



Audit & Governance Committee
13 June 2017

**Full-year summary of Internal Audit irregularity investigations and counter fraud measures
1 April 2016 – 31 March 2017**

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 2016 and 31 March 2017. This report complements and builds upon the half-year irregularity report presented to this committee on 5 December 2016.

Recommendation

The committee is asked to:

1. Note the contents of this report; and
2. Note the Fighting Fraud Plan 2017/18, 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 Counter Fraud Strategy and Framework.
4. The annual Internal Audit Plan for 2016/17 carried within it a contingency budget for 'Irregularity and Special Investigations' of 340 days. This contingency covered 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 2016/17 include assisting a school with a grant return to the Department for Education and supporting a personnel-related investigation in Property Services.

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 2016 and 31 March 2017

Resources

7. During the 2016/17 financial year, a total of four officers undertook work on irregularity investigations excluding ad hoc special reviews. The total time spent on investigations was 71 days (36 days in the first half of the year; 35 days in the second half of the year), which approximates to 0.63 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 £12,508 (increasing to £33,538 including average employer pension contributions and recovery of overhead charges).

Number and types of investigations

9. A total of 27 investigations commenced during the 2016/17 financial year (13 in the first half of the year; 14 in the second half of the year). In addition, one case carried forward from 2014/15 is ongoing due to court proceedings. For comparison, 39 investigations commenced during the 2015/16 financial year.
10. New cases were brought to the attention of Internal Audit by the following methods:
- 9 were raised by council management;
 - 9 arose due to whistle blowing allegations, 4 of which were through Expolink;
 - 5 originated as a complaint from a member of the public;
 - 3 came to light during routine audit work; and
 - 1 was referred by another local authority.
11. The conclusions reached following the investigations are shown below with the number of cases in parentheses. 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. The conclusions reached for investigations commenced in 2015/16 are also shown for comparison.

Conclusion	2015/16	2016/17
Proven	33.0% (13)	44.5% (12)
Not Proven	64.0% (25)	44.5% (12)
Ongoing	3.0% (1)	11.0% (3)
Total cases	39	27

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 therefore 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 2016 to 31 March 2017

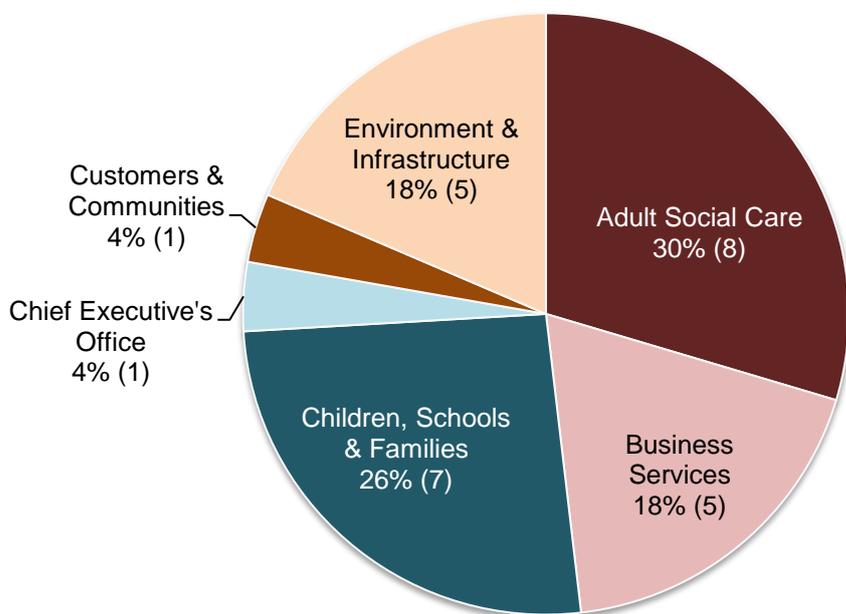
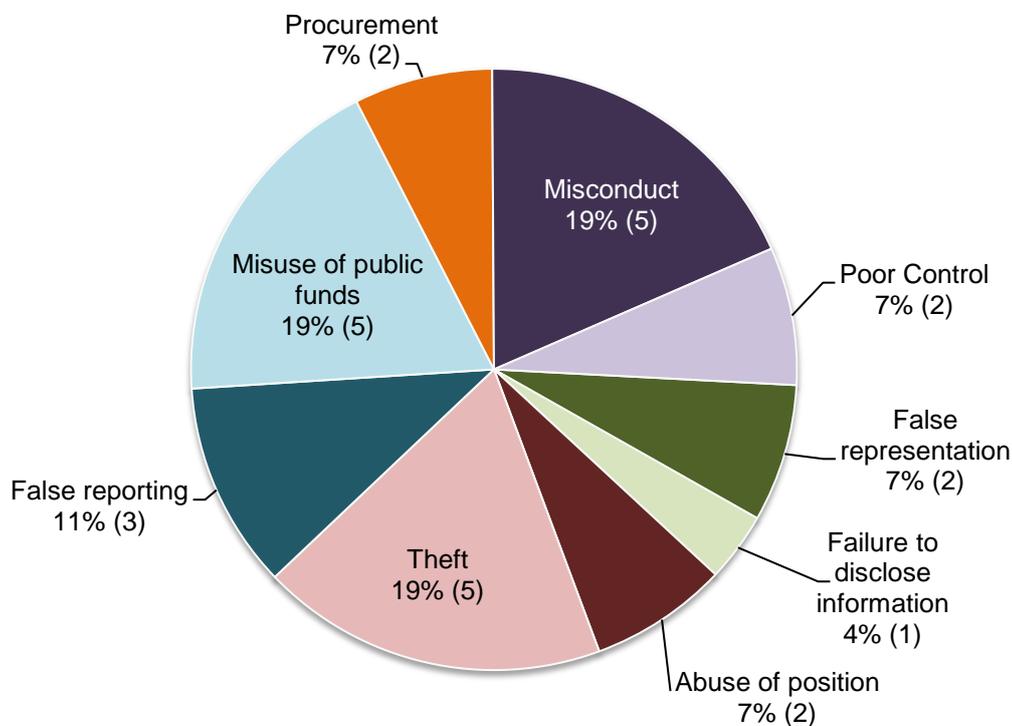


Figure 2. Summary of irregularities by type from 1 April 2016 to 31 March 2017



14. Tables 1 to 3 outline the category and allegations for cases commenced in the second half of 2016/17. Summarised outcomes are also shown for completed investigations. 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: 7 cases (12 over the full year)

Category	Allegation	Outcome
False representation	Council charged for work not undertaken by a sub-contractor	Issues being addressed by the service and advice given to strengthen management controls
	Suspicious behaviour by an individual applying for council-funded social care services	Financial loss to the council prevented due to the investigation concluding the individual was not eligible for funded care services
Theft	Over £400 of charges incurred on a council-issued mobile phone after the employee left the council	Appears the phone was stolen from council premises by persons unknown; phone cancelled and new processes implemented to prevent a reoccurrence
Misuse of public funds	Officer incurred charges of almost £1,000 on a council mobile phone due to personal and/or international usage	Full amount recovered; no further action due to lack of evidence of dishonest behaviour
	Member incurred charges in excess of £1,000 on a council mobile phone due to personal and/or international usage	Full amount recovered; no further action due to lack of evidence of dishonest behaviour
Misconduct	Social media posts showed an employee undertaking activities contrary to their long-term sickness absence	Employee resigned with immediate effect before being interviewed
Poor control	Whistle blowing regarding poor management practice within a multi-agency service	Poor system controls and procedures identified; findings contributed to a wider management report

Table 2. Not proven: 4 cases (12 over the full year)

Category	Allegation	Outcome
Abuse of position	School officer submitting their own payroll changes while working a high volume of hours	Weak management controls rather than fraud; advice given to improve controls and comply with working time regulations
False reporting	Concerns regarding the reporting of case statistics by two senior managers	Weak management controls rather than fraud; advice given to the service
Misuse of public funds	Irregular cheque withdrawals from a school bank account	Weak management controls rather than fraud or theft; advice given to the service
Procurement	Purchase of IT equipment by a senior manager without following proper procurement processes	No evidence found to support the allegation

Table 3. Ongoing: 3 cases

Category	Allegation
Failure to disclose information	Failure by an individual to declare all financial assets in order to obtain council-funded social care
Misuse of public funds	Inappropriate spend by a charity of grant funding from the council
Misconduct	Officer undertaking work for another organisation during council-contracted hours

Proactive fraud prevention and awareness work

Fighting Fraud Plan

15. In line with the council's responsibility to safeguard public funds, Internal Audit delivered proactive reviews in key areas to tackle fraud and corruption as part of the 2016/17 Fighting Fraud Plan. This included areas identified as requiring improvement following an assessment of the council's fraud management arrangements against the 'Fighting fraud and corruption locally strategy' published by the Department for Communities and Local Government.
16. As reported to this committee in December 2016, reviews were undertaken of gifts and hospitality arrangements, schools payroll data, and address verification for schools admissions. While no instances of fraud were uncovered, recommendations were made to strengthen management arrangements and reduce the risk of fraud or error occurring. Work undertaken in the latter half of 2016/17 includes:
 - The implementation of a new Counter Fraud Strategy and Framework, which includes a separate Anti-Bribery Policy and Sanctions Policy;
 - The profiling of fraud risks based on best practice and the development of a consistent Fraud Risk Register across Orbis partners; and
 - Initial analysis of the council's mobile phone data resulting in the recovery of over £2,000 of inappropriate charges incurred by officers and members.
17. The Internal Audit Plan for 2017/18 includes a contingency budget of 340 days for irregularity and special investigations as well as fraud prevention. Internal Audit will continue to strengthen its programme of proactive fraud and corruption work, as outlined in the Fighting Fraud Plan 2017/18 attached at Annex B.
18. It is intended that much of the plan will be delivered by working jointly with Orbis partners and, where possible, across all three councils to allow sharing of good practice and a consistent approach to tackling fraud. The 2017/18 plan includes a number of items that were also on the 2016/17 plan. This reflects either ongoing work, annual review, or expanded or different data sets.

Overseas pensioner verification

19. Further to the update presented to this committee in December 2016, the verification exercise of people who live overseas and receive pension payments from the council is now complete. The outcomes from this exercise provide assurance that money is being paid to the intended person and losses to the pension fund caused by payments being made to deceased pensioners are prevented.

20. Letters were sent to all 455 pensioners living abroad and, of the 443 responses received, no issues were identified. Where no response was received, one case is being followed up. Pension payments have been suspended for the remaining 11 cases where no response was received, with a total value of £2,000 per month.

National Fraud Initiative

21. The results from the biennial National Fraud Initiative exercise, overseen by the Cabinet Office, were received in January. The exercise compared almost a million council records relating to payroll, pensions, creditors, social care direct payments, Blue Badges and concessionary travel passes, with data from 1,300 public and private sector organisations to help prevent and detect fraud and error.
22. The exercise identified over 27,000 data matches, which will be investigated for evidence of fraud and error. The results from the initial review of over 10,000 data matches include:
- No issues relating to the immigration status of employees;
 - No issues relating to deceased records and social care direct payments;
 - No evidence of organised crime in relation to insurance claims;
 - The cancellation of 1,770 Blue Badges; and
 - Almost 8,000 'false positives' in relation to duplicate invoices.

Partnership working

23. Since being formed in 2015, the Surrey Counter Fraud Partnership has delivered significant savings across the county. All 11 of Surrey's boroughs and districts are represented in the partnership as well as Surrey Police and Trading Standards. This allows greater sharing of joint working and best practice to ensure a robust approach to protecting public funds from loss through fraud and error.
24. To date, the partnership has delivered savings of over £8million including through:
- The recovery of 88 properties allowing reallocation to families in genuine need;
 - The prevention of 66 property allocations and the rejection of 30 homeless applications on the grounds that applicants were not eligible, not in genuine need, or had lied to enhance their application;
 - The rejection of 43 Right-to-Buy applications on the grounds that applicants were not entitled to the discount or had lied on their application; and
 - The collection of an additional £842k in Business Rates.

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. All individuals responsible for managing or receiving public money are dealt with on an equal basis.

Risk management

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

Next steps

28. The Internal Audit team will deliver the 2017/18 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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