

**INTERNAL AUDIT
COUNTER FRAUD
REPORT
2023/24**

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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 the Council 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 2023/24 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 2023 and 31 March 2024

Resources

2.1 During the 2023/24 financial year, a total of five Internal Audit officers charged time to work on irregularity investigations amounting to 162 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 38 allegations were received in the financial year (22 in the first half of the year and 16 in the second half). For comparison, 33 allegations were received in the previous financial year.

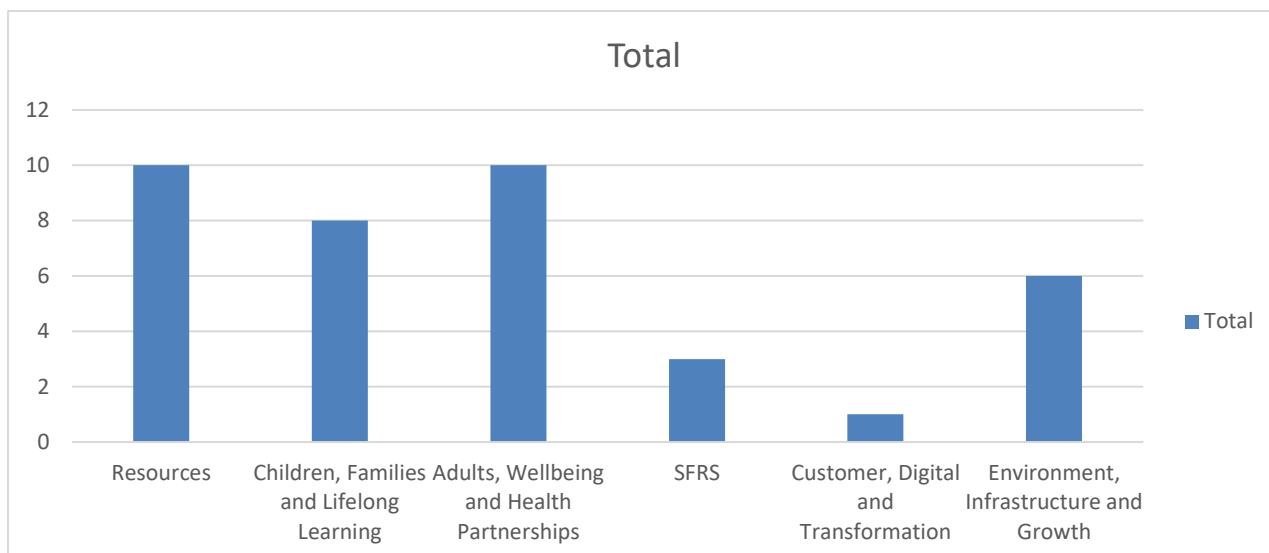
2.3 New allegations were brought to the attention of Internal Audit by the following methods:

- 22 were raised by Council management;
- 9 originated from an external source to the Council;
- 7 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.

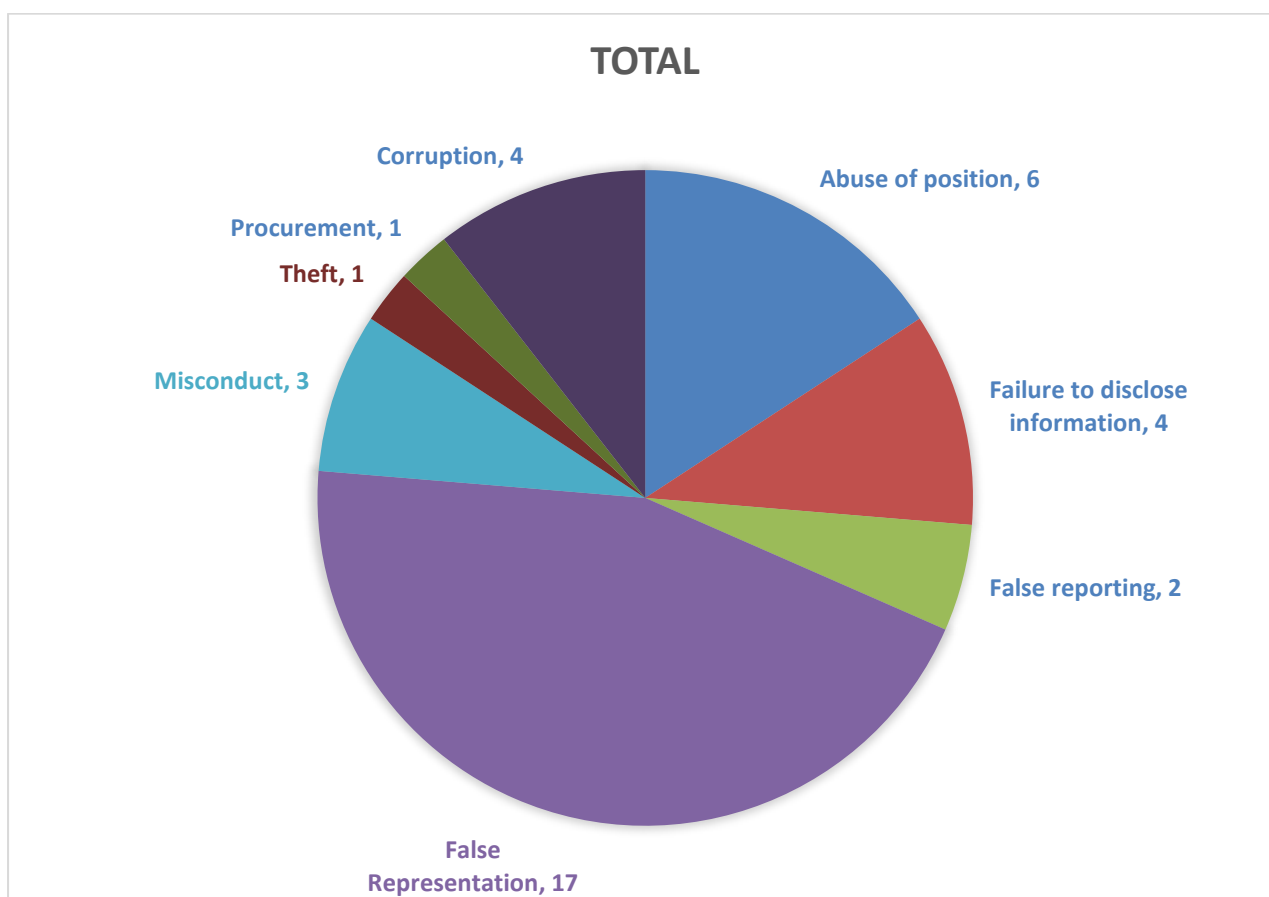
Figure 1. Allegations by directorate from 1 April 2023 to 31 March 2024



SFRS – Surrey Fire & Rescue

Figure 2. Summary of allegations by type from 1 April 2023 to 31 March 2024

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2.6 Of the allegations received, 6 were closed with no action taken, 4 were passed to an external body, 6 were dealt with through advice to management, 8 were taken forward for investigation by Internal Audit or support was provided to a management investigation. 5 were conduct or capability issues dealt by management with support from HR where appropriate. 9 referrals were still active at the time of writing the report.

2.7 The value of fraud prevented or detected is not always readily quantifiable, however, in cases where this can be estimated the cumulative value of fraud prevented or detected for the year is approximately £49,360.

2.8 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.

2.8.1 **Employee Overpayment** - We carried out a joint investigation with management following the identification of an overpayment of a payroll allowance to an employee. The allowance related to additional work responsibilities, which the employee had continued to receive after their entitlement had ended but not flagged that they continued to receive the payment. An investigation report was issued to support a disciplinary process, following which a control report was issued agreeing actions to prevent future recurrence.

2.8.2 **Alleged Conflict of Interest** - A complaint was received alleging improper financial relationships between a staff member and certain care providers. We undertook an investigation and provided management with advice. No evidence was found to justify the complaint.

2.8.3 **Conflict of Interest in School** - Findings during a routine school audit prompted a more detailed investigation into circumstances surrounding the procurement of a high-value fencing contract due to an apparent conflict of interest involving one of the school staff. A briefing note was issued and actions were agreed with the school following the issuing of the school audit report, though no disciplinary action was warranted.

2.8.4 **Expense Claim** - Following proactive work analysing expense claims across the Council we identified a number of anomalies for further investigation. One such case identified that receipts could not be provided to support out of pocket expenses claimed as part of routine working practices. An investigation report summarising our findings was issued to management although the employee left the Council ahead of any further action.

2.8.5 **Whistleblowing** - We carried out a review of concerns raised by a member of the public regarding streetlighting works, reported through the Council's whistleblowing process. Following our review, we concluded there was no basis to the concerns raised and the case was closed with no further action necessary.

2.8.6 **Expense Claim** - Following an allegation that an employee had made excessive expense claims, we assisted management in a joint investigation. Our analysis identified several claims that could not be validated. An investigation report was issued to management summarising our findings and following the conclusion of a disciplinary process, a control report has been issued agreeing actions to strengthen the wider control environment.

2.8.7 **Expense Claim** - A review was undertaken of an individual's expense claims following management concerns. From the work undertaken neither the pattern of claims nor the level of expenses was anomalous when compared to colleagues. A report outlining our findings was issued to management.

2.8.8 **Working Whilst Sick** - Following concerns raised by management we carried out an investigation to confirm whether an employee had undertaken paid employment while signed off sick from work. The investigation identified that the employee had recently set up a football coaching business. A report summarising our findings was issued to management for them to consider whether the actions breached the guidance around expected conduct. Management determined that the coaching was not in conflict with the officer's role, and no further action was taken.

2.8.9 **Abuse of Position** - Following concerns from an employee, Internal Audit undertook an investigation reviewing the appointment of agency staff covering vacancies. The reporter alleged that a senior manager was appointing friends and former colleagues to interim positions when vacancies could be filled through recruitment of permanent staff. The investigation found no evidence of nepotism or wrongdoing but did identify areas of improvement in regard to record keeping and compliance with the recruitment process. A control report was agreed with the Service.

2.8.10 **Mandate Fraud** - Following an attempted mandate fraud Internal Audit reviewed compliance against procedures. The attempted fraud was identified and stopped before being actioned. The review found that procedures had been followed but actions were agreed to improve awareness in Service Finance Teams to the risk of mandate fraud.

2.8.11 **Corruption** - Internal Audit received an allegation that a Councillor was planning to unduly influence a planning decision. No evidence was found to support the allegation, the Councillor was not on the planning committee and the decision was being considered at District level where the Councillor is not a Member. No further action taken.

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. Internal Audit continues to review this strategy to ensure it is aligned with best practice and to ensure a robust and consistent approach to tackling fraud.

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, multiple employment 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 (NFI)

3.5 NFI matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include local councils, police authorities, local probation boards, fire and rescue authorities and a number of private sector bodies.

3.6 In the latest National NFI Report, quantified fraud prevented accounted to almost £23 million over a 12-month period. The next submission date is September 2024 when we must submit the following core mandatory datasets:

- Payroll
- Pensions
- Trade Creditors' payment history and trade creditors' standing data
- Transport Passes and Permits (including residents' parking, blue badges and concessionary travel)

- Adult Social Care

3.7 The results from the latest biennial NFI exercise were received in January 2023. The results from the data matching released to the Council flagged over 35,000 matches. As well as directly undertaking reviews of the matches for evidence of fraud and error, we have been liaising with the relevant departments to ensure that flagged matches are investigated and actioned appropriately.

3.8 The results from the review of data matches include:

- No issues from matches relating to Pensions, Payroll to Creditors, Procurement to Payroll, or Payroll to Companies House (Director);
- Payroll to payroll matches identified several concerns which were investigated with service management. Whilst no fraud was found in most cases, management actions were taken to ensure staff wellbeing, declarations of interest and mitigations were in place where appropriate. In one instance a live investigation is still ongoing;
- The cancellation of 2,719 concessionary travel passes where the pass holder had passed away, with the Cabinet Office estimated saving from this being £84,289;
- 2,984 matches were reported in relation to Blue Badges. 584 badges have been cancelled as a result of mortality matches, with a Cabinet Office saving estimated as £380,900. A further 952 matches with same contact details are under review by the Blue Badge Team; and
- Over 27,000 data matches were received relating to potential duplicate creditors. The highest quality matches were prioritised and a sample review of these is still under way. Upon completion, information will be shared with the Finance and Purchasing team to aid recovery (where appropriate) and to improve data quality. The results from this work will be reported to Audit and Governance Committee in a future progress report.

Partnership Working

3.9 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 (SPD) review that was available to district and borough colleagues. The results of the last campaign are summarised below:

D&B	Increased collection	SCC Share	% removal rate
Reigate	£436,705	£327,529	3.6%
Mole Valley	£225,022	£166,516	2.6%
Waverley	£311,626	£230,603	3.3%
Woking	£273,909	£202,692	4.3%
Elmbridge	£180,769	£135,577	2.3%
Tandridge	£250,490	£185,363	4.8%
Spelthorne	£296,425	£225,283	4.0%
Surrey Heath	£239,548	£177,266	4.5%
Waverley	£231,812	£171,541	3.0%
	£2,446,307	£1,822,370	3.5%

3.10 A contract for a new SPD Countywide review has just been set up by the team and will be available to district and borough partners from the 1st of May 2024, and will include Empty Homes Reviews funded by the Council.

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 use of Council assets and equipment	Code of Conduct; 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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