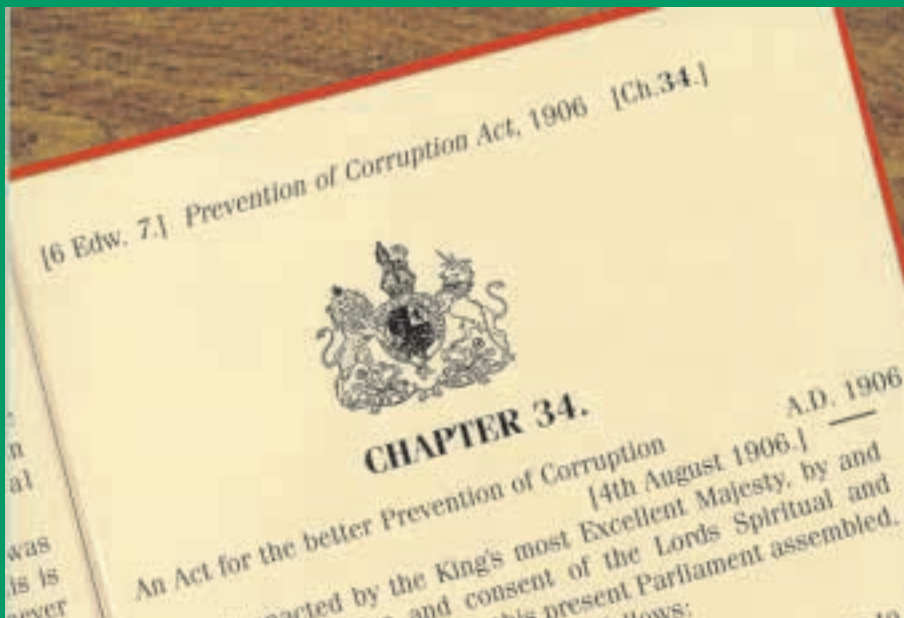


# Special Compliance Office: Prevention of Corruption



This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

*John Bourn*  
National Audit Office  
Comptroller and Auditor General  
24 July 1998

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# Executive summary

## Introduction

**1** On 18 February 1997, Michael Allcock, a senior tax inspector in the Inland Revenue's Special Compliance Office was convicted of corruptly accepting money and other benefits from taxpayers over a six-year period in return for favourable treatment of their tax affairs. He was sentenced to five years imprisonment.

**2** The National Audit Office investigated why the Department failed to detect Mr Allcock's corrupt activities earlier and what it has done since to minimise the risk of corruption.

## Mr Allcock's corruption (Part 2 of the main report)

**3** Mr Allcock was a senior manager in the Special Compliance Office, a specialist unit responsible for investigating significant cases of tax fraud, evasion and avoidance. The Office investigates sensitive, high-profile cases, where large sums are at stake, sometimes involving wealthy individuals from overseas or involving "ghosts" – individuals resident in the United Kingdom who have never declared their activities to the Department.

**4** Concerns about his relationship with a taxpayer came to light in August 1992 during the course of an unrelated Special Compliance Office investigation at a firm of accountants. Following an internal inquiry, the Department handed the case over to the Metropolitan Police Fraud Squad in November 1992. The police inquiries showed that Mr Allcock had income of almost £150,000 between 1987 and 1992 which could not be explained by his salary and that he had received air tickets, holiday accommodation and other inducements from taxpayers. In January 1994, Mr Allcock was charged under section 1(1) of the Prevention of Corruption Act 1906.

**5** His trial at the Old Bailey commenced in October 1996. He faced 13 counts of corruption. The judge ordered 5 other counts of obtaining property by deception – submitting false travel claims – to lie on the file. In February 1997, he was convicted on six counts of corruption (see Box 1).

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**Box 1**     **Mr Allcock's six convictions**

- between 1987 and 1992 he corruptly accepted money to the sum of £14,500 (four specimen charges)
  - in 1989 he was supplied with the services of a prostitute at a cost of £200
  - in 1992 he accepted a luxury holiday in New York and Bermuda at a cost of £22,000
- 

He was acquitted on seven counts, including a number of other holidays provided at a taxpayer's expense.

**6**     The Inland Revenue suspended Mr Allcock on full pay from September 1992 until he was charged by the police in January 1994. He was then suspended without pay until he was dismissed in May 1997, although the Department made discretionary payments of some £35,000 to alleviate hardship to his dependants. The Department's decisions were made in accordance with its conduct and discipline policy.

**7**     There were considerable difficulties in re-assessing the judgements made by Mr Allcock in reaching settlements with taxpayers, including the absence of information in some of Mr Allcock's files. As a result, the Department was unable to establish the potential loss to tax revenue arising from his corruption.

## **Disciplinary action against other staff (Part 3 of the main report)**

**8**     The police investigation, conducted with the full assistance of the Department, suggested that the conduct of five of Mr Allcock's former colleagues had fallen below departmental standards. Acting on legal advice, the Department deferred disciplinary proceedings until February 1997 to avoid compromising the case against Mr Allcock.

**9**     The Department's inquiries confirmed that the conduct of five of Mr Allcock's colleagues had fallen below the standard expected of civil servants. Four of them had accepted excessive hospitality or gifts from taxpayers and had failed to declare these items. Three of the five were demoted, involving a drop in annual salary ranging from £4,000 to £8,000. The Department also imposed fines ranging from £1,800 to £3,750. The other two members of staff were warned about their future conduct. One received a formal admonishment and the other received a formal reprimand.

**10** After Mr Allcock's trial had ended, the Department reviewed the position of his nine senior managers over the period of his corrupt activities (1987 to 1992). By the time of the review, four had retired or resigned and one had died. One of the remaining four was one of the five members of staff disciplined above. The Department concluded that while there had been some laxity in management control, there was no basis for taking formal disciplinary proceedings under its conduct and discipline code.

**11** The Department did not interview the managers formally as part of the review because there was no evidence to justify doing so. However, it did hold informal discussions with two of the managers still serving in the Department and two who had retired, in order to identify any further lessons to be learnt, and proposes to hold discussions with the remaining three shortly.

## **Remedial action taken by the Department (Part 4 of the main report)**

**12** There was no single factor which allowed Mr Allcock's corruption to continue undetected. Weaknesses in internal control within the Special Compliance Office and in the management of investigations combined to create an environment where a corrupt inspector intent on fraud could escape detection. Box 2 shows the weaknesses and the action taken by the Department in response.

**13** The National Audit Office carried out a joint review with the Department's Internal Audit Office to examine progress on implementing these improvements and concluded that much had been done to strengthen procedures. The control environment now in place provides the framework for much firmer control than the regime under which Mr Allcock operated.

**14** The National Audit Office identified a number of areas, however, where the Special Compliance Office should consider strengthening the new arrangements. Our main recommendations are shown in Box 3.

**15** No system of control can be entirely proof against the actions of an unscrupulous individual. The effectiveness of the controls is dependent on strong and active management sensitive to the risks involved with the work and the warning signals to watch out for. This is especially important in an area such as the Special Compliance Office where the nature of the work exposes staff to risks that they would not normally face in other parts of the Department.

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**Box 2 Departmental action in response to the weaknesses identified as a result of the Allcock case**

**Weakness**

**Departmental response**

*(a) Organisational weaknesses*

Limited management review and control of senior inspectors' work because prior to 1992 five senior managers based in London maintained oversight of 40 offices through annual inspection visits. These arrangements placed undue weight on the honesty and integrity of inspectors.

The Special Compliance Office was restructured. The number of offices was reduced to eight and no Deputy Director is now responsible for more than three offices, allowing a much greater level of oversight.

Infrequent rotation of inspectors to other Offices or types of work. Mr Allcock took charge of London Special Office (2) after he had been there for almost 6 years and remained there until his suspension some three and a half years later. This helped to create a climate where inappropriate practices could continue unchallenged.

Managers are now appointed from external candidates where possible.

The absence of comprehensive instructions or a code of conduct for Special Compliance Office inspectors gave rise to uncertainty over what was acceptable practice.

Special Compliance Office manual issued in February 1997 setting out policies and procedures.

Rules regarding the acceptance of hospitality were not applied and hospitality registers were incomplete or had fallen into disuse, increasing the risk of corruption.

Staff reminded that they are subject to the Department's rules on the acceptance of hospitality and hospitality registers now used.

Taxpayers under investigation allowed to pay for overseas visits by inspectors, compromising their objectivity.

Practice stopped in 1992.

*(b) Case management controls*

Individual senior staff allowed to investigate and settle cases without oversight, which enabled Mr Allcock to conceal his corrupt activities.

This is now allowed in only exceptional circumstances and with senior management approval; the Department has widened the types of settlements needing senior management approval.

Investigators notified collectors of amount of tax due, which provided the opportunity to suppress the collection of tax.

All post-settlement work leading to the collection of tax should now be carried out by staff other than the investigator.

Poor file security, which enabled Mr Allcock to conceal a taxpayer's liability.

Manual sets out arrangements for controlling files sent from local tax offices.

Poor documentation, which allowed scope for a corrupt inspector to conceal evidence which could have raised doubts about his dealings with taxpayers.

The Special Compliance Office introduced a standard file structure and the new manual requires compliance with the standard.

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**Box 3 National Audit Office main recommendations for strengthening Special Compliance Office controls**

*The appointment of investigators*

The Special Compliance Office has no formal policy for moving investigators on to new duties after they have completed a period of time in a particular post. We recommend that the Department should introduce a policy of appointing staff to a post for a maximum period, say five to seven years, to help improve the cross-fertilisation of ideas, maintain objectivity, and minimise the risk of inappropriate behaviour becoming the norm.

*Compliance with mandatory guidance*

The Special Compliance Office quality assurance arrangements assess the quality of investigation work in terms of the techniques used and the outcome of the case. We consider that the system could be extended to cover compliance with the mandatory requirements contained in their manual to provide assurance to senior management that the improvements introduced following Mr Allcock's corruption are being applied.

We noted that the Special Compliance Office is allowing staff flexibility in applying certain mandatory requirements contained in its manual. We are concerned that this may give rise to uncertainty over senior management's requirements. The Special Compliance Office has recently reviewed the Manual with the Department's Internal Audit Office. We recommend that the Special Compliance Office should review the Manual on a regular basis and revise it, as necessary, to reflect current requirements.

*Documentation*

There is scope to improve the basic standard of documentation compiled in support of proposed tax settlements at the conclusion of investigations. Documents were not generally numbered or cross-referenced and were sometimes undated or unsigned. We recommend that the Special Compliance Office considers adopting a simple log sheet developed by its Bristol Office to record key events and cross-reference documents.

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## **Whether more could be done to reduce the risk of corruption (Part 5 of the main report)**

**16** The Allcock case raises the question whether senior managers and staff in the Special Compliance Office were sufficiently aware of the risk of corruption and fraud and the behavioural characteristics to watch out for. The Inland Revenue has taken a number of department-wide initiatives to make staff aware of the conduct expected of them and to reduce the risk of fraud and corruption going undetected. These include the introduction, in 1995, of "The Guide – to work in the Inland Revenue" which sets out the standards and behaviour staff are expected to adopt, and which includes a separate chapter on fraud, regular reminders focusing on the standards expected and what staff can expect when they fail to comply, publication of the details of fraud cases, and the introduction of a confidential telephone line for staff to report suspicious or unacceptable behaviour.

**17** In addition, the Department has recently agreed a fraud strategy under which it aims to identify the fraud and corruption risks within the organisation as a whole and to develop a co-ordinated response, covering both internal and organised external fraud. The National Audit Office have suggested a number of matters for the Department's consideration in developing its fraud strategy (Box 4).

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**Box 4 National Audit Office suggestions for further improving the deterrence and detection of internal fraud and corruption**

Periodic staff surveys to assess the impact of measures to improve awareness of the standards of conduct expected.

Enhanced vetting of staff most exposed to the risk of corruption.

Alerting managers to the warning signals in an employee's behaviour which are associated with the risk of corruption.

Appointment of independent staff to teams investigating suspected fraudulent behaviour committed by Special Compliance Office staff.

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## Conclusion

**18** The Allcock case has had a significant impact on the reputation of the Inland Revenue for fairness and honesty and has also damaged morale. In response, senior management in the Department have committed substantial time and resources to investigating what went wrong and to strengthening internal controls within the Special Compliance Office. If the improved controls are applied actively and consistently, and further action is taken in response to our recommendations, the risk of corruption in the Special Compliance Office should be substantially reduced.

## Part 1: Introduction

**1.1** On 18 February 1997, Michael Allcock, a senior tax inspector in the Inland Revenue's Special Compliance Office, was convicted on six counts of corruptly accepting money and other benefits from taxpayers, in return for favourable treatment of their tax affairs. He was sentenced to five years imprisonment. This was the most serious case of its kind ever to come to light within the Inland Revenue.

**1.2** In March 1997, the Department provided the Committee of Public Accounts with a Memorandum about the case (Appendix 1). This report examines why the Department failed to prevent Mr Allcock's corrupt activities and what it has done since to minimise the risk of corruption.

### The role of tax inspectors

**1.3** The Department employs some 2,175 fully-trained tax inspectors. Tax inspectors are responsible for assessing taxpayers' liabilities and for conducting investigations of taxpayers, including the negotiation and agreement of settlements. In making assessments and reaching settlements, tax inspectors draw on their extensive training and experience and follow various procedural and technical manuals. In such negotiations, there are often areas of uncertainty where tax inspectors have considerable discretion in reaching a settlement. These may arise, for example, because taxpayers have failed to maintain adequate records or are unable to meet their full tax liabilities. These arrangements place great weight on the integrity and honesty of tax inspectors.

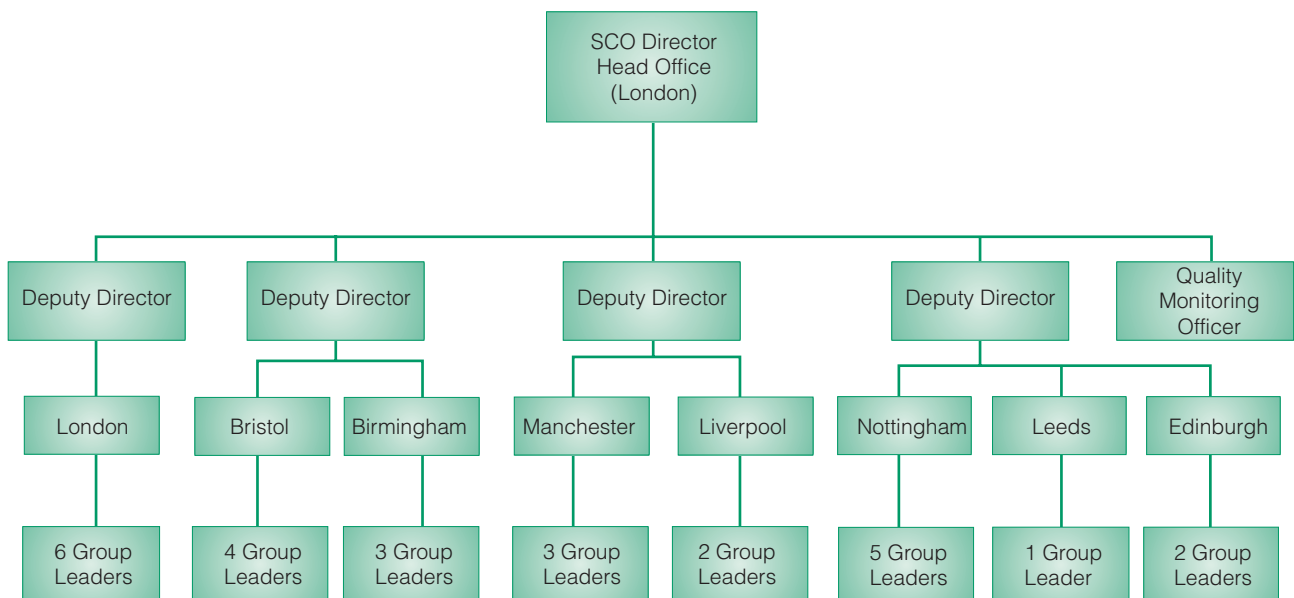
### Special Compliance Office

**1.4** The Department's Special Compliance Office, which was set up as an Executive Office in April 1992, brought together 40 separate Special Office, Enquiry Branch and other specialist units around the country. Its role is to investigate significant cases of tax fraud, evasion and avoidance outside the scope of local tax offices due to their size or complexity. Many of its investigations arise from initial work undertaken by these offices. The Office seeks to recover any tax underpaid and takes criminal proceedings where appropriate.

**1.5** Since April 1992, the structure of the Special Compliance Office has been rationalised. There are now eight offices, with a total of around 500 staff in 26 groups, each of which is managed by a Group Leader who reports to one of four Deputy Directors. Figure 1 shows the structure of the Special Compliance Office.

**Figure 1**

**Organisational structure of the Special Compliance Office**



Note: Until October 1997, the Director of the Special Compliance Office was known as the Controller; the Deputy Directors were known as Deputy Controllers.

Source: Departmental Memorandum to the Committee of Public Accounts (Appendix 1)

**1.6** The Special Compliance Office's responsibilities for investigating significant tax abuses mean that it is often involved in sensitive, high-profile cases where large sums are at stake, for example involving wealthy individuals from overseas. As a result the yield:cost ratio of the Office's work is significantly greater than that of the Department's mainstream compliance work. The results achieved by the Office since 1992-93 are shown in Figure 2.

**Results achieved by the  
Special Compliance  
Office, 1992-93 to 1996-97**

**Figure 2**

	Year ended 31 March				
	1993	1994	1995	1996	1997
Financial yield (£ million)	387	355	401	354	457
Yield : cost ratio	35:1	24:1	16:1	17:1	20:1

Source: Inland Revenue Annual Reports

Special Compliance Office inspectors identified nearly £2 billion additional tax yield in its first five years.

**1.7** The Special Office in which Mr Allcock worked was one of ten such offices which were merged with other specialist units to form the Special Compliance Office in April 1992. The aim of the Special Offices was to tackle substantial areas of tax avoidance. Their remit was to investigate a variety of difficult or complex cases, including tax avoidance devices, evasion (other than serious fraud) and persistent non-compliance, where large amounts of tax were at stake - at least £50,000. The cases tackled involved individuals, companies, or industry-wide practices, for example, arrangements for the taxation of casual staff in the newspaper industry.

**1.8** One of the Special Office's priorities was the investigation of "ghosts" – individuals who were resident, and hence liable for taxation, in the United Kingdom, but who had never declared their activities to the Department. Investigative work in the Office often arose from projects that focused on a specific group of taxpayers. Projects run by Mr Allcock's Office included, for example, the investigation in 1987 of the tax affairs of depositors, many of whom were "ghosts", affected by the Knightsbridge safe deposit box robbery and investigations of profits from insider trading, which yielded around £35 million.

## Methodology

**1.9** The study assessed the action taken by the Department to reinforce management control over investigations by tax inspectors in the light of Mr Allcock's corruption. The examination focused on the weaknesses which provided opportunities for corruption in the Special Compliance Office. It did not examine wider issues such as the efficiency or effectiveness of the Office or the risk of corruption elsewhere within the Department.

**1.10** The study team visited all eight Special Compliance Offices between May and August 1997, in a joint exercise with the Department's Internal Audit Office, to assess the effectiveness of management controls over the work of tax inspectors. The joint team interviewed all Group Leaders or their deputies, reviewed hospitality registers, and examined a sample of 102 full investigations and 98 preliminary reviews of taxpayers completed between April 1995 and March 1997.

**1.11** The National Audit Office also examined the transcripts of Mr Allcock's trial and other relevant documents held by the Department, and interviewed senior officials in the Special Compliance Office and the Department's Human Resources Division. The methodology is set out in more detail in Appendix 2.

**1.12** This report sets out:

- what happened - the background to the case, including the investigation of Mr Allcock's conduct and details of the convictions (Part 2);
- what the Department has done in the light of the case to identify and discipline other staff involved (Part 3);
- why it happened - the weaknesses which provided opportunities for Mr Allcock to exploit the system and the remedial action taken by the Department (Part 4); and
- whether more could be done to reduce the risk of fraud and corruption (Part 5).

## Part 2: Mr Allcock's corruption

### Mr Allcock's career in the Inland Revenue

**2.1** Mr Allcock joined the Inland Revenue in September 1966 as a clerical assistant in the Colchester District tax office. Following two promotions, the Department selected him for training as a tax inspector. After passing his final tax examinations, he was promoted to Inspector in 1978. In February 1983, the Department promoted him to Inspector (Principal) and in April 1983, he joined a new Special Office that was being set up in London, known as London Special Office 2.

**2.2** Mr Allcock became well thought of by his managers in the Special Office and, in 1987, he was described as "...one of the best Special Office investigators...". In February 1989, three months after his promotion to Inspector (Senior Principal), he was appointed Group Leader of London Special Office 2, in charge of around 10 investigators.

**2.3** After an inspection visit to Mr Allcock's Office in 1990, the Deputy Controller commented that staff had a much better sense of identity and team spirit and there was a renewed commitment to the job. He specifically complimented Mr Allcock on the huge contribution he had made to this very changed state of affairs. During this period, Mr Allcock's Office regularly achieved the highest yields of unpaid tax of all the Special Offices.

**2.4** There were, however, doubts about his unconventional management style. Reports on his performance at the time described him as a "maverick" and he was criticised for his reluctance to keep written records of his actions, including his absences from the office. At his trial, one senior officer described him as "...a rogue manager...capable of rash decisions...".

**2.5** The nature of the work undertaken by the Special Compliance Office sometimes results in complaints from taxpayers about the way in which the Office carries out its investigations. Mr Allcock was the subject of several such complaints.

## The detection of Mr Allcock's corruption

**2.6** Suspicions about Mr Allcock's conduct came to light in August 1992 as a result of information supplied by a firm of accountants. The firm had been concerned for some time about the relationship between Mr Allcock and one of their clients. Acting on legal advice, they had taken no action on this matter. They then received a request from the Department's London Enquiry Branch for access to the files in question in connection with an unrelated investigation. At this point, the firm decided to inform the Inland Revenue of their concerns.

**2.7** The firm's files raised doubts about Mr Allcock's treatment of the taxpayer's affairs. The Department appointed a Deputy Controller of the Special Compliance Office who was not in Mr Allcock's direct line management chain to take charge of the internal investigation. He was particularly concerned by one paper that, under the heading of "Allcock", had a hand written note referring to "pay-off". In addition, there were official letters from Mr Allcock on the firm's file which were not held on the Department's own file relating to the taxpayer.

**2.8** The Deputy Controller interviewed Mr Allcock on 9 September 1992 and questioned him about his relationship with the taxpayer and the judgements he had made in respect of the taxpayer's liabilities. His answers were considered unsatisfactory and demonstrated a closer relationship than would have been expected, for example, a weekend visit to the taxpayer's villa in Spain. As the investigation developed, potentially serious irregularities became apparent. In November 1992 the Department invited the Metropolitan Police Fraud Squad to take over the investigation. The police then continued enquiries with the full assistance and co-operation of the Special Compliance Office.

**2.9** From an examination of Mr Allcock's bank and credit card accounts, the police identified substantial amounts of income which could not be explained by his salary. Figure 3 shows the amounts identified by the police inquiries.

**2.10** The police also examined Mr Allcock's dealings with taxpayers, which led them to focus on his relationship with five individuals. The Special Compliance Office reviewed the files for many of the other taxpayers Mr Allcock investigated but from the information on file, much of which was recorded by Mr Allcock, it was unable to identify evidence of inappropriate tax settlements linked to corrupt payments.

**2.11** In January 1994, Mr Allcock was charged under Section 1(1) of the Prevention of Corruption Act 1906.



Amounts received by  
Mr Allcock which could  
not be explained by his  
salary

**Figure 3**

Year	Amount (£)
1987	8,900
1988	18,200
1989	19,300
1990	26,000
1991	49,700
1992 (until September)	21,500
1992 (after September)	5,100
Total	148,700

Source: Trial evidence

Mr Allcock received substantial unexplained payments over a six-year period, and they were particularly high in 1991.

## The outcome of Mr Allcock's trial

**2.12** The trial commenced on 24 October 1996 in the Central Criminal Court, following a committal hearing on 8 July 1995. Mr Allcock faced 13 counts of corruption and was found guilty on six of the counts. He was also charged with five counts of obtaining property by deception, namely submitting false expense claims between 15 February 1990 and 24 March 1992 totalling £420, to which he pleaded not guilty. The judge ordered these counts to lie on the file.

**2.13** There were also four counts of corruption against two of the five taxpayers. One taxpayer was found guilty on one count and the other was acquitted. Charges against a third taxpayer had been dismissed by magistrates at the committal hearing. The two other taxpayers were resident abroad and outside the jurisdiction of the court.

**2.14** A schedule of the charges against Mr Allcock, the verdicts, and the sentences is at Appendix 3 and details of the counts on which he was convicted are set out below.

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**Count 1**

In 1989, Mr Allcock was supplied, by a taxpayer - an Iraqi oil consultant - with the services of a prostitute at a cost of £200.

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**2.15** Mr Allcock had investigated the taxpayer's affairs between 1983 and 1986 and had settled the investigation in the sum of £119,700. However, he failed to notify the Collector of Taxes of the settlement and, as a result, no demand for payment was issued and the sum remained unpaid. Mr Allcock failed to return the file to the originating local tax office and it was never found. This prevented other offices within the Department from investigating the taxpayer or assessing him for tax. In 1987, the taxpayer's accountants provided information on a further liability amounting to £10,200 but, again, Mr Allcock took no action to assess or collect the tax and it has now become uncollectable, under the rules of the Taxes Acts.

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**Count 13**

In August 1992, Mr Allcock accepted a luxury holiday for himself and his family in New York and Bermuda, supplied by another taxpayer, at a cost of some £22,000.

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**2.16** The taxpayer, an American businessman, was under investigation by Mr Allcock's Office. It was alleged that this holiday was intended as a bribe to influence the ultimate settlement of the taxpayer's affairs or to ensure that they were settled in the United Kingdom rather than the United States, where the tax payable would be higher. The investigation continued after Mr Allcock's suspension in September 1992 and was settled some months later in the sum of £850,000.

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**Counts 14 -17**

Mr Allcock corruptly accepted money to the sum of £14,500.

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**2.17** These were specimen charges representing total corrupt receipts of £148,700 between 1987 and 1992 (see Figure 3). Although the prosecution could not identify the sources of these payments, the court accepted that this additional income was the proceeds of corrupt payments given to Mr Allcock, by taxpayers, as inducements or reward for favourable treatment of their tax affairs.

**2.18** Mr Allcock was acquitted on seven counts of corruption in relation to gifts from taxpayers including:

- in 1988, a holiday for himself and his family, in Nice;
- in 1991, another holiday for himself and his family, in France;
- in 1991, a holiday for himself and the prostitute, who had become his mistress, in Marbella; and
- in 1992, a holiday for himself and his mistress in Majorca.

**2.19** In giving sentence, the judge commented that Mr Allcock's corrupt behaviour was "aggravated by the length of time that it continued, the scale on which he was prepared to accept the largesse of those seeking favour and by the fact of his seniority and trusted position in the Special Office...". Mr Allcock was sentenced to a total of five years imprisonment. The convicted taxpayer was sentenced to nine months imprisonment, suspended for 18 months.

**2.20** On 28 April 1997, Mr Allcock lodged an application for leave to appeal against his conviction. The application was refused by a single judge in August 1997 and Mr Allcock subsequently renewed his application before the full Court of Appeal. The Court confirmed the earlier decision to refuse Mr Allcock's application on 8 May 1998.

## **Departmental action against Mr Allcock**

**2.21** The Department suspended Mr Allcock on full pay, in accordance with its conduct and discipline policy, from 11 September 1992 until he was charged with corruption in January 1994. The total salary paid to him over this period amounted to some £58,000.

**2.22** He was suspended without pay from January 1994. The Department's rules on conduct and discipline allow it to make discretionary payments to alleviate hardship suffered by the dependants of members of staff as a consequence of their actions. The Department paid Mr Allcock some £35,000 under these arrangements between April 1994 and December 1996.

**2.23** Mr Allcock was dismissed on 22 May 1997. Now that Mr Allcock's application for leave to appeal against his conviction has been refused, the Department is considering seeking forfeiture of some or all of his pension entitlement, in accordance with the provisions of the Civil Service Management Code.

**2.24** Mr Allcock has appealed to the Civil Service Appeal Board against the decision to dismiss him. This hearing was held over pending the outcome of the criminal appeal. It is now a matter for the Appeal Board to determine how to settle the appeal against dismissal.

## **Tax losses arising from the case**

**2.25** Although there had been a tax loss of £130,000 in one case (paragraph 2.15) the Department was unable to estimate the total potential loss of tax revenue arising from Mr Allcock's corruption. Many of Mr Allcock's cases involved taxpayers who were resident abroad. The calculation of any income subject to UK tax often involved the interpretation of residence and domicile status and the interaction of the tax laws of different countries. Tax settlements in such cases were usually the subject of negotiation and there was rarely an obvious "right answer" as to the amount of tax due. The absence of information in some of Mr Allcock's files also made it difficult to reassess the judgements he had made in reaching settlements with taxpayers. In addition, there is no guarantee that Mr Allcock had registered all the cases he had worked on.

## Part 3: Inland Revenue disciplinary investigations of Mr Allcock's former colleagues

**3.1** There was evidence to suggest that several of Mr Allcock's former colleagues had committed acts that were contrary to the Inland Revenue's conduct and discipline code. The Department investigated their conduct to determine what disciplinary action, if any, should be taken against them. It also reviewed the conduct of Mr Allcock's senior managers. The following paragraphs set out the scope, timing and results of the investigations.

### Mr Allcock's colleagues

**3.2** The Department's inquiries into Mr Allcock's activities began in August 1992 and were passed to the police three months later. In November 1994, Prosecuting Counsel provided the Department with details about the charges against Mr Allcock and referred to the witness statements given by various employees. The evidence suggested that the conduct of five of Mr Allcock's former colleagues, including one of his nine previous senior managers, had fallen below Departmental standards and required further scrutiny. These colleagues were Inspectors of Taxes whose grades ranged from the equivalent of Senior Principal to Senior Executive Officer.

**3.3** Counsel did not want prosecution witnesses to be tainted by accusations that they were giving evidence to gain some favour in any subsequent disciplinary proceedings. The Department agreed that the prosecution of Mr Allcock should take precedence and that any disciplinary action against others should wait until after the trial. After it became clear that only two of the five members of staff involved would be called as witnesses, following legal advice, the Department started disciplinary proceedings against the other three in July 1996. These proceedings were suspended in October 1996 at the request of the trial judge until the conclusion of the trial in February 1997, when proceedings against the other two individuals also commenced.

**3.4** A senior official in the Department's Human Resource Division carried out the investigations. These were undertaken in accordance with procedures laid down in the Department's Conduct and Discipline Code. Each investigation began with an interview with the individual concerned to establish the facts, at which

they could be accompanied by a Trade Union representative or a colleague if they wished. After the interviews, the Department wrote to each of the five setting out the nature of the alleged disciplinary offences and inviting them to state their case, both in writing and at an interview. The Department reminded them that they could seek help from a Trade Union representative, a colleague or solicitor, who could accompany them to the interview, if they so wished.

**3.5** Once its enquiries were complete, the Department wrote to the five staff informing them of the findings and the action it proposed to take. Possible penalties included dismissal; demotion; financial penalty; severe reprimand; formal reprimand; formal admonishment; and expression of displeasure or concern at their conduct. The Department told the staff that they had a right to appeal against any disciplinary penalty to the member of the Board of Inland Revenue with overall responsibility for personnel matters.

**3.6** The investigations confirmed that the conduct of Mr Allcock's five colleagues had fallen below Departmental standards. The failings included:

- accepting hospitality greatly in excess of what the Department would have authorised on official overseas trips to investigate taxpayers;
- accepting gifts from taxpayers under investigation;
- withholding information about these matters from the Department and the police; and
- non-disclosure of hospitality and gifts in the Office's hospitality register.

Figure 4 summarises the findings of the Department's investigations into the conduct of the five members of staff.

**3.7** Disciplinary action was taken in all five cases. The annual salaries of the officers concerned at the time of the disciplinary proceedings ranged from around £30,000 in one case to between £49,000 and £55,000 in the others. Two of those concerned were given a formal admonishment or reprimand and a warning about future conduct. Each of the other three was demoted by one grade, involving reductions in annual salary ranging between £4,000 and £8,000. These three were also fined amounts ranging from £1,800 to £3,750, deductible from salary over two years.

## Mr Allcock’s senior managers

**3.8** The investigation into Mr Allcock’s conduct and the conduct of his five colleagues indicated that the absence of strong management control was a key contributory factor that allowed his corruption to continue undetected. The Department therefore considered the possibility that managers may have been party to disciplinary offences or ought otherwise to be called to account, for example, for having failed to act.

**3.9** A review into the conduct of the nine members of staff who had managed Mr Allcock between 1987 and 1992, when the offences on which he was convicted occurred, began in April 1997. Figure 5 shows that by this time two of the nine senior managers had retired, two had resigned, and one was dead. The grades of the senior managers ranged from Under Secretary to Inspector (Senior Principal).

**Mr Allcock’s senior line managers between 1987 and 1992**

**Figure 5**

Manager	Years	Comments
F	1987	Died 1996
G	1987	Resigned 1987
H	1987 to 1992	Retired 1993
I	1987 to 1992	Retired 1992
J	1988	Resigned 1996
K	1988	Still employed in the Inland Revenue
L	1988 to 1989	Still employed in the Inland Revenue
M	1988 to 1990	Still employed in the Inland Revenue
N	1990 to 1992	Still employed in the Inland Revenue

**Figure 4**

**Internal disciplinary investigations into Mr Allcock's colleagues**

	Member of staff				
	A	B	C	D	E
Year of offences and discovery.	Occurred 1987 and 1988. Discovered late 1994.	Occurred 1990 and 1991. Discovered late 1994.	Occurred 1991. Discovered late 1994.	Occurred 1989. Discovered late 1993.	Occurred 1991 and 1992. Discovered late 1994. Further evidence came to light in 1996.
Timetable of formal disciplinary proceedings	First interviewed - August 1996. Investigation then suspended until after Mr Allcock's trial. Interviewed again - May 1997.	First interviewed - May 1997.	First interviewed - July 1996. Investigation then suspended until after Mr Allcock's trial.	First interviewed - June 1997.	First interviewed - September 1996. Investigation then suspended until after Mr Allcock's trial.
Findings	<ul style="list-style-type: none"> <li>■ accepted hospitality, on overseas trips, greatly in excess of what the Department would have authorised; and</li> <li>■ failed to record this in the hospitality register;</li> <li>■ showed unacceptable lack of care in checking the appropriateness of the hotel into which he had been booked when travelling abroad; and</li> <li>■ failed to exercise proper care as a manager in relation to his overseas trips.</li> </ul>	<ul style="list-style-type: none"> <li>■ accepted hospitality, while abroad, which was outside that permitted by Departmental instructions;</li> <li>■ attended, with his wife, several functions organised by, or on behalf of, a taxpayer whom he was investigating; and</li> <li>■ failed to record this in the hospitality register.</li> </ul>	<ul style="list-style-type: none"> <li>■ accepted gifts of clothing from a taxpayer he was investigating;</li> <li>■ withheld information about this and Mr Allcock's acceptance of gifts when interviewed by Departmental officials and the police;</li> <li>■ failed to disclose the gifts in his witness statement to the police;</li> <li>■ accepted excessive hospitality from taxpayer; and</li> <li>■ failed to record this in the hospitality register.</li> </ul>	<ul style="list-style-type: none"> <li>■ visited a taxpayer abroad, to discuss his affairs, knowing that the trip was unnecessary because the case had already largely been settled;</li> <li>■ during this visit, accepted hospitality and gifts far beyond Departmental rules, including gambling chips and retained the winnings;</li> <li>■ prepared a false account of the visit to cover his own and Mr Allcock's tracks;</li> <li>■ withheld information about this trip when interviewed by senior colleagues;</li> <li>■ continued to accept an excessive level of hospitality from the same taxpayer, including free meals and the free use of a villa and car while on holiday abroad; and</li> <li>■ did not record this in the hospitality register.</li> </ul>	<ul style="list-style-type: none"> <li>■ put pressure on taxpayer to pay for a higher class of travel than was initially offered and beyond that which the Department would have authorised;</li> <li>■ made improper arrangements for the payment of £8,000 of travel costs, direct to Mr Allcock, in reimbursement of expenses to be paid by him;</li> <li>■ through negligence, misled the magistrates at the committal hearing, by denying knowledge of a meeting in the United States; and</li> <li>■ failed to record hospitality received on overseas trips in the hospitality register.</li> </ul>

Source: NAO analysis of Departmental papers



**3.10** In carrying out the review, the Department examined the interviews conducted during the investigation of Mr Allcock's colleagues, the transcript of the trial, evidence held in relation to the prosecution, and various miscellaneous documents including an Internal Audit Office report issued in 1993. The Department considered, in relation to each manager, whether there was any evidence of:

- involvement in any criminal activity;
- gross negligence which would constitute a disciplinary offence; or
- failure as a manager.

**3.11** One of the senior managers was included among the five staff the Department had identified for investigation for other disciplinary offences (see Figure 4). The Department's review of the other senior managers concluded that, while there had been some errors of judgement, there was no basis for taking formal disciplinary proceedings under its conduct and discipline code.

**3.12** The Department did not formally interview any of the senior managers concerned, although it did hold informal discussions with four of them at a later date to identify any further lessons which could be learnt (paragraph 4.5). The two managers who had resigned and one of those still serving (L at Figure 5), had only limited involvement with Mr Allcock and, while the Department did not consider it necessary to hold discussions with them as a matter of priority, it proposes to discuss the case with them shortly.

## **Scope of the Department's inquiries**

**3.13** The Inland Revenue also took steps to establish whether the conduct of any other staff might have fallen below Departmental standards by examining the information available for evidence of misconduct. This information included:

- reports from Departmental investigators supporting the police investigations into Mr Allcock's conduct;
- employees' witness statements to the police, and depositions to magistrates at the committal proceedings against Mr Allcock;
- the transcript of the trial proceedings;

- taxpayer records and Departmental hospitality registers; and
- press reports of the Allcock case.

The Department also asked the former colleagues of Mr Allcock who were investigated under their disciplinary procedures about the conduct of other members of staff.

**3.14** Whilst its inquiries raised vague allegations about two individuals, one unnamed, the Department's investigations concluded that, in neither instance, was there any case to answer.

## Part 4: Remedial action taken by the Special Compliance Office

### Introduction

**4.1** This part of the report analyses the factors that allowed Mr Allcock's corruption to continue undetected and examines whether the action taken by the Department has minimised the risk of a similar case arising in future.

### The detection of Mr Allcock's corruption

**4.2** Mr Allcock's corruption came to light by chance, rather than through the operation of the Department's internal controls. As reported at paragraph 2.6 above, a firm of accountants had become suspicious of Mr Allcock's dealings with one of their clients because there was a reference to a "pay off" on the client's file. Acting on legal advice the firm had taken no action. The Department's Enquiry Branch then asked to see the firm's file on this client in connection with an unrelated investigation. At this point the firm decided to tell the Department about their concerns. This triggered the internal investigation that ultimately led to Mr Allcock's conviction for corruption.

### The weaknesses which led to Mr Allcock's corruption

**4.3** The Department's internal investigation soon established that there were sufficient grounds to justify the early referral of the case to the Metropolitan Police Fraud Squad. These subsequent inquiries shed light on the nature and extent of Mr Allcock's corruption and the extent to which the conduct of some of his colleagues had fallen short of the required standards.

**4.4** The Department established that there were weaknesses in internal control within the Special Compliance Office and in the management of investigations, which needed to be addressed. It had already begun to restructure the organisation of the Office before the case came to light and it asked its Internal Audit Office to review the internal controls over the management of investigations. The Internal Audit Office completed this work in March 1994.

**4.5** Following the outcome of the conduct and discipline investigations, the Department decided to interview the two senior managers who had retired and two of the managers who were still serving within the Department to help it identify lessons to be learned for the future. Many of their comments confirmed the conclusions already reached. The Department concluded that too much trust was placed in individuals and systems without proper audit checks or reviews and that policies were not properly communicated to all staff, for example, the rules on conduct and the acceptance of gifts and hospitality.

**4.6** The Department's Memorandum to the Committee of Public Accounts (Appendix 1) summarises the action taken in response to Mr Allcock's corruption to strengthen organisational and procedural controls. The main contributory factors and the action taken by the Special Compliance Office are summarised in Figure 6.

## **Implementation of the improved controls**

**4.7** The National Audit Office and the Department's Internal Audit Office carried out a joint review between May and August 1997 of all eight of the Special Compliance Offices to examine progress on implementing the improvements in control. Further details of the review are set out at Appendix 2. The findings confirmed that the Office had made significant progress; paragraphs 4.8 to 4.48 below summarise the key findings on the areas of weakness identified in Figure 6.

## **Organisational weaknesses**

### **Senior management control and oversight**

**4.8** During Mr. Allcock's time, what is now the Special Compliance Office, consisted of 40 separate offices, under the control of five senior managers, all based in London. They maintained oversight of their offices through two to three day, annual inspection visits to each. Following the restructuring of the Special Compliance Office the number of offices was reduced to eight. Three of the current four Deputy Directors are located in one of the offices for which they are responsible, and no Deputy Director has control of more than three offices (Figure 1).

**Figure 6**

**Action taken by the Special Compliance Office to address weaknesses in control**

<b>Weakness</b>	<b>Risk</b>	<b>Departmental response</b>
<b>(a) Organisational weaknesses</b>		
Limited management review and control of senior inspectors' work because prior to 1992 40 separate Offices were under the control of 5 senior managers based in London who maintained oversight through annual inspection visits.	These arrangements placed significant reliance on the honesty and integrity of Group Leaders; where, as in Mr Allcock's case, a Group leader fell short of the standards expected, any corrupt activities could remain undetected.	Special Compliance Office restructured. Number of offices reduced to eight and no Deputy Director is now responsible for more than three offices.
No regular rotation of Inspectors to other Offices or types of work. Mr Allcock took charge of London Special Office 2 after he had been there for almost 6 years and remained there until his suspension some three and a half years later.	Failure to rotate key staff on a regular basis created a climate, in Mr Allcock's office, where undesirable relationships could flourish and where new staff felt unable to challenge questionable practices; and risked weakening their independence and objectivity.	Managers now appointed from outside the group where possible; efforts made to rotate staff more frequently.
Absence of comprehensive instructions or specific code of conduct for Special Compliance Office inspectors.	Staff unaware of what is acceptable conduct and unable to challenge unacceptable behaviour if requirements are unclear.	Special Compliance Office manual issued in February 1997 setting out policies, procedures and codes of practice.
Rules regarding the acceptance of hospitality not applied and hospitality registers incomplete or fallen into disuse.	Staff risked corruption by accepting inappropriate gifts or hospitality from taxpayers.	Staff reminded that they are subject to the Department's rules on the acceptance of hospitality. Hospitality registers now used.
Taxpayers under investigation allowed to pay for overseas visits by inspectors.	Compromised inspector's objectivity by reducing independence from taxpayer, creating potential conflicts of interest and increasing the risk of corruption.	Practice stopped in 1992.
<b>(b) Case management weaknesses</b>		
Individual senior staff allowed to investigate and settle cases without oversight.	Corrupt activities remained undetected.	Now allowed in only exceptional circumstances and with senior management approval; widened the types of settlements needing senior management approval.
Investigators notified collectors of amount of tax due.	Provided investigators with the opportunity to suppress collection of tax, as in one of Mr Allcock's cases.	All post-settlement work, including the notification of sums due for collection, now carried out by staff other than the investigator.
Poor file security.	Loss of evidence which might indicate corrupt activity, as in one of the cases on which Mr Allcock was convicted.	Manual includes provision for controlling files sent from local tax offices.
Poor documentation.	Concealment of evidence which could have raised doubts about an investigator's activities - in Mr Allcock's case copies of his official letters to clients were not always on file.	Introduced standard file structure and new manual requires compliance with the standard.

Source: National Audit Office analysis

**4.9** The Deputy Directors also have senior management responsibilities at the Special Compliance Office's headquarters in London. The three provincial Deputy Directors estimate that they spend between 20 per cent and 40 per cent of their time in London away from their offices; the Deputy Director responsible for the Nottingham, Leeds and Edinburgh offices who is based at Nottingham estimates that he spends one day a fortnight in each of his two other offices.

**4.10** The National Audit Office are concerned that the amount of time currently available to the Deputy Directors, in particular the Deputy Director responsible for the Nottingham, Leeds and Edinburgh offices, may be insufficient to enable them all to exercise sufficient oversight of the investigation work carried out in their offices. We therefore recommend that the Department reviews the relative responsibilities of the Deputy Directors to ensure that each one is able to exercise sufficient oversight of their staff.

### **Appointment of Group Leaders and rotation of staff**

**4.11** Mr Allcock was put in charge of London Special Office 2 in 1989 after six years there as an investigator. The Department has since introduced a policy of appointing new Group Leaders, as far as possible, to posts outside the office in which they have previously served as an investigator. This should help spread best practice, challenge inappropriate practices and reduce the risk of such activities continuing undetected or unchallenged. In addition, there has also been a deliberate policy to increase the frequency of rotation of investigators below Group Leader level.

**4.12** Special Compliance Office statistics show that since April 1992, there have been 22 new Group Leaders appointed. Most had previously worked in other parts of the Special Compliance Office but two new Group Leaders appointed in 1997 had both previously worked as investigators in the same group. The Department reaffirmed its intention to continue its policy of appointing new Group Leaders from outside the group but told us that this was not always possible because excluding internal candidates from applying for vacancies would be inconsistent with its equal opportunities policies.

**4.13** The Special Compliance Office has no formal policy for moving investigators on to new duties after they have completed a specified period of time in a particular post. Although they had no reliable information on staff turnover in recent years, the Special Compliance Office told us that it had become increasingly

difficult to transfer staff out of the Office because there were fewer opportunities elsewhere within the Department, for example because of delayering. And it had experienced difficulty in attracting candidates to join the Office, possibly because this would often involve relocation.

**4.14** The National Audit Office consider that the Special Compliance Office should aim to appoint investigators to particular posts for a maximum period of five to seven years. This would improve the cross-fertilisation of ideas, help maintain objectivity, minimise the risk of inappropriate behaviour becoming accepted practice, and provide the Department's network of local tax offices with a source of experienced investigators. Where there are constraints, a move to different duties within the Special Compliance Office should be considered.

## **Instructions and guidance**

### **(i) Manual of procedures**

**4.15** A manual setting out the policies, procedures and codes of practice of an organisation is an essential part of any system of internal control. In response to an Internal Audit Office recommendation the Special Compliance Office began work on the production of a comprehensive manual in August 1994 to consolidate information in a number of separate guides. The Department told us that this was a major task and it was issued to all staff in February 1997. Interim reminders and guidance were, however, issued. A computerised version was also made available during the summer of that year. The manual contains around 90 "essential and mandatory" instructions, together with guidance on a wide range of subjects.

### **(ii) The acceptance of hospitality**

**4.16** All Inland Revenue staff are subject to similar rules on the acceptance of hospitality as apply to all civil servants. The main principle underlying the rules is that a public servant's judgement and integrity should not be seen to be compromised by the acceptance of benefits of any kind from a third party. The nature of the Special Compliance Office's work means that staff may sometimes be exposed to risks that are unusual in other parts of the Inland Revenue or other government departments. They therefore need to be particularly aware of the rules on the acceptance of hospitality, gifts and other benefits.

**4.17** The rules are set out in the Department’s “The Guide - to work in the Inland Revenue”, which was issued in September 1995 to replace the Staff Handbook, and are reiterated in the Special Compliance Office’s manual. The rules state that staff should not accept benefits of any kind from a third party, except:

- isolated gifts of a trivial nature, such as calendars and diaries; and,
- occasional conventional hospitality, such as working lunches on official visits.

The Guide states that staff are required to obtain permission from their Officer in Charge (Group Leader in the Special Compliance Office) to accept anything which is not of a trivial nature. Officers in Charge should, where necessary, seek advice from the Department’s Human Resources Division. The Guide says that free tickets for the theatre or sporting events are examples of the type of gifts that should not be accepted and suggests that a simple test of what is acceptable is whether the cost of the items in question would have been reimbursed by the Department, had the member of staff paid for the items themselves. Staff are required to record any gifts, inducements or hospitality which they do accept in the office’s hospitality register.

**4.18** During visits to the Special Compliance Offices, our study team reviewed all 17 hospitality registers (in some offices registers were kept for individual groups, whilst in others a central register was maintained for the whole office) and found that:

- entries in nine out of the 17 registers consisted solely of working lunches and refreshments at meetings;
- the remainder included instances of the acceptance of a very small number of less trivial items, for example, three tickets to a football match and a selection of compact discs. With one exception (two tickets to the 1997 London Boat show) all of these incidents dated from 1994 or earlier.

In response to our concerns, the Department agreed that although the tickets to the Boat Show had not, in fact, been used they should not have been accepted in the first place.



**4.19** These few examples of less trivial hospitality were identifiable because they had been properly recorded, in accordance with the Department's rules. Although we found no evidence of unrecorded hospitality, it was impracticable for the team to design audit procedures to provide sufficient assurance that hospitality had been properly recorded on all occasions.

**4.20** The Department does not think it appropriate to ban all hospitality or gifts. It considers, for example, that it may be appropriate for a senior member of staff to attend, on behalf of the Department, a function held by a representative body. And it may, in some circumstances, be appropriate to allow an officer to receive a personal memento, for example from a representative body rather than a taxpayer, to mark the end of a long and constructive working relationship. However, the Department intends to revise its rules in order to remove any ambiguity. In future, any member of the Department will need to approach their Officer in Charge before they accept anything other than a trivial gift. The Officer in Charge will take advice from Human Resources Division and, if permission is granted, will confirm this in writing to the member of staff concerned. Permission will only be given in exceptional circumstances of the sort described above.

### **(iii) Overseas travel at the expense of the taxpayer under investigation**

**4.21** Many of the cases dealt with by the Special Compliance Office involve taxpayers who live abroad or who have business operations, assets or income abroad. It is sometimes necessary for investigators to travel overseas in order to gather information and conduct interviews. In its Memorandum to the Committee of Public Accounts (Appendix 1), the Department said that it had not been unusual for taxpayers to offer to pay an investigator's travel and hotel costs for a short overseas visit rather than incur the higher costs of a journey, for themselves and their advisers, to the United Kingdom. This practice had applied for a number of years, and in such cases the investigator would obtain the approval of the Divisional Head before accepting the offer.

**4.22** The records available show that about 50 overseas journeys were undertaken in connection with Special Compliance Office investigations between 1985 and 1991, of which 10 were funded, in part or in full, by the taxpayer under investigation. The practice was confined largely to the London Special Office and to Mr Allcock's group in particular, to the extent that it was referred to within the London office as "the Allcock approach". Only three trips, in 1986 and 1987, involved staff from other offices.

**4.23** The practice was questionable on a number of counts:

- It was contrary to the Department's guidance on accepting hospitality and gifts and risked impairing the objectivity of investigators.
- Rather than investigators making their own travel and hotel arrangements and the Department subsequently invoicing the taxpayer for the costs, the taxpayer made the arrangements. If the Department had made the travel arrangements, the payments and the corresponding receipts would have been included in the Department's accounts in accordance with Government Accounting, and the arrangements would have been transparent and subject to Parliamentary control.
- The arrangements also allowed investigators to accept higher standards of travel and hotel accommodation than the Department would have paid for.

**4.24** The Department recognised that the practice was unwise and although it was reported to have been discontinued in early 1992, our subsequent examination of the Department's records identified two further cases later that year.

- Mr Allcock and another investigator were pursuing a contribution from a taxpayer towards the cost of a journey. The original destination was Nice but this was changed to the United States, where the taxpayer had moved. There is no evidence that this trip, which was originally arranged in March 1992, had been officially approved and the trip was subsequently cancelled by the investigator on 10 September 1992, the day before Mr Allcock was suspended. Certain aspects of the arrangements for this trip led to the Department taking disciplinary action against the investigator concerned (see Column E, Figure 4).
- In July 1992 Mr Allcock and another investigator were authorised to visit Spain at the expense of a taxpayer. By the time this trip took place in September 1992 Mr Allcock had been suspended from duty. Although Mr Allcock's colleague used a ticket supplied by the taxpayer, the travel costs of his replacement were met by the Department.

**4.25** The Department informed us that it was in early November 1992 that the Deputy Controllers were told that the practice was to be discontinued. The study team found no evidence of the practice continuing after September 1992. All overseas trips are now met from Departmental funds and are subject to the Director's prior approval. Clear guidance on overseas travel is now included in the manual.

## Case management

**4.26** Many of the controls over the management of investigations operated by the Special Compliance Office, for example, the approval of settlements, are built into their computerised Case Management Database. Access to certain aspects of the system, for example the approval of the closure of an investigation, is limited to Group Leaders. The database was set up in 1989 and contains records of all cases registered for review or investigation - currently around 40,000.

### The registration and closure of cases

**4.27** The Special Compliance Office manual includes a mandatory requirement for all cases to be registered for review as soon as they have been identified as justifying a preliminary inquiry. If this initial inquiry establishes, for example, that there are outstanding tax liabilities or suspicion of fraud, the case is then registered as an investigation. Group Leader approval is required for the registration of all investigations and for their closure on completion. These arrangements help prevent inspectors undertaking or calling off investigations into taxpayers without the knowledge of their managers.

**4.28** With a few minor exceptions, including three reviews which started prior to registration and two instances where a number of small related investigations were registered under one "umbrella" registration, we found that, in general, these arrangements were working properly.

### Working of cases by Group Leaders

**4.29** The Special Compliance Office recognises that Group Leaders, because of their management responsibilities for the monitoring of cases and the approval of settlements, should not investigate cases themselves, as was the practice in Mr Allcock's day. It now allows Group Leaders to investigate a case personally only in very exceptional circumstances, for example because of the particular sensitivity or complexity of the case. In such cases, specific approval is required

from the Deputy Director, who thereafter fulfils the Group Leader's responsibilities for monitoring the progress of the case. We found that seven Group Leaders had a total of 10 cases registered in their names, approximately 0.4 per cent of the current caseload, all for valid reasons.

**4.30** Group Leaders manage up to 20 investigators and, in 1996-97, six had management responsibility for more than 70 settlements each. These workloads have led to some management responsibilities being delegated to individual investigators, who act as Deputy Group Leaders or Team Leaders (responsible for a specified group of staff). In the London office, we were told that this had led to two members of staff having management authority for cases which they were investigating themselves. The Special Compliance Office told us that it is currently considering how best to address the risks associated with this practice.

#### **Progress reports and case file reviews**

**4.31** The Special Compliance Office manual requires quarterly progress reports to be completed by investigators for each current investigation, showing progress in the previous quarter, the intentions over the next period and the expected outcome. These reports are to be reviewed and signed off by the relevant Group Leader. Our case file examination showed that while quarterly progress reports are completed, they were generally very brief and did not address future actions and expected outcomes. In addition, they were not always signed to show that the Group Leader had reviewed them.

**4.32** Group Leaders told us that, because of the number of cases involved and their extensive day to day knowledge of the cases, they would not always expect to see the case files when reviewing the progress reports. Although they carry out periodic reviews of case files, they would not always expect to evidence this on the files. This practice was confirmed by our file examination which showed that many of the 102 investigation cases contained little evidence of Group Leader review.

**4.33** As part of the arrangements for implementing Self Assessment in its network of local tax offices, the Department has introduced enquiry plans to help inspectors plan investigations. Each enquiry plan will set out the background to the case, how it should be conducted, and what is needed to bring it to a successful conclusion. The Special Compliance Office has decided to adopt the use of these plans, which will provide the opportunity for critical review of the progress of cases by both the investigator and the Group Leader at

regular stages throughout the investigation and will provide evidence that such review has taken place. We consider that these plans should help tighten control over the conduct of investigations and should help to improve the review of casework.

### **Quality assurance**

**4.34** All investigation cases undertaken by the Special Compliance Office are subject to appraisal under a quality monitoring system, which was introduced in April 1995. At the end of each stage of the investigation, investigators assess their own work on a scale of Excellent, Good, Satisfactory and Unsatisfactory, normally in discussion with their Group Leader. The Group Leaders review final assessments and amend them, if required, at the end of the case.

**4.35** The quality monitoring system focuses on the skills and techniques adopted and the outcome of the case, rather than on compliance with mandatory instructions contained in the Office's manual. The system may therefore not be fully effective in ensuring that unorthodox approaches are identified and challenged. The National Audit Office consider that the system could usefully be extended to cover compliance with the manual to provide additional assurance to senior management that the improvements introduced following Mr Allcock's corruption are being applied.

### **Settlement meetings**

**4.36** In most cases, a meeting with the taxpayer and their advisers will be necessary to finalise the settlement of a case. The Special Compliance Office manual requires two officers to attend all settlement meetings to minimise the risk of collusion between the taxpayer and the investigator. In the case of the larger and potentially more difficult settlements, the Group Leader will normally attend. If, in exceptional circumstances, an officer has to attend alone, the Group Leader is required to approve this in advance. If this cannot be done, or if there are any reservations about this arrangement, the manual requires that the meeting should be rearranged.

**4.37** Our review of case files revealed that in 18 out of 56 settlement meetings the Department was represented by a single officer and written authority for this arrangement was not always evident on the case files. The Special Compliance Office told us that most of these were small, uncomplicated cases, or technical

arguments which did not involve interest or penalties, or where the figures had been agreed before the meeting. It had come to the view that some of the mandatory instructions in its manual were impracticable or unnecessary in every case and planned to review the manual.

**4.38** The National Audit Office recognise that it may not always be practicable for Special Compliance Office staff to follow mandatory requirements; in such cases the reason for departure should be clearly documented. We are concerned, however, that, in the absence of revisions to the manual, flexible application of the current mandatory requirements may create uncertainty over what is required and weaken control. The Department told us that in July 1998 the Special Compliance Office completed a review of the manual in conjunction with the Internal Audit Office and that the outcome of this review was to be considered by the senior management of the Special Compliance Office in the near future. We recommend that the Special Compliance Office should review the manual on a regular basis and revise it, as necessary, to reflect current policies.

### **Settlement reports**

**4.39** The manual also requires the production of a report before the settlement can be accepted and the case closed. The aim of the report is to provide clear and unambiguous evidence to support the proposed settlement to enable a decision to be made without the Group Leader or Deputy Director needing to make extensive reference to case files. The reports also provide a clear record in the event of independent scrutiny, for example, for quality assurance purposes.

**4.40** During Mr. Allcock's time in the Special Compliance Office, all settlements could be approved by the Group Leader unless they were over £150,000 and involved penalties or interest, when they had to be authorised by the Deputy Controller. These arrangements gave Group Leaders like Mr Allcock wide powers to approve settlements, including those for sums significantly less than the tax liabilities.

**4.41** Since then, the Department has tightened the authorisation procedures, which now require the Deputy Director's prior approval for:

- all settlements over £250,000;
- all settlements involving penalties or interest, regardless of amount; and,
- all settlements for less than the identified tax liabilities.

The Department told the Committee of Public Accounts that this had resulted in more cases being seen by Deputy Directors at the pre-settlement stage than was previously the case; the Special Compliance Office was, however, unable to provide us with management information showing the extent to which the involvement of Deputy Directors had increased.

**4.42** Our examination of investigation case files revealed that while settlement reports were completed in all cases, including those where there was a nil settlement, there was scope to clarify what had been approved and who had approved it. Some settlement reports lacked clear signatures, of either the investigator or the authorising officer, or dates, and settlement approvals did not always specify the amount being authorised. We recommend that, in approving settlements, Group Leaders and Deputy Directors should clearly state the amount being approved for settlement and, as part of their review, should ensure that reports are signed off by the investigator.

#### **Notification to the Collector of Taxes**

**4.43** In order to ensure that the completion of the settlement process is independent of the person investigating the case and to prevent the investigator from suppressing action to collect the debt, as in Mr Allcock's case, all further work after the acceptance of the settlement should now be carried out by staff other than the investigator. This work includes issuing the "letter of acceptance" of the settlement offer to the taxpayer and notifying the Department's collection offices of the amount to be collected.

**4.44** During the visits to the eight Special Compliance Offices, the study team confirmed that this work was carried out by staff other than the investigator, providing assurance that this important control was working in practice.

#### **File security and tracking**

**4.45** Much of the Special Compliance Office's work is sensitive. Security of files is essential, therefore, both to protect the confidentiality of taxpayers and to retain evidence of the proper handling of cases. The Special Compliance Office follows Departmental rules on security, and in addition, its manual sets out the procedures for logging the receipt and allocation of files received from local tax offices. It does not, however, include arrangements for tracking the Office's own files.

**4.46** The National Audit Office and the Internal Audit Office initially selected 104 review files and 104 investigation files for examination. Of these, the majority were located promptly and easily, but there was some initial difficulty tracking down six files and two others could not be located. The Department believes that the situation now is a considerable improvement on the position in 1992. Nevertheless, it recognises that, even though the number of untraced files is small, some improvement is still needed in this area and it intends to review its current arrangements to see how these could be further tightened.

### **Documentation**

**4.47** Clear and well structured documentation is important to:

- assist the efficient working of cases;
- allow the handover of cases between investigators; and
- provide assurance to senior management that Departmental rules and standards have been applied.

Following a recommendation by the Internal Audit Office, the Special Compliance Office has introduced a standard structure for all investigation files, mandatory compliance with which has been incorporated into the manual.

**4.48** Case files mostly followed the standard structure but there was scope for further improvement. For example, documents were not generally numbered or cross-referenced to other related papers, and were sometimes undated and/or unsigned (see paragraphs 4.30, 4.36 and 4.41). We noted that the Bristol office has devised a log sheet to record key events and cross reference documents. We consider this to be a helpful improvement, and recommend that the Department considers adopting this as best practice.

## **Conclusions**

**4.49** The study team's review of the action taken by the Department to tighten up organisational and case management controls within the Special Compliance Office showed that much has been done to strengthen procedures. Figure 7 summarises a number of areas where the National Audit Office recommend that the position needs to be monitored by senior management or where they should give further consideration to strengthening existing controls.



**National Audit Office  
recommendations on  
existing controls**

**Figure 7**

The Department should review the relative responsibilities of Deputy Directors to ensure that each one is able to exercise sufficient oversight of their staff (paragraph 4.10).

The Special Compliance Office should introduce a policy of appointing investigators for a maximum period, say five to seven years, to minimise the risks of inappropriate practices going unchallenged (paragraph 4.14).

The risks associated with the delegation of Group Leader responsibilities for reviewing casework need to be assessed and addressed (paragraph 4.30).

The opportunities offered by the introduction of enquiry plans should be used to further improve the management and review of investigations (paragraph 4.33).

Quality assurance arrangements could be extended to cover compliance with the mandatory procedures contained in the Special Compliance Office manual to provide assurance to senior management that these important controls are being followed (paragraph 4.35)

The Special Compliance Office should review the mandatory procedures set out in its manual on a regular basis and, if necessary, make amendments, rather than allowing staff flexibility in applying the mandatory rules (paragraph 4.38).

Group Leaders and Deputy Directors should clearly state the amount they have approved for settlement and should ensure that settlement reports are signed off by investigators (paragraph 4.42)

The file tracking arrangements should be extended to cover the Special Compliance Office's own files to minimise the risk of files going astray (Paragraph 4.46).

The Special Compliance Office should emphasise the importance of clear documentation and should consider adopting the log sheet used by the Bristol Office to record key events (paragraph 4.48).

**4.50** While the new arrangements provide greater assurance that fraud and corruption will be deterred or detected, the effectiveness of the controls relies on them being actively and consistently applied and on strong and active management sensitive to the risks involved with the work and the warning signals to watch out for. This is especially important in an area such as the Special Compliance Office, where the nature of the work undertaken requires staff with determination and initiative in order to achieve results in cases which often involve high profile and wealthy individuals where large sums of unpaid tax are at stake.

## Part 5: Whether more could be done to reduce the risk of corruption

**5.1** Following the discovery of Mr Allcock's corruption, the Department took a number of initiatives to improve organisational and procedural controls (see Figure 6). Although we have made a number of recommendations for strengthening these controls, we recognise that the control environment now in place provides the framework for much firmer control than the regime under which Mr Allcock operated.

**5.2** Notwithstanding these improvements, the National Audit Office examined whether the Department could do more to reduce the risk of corrupt activities going undetected. We therefore considered whether there were any further controls or measures which the Department could introduce to counter the risk of fraud and corruption.

**5.3** The inquiries into Mr Allcock's conduct and the disciplinary proceedings against his colleagues indicated that Mr Allcock's flair as an investigator and his demonstrated success in identifying tax liabilities and reaching settlements with taxpayers may have led to the uncritical acceptance of his working methods when complaints were made of his over-zealous behaviour. For example, a complaint made about Mr Allcock in 1986 about the abuse of his powers to search a taxpayer's property was originally considered to be unfounded. When the complaint was re-examined during the investigations into his conduct following the discovery of his corruption, it was concluded that the complaint had, in fact, been fully justified.

**5.4** Three of Mr Allcock's colleagues, who were themselves subsequently disciplined for acts of misconduct, claimed that they had concerns at the time. They said that they chose not to raise these with senior management because they believed it would be unproductive, since Mr Allcock was well thought of.

**5.5** This raises the question whether the Department and, in particular, senior management in the Special Compliance Office, were sufficiently aware of the risk of corruption and fraud and the behavioural characteristics to watch out for (see Figure 8).

**Behavioural  
characteristics of the  
corrupt employee**

**Figure 8**

- **Extravagant lifestyle:** this is the most common factor in the detection of corrupt employees;
- **Financial problems:** possibly arising from loan shark or other unusual debts, or from a drug, alcohol or gambling addiction;
- **Rule breaking:** a person taking corrupt payments will often take action himself (or direct others to do so), to bend, break or ignore standard operating procedures;
- **Social relationships:** with people with whom he/she has professional dealings, particularly people with whom the recipient appears to have little in common;
- **Acceptance of gifts:** an officer who regularly accepts inappropriate gifts is often susceptible to larger payments;
- **Making excuses:** the corrupt employee will often make excuses for deficiencies in the payer's expected performance;
- **Genuine need:** although greed is the motivating factor in most cases, legitimate pressures, such as family illness etc, can sometimes induce participation in illegal schemes.

Source: National Audit Office  
analysis of published guides on  
the prevention of fraud and  
corruption

**5.6** With the benefit of hindsight, it is clear that Mr Allcock's extravagant lifestyle, unorthodox approach, acceptance of hospitality and gifts, and poor documentation were warning signals which might have alerted his senior managers to the potential risks. However, while there were some concerns about his approach and documentation, none of his senior managers who were interviewed by the Department said that they were aware of Mr Allcock's lifestyle or his propensity to accept hospitality or gifts.

**5.7** The National Audit Office therefore examined what more the Department could do to:

- make staff aware of the conduct expected of them;
- detect staff who may be open to corruption; and
- make appropriate arrangements for investigating allegations of fraud or corruption.

## **Improving employee awareness of standards of conduct**

**5.8** Many organisations, in both the public and private sectors, have a code of conduct which sets out the standards and behaviour they expect their staff to adopt. In the Department's case this is included as a chapter in "The Guide - to work in the Inland Revenue", which was introduced in 1995 to replace the Staff Handbook. The Guide also includes a separate chapter on fraud.

**5.9** The Allcock case suggested that Special Compliance Office staff were unfamiliar with the standards expected of them and a more recent staff survey across the Department, in 1997, showed that 40 per cent of staff were unfamiliar with the Code of Conduct. In response, the Department has taken steps to remind staff of the requirements through articles in "ReveNews", the Departmental magazine, and in "Insight", its business journal. The articles include details of cases where staff have been disciplined for failing to comply with the Code of Conduct. In April 1998, the Department also issued, to every employee, a new version of the Personal Handbook, which emphasises the importance of the sections covering honesty, gifts and hospitality and private conduct, as well as re-producing the Civil Service Code. In addition, in summer 1998, the Department plans to introduce a register in which potential conflicts of interest are to be recorded.

**5.10** The Department's initiatives should serve to improve and maintain employee awareness of the standards of conduct expected. We suggest that the Department should seek positive confirmation of the impact of its initiatives through periodic staff surveys and should consider taking further action, if necessary, in the light of the results. Further action might include enhancing induction arrangements for new staff, and for existing staff appointed to new posts, particularly where they will be personally responsible for financial negotiations, to remind them that the posts will involve personal dealings with people, including the settlement of their liabilities, and that it is important that they are seen to be impartial and that their integrity is not compromised in any way.

## **Detection of corruption**

**5.11** Some of Mr Allcock's colleagues who were subsequently subject to disciplinary proceedings claimed that questioning his conduct would be unproductive because senior management were unlikely to take action against him. The Inland Revenue has since introduced a confidential reporting system to an independent internal inquiry branch which staff can use to report their concerns without fear of retribution. Had such arrangements been in place

previously, they might have alerted the Department to Mr Allcock's fraud and misconduct sooner. The confidential reporting system has led to a number of disciplinary investigations into the conduct of staff, for example where there have been allegations that they have disclosed taxpayer information to a third party.

**5.12** These arrangements for detecting misconduct rely on a third party reporting their concerns to the Department. The Department also carries out its own preventive checks by vetting individuals on recruitment, largely to check their suitability to handle classified information and protect the confidentiality of taxpayer information. Where staff are appointed to high risk posts and hold a position of trust, vetting could be extended to assess whether they are likely to be susceptible to corruption prior to appointment, and at intervals thereafter. Enhanced vetting arrangements of this kind are in place for public servants who deal with military and other security matters of a highly classified nature and there is a case for considering an extension of this approach to the relatively few individuals in the Department exposed to significant financial risks. In addition, the Department could consider drawing the possible warning signals (Figure 8) to the attention of their managers.

## Investigation of internal fraud and corruption

**5.13** The Special Compliance Office has departmental-wide responsibility for investigating allegations about internal fraud and corruption on behalf of the Department's Human Resources Division. Whilst in Mr Allcock's case there was no evidence to suggest that the investigation was not carried out thoroughly and objectively, in principle, where complaints are made about staff in the Special Compliance Office these arrangements may risk compromising the objectivity of the investigation team. The National Audit Office recommend that the Department's Human Resources Division addresses this risk by assigning an independent member of staff to the investigation team where the allegation relates to the Special Compliance Office.

## Future action

**5.14** The Department told us that it had recently agreed a fraud strategy to identify the fraud and corruption risks within the organisation and develop a co-ordinated response. As part of this initiative it was considering a number of further measures to minimise the risk of fraud and corruption. These include:

- publication of a Departmental policy statement on fraud;

- improved coordination between the different parts of the Department with an interest in detecting and deterring fraud;
- a more proactive approach to detecting fraud through, for example, data-matching techniques.

These developments, together with the measures already taken to raise and maintain employees' awareness of the standards and behaviour expected reflect the Department's determination to learn the lessons from the Allcock case and to maintain high standards of conduct and professionalism.

## Conclusions

**5.15** The Department has taken positive action to emphasise the standards of conduct it expects from its staff and has introduced arrangements for staff to report suspicious activity to an internal inquiry branch. The National Audit Office welcome the Department's decision to consider taking further action under the umbrella of a fraud strategy and suggest that, in taking these initiatives forward, it should consider:

- periodic staff surveys to assess the impact of its initiatives to improve awareness of the standards of conduct expected (paragraph 5.10);
- enhanced vetting of staff most exposed to the risk of corruption (paragraph 5.12);
- alerting managers to the warning signals in an employee's behaviour which are associated with the risk of corruption (paragraph 5.12); and
- appointing independent staff to teams responsible for investigating allegations of suspected fraudulent activity committed by Special Compliance Office staff (paragraph 5.13).

# Appendix 1

## Departmental Memorandum to the Committee of Public Accounts

### The case of Michael Allcock

#### Introduction

**1** On 18 February 1997 Michael Allcock was convicted, after a trial lasting 76 days at the Old Bailey, of 6 offences of corruption which took place in 1992 or, in most instances, earlier. He was sentenced to 5 years imprisonment. He was acquitted of 5 further offences. He had already been acquitted during the course of the trial at the direction of the Judge on two charges. Michael Allcock had been an investigator in one of the Inland Revenue's Special Offices. At the time of his arrest he was Group Leader (general Civil Service Grade 6 equivalent) in charge of one of the London Special Offices, and was responsible for around 10 investigators. Figure 1 in the Annex shows the position of the Special Offices within the Inland Revenue Compliance and Collection Division in 1992.

**2** The investigation of a small number of other staff for possible conduct and disciplinary offences associated with Mr Allcock's actions continues.

**3** This note sets out the background to the Allcock case, and describes the measures that have been taken to put matters right and prevent any recurrence.

**4** Mr Allcock's case was a wholly exceptional one for the Inland Revenue. Our work demands the highest standards of integrity from staff when carrying out their duties. In Mr Allcock's case, the Department provided the fullest possible support to and co-operation with the police investigation and in the criminal proceedings, underlining our determination to maintain those high standards. Any member of staff who lapses from those high standards must be prepared to face the consequences.

**5** While no organisation can be completely proof against the dishonest actions of particular individuals, the Inland Revenue deeply regrets that one of its officers has fallen so far short of the standards of probity, integrity and trust that the public has a right to expect.

## **Background**

**6** Suspicions about Mr Allcock's behaviour came to light during an Inland Revenue investigation into an accountant. It appeared from papers obtained from the accountant's firm that he was suspicious of the close relationship between Mr Allcock and a client. This prompted an internal investigation of Mr Allcock by the Board's Investigation Office and a senior manager in Special Compliance Office. Mr Allcock was suspended from duty on full pay on 11 September 1992 while an investigation was carried out. In November 1992 after further enquiries by the Inland Revenue, the Metropolitan Police Fraud Squad was invited to investigate the matter. The Inland Revenue co-operated fully with the police investigation thereafter. Mr Allcock remained suspended from duty throughout the police investigation. The police laid criminal charges against him on 20 January 1994, at which point he was suspended from duty without pay, in accordance with the Inland Revenue's disciplinary rules. He remained suspended without pay throughout the period up to his conviction, though he claimed, and under the normal Departmental rules was paid, concessionary hardship payments. In accordance with its normal policy on disciplinary matters, the Board is currently considering Mr Allcock's position in the light of the outcome of the trial.

**7** The decision to prosecute Mr Allcock was the responsibility of the Crown Prosecution Service, following a report by the police of their investigation. The Crown Prosecution Service considered there was sufficient evidence to commence proceedings for corruption. The Crown Prosecution Service obtained the necessary leave from the Attorney General to bring the prosecutions. Mr Allcock was indicted on 13 counts involving the corrupt receipt of money, the services of a prostitute, hotel accommodation, air tickets, and holidays in return for showing favour in relation to the tax affairs of taxpayers who were accused with him of corruption.

**8** Three other people (none of whom were civil servants) were charged with Mr Allcock. The case against one of these was dismissed by the Magistrate at the committal stage. A second was found not guilty on the directions of the Judge during the trial. A third was convicted on one count of corruption and received a sentence of 9 months imprisonment suspended for 18 months.

## **Implications**

**9** The Inland Revenue is continually seeking ways to improve its accountability and management control arrangements, and the Allcock case emphasises the importance of this. As a result of this case, the Inland Revenue has taken action to reinforce:



- proper accountability for and strong management control and oversight of investigations, particularly in an area of work where, as in the case with Special Compliance Office, determination and initiative are required in order to uncover and quantify evasion and avoidance in difficult, complex and often very sensitive cases where large amounts of tax are at risk;
- proper procedures regulating the receipt of hospitality and gifts, and where overseas travel is necessary in the course of pursuing unpaid tax liabilities.

### **Accountability and control**

**10** As Figure 1 in the Annex shows, the present Special Compliance Office was created from a number of separate offices. Mr Allcock had been employed in one of these – London Special Office 2. Special Offices ceased to exist as a separate entity in 1992 when they became part of Special Compliance Office under the Next Steps initiative. Figure 2 in the Annex shows the present structure of the Special Compliance Office. Since 1992, and in the light of the facts then emerging, the Department has undertaken a systematic programme of structural and managerial change within Special Compliance Office, the effect of which has been to increase the day to day control of casework exercised by senior management of Special Compliance Office (at Senior Civil Service level – previously general Civil Service Grade 5 equivalent), and to increase the accountability of Group Leaders and individual investigators through rigorous quality control processes (including independent checking) and detailed time recording procedures.

#### **(a) Special Compliance Office**

**11** During Mr Allcock's time, what is now Special Compliance Office comprised about 40 separate Enquiry Branch, Special Office and other specialist offices around the country. Details are contained at Figure 1 in the Annex. Each was managed by a Group Leader (Grade 6 level) who was responsible to the Principal Inspector (now known as Deputy Controller<sup>1</sup> – formerly Grade 5 level, now members of the Senior Civil Service) for the performance of the office. As part of the restructuring mentioned above, the various functions carried out by the disparate Groups were integrated into a single office and the number and location of the offices reduced to eight.

<sup>1</sup> Deputy Controllers became Deputy Directors in October 1997

**12** Before this integration and restructuring, all the Deputy Controllers were based in London and maintained oversight through inspection visits. Following integration, three of the four Deputy Controllers are now located in one of the offices for which they are responsible, and no Deputy Controller is responsible for more than three offices. This has ensured a much more hands-on and accountable role for the Deputy Controllers as managers responsible for all aspects of the performance of their offices.

**13** At Group Leader level, a policy has been introduced of not appointing new Group Leaders, so far as possible, from the same office as that in which they have served as investigator. There has also been a deliberate policy of aiming to increase the rate of turnover of investigators below Group Leader level.

**14** Deputy Controllers are more closely involved in the management of casework than was the practice in Mr Allcock's time. They are directly involved in the key decisions in the most important of cases and have a good working knowledge of the main or contentious issues arising.

**15** As part of the process of integrating offices, procedures for settling investigations have been rationalised and tightened. More cases are seen by Deputy Controllers at the pre-settlement stage than was the case in Mr Allcock's time. After approval of the settlement, all further work to finalise the settlement is carried out by staff other than the investigator, to make the finalisation of the settlement process independent of the person working the case.

**16** A new and rigorous quality monitoring system has been introduced following consultation with the Department's Internal Audit Office, involving the detailed and specific reviews of every working case by investigators, and a combination of targeted and random sampling by Group Leaders. In addition to the checks made by Deputy Controllers of proposals to settle cases, they also check all working cases over three years old. There is also an independent quality audit conducted in a sample of cases by a Quality Monitoring Officer who is outside line management and who reports direct to the Controller.

**17** In order to maintain control of how investigators and managers use their time, a rigorous and detailed computer-based time recording system has been introduced for all staff. This is capable of identifying the time spent on individual cases and of demonstrating how individual officers are spending their time.

**18** In 1993/94, subsequent to the arrest of Mr Allcock, the Department's own Internal Audit Office carried out a review of Special Compliance Office's security and control processes relating to its investigation functions. The Internal Audit Office endorsed the changes that had by then already been made to management control and accountability in Special Compliance Office. Their further recommendations have all been implemented.

**19** The Department published Codes of Practice in January 1995 covering the work of Special Compliance Office. These set out the rights and responsibilities of taxpayers who are investigated by one of its offices. These are publicly available and are given to taxpayers at the commencement of investigations. The Department's complaints procedures apply to Special Compliance Office as they do to any other office, as does recourse to the Adjudicator and the Parliamentary Commissioner for Administration.

#### **(b) Local Tax Offices**

**20** Mr Allcock's corrupt activities took place in the late 1980s and early 1990s while he worked in Special Office. However, the Department expects all its staff involved in investigation work to exercise the highest level of integrity and probity. There are detailed arrangements for the settlement of all investigations, involving authorisation at various levels of management according to the size and complexity of each case. Settlement of the most important investigations carried out in local tax offices is approved by Head Office.

**21** The Department has operated an investigation quality control system since 1985 involving post settlement checking by the investigation manager, the District Inspector or a Regional Manager on a random sample of settled investigations. This is in addition to the regular in-progress checks carried out on investigations remaining unsettled over 6 months. To reinforce levels of control and quality assurance, a new quality checking system is being introduced in local offices, involving detailed self reviews by Inspectors and more rigorous in-progress and post settlement checks by managers. A feature of this is peer-group checking by officers from other offices and, in a proportion of cases, from other Regions.

**22** In 1993, the Department published a Code of Practice covering the conduct of investigations carried out by local tax offices. As with the Special Compliance Office Codes of Practice, this sets out the rights and responsibilities of taxpayers who are under investigation and explains how to complain if they are dissatisfied with the conduct of the investigation. Subsequently, other Codes of Practice have

been published covering areas of the Department's investigation and compliance activity involving the inspection of employers' and contractors' records, the inspection of special tax schemes operated by financial intermediaries, the inspection of charities' records, and the collection of unpaid tax.

### **Overseas travel: receipt of hospitality and gifts**

**23** Because many of the cases dealt with by Special Office involve assets or income overseas, or taxpayers who live or have business operations abroad, it is sometimes necessary for investigators to travel overseas in order to gather information or conduct interviews. Prior to April 1992, some visits were authorised where the cost was borne by the taxpayer. This practice had applied for a number of years and was operated with the approval of the Under Secretary whose responsibility it was to authorise all overseas travel by members of Special Office. There was nothing sinister in such arrangements. In some cases the taxpayer, for reasons of his own, required the interviews to take place abroad. It was not unusual in such cases for taxpayers to offer to pay all or part of the Special Office investigator's travel and hotel costs for a short overseas visit. However, the Department recognised that this practice was unwise and it was discontinued early in 1992.

**24** In addition, the practice for the approval of overseas travel at the expense of the Inland Revenue by officers in the Special Compliance Office has been tightened up. Investigators must consult their Group Leader before making any arrangements or commitments to travel abroad on official business. If the Group Leader is satisfied that the journey is necessary, a report must be made to the Deputy Controller who, if he is satisfied, will seek the Controller's approval for the visit. The Controller approves all official travel abroad, and maintains a record of all approvals given. Investigators are accompanied by a colleague on any foreign visit and the investigator is required to make a full record of events on all overseas journeys.

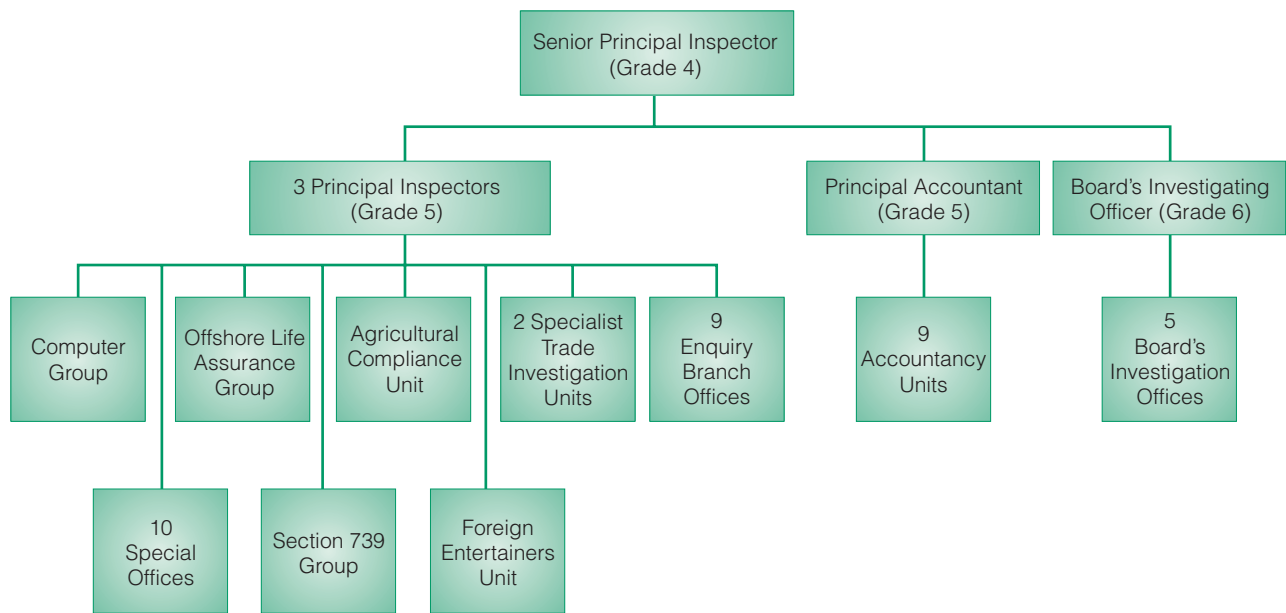
**25** Inland Revenue staff are subject to the same rules on the receipt of hospitality and gifts as apply to all civil servants. They are not allowed to demand or receive gifts, rewards, or benefits of any kind from the public, although inexpensive gifts such as calendars and diaries, and hospitality such as infrequent working lunches on official visits may be accepted but must be recorded. Staff are periodically reminded of these rules.

**Inland Revenue**  
**6 March 1997**

# Annex

**Figure 1**

**Compliance and Collection Division 4 - January 1992**



## Locations

Enquiry Branch Offices - Edinburgh, Leeds, Nottingham, Manchester, Liverpool, Birmingham, Bristol (2), London.

Special Offices - Edinburgh, Leeds, Trafford, Manchester, Bootle, Solihull, London (2), Sheffield, Bristol.

Board's Investigations Offices - Hinchley Wood, Stockport, Edinburgh, Solihull, London.

Foreign Entertainers Unit - Solihull

Section 739 Group - Hinchley Wood.

Special Trade Investigation Unit - London, Leicester.

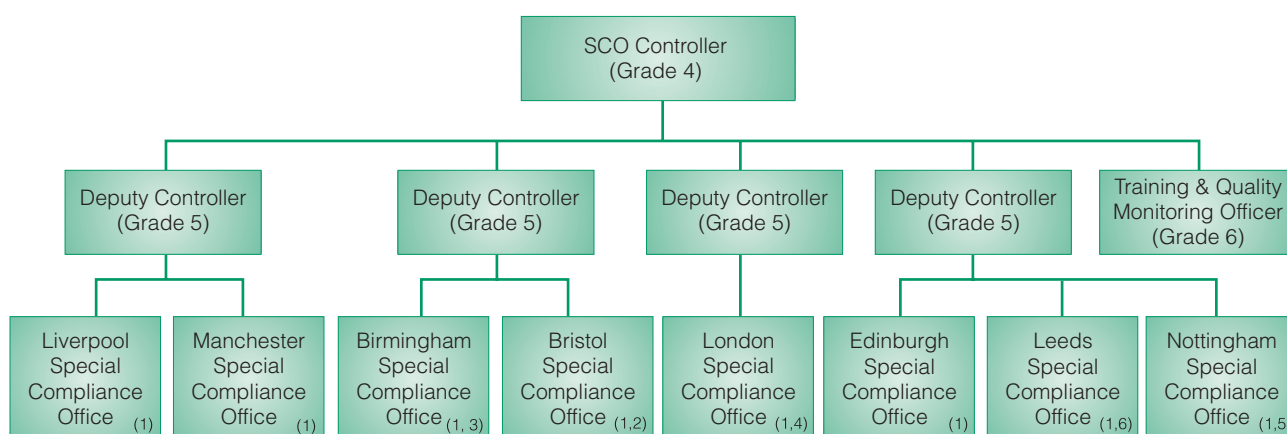
Agricultural Compliance Unit - Sheffield.

Offshore Life Assurance Group - Hinchley Wood.

Accountancy Units - co-located with each Enquiry Branch Office.

**Figure 2**

**Special Compliance Office - January 1997**



Notes: A) The work done in these offices includes:

1. Work on avoidance, serious fraud and criminal prosecution.
2. Research and Development.
3. Foreign Entertainers Unit.
4. Insolvency Unit, Fraud Group, Exchange of Information Group, and Incentive Valuation Unit.
5. Computer Group, Board's Investigation Office (Investigations of Inland Revenue officers) and Offshore Life Assurance Group.
6. Agricultural Compliance Unit.

B) In October 1997, the Controller and Deputy Controller grades were redesignated Director and Deputy Director, respectively.

## Appendix 2

# Study methodology

### Introduction

**1** The study was undertaken by a joint team from the National Audit Office and the Inland Revenue's Internal Audit Office. Fieldwork was carried out between May and August 1997, and included visits to all eight Special Compliance Offices as well other locations, and discussions with Deputy Controllers, Group Leaders and other senior staff in the Special Compliance Office and the Inland Revenue.

### Visits to Special Compliance Offices

#### Full visits

**2** Full visits were made to five Special Compliance Offices at Bristol, London, Manchester, Nottingham, and Edinburgh. These offices represented one from each Deputy Director's command, plus the one office in Scotland. At each office, the joint study team:

- reviewed a sample of investigation cases, selected at random from lists of all cases closed between April 1995 and March 1997;
- reviewed a sample of review cases selected on the same basis;
- reviewed all hospitality registers;
- interviewed all Deputy Directors;
- interviewed all Group Leaders (or in the absence of the Group Leaders, their deputy); and,
- had informal discussions with other investigators and support staff as required.

### **Other visits**

**3** Similar visits were made to the remaining Special Compliance Offices in Birmingham, Leeds and Liverpool. During these visits, the study team completed the same programme of fieldwork, with the exception of the review of full investigation cases.

### **Examination of case files**

**4** During the course of these visits, the study team reviewed 102 full investigation cases and 98 preliminary reviews. A detailed casework pro-forma was devised for recording the results of all case file reviews. Key aspects of control covered by the review included:

- the date of registration and closure of the case and the authorisation for both;
- the review of cases by the Group Leader or, where appropriate, the Deputy Director;
- evidence of hospitality or overseas travel and the appropriate authorisations;
- amount, calculation and approval of the settlement, where appropriate; and
- the date of and Special Compliance Office attendance at the formal settlement meeting.

The last two controls related only to the review of full investigation cases.

**5** The case files often consisted of several volumes (in one case as many as 14), and it was impossible for the study team to review all papers on the files. In order to ensure, as far as possible, that relevant papers were not overlooked, the Offices were asked to identify in advance specified key documents, including the earliest papers on the file; documents concerning hospitality or overseas travel; documents indicating reviews by Group Leaders; minutes of settlement meetings and authorisation of settlement.



## Interviews

**6** In order to ensure that all relevant matters were discussed, an outline structure was prepared as a basis for the interviews with the Group Leaders. The main topics covered included, the Group Leaders background and previous experience; the selection and authorisation of cases; settlement procedures; quality review; hospitality; and overseas travel. Interviews with Deputy Directors were generally less formally structured and mainly covered matters arising from our findings.

## Other visits

**7** The National Audit Office also visited the Special Compliance Offices in London and Nottingham and the Inland Revenue's Human Resources office in Nottingham, in order to discuss and review the papers on:

- quality monitoring;
- the case management database;
- overseas travel;
- disciplinary action; and
- complaints.

## Appendix 3

# Schedule of charges and verdicts against Mr Allcock

The case was heard in the Central Criminal Court between 24 October 1996 and 19 February 1997.

### Statement of Offences

All 13 counts relate to corruption, contrary to Section 1(1) of the Prevention of Corruption Act 1906.

### Particulars of Offences

All counts relate to corruptly giving or accepting gifts or consideration, as an inducement or reward for showing favour in relation to the taxpayer's affairs.

<i>Count</i>	<i>Details</i>	<i>Verdict</i>	<i>Sentence</i>
1	On a day before 1 January 1991, did accept the services of a prostitute, from taxpayer A	Guilty	12 months imprisonment to run consecutively to other counts.
3	Between 16 January and 24 January 1991, did accept from taxpayer A the payment of an hotel bill in the sum of £213.67.	Not guilty	
5	Between 30 August and 22 October 1992, did accept from taxpayer A the payment of an hotel bill in the sum of £151.98.	Not guilty	
7	Between 17 August and 13 September 1988, did accept from taxpayer B the payment of an hotel bill in the sum of 35,602 French Francs.	Not guilty.	
8	Between 15 August and 10 September 1991, did accept from taxpayer B three return air tickets from London to Nice, France and the payment of an hotel bill in the sum of 28,549 French Francs.	Not guilty	
9	Between 2 April and 6 April 1989, did accept from taxpayer C a return air ticket from London to Nice, France, the payment of an hotel bill in the sum of 8,132 French Francs and general entertainment.	Not guilty	

continued...

Special Compliance Office  
Prevention of Corruption

<i>Count</i>	<i>Details</i>	<i>Verdict</i>	<i>Sentence</i>
10	Between 10 June and 17 June 1992, did accept from taxpayer C the accommodation and general expenses of a holiday in Majorca.	Not guilty	
11	Between 20 September and 26 September 1991, did accept from taxpayer D the accommodation and general expenses of a holiday in Marbella, Spain.	Not guilty.	
13	Between 14 July and 26 August 1992, did accept from taxpayer E two first class air tickets from London to New York, accommodation, the cost and expenses of a return cruise from New York to Bermuda, the payment of an hotel bill in the sum of \$2,417.21, and three air tickets from New York to London travelling on Concorde.	Guilty	12 months imprisonment, to run consecutively to other counts.
14	On a day before 18 June 1987, did accept the sum of £2,500.	Guilty	12 months imprisonment, to run concurrently with counts 15 to 17 but consecutively to counts 1 and 13.
15	On a day before 14 May 1990, did accept the sum of £1,160.77.	Guilty	3 years imprisonment to run concurrently with counts 14, 16 and 17 but consecutively to counts 1 and 13.
16	On a day before 11 December 1991, did accept the sum of £6,000.	Guilty	3 years imprisonment to run concurrently with counts 14, 15 and 17 but consecutively to counts 1 and 13.
17	On a day before 7 May 1992, did accept the sum of £4,800.	Guilty	3 years imprisonment to run concurrently with counts 14 to 16 but consecutively to counts 1 and 13.

NB: The lower sentence on count 14 was due to the fact that the maximum sentence at the time of the offence was 2 years imprisonment.