



AUDIT & GOVERNANCE COMMITTEE
24 June 2013

**Full-year summary of Internal Audit irregularity investigations
April 2012 – March 2013**

SUMMARY AND PURPOSE:

1. The purpose of this report is to inform members of the Audit and Governance Committee about irregularity investigations undertaken by Internal Audit between 1 April 2012 and 31 March 2013. This report complements and builds upon the half-year irregularity report, which was presented to Audit and Governance Committee on 6 December 2012.
2. Typically audit reports following irregularity investigations help to provide independent evidence to support a management case against an employee under formal disciplinary procedures, or to help tighten control in areas where weaknesses are identified. Irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential nature. This arrangement is formalised within the Reporting and Escalation Policy, agreed by this Committee.
3. Due to the confidential aspects of such investigations, and given that some are ongoing in terms of investigation and/or forthcoming disciplinary hearings, this work is reported in a summarised and thematic fashion to Committee rather than on a detailed case-by-case basis.

RECOMMENDATIONS:

4. The Committee is asked to note the contents of this report.

BACKGROUND:

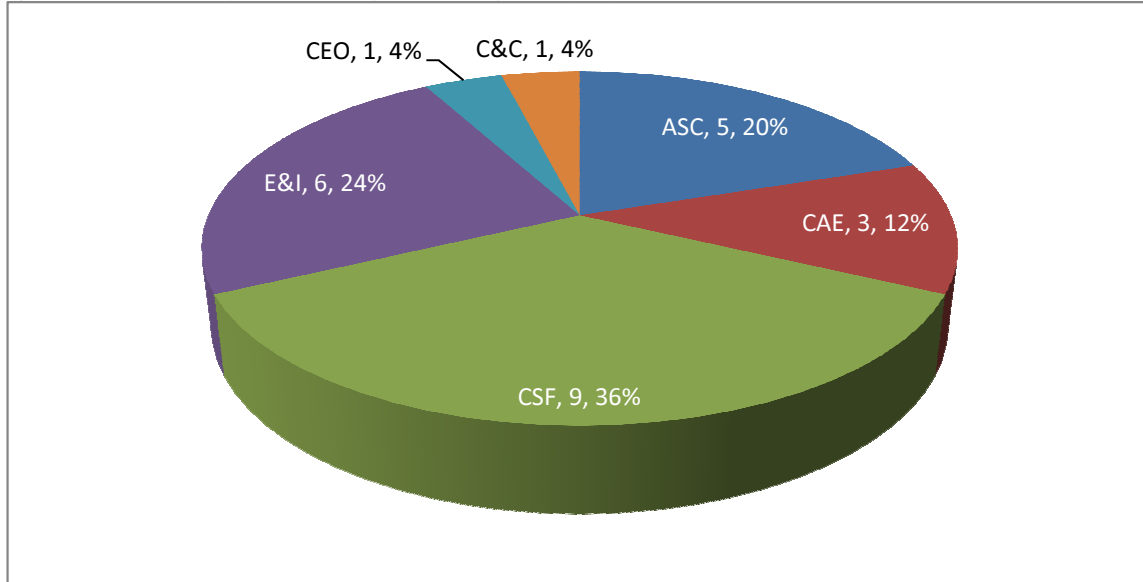
5. The Council's Financial Regulations require all matters involving, or thought to involve, corruption or financial irregularity in the exercise of the functions of the County Council to be notified to the Chief Internal Auditor. This is enshrined within the Internal Audit Charter. Internal Audit pursue such investigations as appropriate. To allow for an adequate resource to investigate alleged fraud and financial irregularity the annual Internal Audit Annual Plan for 2012/13 carried within it a contingency budget for 'Irregularity and Special Investigation Work' of 301 days.
6. This contingency covers work to investigate 'irregularities' (actual or alleged financial impropriety, corruption, and other similar matters) as well as time for Fraud Prevention work, assisting with the Audit Commission's National Fraud Initiative (NFI) and implementing practice from the national Fighting Fraud Locally strategy. This proactive work is considered in more detail from paragraph 34.

7. Special ad hoc reviews are also charged against this contingency if commissioned in-year by Members or Senior Managers and not originally in the agreed annual plan. Examples of such reviews in the latter half of 2012/13 included testing to see if controls in the new vendor upload process in SAP could be compromised, a review of the process governing members' declarations, a review of energy performance management, and proactive work to increase control around the use of safes in council establishments. Such reviews are often linked to concerns raised by management.
8. In the first six months of 2012/13 a total of 13 investigations had commenced excluding ad hoc special reviews. By 31 March 2013 this had risen to 25 cases in total. 12 of these cases have been directly investigated by Internal Audit as cases of possible fraud or theft; 7 were cases where there were serious breaches of the Code of Conduct; 1 case involved concerns raised about a recruitment process; 2 cases investigated suspected misuse of public funds; 1 case related to a breach of Procurement Standing Orders by a contractor, and 2 cases investigated poor control that led to alleged irregular practice.
9. By comparison, for the full year 2011/12 there were 19 investigations excluding ad hoc special reviews. Of these 10 were fraud or theft related, 4 involving the alleged misuse of public funds, 3 were breaches of the Code of Conduct, 1 involved a breach of Procurement Standing Orders and 1 was a case of Poor Control.
10. The 25 investigations in 2012/13 are shown diagrammatically in Figures 1 and 2 (below) to identify the Directorates in which the review fell, and the broad type of investigation undertaken. Numbers of investigations in each area are shown in parenthesis. The total time taken to investigate these cases was 129.9 days (88.2 days in the first half-year period, and a further 41.7 in the second half of the year). The total comparative time taken in 2011/12 was 66.1 days.
11. Of the 25 investigations undertaken, 7 arose following whistle blowing allegations and 1 from information passed to Internal Audit following a complaint made to the Chief Executive. 10 investigations reached a 'Proven' conclusion, and 2 are still in progress with one being in the hands of Surrey Police.

SUMMARY OF ALL TYPES OF RECORDED IRREGULARITY: APRIL 2012 – MARCH 2013

12. Figure 1 illustrates the proportion of all recorded irregularities across the different Directorates of Surrey County Council.

Figure 1: Summary of investigated irregularity by Directorate, April 2012 – March 2013 (25 cases)



13. The proportion of investigations undertaken across the various Directorates is broadly in line with expectation, reflecting the fact that front-line services typically have more of these investigations as the associated risks of access to cash and assets over numerous sites are higher than in more back-office Directorates.

14. Figure 2 shows by broad categorisation how the 25 cases of irregularity are defined by typology. In some cases more than one type of irregularity might have been alleged or investigated within one case (for example, both breaching the Council's Procurement Standing Orders and theft of Council assets). Figure 2 shows the primary reason for investigation, and more detail is provided on specific cases later in this report.

Figure 2: Irregularities investigated in total, April 2012 to March (25 cases)

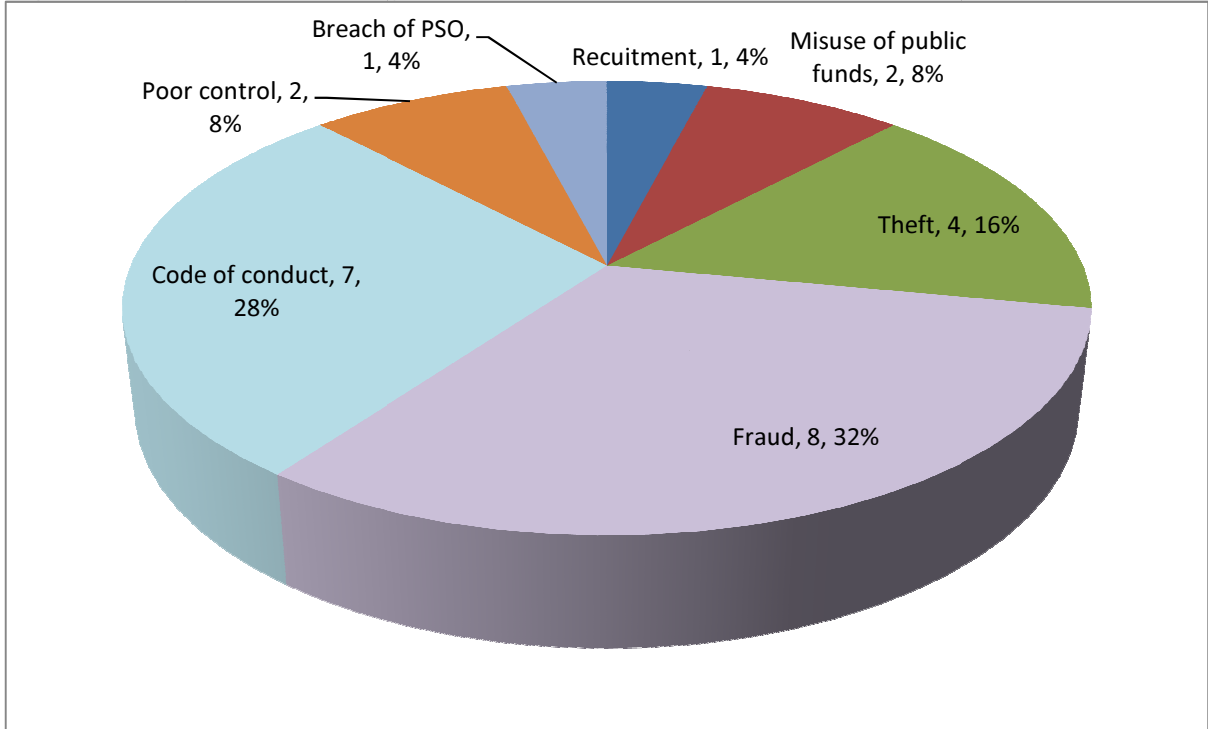


Table 1: Definitions of typologies defining the irregularities investigated 2012/13 to date

Type	Definition
Misuse of Public Funds	In this context cases could include misuse of grants by voluntary bodies, of social care payments by service users, or of private funds held by schools.
Theft	The theft of assets (most frequently cash) from Council property or from clients under the Council's care.
Fraud	Attempts to obtain money by deception, including submission of incorrect travel allowance claims and/or through false accounting.
Code of Conduct	Failure (or alleged failure) to comply with Council policies (Code of Conduct, Procurement Standing Orders etc) or for staff or members in respect of declaration of a second employment, pecuniary interests, completing contractual obligations or managerial responsibilities, or declaring appropriately possible material conflicts of interest.
Poor Control	Examples where local or corporate arrangements fail to stop inappropriate payments being made, or fail to ensure compliance with council policy, etc.
Breach of PSOs	Breaches of the Council's Procurement Standing Orders by staff or contractors
Recruitment	Includes investigations into illegal immigrant workers, staff with forged documentation (visa and passports), or incorrect leave to remain documentation. Could also refer to staff in multiple full-time employments with SCC and another employer (identified through NFI data-matching), inappropriate use of agency staff, or neglect in checking references or employment documentation during recruitment and employment of staff.

15. To give a better indication of the type of work undertaken by Internal Audit across the year the following paragraphs identify examples of specific investigations (appropriately anonymised). This summary focuses on investigations in the period October 2012 to March 2013, as work from the previous six months has been reported in the half-yearly irregularity report. Internal Audit work in this area not only protects the Council's assets and reputation; it acts as a visible deterrent in preventing other irregular activity across the organisation.

Misuse of Public Funds

Allegations of misuse of money within a Surrey school

16. Internal Audit received a whistle-blowing in respect of alleged activities within one of the council's special schools. The three allegations centred on imprudent financial decision-making in the use of school catering resources and poor value for money from recent capital works.
17. A visit to the school to speak with the Headteacher and view the site led to the Auditor being able to dispel the basis of the allegations, which allowed Internal Audit to provide assurance to various stakeholders that practices were appropriate and authorised.

Theft

Thefts of money from council safes

18. Over the course of the year over a dozen incidents of petty theft have been reported to Internal Audit, involving the theft of money (and sometimes other valuable assets, such as laptops) stored in safes across council establishments. Premises affected have included schools, residential homes, and libraries.
19. In the majority of these cases, the incident has been reported to the Police by local management to enable an insurance claim to be considered, although to date no successful prosecution has resulted.
20. The advice offered by Internal Audit has focused on improving local controls, particularly the management of safe keys as in all cases the safes had been opened with a key rather than forced or removed from premises. The unfortunate reality is that in the majority of cases the thief is likely to have been a council employee, given the relative inaccessibility of the safe to a member of the public and a certain amount of knowledge being evident in respect of where keys were kept and contents of the safe.
21. More detail of council-wide proactive advice in the light of recent thefts is detailed from paragraph 34.

Fraud

Concerns over the activities of a school Business Manager

22. A major investigation was launched in December 2012 when concerns were identified in respect of the activities of a Surrey school Business Manager and their handling of various aspects of school financing.
23. The investigation led to the suspension of the officer and the involvement of Surrey Police, who are still investigating the case with various lines of enquiry being pursued. A disciplinary hearing has not yet been possible as advice from the Police was that the continuation of an internal investigation could prejudice any potential criminal hearing.
24. Amongst the matters under investigation are the misuse of the school purchasing card, the submission of falsified claims for overtime, the possible involvement in bid-rigging with a building contractor during recent capital works at the school, and a failure to follow appropriate school financial regulations for the disposal of assets.

Code of Conduct

Internal Audit support to service investigations

25. Internal Audit supported two service-led disciplinary investigations in the last six months of the year where the officers involved had breached expected standards of conduct.
26. In the first example, the officer had a second employment without having sought the proper approval from his line management, and had misrepresented his position with the council in his conduct at his second employer. A disciplinary hearing was convened and the employee dismissed for gross misconduct.
27. A second case involved Internal Audit assisting in the investigation of an apparent breach of the Code of Conduct for an officer employed in both Adult Social Care and in Children's Services in respect of shift patterns worked between two council establishments. Following the investigation, however, the concerns were allayed and no further action was required.

Poor Controls

Lack of effective governance by a school's Governing Body

28. Internal Audit were alerted by Babcock 4S to the case of a Headteacher who had retired from a maintained primary school on what appeared to be an unexpectedly large final salary. The case was investigated from a value for money perspective, to ascertain whether the Governing Body had exercised due care in setting the level of remuneration in line with national guidance.
29. School governing bodies are required to appoint a school to a Group based on a formula in the Statutory Teachers Pay and Conditions and Guidance document (the 'Statutory Document'), which in turn allows for a range of pay points within the Leadership Scale to be identified. The range of Head Teacher pay within a school is set by a formula, which is based upon the numbers of pupils within a school and various criteria associated with pupil need and age.
30. The final Leadership Scale point achieved by the outgoing Headteacher – LS39 (£96,246) appeared unusually high compared to similar Surrey sized schools: comparatively, the next highest Head Teachers' salary point amongst 19 similar sized primary schools was LS31 (£79,336). Internal Audit concluded that under the national pay guidance it could have been possible for the teacher to have reached point LS31, but no higher without clearly documented exceptional circumstances from the Governing Body.
31. The review identified that the Governing Body had exercised no effective control in administering the salary of the officer in question, which had been allowed to rise above the maximum level at which it should have been capped.
32. Although no offence was proven to have been committed by the former Headteacher in this process, the findings of the review were instrumental in an assessment of the competence of the Governing Body by Babcock 4S and the County Council. This led to the entire Governing Body standing down, with the exception of the new Headteacher, with the school currently being overseen by an interim Governing Body.

Breach of Procurement Standing Orders

33. It was brought to our attention that Surrey staff and a major contractor had identified some irregularities around the selection of sub-contractors for a number of scheduled pieces of work. The works were subsequently delayed so that they could be re-tendered and quantity surveyors, funded by the contractor, have been employed to review work across the board.

Proactive Fraud Prevention and Awareness work

34. Within the past year Internal Audit has made continued progress in embedding an anti-fraud culture within the authority through specific proactive fraud prevention and awareness work.

35. Activities that have been of particular note include:

- Presentation of the revised Strategy Against Fraud and Corruption to Cabinet on 5 February 2013. This has been updated following the launch of the NFA's Fighting Fraud Locally Strategy and now includes a Fraud Response Plan in line with best practice.
- Continuing to investigate the outcomes from the latest Audit Commission National Fraud Initiative, matching of key data sets across and between participating public sector organisations to detect potentially fraudulent activity;
- Updating the Audit Charter, including both a summary and full version, with the intention of disseminating to Directorate Leadership Teams and new members following the elections in May 2013;
- Actively participating in the Fighting Fraud Locally initiative;
- Using internal communications channels such as the Schools Bulletin and S:Net to share information about fraud and related risks to improve awareness;
- Internal Audit participation in fraud-related discussions at the London Audit Group and at the Home Counties Chief Internal Auditors Group;
- Fraud awareness e-learning, which has continued to develop and roll-out across the authority to raise staff awareness of common risks and signals that they should be alert to; and
- Providing advice and guidance to services for effective controls and management of safes, including matters relating to insurable limits, appropriate safe contents, and key and/or access control.

CONCLUSIONS:

Financial and value for money implications

36. Internal Audit investigation of fraud and irregularities to ensure that perpetrators are appropriately dealt with and recommendations made where necessary to improve internal control, will ensure that public money is safeguarded.

Equalities

37. There are no direct equalities implications of this report.

Risk management

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

Implications for the Council's Priorities or Community Strategy

39. None

NEXT STEPS

40. No specific action is required.

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Sources/background papers: Final irregularity reports and Galileo database.