

## **Michael Mason – Written evidence (FDF0047)**

### **1.0 Introduction.**

1.1 This submission is based upon my personal experience of fraud in the public sector at Local Authority level, specifically at Cambridgeshire County Council.

1.2 I am a retired Engineer and local taxpayer having previously served as an elected Councillor at all three tiers of local government in the Histon and Cottenham areas at various times between 1974 and 2017. My last period of service was from 2013 until 2017, being an elected member for the Cottenham Histon and Impington Division of the County Council and serving as the Independent Group Deputy Leader at that time.

1.3 I am making this submission as an individual taxpayer and not on behalf of any other organisation or political grouping.

1.4 In order to present a concise submission I have limited the amount of supporting evidence contained within the Appendices. I am however happy to share further documentary evidence with the Committee either verbally in public or in writing.

### **2.0 Submission Summary**

2.1 In addressing Question 1 I ask the Committee to note that individual taxpayers and businesses are particularly vulnerable to corporate fraud committed and/or assisted by lack of due diligence and complicit corruption by officers and elected members in Local Government. This is exacerbated by the complexity of non-standard local council financial systems, together with a lack of published visible accountability for decisions taken, which should be readily available to members of the public who, are required to contribute to these failures through payment of high and ever increasing levels of Business Rates and Council Taxes.

2.2 Members of the taxpaying public rarely have the time and resources necessary to properly scrutinise the business conducted in their name at their local councils. The Law, together with the Council Constitution and Standing Orders will in most cases allow for public questions at meetings and there are also specific rights granted under the 2014 Local Audit and Accountability Act and the Freedom of Information Act. In order to comply with the time critical and unnecessarily complex procedural rules, taxpayers will have to commit to spending a great deal of time and money in order to make formal representation to elected members, the Auditors or Information Commissioner. In the Appendices to this document I give details of some of the communications with the Auditors together with extracts from committee and council meetings on the subject of conflicts of interest and Section 4 Fraud, as evidence in support of this submission.

2.3 In answer to Question 3 this submission identifies the many barriers to effective scrutiny in local government and councils. Local Authorities have developed extensive methods of resisting and delaying response to any challenges from the public. These methods will range from total denial of the facts to rejection on technical grounds of time limitation or being out of scope with respect to legal definition or interpretation of the Council Constitution or Standing Orders. Most members of the public will be discouraged by this and will abandon any further complaint or representation. If, following a negative or total absence of response from the council, a complaint or query is escalated to National Ministerial level, then invariably Whitehall will refer the matter back with a statement saying that "Local Councils are accountable locally" and will show no interest or take any action.

2.4 This state of affairs represents a total failure of the Localism Act 2011 and degrades the public right of local taxpayers to hold their local authorities to account. There is a basic misunderstanding and disconnection between Local Government Fraud and National Fraud although losses from both sources impact adversely on the National Debt. The same lack of interest, due diligence or resistance to challenge, applies equally when complaints are taken to the appointed independent auditors or to their professional and regulatory bodies such as the Chartered Institute of Public Finance and Accounts. (Cipfa).

2.5 There is a similar lack of interest from the local police force or Action Fraud. It would seem that collectively, the national and local **taxpayers**, are not regarded as **victims of fraud** by those responsible for governance and law enforcement. The assumption that the Council Tax Payers will always pay up should not be used to cover up or to justify Fraud and financial mismanagement. This assumption is wholly unacceptable during the current financial climate where household debt is likely to rise exponentially. In the following paragraphs I give examples of Fraud which have occurred at Cambridgeshire County Council, together with my attempts to pursue a just and fair remedy for the taxpayer by bringing this to the attention of the authority and the Independent External Auditor.

### **3.0 Submission Document**

3.1 **Fraud by false representation.** In 2017 I filed an objection to the Cambridgeshire County Annual Statement of Accounts under the provisions of the 2014 Audit and Accountability Act sections 25-28. The objection document submitted to the Council and to the Auditors, BDO Llp. is included at Appendix A. The objection dealt with a material issue of false accounting in which the useable reserves on the balance sheet had been grossly distorted by the use of Government Grant income to be received in future years, had been recognised as total income in the previous statement for the 2016/17 financial year. I maintained my objection based upon the material misstatement of reserves carried forward from the previous year. The specific points raised at the time with the Auditor were that this use of Grant income, not yet received, ran

counter to the Accruals Principle of Accounting used in the preparation of Accounts at the authority. In a public meeting of the Greater Cambridge Partnership Assembly I challenged the then Council CFO/S151 Officer with a question. This false accounting deceived users of the accounts with regard to the Council's financial position as a "going concern" and in particular would have been misleading to possible lenders and investors. This false accounting has continued with misstatements in every financial year from 2016/17 to the present day. With regard to the last year of account I submitted a public question to the Audit and Accounts Committee in September 2021. Action Fraud, in a publication defining types of Fraud, describes False Accounting as follows:- "**False accounting fraud happens when company assets are overstated or liabilities are understated in order to make a business appear financially stronger than it really is**". In reality the financial position of the authority is perilous and the current CFO may well be obliged to issue a Section 114 notice in the near future. This position was outlined in a warning to members of the Commercial and Investments Committee in 2020 by the previous CFO who retired in 2021.

**3.2 Fraud Act 2006 Section 4. Fraud by abuse of position.** In the objection document mentioned above I referred to the CFO/S151 Officer receiving payment as a result of directorships with wholly and partially owned companies set up by the Council. In 2017 I had initially reported this as a conflict of interest but in subsequent correspondence with the Auditor I re-defined this as a clear case of Section 4 Fraud.

**3.3 Response to allegations of Fraud.** National Audit Office Guidance requires the Appointed Independent Auditor to deal with objections in "a timely manner" and to keep the objector and the Authority informed of progress in dealing with the matters raised. The Auditors in 2017 were BDO Llp. and they have failed to properly deal with the objections in a "timely manner". I still await their **determination document with statement of reasons four years later**. In correspondence with BDO I have reminded them of their duties under Section 5 of the NAO guidance and more importantly of their responsibilities in relation to Fraud as defined in **ISA240(Revised May 2021)**. This document issued by the **Financial Reporting Council** gives a comprehensive guide to the Auditor's responsibilities when dealing with issues of fraud. I regret to report that at the time of writing this submission BDO Llp. and their successors Ernst and Young Llp. have yet to deal with all issues relating to Fraud and to initiate the necessary prior year adjustments to the accounts for Cambridgeshire County Council.

## **Appendix A Cambridgeshire County Council. Public Objection to Accounts 2018**

**Cambridgeshire** County Council  
**11<sup>th</sup> July 2018**

**A1.0** <section redacted by Committee>

**A1.1** The issues forming this objection arise out of **unresolved matters carried over from the 2016-2017 Statement of Accounts**, together with additional questions detailed below, which relate to the statement for the year 2017- 2018. The unresolved matters from the previous objection are detailed in a separate document headed :- **Audit of Accounts 2017 : History of Objection and Inspection of Documents**. This was sent to the Auditor at BDO Ipswich and its CEO for their comments. I have **received no response to date** and therefore include the full document as a further attachment. I regard this as an interim report but the summary of my conclusions is as follows:-

### **A1.2 Contract Procurement and Management Failures**

(a) The Strategic Management Team have consistently ignored the recommendations and actions defined in the **Cambridge Library Enterprise Centre Review (2015)** for **procedural improvement** and **transparency** in contract procurement.

(b) No legally signed and sealed contracts with V4 Services Ltd. were produced and no contract with that company is or has ever been recorded in the LGSS Pro Contracts Public Register. Officers have acted and continue **to act unlawfully** in breach of **EU regulations** and the **Council's Constitution** with regard to **contract procurement**

(c) Elected members, taxpayers and the external auditor have been **misinformed** and deceived with regard to **engagement, monitoring** and **value for money** in respect of services provided by **external contractors**.

(d) The Council's **financial controls** and **IT systems** are **totally inadequate**. Published **spending data is rendered useless** by incompetent and/or poorly trained staff with little evidence of senior management supervision.

(e) The Council's **Internal Audit systems fail to identify** and initiate action to mitigate **known financial risk** and have given **false assurances** to members with regard to **compliance** with contract **procurement regulations**.

(f) Cambridgeshire **taxpayers can have little confidence** that the Annual Statement of Accounts gives a true and fair summary of the Council's financial position.

**A1.3** With regard to contract procurement, public registration, monitoring and value for money issues the Council continued through the last financial year, to fall short of the expected standard of recording, reporting and accounting for public money. Much of the detailed analysis of published spend data in the report relates to the year of account under audit. The so called "V4 contract document" given to me at the inspection meeting last year, also purports to relate to transactions within the year of account under audit. I have to regard this attempt to **deceive taxpayers as tantamount to fraud**. A copy of this document was given to the auditor in November 2017. In the report I have seriously criticised Legal and Finance Officers with regard to lack of governance and malpractice.

**A1.4 Officer Conflicts of Interest – Directorships in LGSS Companies and other Wholly or Partially Owned Limited Companies.**

The Monitoring Officer/Director of Law and Governance, gave notice to leave the Council at some point before 31<sup>st</sup> March 2018, but members were not informed of his intention until 14<sup>th</sup> May which was after his departure. On 19<sup>th</sup> March 2018 I had written to all members and senior officers of the Council expressing deep concern at financial irregularities arising out of conflict of interest from his Executive Directorship with **LGSS Law Ltd.**, together with potential additional liabilities to the three participating Councils, particularly with regard to Pension Fund Deficit (£1.7 million) which has to be underwritten by the Councils. I have attached a **copy of my letter** for your attention. I have had no reply from senior officers or members.

**A1.5** <section redacted by Committee>

**A1.6** <section redacted by Committee>

**A1.7 The Council acting as an Accountable Body, receiving Grant Income from Government on behalf of the Cambridge and Peterborough Local Enterprise Partnership and the Greater Cambridge Partnership (GCP) (Formally Cambridge City Deal)**

Last year I raised a question as to the proper accounting for grant finance, not yet received by the Council, but intended for future year's investment by the GCP. The inclusion of £60 million as useable assets in the end of year balance, in my view, is a misstatement and distortion of the true financial position. As such the opening balance for the current year should accordingly be adjusted. In discussing this with the Auditor last year I put the view that this treatment of forward promised grant income, ran counter to the Accruals Principle of public accounts. CIPFA have now re-issued stronger guidance on this matter which I believe confirms my original position. I maintain my objection based upon this principle. This was publicly re-affirmed at minuted meetings of the **GCP Assembly** and at the Council's **Audit and Accounts Committee**.

**A1.8** <section redacted by Committee>

**A1.9** In the Statement of Accounts there is a very brief and totally inadequate reference to the LEP being wound up. The County Accounts for the year in question should at least indicate how much public grant income had been received and the total of payments made. The taxpaying public are entitled to know precisely how much money has been wasted and it is the responsibility of the public accountable body to inform them.

**A2.0** I therefore submit the above statement, together with the accompanying documents as a formal objection to the published Cambridgeshire County Council Draft Statement of Accounts for the year ended 31<sup>st</sup> March 2018. I request an interview with the Auditor to discuss these matters.

Mike Mason 11/07/2018

**Appendix B** <section redacted by Committee>

*22 April 2022*