of four officers undertook work on irregularity investigations excluding ad hoc special reviews. The total time spent on investigations was 36 days, which equates to 0.32 of a full time equivalent post.
8. Based solely on the hourly rates of these officers, the total amount spent on the investigation of fraud and irregularity was £6,239 (increasing to £16,710 including average employer pension contributions and recovery of overhead charges).

Number and types of investigations

9. In the first six months of 2016/17 a total of 13 new investigations commenced. In addition, one case carried forward from 2014/15 is ongoing due to court proceedings. For comparison, in the first half of the 2015/16 financial year 16 investigations commenced.
10. The methods by which new cases were brought to the attention of Internal Audit are shown below.
 - 4 were raised by council management;
 - 4 originated as a complaint from a member of the public; and
 - 5 arose due to whistle blowing allegations, 3 of which were through Expolink.
11. Of the 13 investigations carried out, 4 were proven, 7 were not proven, and 2 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 included in the Counter Fraud Strategy and Framework 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.
14. The category and allegations for cases undertaken in the first half of 2016/17 are summarised in Tables 1 to 3, which also outline the outcomes for completed cases. Some cases may involve the allegations 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 2016

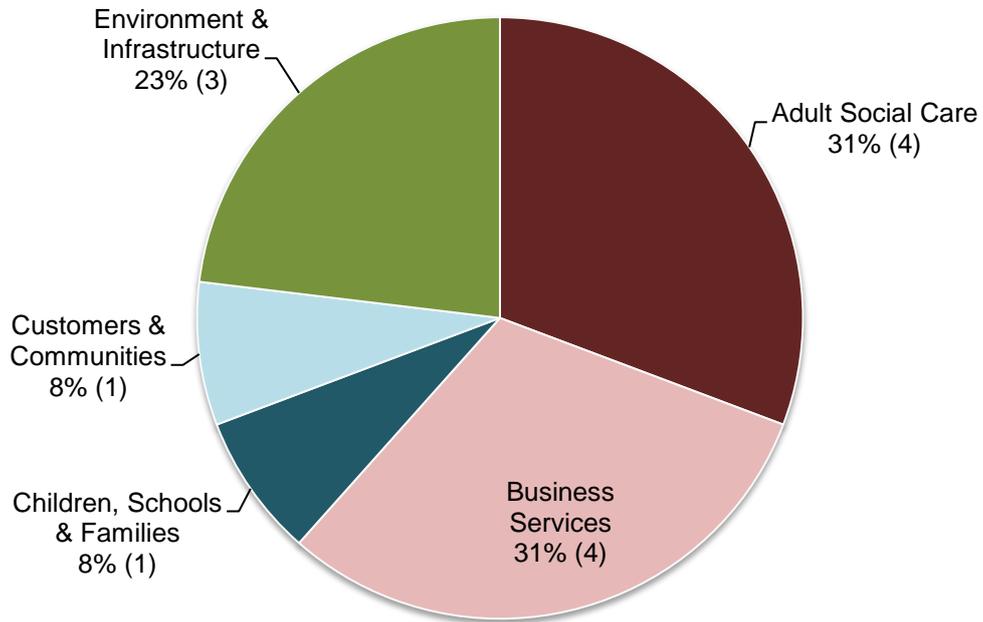


Figure 2. Summary of irregularities by type from 1 April to 30 September 2016

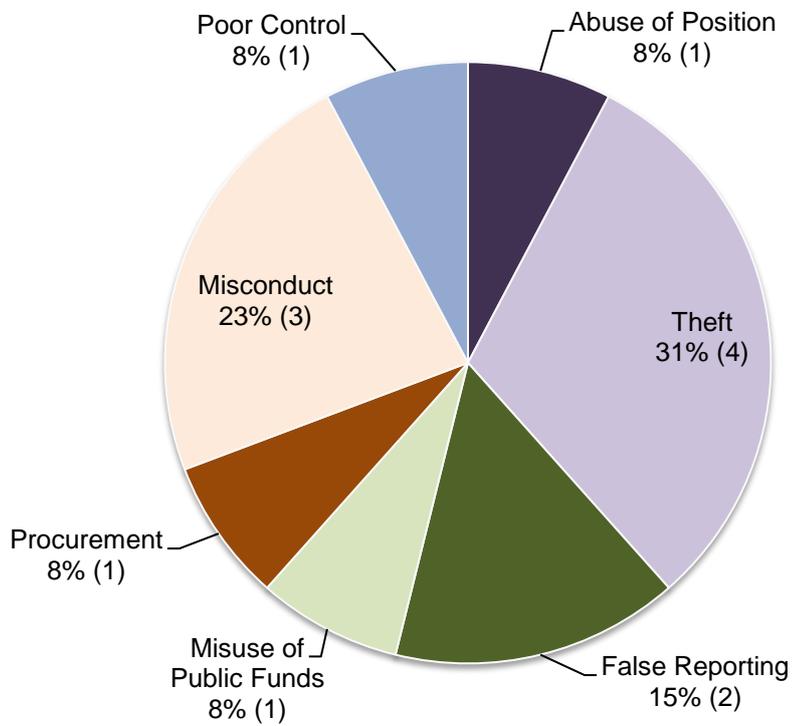


Table 1. Proven: 4 cases

Category	Allegation	Outcome
Abuse of position	Care worker from an external care agency obtained over £40k from a vulnerable adult receiving care commissioned by the council.	Case referred to the police; checks carried out to ensure the care worker did not obtain money from any other individuals under the council's care
Theft	Officer failed to bank £220 raised during a charity event held on council property	Investigation led by the service with advice from Internal Audit; officer dismissed
	Theft of kitchen supplies by two officers in a care home	Police caution given to one officer; both officers no longer employed by the council
	£270 removed from a safe in a fire station	Unable to determine who was responsible; advice given to strengthen controls

Table 2. Not proven: 7 cases

Category	Allegation	Outcome
Theft	Officer responsible for the theft and selling on of council laptops	No evidence found to prove the allegation although several devices remain unaccounted for; advice given to strengthen management controls
False reporting	Nursery proprietor claimed funding for children no longer attending the nursery	Poor record keeping leading to error rather than fraud; advice given to improve controls
Misuse of public funds	Alleged fraud by a contractor in relation to traffic signage	No evidence of fraud; matter passed back to the service for follow-up action
Misconduct	Officer received money from a vulnerable adult	No evidence found to support the allegation
	Officer failed to fulfil contracted working hours	No evidence found to support the allegation
	Intentional mis-measurement of road defects and dishonest behaviour by officers	No evidence found to support the allegations
Poor control	Alleged flawed collective bargaining arrangements in relation to the pay review	No evidence found to support the allegation

Table 3. Ongoing: 2 cases

Category	Allegation
False reporting	Intentional incorrect recording of time by an external domiciliary care agency
Procurement	Concerns about bidding and tendering process for Community Improvement Fund monies

Proactive fraud prevention and awareness work

Counter Fraud Strategy and Framework

15. The new Counter Fraud Strategy and Framework ('the framework'), attached at Annex A, has been developed in accordance with the latest professional guidance and good practice. The framework, which replaces the Strategy against Fraud and Corruption, has been reviewed by key senior managers as well as the Chief Executive and Leader of the Council.
16. The Counter Fraud Strategy aims to embed an anti-fraud culture and sets out the council's commitment to tackling fraud through:
 - Acknowledging and understanding fraud risks;
 - Preventing and detecting more fraud; and
 - Pursuing losses and punishing fraud.
17. The framework includes two new policies intended to clarify the council's stance on bribery and strengthen arrangements for sanctions and redress. The strategy is supported by the following appendices:
 - A. 'Reporting categories' by which fraud and corruption are reported together with relevant legislation and policy;
 - B. 'Anti-bribery policy' outlining measures to combat acts of bribery by or to anyone carrying out council business;
 - C. 'Anti-money laundering policy' setting out the maximum allowable value of cash transactions and the responsibilities of members and officers to report suspicions;
 - D. 'Fraud response plan' providing guidance on reporting concerns and the investigation process including use of surveillance; and
 - E. 'Sanctions policy' outlining options for sanction and redress where fraud or corruption is identified and guidance on determining the appropriate sanction.
18. It is anticipated that the framework will be adopted by other Orbis partners by the end of 2016/17 following amendments to reflect local policies. Further, the framework has been shared with county council members of the South East Counter Fraud Hub to encourage good practice.

Fighting Fraud Plan 2016/17

19. Internal Audit is making good progress against the Fighting Fraud Plan 2016/17 presented to this committee in May 2016, as summarised below.

Review of gifts and hospitality

20. A review of gifts and hospitality arrangements for officers was carried out in line with good practice set out in the 'Fighting Fraud and Corruption Locally' document issued by the department for Communities and Local Government.
21. The audit, reported to this committee in September 2016, identified numerous weaknesses in gifts and hospitality arrangements including:
 - The absence of corporate guidance in key areas such as receiving gifts from potentially vulnerable individuals and the acceptance of alcohol, luxury items and cash, all of which have been accepted by officers;

- A lack of formal procedures for the validation or verification of disclosures made;
- Weak procedures relating to paper declarations for staff with no computer access, resulting in gifts of concerning value and nature going unnoticed; and
- Non-compliance with the Gifts and Hospitality Policy with regards to making the register available on the council website and reporting disclosures to an appropriate council committee.

22. Management actions to resolve these issues have been agreed with the service and a progress update will be reported to this committee in May 2017.

School admissions data

23. The use of false information on school applications is a highly publicised, national fraud risk. In 2015 Surrey County Council received approximately 27,000 school applications for entry into a primary, junior or secondary school in September 2016.
24. An address verification exercise was conducted on the junior school application data for Elmbridge, which comprised almost 1,500 records that were checked using online tracing software and tools.
25. The results highlighted 24 records that warranted further investigation. Two address records were flagged as 'gone away', although enquiries indicated tenuous links to the addresses. For the remaining 22 flagged records, the link between the applicant and the address was historic and inactive.
26. The results have been passed to the Admissions and Transport Team for further investigation. In addition, a full exercise of all school applications data is being considered for the September 2017 intake.

Schools payroll data

27. The Schools Compliance audit undertaken as part of the 2015/16 Annual Audit Plan identified a few payroll discrepancies that resulted in payments being made to staff in error. Following on from this, a desk based analysis of school payroll data was carried out to identify potentially fraudulent or erroneous payments.
28. While the analysis has not revealed any fraudulent payments being made to staff, it has highlighted the following areas of concern:
- Nine payments classed as 'honoraria' made to teachers despite this type of payment being restricted to non-teaching staff;
 - Monthly payments for 'Private Medical Insurance' made to several Headteachers that, following the end of this provision in 2013, appear to have become part of the Headteachers' standard salary; and
 - Weaknesses in the controls around overtime payments, which had a total value of approximately £456,690 for permanent and term time staff in 2015/16.
29. These issues are being investigated by the council's Payroll Team and adjustments will be made where necessary. This work will also inform a future targeted review of overtime later in 2016/17.

Overseas pensioner verification

30. A verification exercise of people who live overseas and receive pension payments from Surrey County Council is currently underway. Pensioners living abroad are considered to pose a higher risk to public funds as the council may not be informed of the death of a

pensioner overseas and they are not identified by data matching with UK deceased person records. This exercise aims to ensure that money is being paid to the intended person and also to prevent loss to the pension fund caused by payments being made to deceased pensioners.

31. Letters have been sent to all pensioners living abroad and, to date, responses have been received from over 60% of the 455 pensioners contacted, with no issues identified. Follow up enquiries will be made in all cases where no response is received. A full update will be reported to this committee in May 2017.

National Fraud Initiative

32. Data for the 2016 National Fraud Initiative exercise has now been submitted. This consisted of almost a million records across nine data sets including payroll, pensions, creditors, social care direct payments, Blue Badges and concessionary travel passes.
33. This data will be compared with data from 1,300 public and private sector organisations to help prevent and detect fraud. Results from the data matching exercise are expected to be available from the Cabinet Office from the end of January 2017.

Partnership working

34. The Surrey Counter Fraud Partnership continues to deliver significant savings across the county with all 11 boroughs and districts now represented in the partnership as well as Surrey Police and Trading Standards. This allows greater sharing of joint working and best practice to ensure that all councils in Surrey take a robust approach to protecting their services from loss through fraud and error.
35. Since January 2015 the partnership has delivered £5.4million in fraud and error savings including:
 - The recovery of 57 properties allowing reallocation to families in genuine need;
 - The prevention of 49 property allocations and the rejection of 13 homeless applications on the grounds that applicants were not eligible, not in genuine need, or had lied to enhance their application; and
 - The rejection of 31 Right-to-Buy applications on the grounds that applicants were not entitled to the discount or had lied on their application. This also resulted in the tenancy being recovered in a number of cases.
36. The Partnership is now developing a data hub for partners to share intelligence and coordinate data matching. A countywide review of single person discount is planned for March 2017, which is expected to generate significant additional revenue to boroughs, districts and the county council.

Implications

Financial and value for money

37. 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

38. 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

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

Next steps

40. Subject to the approval of this committee, the Counter Fraud Strategy and Framework will be submitted for inclusion in the Constitution of the Council.

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Sources: Morgan Kai Insight database, irregularity reports