

INTERNAL AUDIT COUNTER FRAUD ANNUAL REPORT 2024/25

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 ESCC 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 2024/25 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 2024 and 31 March 2025

Resources

2.1 During the 2024/25 financial year, a total of seven Internal Audit officers charged time to work on irregularity investigations amounting to 118 days. This included preliminary assessments, liaison with departments, fieldwork, reporting, and subsequent support for disciplinary and criminal activities.

2.2 The Counter Fraud team also monitors the ESCC Confidential Reporting Hotline, prompting investigation activity where appropriate, giving advice to members of staff on whistleblowing, and signposting to other departments where required.

Number and Types of Investigations

2.3 A total of 27 allegations were logged in the financial year (17 in the first half of the year and 10 in the second half). For comparison, 30 allegations were received in the previous financial year.

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

- 12 were raised by Council management;
- 11 originated from an external source to the Council;
- 2 were raised by employees;
- 2 were raised through confidential reporting.

2.5 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.

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

Figure 1. Allegations by department from 1 April 2024 to 31 March 2025

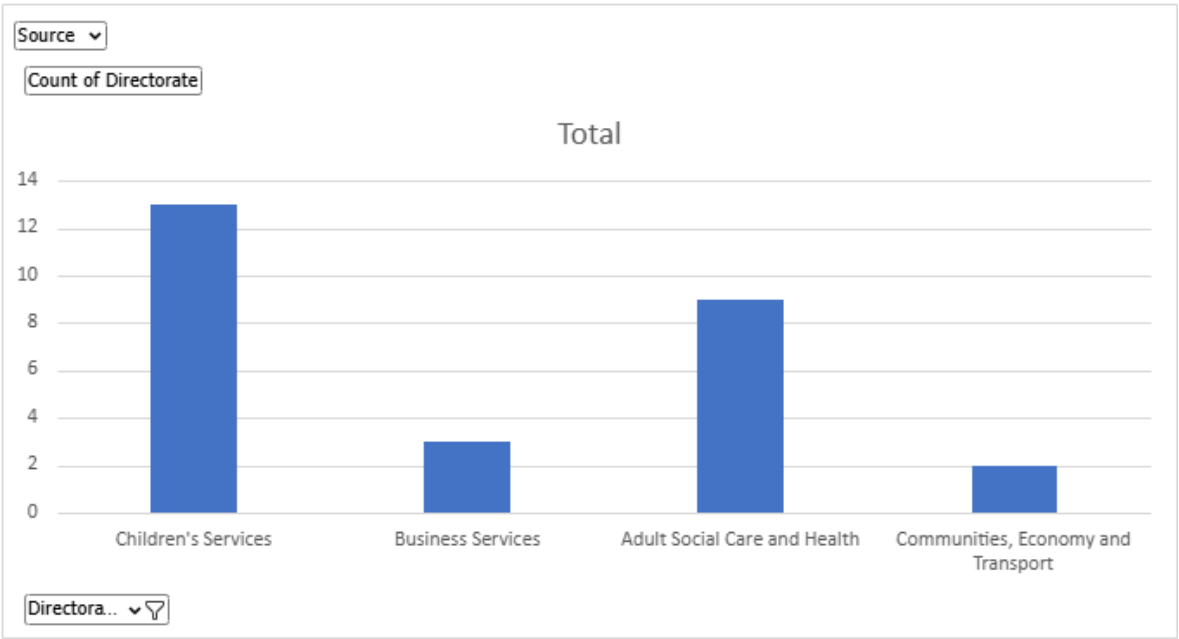
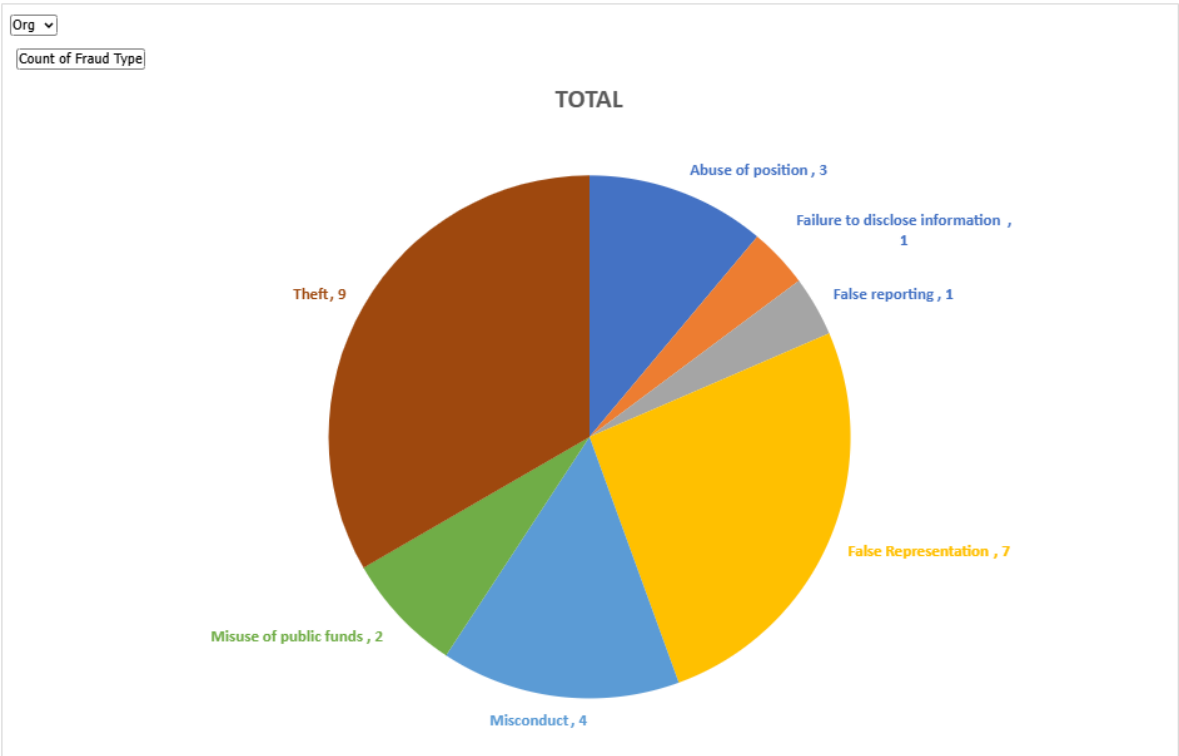


Figure 2. Summary of allegations by type from 1 April 2024 to 31 March 2025



2.7 Of the allegations received, ten were closed with no action taken, four were dealt with through advice to management, two were referred to other agencies, and seven were taken forward for investigation by Internal Audit or support provided to a management investigation. Four were conduct or capability issues dealt with by management with support from HR where appropriate. Three investigations were still active at the time of writing this report.

2.8 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 £22k.

2.9 The following paragraphs provide a summary of the investigation activity concluded by the Internal Audit Counter Fraud Team within the last 12 months.

2.9.1 **Theft** – following the identification of missing funds from a school's unofficial funds, an investigation was undertaken by Internal Audit. During the investigation the employee admitted theft of approx. £16k. The employee was dismissed and a referral made to Sussex Police. A live criminal investigation is ongoing.

2.9.2 **Multiple Employment** – Following an external referral regarding an employee having made a false application for employment, we undertook an investigation and identified multiple employment and confirmed a false application. The contract of employment was terminated in the probationary period and final salary withheld. The Council has provided a witness statement and is supporting a criminal prosecution against the individual.

2.9.3 **False Representation** – We received an allegation that a member of staff had made a false representation to secure an employee car loan. The investigation upheld the allegation, and the employee resigned pending disciplinary action. An invoice has been raised to recover the outstanding loan amount.

2.9.4 **Conflict of Interest** – We received an allegation that a former employee had established a company supplying services to the Council and was unfairly favoured for the award of work. The investigation found that work had been awarded to the company by an existing member of staff in conflict with Council policy. Actions were agreed to improve the control environment and disciplinary taken against a member of staff concerned. The supplier has been blocked from any future use.

2.9.5 **Unfair Recruitment** – We received an allegation that a Council interview process was unfair in that it did not follow the correct process and had favoured a preferred candidate. The investigation found evidence that good practice had not been followed, and not all candidates were given reasonable notice of interview dates, resulting in disciplinary action being taken against the recruiting manager.

2.9.6 **School Admissions** – We received an allegation of false representation in relation to a school admissions application, with the applicant alleged not to be residing at the address given. The application was in relation to an in-year application for an individual returning to the UK. No evidence of fraud was found, and the allegation was not upheld.

- 2.9.7 **School Meals** – An allegation was received alleging that a school meals contactor was inflating the number of meals provided. An investigation was undertaken and found no case to answer; robust processes were in place for the recording and reconciliation of meals.
- 2.9.8 **Theft of Travel Warrants** – We were advised of the theft of travel warrants from a safe in a Children’s residential home. Due to the age of the travel warrants and elapsed time, it was not viable to undertake an investigation, however, advice was provided on safe security and a control report issued agreeing actions to improve premises security.
- 2.9.9 **Support to Management Investigation** – Internal Audit provided support to a management investigation by undertaking targeted searches on the Outlook account of an employee. The searches did not identify any concerns, and the results were shared with management.

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 its commitment to preventing, detecting, and deterring fraud. Internal Audit continues to review this strategy, and a refresh will be brought to the Audit Committee in 2025 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 strengthen the counter fraud culture with the Council and build awareness of the confidential reporting hotline. 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 The results from the latest biennial NFI exercise were received in December 2024. The results from the data matching released to the Council flagged

approximately 15,000 matches. This compares to just over 14,000 that were flagged in the previous exercise.

3.7 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. Payroll records have been prioritised, with a number of live enquiries still underway. Matches flagged for review include:

- 348 Pensions matches
- 172 Payroll matches
- Over 700 Blue Badge matches
- Over 1,500 Concessionary Travel matches
- Over 12,000 Creditors matches

3.8 The results from the previous exercise (January 2023 release) included:

- No issues from matches relating to Pensions, Payroll to Creditors, Procurement to Payroll or Payroll to Companies House (Director);
- The review of over 1,673 concessionary travel passes where the pass holder had passed away;
- 194 cases where a pensions recipient had passed away and we were not previously aware. Three of these were recovered with a cumulative value of £7,320;
- No issues identified from the matches relating to Blue Badges; and
- Over 4,000 matches in relation to duplicate invoices that are believed to be 'false-positives'.

Partnership working

3.9 We meet regularly with partners across the south-east to discuss emerging threats and share intelligence. More specifically for the East Sussex area, we are working with district and borough colleagues to explore opportunities for further developing countywide data matching capabilities for the prevention and detection of fraud.

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

		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	