

# INTERNAL AUDIT COUNTER FRAUD REPORT 2022/23

## 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 2022/23 carried within it a contingency budget for 'Irregularity and Special Investigations' of 150 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 2023

### Resources

2.1 During the 2022/23 financial year, a total of seven Internal Audit officers charged time to work on irregularity investigations amounting to 169 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 33 allegations were received in the financial year (19 in the first half of the year and 14 in the second half). For comparison, 22 allegations were received in the previous financial year.

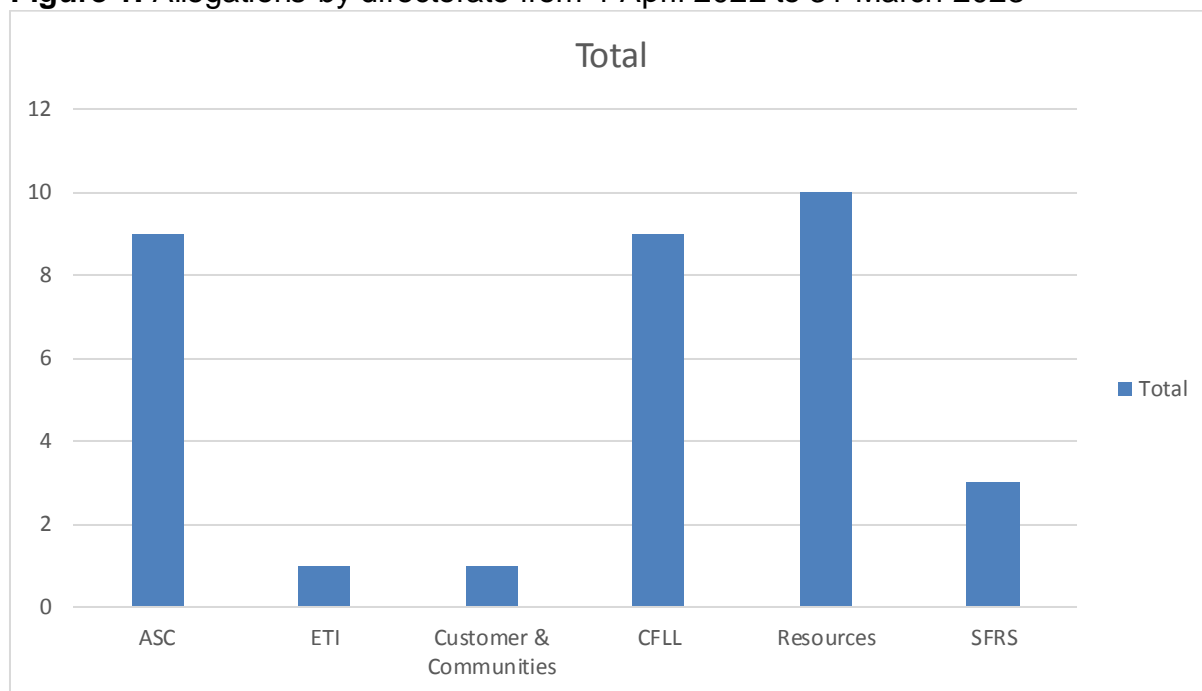
2.3 New allegations were brought to the attention of Internal Audit by the following methods:

- 25 were raised by Council management;
- 4 originated from an external source to the Council;
- 4 were raised through confidential reporting (whistleblowing).

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.

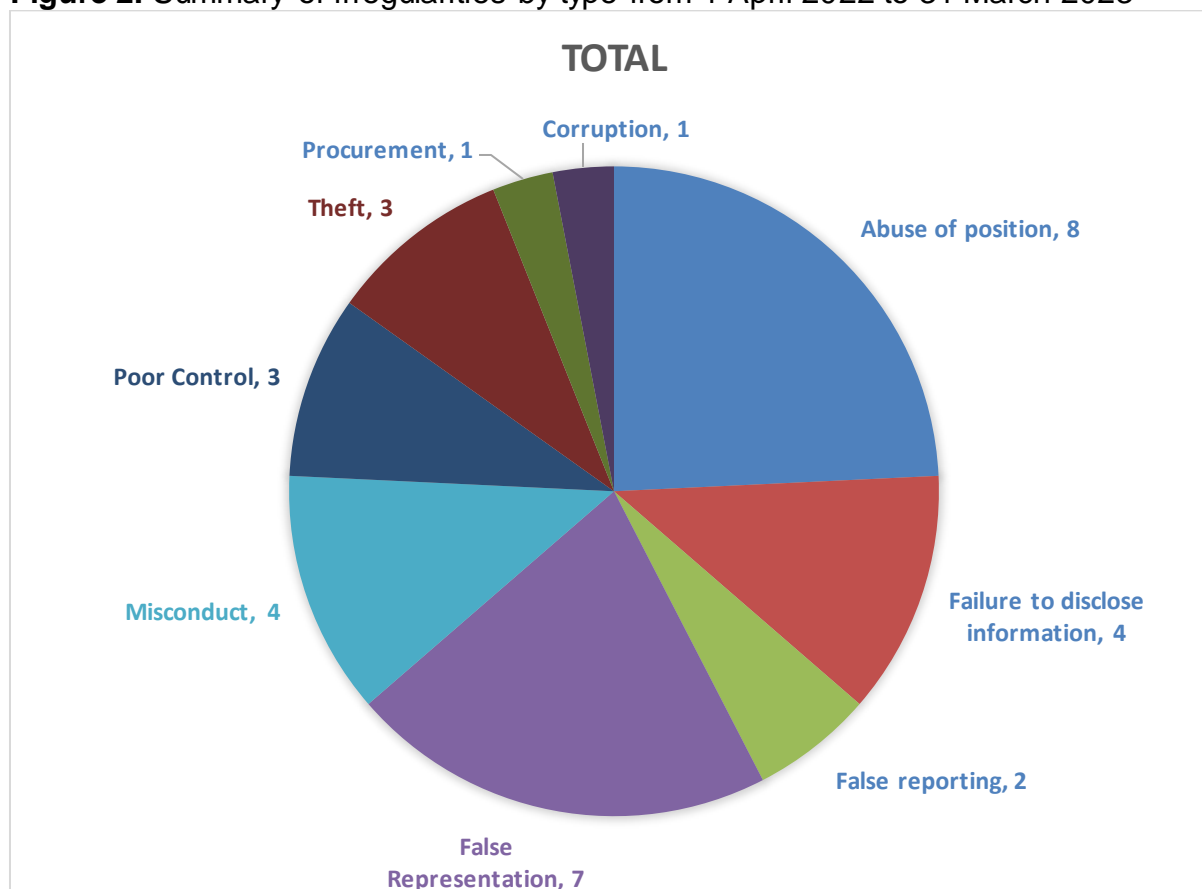
2.5 The number of all recorded allegations across the Council's directorates is shown in Figure 1, while Figure 2 shows the categories of allegations received.

**Figure 1.** Allegations by directorate from 1 April 2022 to 31 March 2023



**ASC** – Adult Social Care  
**ETI** – Environment, Transport and Infrastructure  
**CFLL** – Children, Families, and Lifelong Learning  
**SFRS** – Surrey Fire & Rescue

**Figure 2.** Summary of irregularities by type from 1 April 2022 to 31 March 2023



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2.6 Of the allegations received, 3 were closed with no action taken, 3 were passed to an external body, 8 were dealt with through advice to management, 16 were taken forward for investigation by Internal Audit or support was provided to a management investigation. Three 3 were conduct or capability issues dealt by management with support from HR where appropriate. Six referrals are still active at the time of writing the report.

2.7 The following paragraphs provide a summary of the investigation and advisory activity completed by the Internal Audit Counter Fraud Team within the last 12 months.

- 2.7.1 **SFRS Device Security** - following receipt of a confidential disclosure, we were asked to undertake an independent review of Airwave Device security in SFRS. The review found a number of weaknesses in the guidance and storage of the Airwave devices. Following the review, a control report was agreed with management to identify the issues and we are able to confirm that significant progress has already been made to improve device security.
- 2.7.2 **Theft of IT Assets** - following completion of a long-standing audit investigation into missing IT assets, an employee resigned whilst under disciplinary investigation. The case was reported to Surrey Police. A control report was agreed with management to address weaknesses identified during the investigation.
- 2.7.3 **SFRS Suspension Risk Assessment** - Following the conviction of a serving firefighter for a serious criminal offence, we were asked to undertake an independent review of the suspension risk assessment decision making within SFRS. Following the review, a number of recommendations were made to address weaknesses in the governance and oversight of the suspension process, all of which have been agreed with management.
- 2.7.4 **Secondary Employment** - following receipt of a whistleblowing report that alleged a recently resigned social worker had been working concurrently at a second authority, an investigation was carried out that confirmed that the worker had been employed through an agency with SCC while also employed as bank staff at another county council. A referral was made to Social Work England alerting them to this matter and the employing authority were advised to report through to the Police.
- 2.7.5 **Conflict of Interest**- we were asked to review a number of concerns relating to conduct and external relationships of care staff following receipt of a complaint from a parent. The investigation found no case to answer.
- 2.7.6 **Cash Security** - we provided advice and support to a management investigation following the loss of a small amount of cash from a library till. Management performed a reconciliation of the tills and improved controls to prevent future occurrences.
- 2.7.7 **Bank Mandate Fraud** - undertook an investigation following reports of a bank mandate fraud at a school. The investigation found that agreed procedures were not followed which led to the payment of £3k to a fraudulent account. The payment was recovered by the bank and actions agreed with the school to improve awareness and compliance with procedures.

- 2.7.8 **False Representation** - we provided an Independent Investigation Manager with support following concerns raised that a member of staff had provided false documentation in relation to a sick certificate. The member of staff resigned whilst under investigation. However, the investigation proceeded to a formal hearing and it was concluded that the individual's actions constituted gross misconduct. The individual's HR records have been endorsed to reflect the outcome of the hearing.
- 2.7.9 **Mandate Fraud** - advice was provided to the Payroll Team following an email being received by them which attempted to gather information on payroll bank changes. The service has been working closely with us to review their processes and have requested support through fraud awareness training.
- 2.7.10 **Conflict of Interest** - initial enquiries were conducted following a concern being raised regarding a potential conflict of interest within Adult Social Care. It was alleged that a member of staff had set up their own care provider business and registered it with the Care Quality Commission (CQC), the independent regulator of health and social care in England. Searches found the employee was registered as a director of a company and also the registered manager with CQC. However, whilst a potential conflict of interest existed, the Council had not made any payments to the company. The member of staff resigned during the initial enquiries and no further action was pursued.
- 2.7.11 **Abuse of Position** - we conducted initial enquiries following an allegation that a member of staff had accessed and shared information that they should not have viewed. No evidence of wrongdoing was found, and the case closed.
- 2.7.12 **Conflict of Interest** - we investigated a service manager for failing to declare a commercial interest in conflict with their role at the Council. The investigation found that the manager, who was responsible for the placement of children, owned the home where he was placing service users. Following a fact-finding interview, the service manager resigned from their position. A control report was issued, and actions agreed with the service to improve the control environment.
- 2.7.13 **Petty Cash** - Advice was provided to Surrey Fire and Rescue Service to strengthen controls following an allegation that £440 had gone missing from petty cash at Woodhatch. The money was unrecovered, but following our advice the imprest account was closed with alternative arrangements put in place.
- 2.7.14 **Conflict of Interest** - Initial enquiries were also conducted following an allegation that an Assistant Team Manager in Adult Social Care had failed to declare a financial interest with a provider. Enquiries confirmed that a declaration of interest had been made and no further action was required.
- 2.7.15 **Hinchley Wood Primary School Court Case** - A Police investigation and subsequent court case led to a former school business manager being convicted on four counts of fraud during quarter 4. The investigation, originally referred by us to the Police in 2018, proved that the individual had abused her position as signatory of unofficial school funds and transferred funds to herself. In addition, she had manipulated pay returns to falsely inflate her

salary. The individual has been sentenced to six and a half years. We are continuing to support the Police and the school with financial recovery.

### **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 2021-2024 that sets out their commitment to preventing, detecting, and deterring 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. The team continue to monitor intel alerts and work closely with neighbouring councils to share intelligence and best practice.

#### **National Fraud Initiative**

3.5 The results from the biennial National Fraud Initiative exercise, overseen by the Cabinet Office, were received in late January 2023. 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 exercise identified over 6,000 non-creditor data matches, which are risk assessed and prioritised for investigation of fraud or error.

#### **Partnership working**

3.7 We meet regularly with partners across the south east to discuss emerging threats and share intelligence. More specifically for the Surrey area, the team continue to work with district and borough colleagues to explore opportunities for further developing countywide data matching capabilities for the prevention and detection of fraud. This included a countywide Single Person Discount review that the team arranged and 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 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;

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		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	