

## **AUDIT COMMITTEE**

**20 DECEMBER 2012**

### **INVESTIGATIONS RELATING TO FINANCIAL IRREGULARITIES**

Report from: Internal Audit

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#### **Summary**

This report is to inform Members of the outcome of recent investigations.

#### **1. Budget and Policy Framework**

- 1.1 Following the Council's decision to establish the Audit Committee, it is within the remit of this Committee to take decisions regarding accounts and audit issues.

#### **2. Background**

- 2.1 Part of a sound internal control framework requires an organisation to devote resources to investigating suspected irregularities.
- 2.2 An irregularity investigation is set out at Annex A to this report. The Exempt Annex B provides details of two irregularity investigations concluded, and details where control issues were identified. There is also a progress report on one ongoing investigation.
- 2.3 A joint working protocol between Audit Services and HR is being developed regarding the investigations of suspected fraud by Medway employees. Since the joint working process began there has been an increase in referrals to Audit Services and therefore it is anticipated that there will in future be an increase in investigations reported to this Committee.
- 2.4 In the current financial year there have been thirteen referrals for audit investigation. The level involvement of Audit Services in the investigation process is determined based on a number of factors including the complexity of the case, whether a criminal investigation needs to be undertaken, and how the concern came to light. Where audit services undertake an investigation the outcome will be reported to Audit Committee once the case has concluded. The conclusion may be through the disciplinary process, criminal proceedings, or may result in no further action required. Control

weaknesses identified through the investigation process will be reported to management and a summary provided to Audit Committee.

- 2.5 Once the protocol for joint investigation working between Audit Services and HR has been finalised this will be provided to Audit Committee for information.

### **3. Risk Management, Financial and legal implications**

- 3.1 There are no risk management, financial and legal implications arising from this report.

### **4. Recommendations**

- 4.1 Members to note the outcome of the irregularity investigations and the actions taken.

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#### **Background papers**

None.

Allegation/Initial Issue	Audit Services Involvement	Finding	Outcome of Investigation	Management Actions
<p><b>Transport Procurement Unit</b> Issue raised by the TPU that a taxi firm contracted to provide a taxi service for a particular school route, was not in fact providing the service.</p>	Full Investigation	<p>Summary provided below regarding the overpayments identified. These overpayments were caused by erroneous invoices being paid – however these did not directly correlate to the initial issue raised, and the errors which were found during the investigation were in part the responsibility of the TPU where controls that were in place in principle, were not applied in practice.</p>	Management seeking repayment of the identified overpayments from the taxi firm.	<p>The calendars of individual schools' opening days are made available to staff within TPU. These need to be checked prior to the payment of the invoice.</p> <p>Amendments to routes are recorded on the TPU database. Where there are changes to a route the database must be checked prior to the invoice being paid.</p> <p>Where TPU become aware of a change to a route that change is confirmed with the contractor, the contractor signs up to the amendment, and this document then forms part of the ongoing contract. Invoices should not be paid until the amendment has been agreed by the contractor.</p>



## TPU

Medway Council's Transport Procurement Unit (TPU) arranges transport for Special Educational Needs (SEN) and mainstream pupils to and from school. The provision of transport for SEN pupils is either on the basis of a fixed term contract or ad hoc arrangements with local taxi companies, subject to the tender process appropriate for each arrangement.

TPU brought to the Audit Team's attention a particular route where concerns had been raised about whether the taxi firm had been invoicing for a route where they had not in fact been providing the service.

The particular issue raised was subject to a full investigation and it was found that inaccurate invoices had been paid in relation to the route and the children named on it. In total the overpayment arising from the payment of these invoices has been calculated as £7,076.

The most significant overpayment was caused when an additional child was added to this route, at an additional cost of £20 per day, but invoices continued to be paid for the route previously used for this child, at a cost of £70 per day. This error continued from September to December 2011 and resulted in the contractor being overpaid £4,270.

The remainder of the total overpayment arose due to invoices being paid for dates when the School was closed. The invoices for the route for 2009-10, 2010-11 and 2011-12 were cross referenced to the record of the days that the School was open and on this basis it would appear that this amounts to an overpayment to the contractor of £2,806.

Although not arising in a further overpayment as it did not affect the total invoice value, the investigation also found that invoices were paid where a child, which TPU were aware no longer needed the transport provision, continued to be shown on the invoice as using that route.

The Internal Audit report issued October 2010 identified a significant number of control issues that needed to be addressed and the investigation found, in line with the audit findings covering that period, that there was a lack of documentation surrounding the commencement of the route.

The overpayments have arisen due to inaccurate invoices being presented and TPU paying these invoices in error. The action plan provided to management highlights the key failings in the application of controls that allowed these overpayments to occur. The recent internal audit follow up regarding the TPU found that overall the control arrangements in place within the TPU are now satisfactory, but this investigation has demonstrated that these controls are not being applied consistently.

In addition to ensuring that the specific controls noted to management are implemented consistently we have advised TPU Management that it would be beneficial to highlight the findings of this investigation to the TPU team in order to emphasise the importance of applying the monitoring and check controls robustly, as any errors on invoices can very quickly result in significant overpayments. It is also critical to maintain accurate records in order to meet the Council's safeguarding obligations.

## **CONCLUSION**

The contractor was at fault in providing inaccurate invoices to the Council, but TPU, in failing to apply the controls in place consistently, have failed in this instance to monitor the contract effectively. TPU will be seeking recovery of these overpayments.