



Audit & Governance Committee  
4 December 2017

**Half-year summary of Internal Audit irregularity  
Investigations and counter fraud measures  
1 April – 30 September 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 in the first half of this financial year from 1 April to 30 September 2017.

**Recommendation**

The Audit and Governance committee is asked to:

- a. Note the contents of this report; and
- b. Approve the updated Counter Fraud Strategy and Framework, attached at Annex B.

**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 Counter Fraud Strategy and Framework.
2. The annual Internal Audit Plan for 2017/18 carries within it a contingency budget for 'Irregularity and Special Investigations' of 340 days. This contingency includes 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 2017/18 include supporting management in successfully defending an employment tribunal, and undertaking data checks in relation to employee continuous start dates.

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, as previously 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 2017

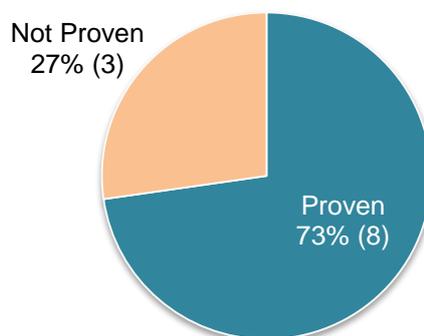
##### Resources

5. During the first half of 2017/18 a total of seven officers undertook work on irregularity investigations excluding ad hoc special reviews. The total time spent on investigations was 88 days, which approximates to 0.79 of a full time equivalent post.
6. Based solely on the hourly rates of these officers, the total amount spent on the investigation of fraud and irregularity was £18,283 (increasing to £41,729 including average employer pension contributions and recovery of overhead charges).

##### Number and types of investigations

7. In the first six months of 2017/18 a total of 13 new investigations commenced. In addition, one case carried forward from 2014/15 was ongoing due to court proceedings. For comparison, in the first half of the 2016/17, 13 investigations commenced.
8. New cases were brought to the attention of Internal Audit by the following methods:
  - 9 were raised by council management;
  - 3 arose due to whistle blowing allegations; and
  - 1 was referred by another local authority.
9. The conclusions reached following completed investigations are shown in Figure 1 below (with the number of cases shown 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.

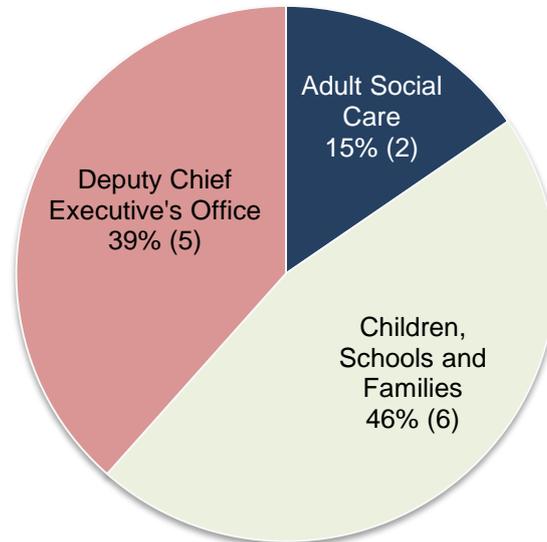
**Figure 1.** Proportion of completed investigations found to be 'proven' or 'not proven'



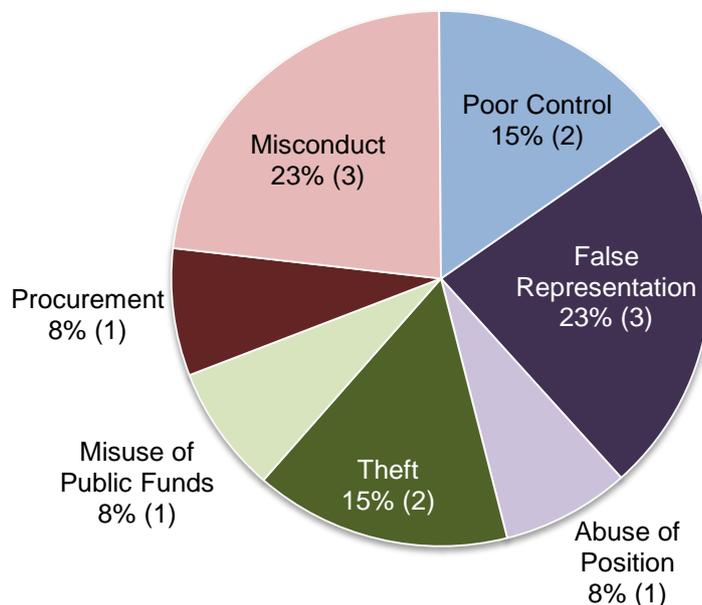
10. The proportion of all recorded irregularities across the council's directorates is shown in Figure 2, while Figure 3 shows the categories of investigations undertaken. The number of investigations shown is in parentheses.
11. Full details of the categories by which fraud and irregularity investigations 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 therefore reflect alleged specific types of fraud or irregularity.

**Figure 2.** Investigated irregularities by directorate from 1 April to 30 September 2017



**Figure 3.** Summary of irregularities by type from 1 April to 30 September 2017



12. Tables 1 to 3 outline the category and allegations for cases commenced in the first half of 2017/18. 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

<b>Category</b>	<b>Allegation</b>	<b>Outcome</b>
False representation	Officer forged a colleague's signature to approve a financial variation order to a supplier	Officer admitted to the offence and resigned before the disciplinary hearing
	Officer used a temporary address to gain an advantage in obtaining a school place for their child	School withdrew the offer of a place after the officer admitted to using a temporary address
Abuse of position	A now former school governor intentionally deleted school information and made expense claims not compliant with policy	The individual has been asked to repay £2,500 in non-compliant expense claims and clerking costs, of which £1,650 has been received to date
Theft	Over the course of 18 months an officer loaded 30 pre-paid cards with a total value of around £70k before removing the cards for personal use	Officer resigned with immediate effect; case referred to police whose investigation is ongoing
Misuse of public funds	Officer used vehicles within the council's car club account for personal journeys	Poor judgement rather than intentionally dishonest behaviour; over £500 recovered
Procurement	Employee grievance revealed financial irregularities in contract tender and management	Proven breach of Procurement Standing Orders; advice given to help strengthen controls
Misconduct	Employee within a school was signed off on sick leave to go on holiday during term time	Evidence suggested allegation was true but the employee resigned at the start of term
	Teacher within a school transferred and removed sensitive data without due care	Disciplinary process ongoing

**Table 2.** Not proven: 4 cases

<b>Category</b>	<b>Allegation</b>	<b>Outcome</b>
Theft	£144 of petty cash missing from a safe in council offices	Insufficient evidence to prove theft occurred but advice given to improve controls
Misconduct	Officer undertook secondary employment during their council-contracted hours	Insufficient evidence to prove the allegation
Poor control	Concerns over financial arrangements and controls within a school	Weak management controls rather than fraud; advice given to improve controls

**Table 3.** Ongoing: 2 cases

<b>Category</b>	<b>Allegation</b>
False representation	Application received for a Blue Badge from an individual with the same personal details as a deceased individual
Poor control	Incorrect continuous start dates of employees resulting in inflated voluntary redundancy calculations

### Update from 2014/15

13. A lengthy, complex fraud investigation carried out in partnership with the Department for Work and Pensions has now concluded following a three-week trial at Guildford Crown Court. The investigation related to working and child tax credits as well as Adult Social Care direct payments from Surrey County Council.
14. In summary, additional property was not declared during a financial assessment and the funds given through direct payments were subsequently used to make payments to fictitious carers before being transferred back into the defendant's control.
15. The jury delivered unanimous guilty verdicts on all charges: 13 counts relating to fraud and 1 count relating to money laundering, which was specific to council monies. In addition, the defendant had already entered guilty pleas to a further 3 counts relating to fraud. Sentencing was immediate and totalled 11.5 years.
16. The process of recovering the monies under the Proceeds of Crime Act will now start. This will include financial recovery of around £161k to the council (and around £492k to DWP and HMRC).

<h3>Proactive fraud prevention and awareness work</h3>
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#### Fighting Fraud Plan

17. 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 2017/18 Fighting Fraud Plan, presented to this committee in June 2017. Activities undertaken in the first half of the year are below.

#### ***Communications***

18. Internal Audit met with the Communications Team to discuss possible publicity around counter-fraud work. An awareness campaign is now being developed that will be targeted at specific groups of staff to reflect the fraud risks within services.

#### ***Staff parking permits***

19. Data relating to SCC staff parking permits used in the Bittoms Car Park was obtained from the Royal Borough of Kingston. While an initial review suggests there are weaknesses in the management of parking permits, limitations in the data available have hindered full analysis. As a result, alternative options are being explored both to ensure SCC parking permits are used appropriately and also to minimise the loss of parking revenue to the Royal Borough of Kingston.

#### ***Mobile phone usage***

20. The management of council-issued mobile phones is being assessed as part of a current audit of the IT Acceptable Usage, included in the 2017/18 Annual Audit Plan. This will consider both loss of mobile phones as well as the systems in place to monitor inappropriate usage. The findings from this audit will be reported to this committee in due course.

#### ***Purchase cards***

21. Working in partnership with Orbis colleagues, the council's 2016/17 spend on purchase cards has been analysed. The results provide assurance that fraudulent transactions have been identified and resolved in a timely manner. It appears, however, that

unnecessary spend has been made using the cards and, further, that cards have been used to circumvent certain council policies. A sample of transactions is being followed up with individual services before a full report of the findings is issued.

### **National Fraud Initiative**

22. Over 75% (20,000) of the 27,000 data matches identified as part of the 2016 National Fraud Initiative exercise have now been investigated. The matches include payroll, pensions, creditors, social care direct payments, insurance claims, Blue Badges and concessionary travel passes.
23. The findings in the current exercise are limited, but this provides assurance that the processes and procedures in place are minimising losses through fraud and error. Additional outcomes not previously reported to this committee include:
  - The pursuit of £10k in relation to a duplicate invoice;
  - The suspension of three pensions pending evidence to amend DWP deceased records; and
  - The identification of duplicate vendor records to be removed from the council's accounting system.

### **Counter Fraud Strategy and Framework**

24. In line with good practice, the Counter Fraud Strategy and Framework has been updated as attached at Annex B. There are no fundamental changes to the Strategy and the amendments made include the following:
  - Post titles and contact details of senior management have been updated;
  - Reference to the General Data Protection Regulation, which becomes enforceable in May 2018, has been added to references to the Data Protection Act 1998;
  - References to the Money Laundering Regulations 2007 have been replaced by the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017; and
  - In line with new money laundering regulations, guidance on the 'Identification of clients' has been replaced with 'Customer due diligence' within the Anti-Money Laundering Policy.

### **Partnership working**

25. The Surrey County Fraud Partnership continues to deliver significant savings across the county with all 11 of Surrey's boroughs and districts represented as well as Surrey Police and Trading Standards.
26. To date, the partnership has delivered savings of over £8.9million including through:
  - The recovery of 100 properties allowing reallocation to families in genuine need;
  - The prevention of 81 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 47 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.

27. The team is also leading on a countywide council tax review with districts and boroughs to prevent and detect fraudulent claims for single person discount. This is expected to deliver savings to the council in the region of £3m.

### Implications

#### Financial and value for money

28. 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

29. 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

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

### Next steps

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

**Report contact:** Reem Burton, Lead Auditor, Internal Audit

**Contact details:** 020 8541 7009, reem.burton@surreycc.gov.uk

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

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