

INTERNAL AUDIT COUNTER FRAUD REPORT 2021/2022

1. Introduction

1.1 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.

1.2 Within the Orbis Internal Audit Service, the Counter Fraud partnership team provides resource and experience to support SCC with both proactive and responsive support relating to any instances of financial irregularities and fraud related risks.

1.3 The annual Internal Audit Plan for 2021/22 carried within it a contingency budget for 'Irregularity and Special Investigations' of 120 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 to support the National Fraud Initiative (NFI), detailed in the latter part of this report.

1.4 Internal Audit reports following irregularity investigations typically help to provide independent evidence to support (or not) a management case against an employee under formal disciplinary procedures, to support potential criminal prosecutions and to help strengthen controls in areas where weaknesses are identified. Irregularity audit reports are not subject to the same distribution as general audit reports due to their confidential and sensitive nature.

2. Summary of investigations between 1 April 2022 and 31 March 2021

Resources

2.1 During the 2021/22 financial year, a total of ten Internal Audit officers charged time to work on irregularity investigations amounting to 149.2 days. This includes preliminary assessments, liaison with departments, fieldwork, reporting and subsequent support for disciplinary and criminal activities.

Number and Types of Investigations

2.2 A total of 22 allegations were received in the financial year (8 in the first half of the year and 14 in the second half). For comparison, 18 allegations were received in the previous financial year.

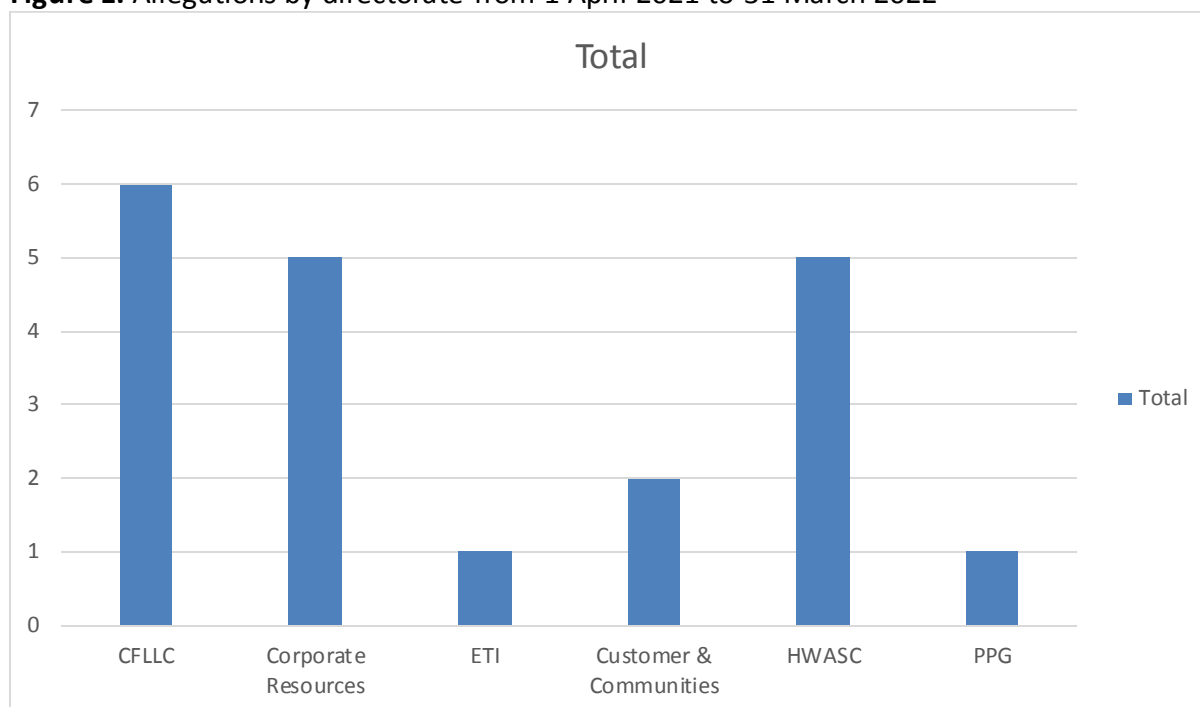
2.3 New allegations were brought to the attention of Internal Audit by the following methods:

- 14 were raised by Council management;
- 3 originated from an external source to the Council;
- 5 were raised through confidential reporting.

2.4 Full details of the categories by which fraud and irregularity investigations are reported are attached at Appendix 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.

2.5 The number of all recorded allegations across the Council’s directorates is shown in Figure 1, while Figure 2 shows the categories of allegations received.

Figure 1. Allegations by directorate from 1 April 2021 to 31 March 2022



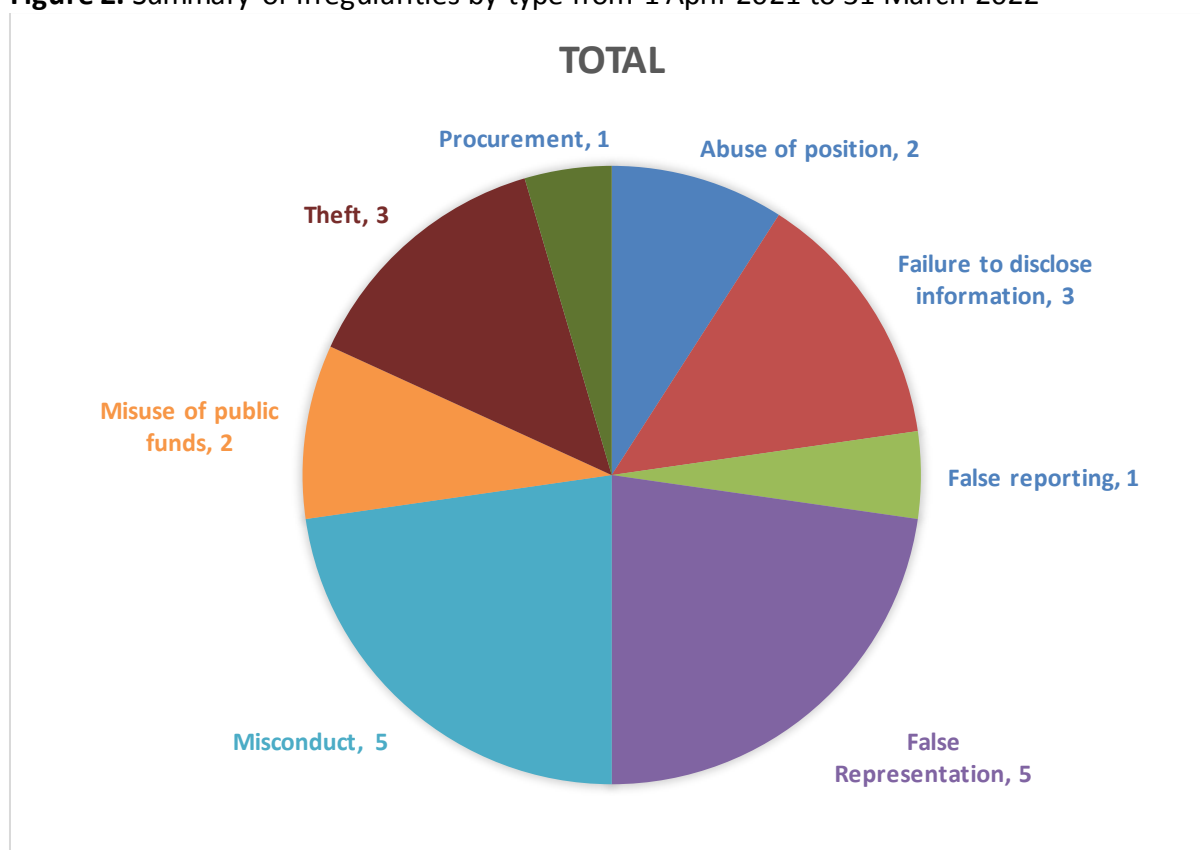
CFLLC – Children, Families, Lifelong Learning and Culture

ETI – Environment, Transport and Infrastructure

HWASC – Health, Wellbeing and Adult Social Care

PPG – Partnerships, Prosperity and Growth

Figure 2. Summary of irregularities by type from 1 April 2021 to 31 March 2022



2.6 Of the allegations received, 2 were closed with no action taken, 3 were passed to an external body, 13 were taken forward for investigation by Internal Audit or support was provided to a management investigation, and 4 were conduct or capability issues dealt by management with support from HR where appropriate.

2.7 The following paragraphs provide a summary of the investigation activity completed by Internal Audit in the last 12 months.

2.7.1 **Safeguarding Concern** - we provided Adult Social Care with advice and support in writing a witness statement in respect of a safeguarding concern that has been reported to the police.

2.7.2 **Misconduct and Safeguarding Concern** - we provided Adult Social Care with support following an allegation relating to the professional conduct of a social worker. The employee has now left the employment of the Council. The matter has also been referred to the police and Social Work England.

2.7.3 **Cheque Fraud** - we have provided Business Operations with advice and support following notification from HSBC of an attempted cheque fraud. Business Operations continue to monitor cheque handling to identify any further issues.

2.7.4 **Insolvency Arrangements** - we provided advice to the Payments Team in relation to invoices due to a supplier following their liquidation.

2.7.5 **Community Interest Companies** - we supported a management investigation following a referral that an officer had set up two community interest companies, which were undeclared and represented a potential conflict of interest with their substantive role. Following the investigation (which was conducted in collaboration with an independent investigating manager), disciplinary action was taken against the officer concerned.

2.7.6 **Secondary Employment** - we were alerted to the potential overlap in employment of an individual engaged on an interim contract with SCC. Following investigation, the contract was terminated, and compensation agreed with the employment agency. The second employer (who had a direct contract of employment with the individual) was advised to refer the matter to the police.

2.7.7 **Working while sick** - we have recently received two separate allegations of staff running their own businesses while signed off work sick. In the first case, a referral was received that a member of staff had started their own business while signed off work as sick. Following an investigation, it was found that the role was not in conflict with their employed position and no further action was taken. In the second case, it was alleged that the member of staff had started an online business while signed off sick. It was also alleged that the member of staff was using SCC equipment to run the business. A review of the member of staff's network activity and email use identified that SCC equipment was being used. However, the hours of use were outside the member of staff's contractual hours and the frequency of use suggested that this was a part time job or hobby. The member of staff was issued a warning and reminded of their obligations in the Officer Code of Conduct.

- 2.7.8 **False Identity** - we provided advice regarding control measures following an allegation that a member of staff was working under a false identity and with a false DBS check. The position was terminated, and the individual is subject to an active police investigation.
- 2.7.9 **Early Years Grant** - we provided advice following Information Governance concerns being raised around a voluntary body funded by the Early Years Grant. Control advice was provided to ensure that the grant funded body put in place adequate IT security controls, training, and incident breach reporting mechanisms.
- 2.7.10 **Grant Funding** - Following an application to Your Fund Surrey, we were asked to provide advice in respect of a potential procurement irregularity, including the submission of a quote from a preferred supplier. Following a review of the procurement documents and a meeting with the S151 Officer, a decision was made not to award the grant. The applicant was advised to reapply to the fund ensuring that the correct Public Sector Procurement Guidelines are followed.
- 2.7.11 **Systems Misuse** - we provided support following notification from the Department for Work and Pensions (DWP) that a member of staff had misused a DWP system, Searchlight. During the investigation, it came to light that the same member of staff had also potentially misused other Council systems to look up personal details. A disciplinary hearing date was set to consider the misconduct, however the member of staff resigned prior to the hearing.
- 2.7.12 **Misuse of a Purchase Card** - we investigated a member of staff for the misuse of a Council Purchase Card. The investigation identified that the member of staff had used the Purchase Card for personal spend totalling £5,050. It was also identified that the same member of staff had a vehicle leased to them through a salary sacrifice scheme with the Council. The member of staff had failed to pay fines relating to the use of the vehicle totalling £2,200, which were being issued to the Council. Following the investigation, the member of staff repaid the £5,050 and arranged to pay the outstanding fines. In addition, the lease vehicle was returned to SCC. The member of staff was dismissed, and the case was referred to the police.
- 2.7.13 **Outside Interest** - we provided support in a whistleblowing allegation where it was alleged that a carer had set up a business that was in competition with their substantive role at SCC. Following the investigation and a hearing, the member of staff was issued a final written warning.
- 2.7.14 **Unfair Appointment and Award of Contract** – we conducted initial enquiries following an allegation of a conflict of interest when awarding a contract and potential nepotism within the Land and Property Service. No irregularity issues were found in the award of the contracts or appointment of officers and no further action was required following the results of these enquiries.
- 2.7.15 **Outside Interest** - we conducted an investigation following a referral alleging that three social workers were connected through outside financial interests, and this was in conflict with their substantive roles. A review of the recruitment process for the named members of staff confirmed that the appointments were compliant with the expected corporate processes. Furthermore, no conflict of interest or financial irregularity was identified, and the case was closed.

3. Proactive fraud prevention and awareness work

3.1 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff. The following paragraphs outline some of the proactive work undertaken in the past year.

3.2 The Council has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting, and deterring fraud. Internal Audit has reviewed the sovereign strategy to align with best practice and to ensure a robust and consistent approach to tackling fraud. The strategy was updated to include revisions to the Fighting Fraud and Corruption Locally framework and was approved by the Audit and Governance Committee in September 2021.

3.3 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats. This includes potential threats to payroll, staff frauds relating to home working and the ever-increasing cyber threat.

3.4 One of the key controls in fighting fraud is having a strong culture in place with staff vigilant to the threat of fraud. In the past year, Fraud Awareness sessions have been delivered to Business Operations focussing on the risks to the Council of Bank Mandate Fraud and Cyber Fraud. In addition, the team have published fraud bulletins raising awareness to emerging threats, in particular risks from the COVID19 pandemic. These have been published on the intranet and shared with high-risk service areas. The team continue to monitor intel alerts and work closely with neighbouring councils to share intelligence and best practice.

3.5 During the year the team conducted proactive work in partnership with the Blue Badge Team, which included a trial enforcement day to gauge the scale of potential Blue Badge misuse in the County. The pilot was conducted in December 2021 and resulted in the seizure of six badges that were being used without the badge holder present, including one where the badge holder had passed away months prior. A business case is currently being developed to secure funding for future exercises.

National Fraud Initiative

3.5 The results from the biennial National Fraud Initiative exercise, overseen by the Cabinet Office, were received in January 2021. The exercise compared Council records relating to payroll, pensions, creditors, Blue Badges and concessionary travel passes, with data from 1,300 public and private sector organisations used to help prevent and detect fraud and error.

3.6 The results from the data matching released to the Council flagged over 34,400 matches. As well as directly undertaking reviews of the matches for evidence of fraud and error, Internal Audit have been liaising with the relevant departments to ensure that flagged matches are investigated and actioned appropriately.

3.7 The results from the review of over 34,400 data matches include:

- No issues from matches relating to Payroll to Payroll, Procurement to Payroll, or Payroll to Companies House (Director);
- The cancellation of over 7,291 concessionary travel passes where the pass holder had passed away, with the cabinet office estimated saving from this being over £174,984;
- Life certification checks are being carried out on pension recipients who have been matched to DWP deceased data; and
- Over 22,000 data matches were received relating to potential duplicate creditors. The highest quality matches were prioritised and a review of over 1,000 of these matches indicated 'false positives', and the matches were closed. Information has been shared with the Finance and Purchasing team to improve data quality.

Partnership working

3.8 We meet regularly with partners across the southeast to discuss emerging threats and share intelligence. More specifically for the Surrey area, the team are working with district and borough colleagues to explore opportunities for further developing countywide data matching capabilities for the prevention and detection of fraud. This includes a countywide Single Person Discount review that is currently underway with district and borough colleagues.

Reporting categories for irregularities

Reporting category	Description	Examples (not an exhaustive list)	Legislation / Policies (examples)
False representation	Knowingly making an untrue or misleading representation to make gain, cause loss or expose the Council to the risk of loss	Submitting incorrect expense claims; falsely claiming to hold a qualification	Fraud Act 2006
Failure to disclose information	Intentionally withholding information to make gain, cause loss or expose the Council to the risk of loss	Failing to declare pecuniary interests, or assets as part of a means tested assessment	
Abuse of position	Use of position to act against, or fail to safeguard, the interests of the Council or Surrey's residents	Nepotism; financial abuse of individuals receiving social care	
Theft	Misappropriation of assets (often cash) belonging to the Council or individuals under the Council's care	Removing cash from safes; removing individuals' personal items in care homes	Theft Act 1968
Corruption	Offering, giving, seeking or accepting any inducement or reward which may influence a person's actions, or to gain a commercial or contractual advantage	Accepting money to ensure a contract is awarded to a particular supplier	Bribery Act 2010
False reporting	Intentional manipulation of financial or non-financial information to distort or provide misleading reports	Falsifying statistics to ensure performance targets are met; delaying payments to distort financial position	Theft Act 1968; Financial Regulations; Procurement Standing Orders
Misuse of public funds	The use of public funds for ultra vires expenditure or expenditure for purposes other than those intended	Officers misusing grant funding; individuals misusing social care direct payments	
Procurement	Any matter relating to the dishonest procurement of goods and services by internal or external persons	Breach of the Procurement Standing Orders; collusive tendering; falsifying quotations	
Misconduct	Failure to act in accordance with the Code of Conduct, Council policies or management instructions	Undertaking additional work during contracted hours; inappropriate	Code of Conduct;

		use of Council assets and equipment	IT Security Policy
Poor Control	Weak local or corporate arrangements that result in the loss of Council assets or a breach of Council policy	Storing a key to a safe in the immediate vicinity of the safe	

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