

Audit & Counter Fraud Shared Service
Medway Council & Gravesham Borough Council

Medway Commercial Group

Summary Audit & Counter Fraud Report

Medway Commercial Group

1 Background

- 1.1 Medway Commercial Group is a Local Authority Trading Company (LATCo) incorporated in December 2015. The purpose of the company was to deliver services on behalf of the council with a view to making a profit, which the council could not do itself in its operation of the services. Medway Council are the 100% shareholder and any profits from the company should be transferred to the Council.
- 1.2 The Council appoints the MCG CEO and also determines which council officers will act as Non-Executive Directors on the company board to protect the council's interests. Those appointments and any changes are listed in the timeline section of this report. Since the original incorporation, a subsidiary company has been created to separate the services provided, namely Medway Commercial Services.
- 1.3 An MCG contractor made contact with the Council's Chief Legal Officer (Monitoring Officer) under the Council's whistleblowing procedures to report concerns that officers within the company and members of the board were potentially using the company for personal benefit and also mismanaging the funds of the company through fraudulent activity. As a consequence of these concerns being raised, enquiries commenced in order to establish whether there was substance to the allegations of fraudulent activity.

2 Timeline

- 2.1 **21 December 2015** – MCG Incorporated with Vikram Sahdev appointed as Director and CEO.
- 2.2 **23 February 2016** – Further appointments made and board formed;
 - Andrew Mackness – Director and Chairman of Board (Medway Councilor)
 - [REDACTED] – Director and Non-Executive Board Member (Medway Council Officer)
 - [REDACTED] - Director and Non-Executive Board Member (Medway Council Officer)
- 2.3 **11 July 2016** – [REDACTED] resigns as Director after leaving employment with Medway Council.
- 2.4 **30 June 2017** – A number of changes to board composition;
 - Vikram Sahdev resigns as CEO and Director of MCG. Retained as a contractor.
 - Ian Price appointed as new Director and CEO of MCG
 - [REDACTED] appointed as Director and Non-Executive Board Member (Medway Council [REDACTED])
- 2.5 **18 October 2017** – [REDACTED] resigns as Director after leaving employment with Medway Council.
- 2.6 **02 May 2018** – Medway Commercial Services (MCS) incorporated with Vikram Sahdev appointed as Director. [REDACTED] appointed as company secretary for both MCG and MCS after taking up role as Head of Legal within MCG.
- 2.7 **19 October 2018** – Whistleblower raised concerns with Medway Council Chief Legal Officer in relation to the activities of senior staff and board members within MCG, namely the CEO Ian Price, Vikram Sahdev and the Chairman Andrew Mackness. Invoicing linked to companies connected to Ian Price and Vikram Sahdev were shown along with evidence allegedly indicating that works had been carried out on projects linked to the company owned by Andrew Mackness that had not been recharged, providing a personal benefit.

- 2.8 **20 November 2018** – The Leader of Medway Council, Alan Jarrett, announces at a meeting of the Cabinet that reviews will be undertaken of all Council LATCo's to check governance and identify best practice, starting with MCG.
- 2.9 **23 November 2018** – the MCG contractor handed over information to the Medway Council Chief Legal Officer which had been shown at the meeting in October, after clarification of their "whistleblowing" status. A recording of a conversation played to the Chief Legal Officer was not handed over.
- 2.10 **30 November 2018** – Medway Chief Executive, Neil Davies, advises Ian Price as CEO of MCG that the Council as shareholder will be conducting a review using its internal audit team. Head of Internal Audit & Counter Fraud provides a list of information required from MCG to Ian Price with deadlines of 05 December and 12 December.
- 2.11 **05 December 2018** – [REDACTED] appointed as Director and Non-Executive Board Member (Medway Councilor).
- 2.12 **28 December 2018** – Andrew Mackness steps down as Chairman of MCG Board but remains as Director and Non-Executive Board Member until the end of the company's accounting year. Also announces publicly that he will not stand for re-election as councilor in May 2019. [REDACTED] appointed as new Chairman.
- 2.13 **03 January 2019** – portion of information requested from MCG on 30 November provided on pen drive. This included payroll information but with all names redacted.
- 2.14 **22 January 2019** – Further information provided by MCG on pen drive but still information missing.
- 2.15 **31 January 2019** – Ian Price formally suspended by MCG board over concerns about financial irregularity.
- 2.16 **01 February 2019** – [REDACTED] hands in notice to resign as Head of Legal for MCG.

3 Key Findings

- 3.1 All projects and work undertaken by MCG must be agreed and approved by the Board of Directors. No one Director has delegated authority to authorise individual projects. A number of contracts between MCG and third party companies

Integrated Response Ltd/Vikram Sahdev

- 3.2 Companies House checks show that the Directors are Vikram Jeet Sahdev and [REDACTED] of [REDACTED], Kent, United Kingdom, [REDACTED]
- 3.3 Vikram Sahdev was retained as a contractor at MCG following his resignation as CEO and at a later date was made a Non-Executive Director with full board voting rights. He was also appointed as a Director for Medway Commercial Services when the new company was incorporated.
- 3.4 A number of contracts with Integrated Response have been identified but none have been to the board for approval and as a consequence, not all board members were aware of the work being undertaken and therefore may not be compliant with S.182 of the companies Act 2006.

- 3.5 Each contract has been signed on behalf of MCG by Ian Price and on behalf of Integrated Response by either Vikram Sahdev or [Redacted]
- 3.6 MCG has received invoices totaling £565,469.90 from Integrated Response between July 2017 and February 2019. All approved invoices have been authorised by Ian Price, although on at least one occasion [Redacted] has been a secondary signatory, and these total £518,870.54. Further invoices totaling £46,599.36 were still awaiting authorisation when Ian Price was suspended.
- 3.7 Invoices received in 2018-19 reference the following;
- Research & Development – New service portfolio, public & private sector IT
 - Overseas Student recruitment
 - Housing Projects solutions & strategy
 - Commercial, technical & product development
 - Smart cities
 - Fuse business leads
 - Business process/change management/transformation
 - Eupheus Consultancy – Overseas Students
 - Yellow Zebra – Childrens Services recruitment
 - PR consultancy – [Redacted]
- 3.8 Invoices relating to charges for Eupheus Consultancy and [Redacted] have been identified as works completed by third parties rather than direct contracts with MCG but again there is no board approval.
- 3.9 In the case of Yellow Zebra, MCG required an additional member of staff for their recruitment team. As far as some board members were aware, [Redacted] had been appointed to undertake this role but the invoicing indicates that she was employed as a contractor via Integrated Response.
- 3.10 A number of the invoices for consultancy undertaken directly by Integrated Response are billed quarterly and are in advance, which is not standard practice for such arrangements.
- 3.11 Some invoices relate to expenses, including mileage. An invoice dated 10 June 2018 for £5,400 shows total business mileage of 10,000 miles @ 45p per mile as total mileage for year 2017-18, plus VAT.
- 3.12 Fuel Genie reports show that a corporate fuel card registered to Vikram Sahdev and linked to a vehicle leased by MCG, namely a white Land Rover Discovery Sport, registration LV66 MTF, was used repeatedly between July 2017 and March 2018, with total expenditure of £1,450.79.
- 3.13 Mileage recorded with the transactions (6,946 on 27/07/17 and 12,171 on 15/01/18) indicate that at least 5,225 miles were travelled in the company lease vehicle. This is likely to be higher but the six transactions during March 2018 did not have mileage figures recorded.
- 3.14 Between 11 July 2017 and 14 January 2019, payments totaling £481,964.62 have been issued to Integrated Response.

Milo Projects Kent Limited/Ian Price

- 3.15 Companies House checks show that the company was incorporated on 22 March 2018 and Directors are listed as [Redacted] [Redacted] of [Redacted], Kent, [Redacted]

- 3.16 [Redacted] and [Redacted] are known to be the [Redacted] of Ian Price. A declaration of interest, purportedly signed by Ian Price on 26/11/2018, lists Milo Projects Kent and the interest declared is that the company is owned by his [Redacted].
- 3.17 MCG has received invoices totaling £73,545.36 between June 2018 and December 2018 and MCS has received invoices totaling £147,584.13 and credit notes totaling £66,355.63 (£32,248.69 of these credit notes yet to be applied) between August 2018 and November 2018.
- 3.18 Ian Price has authorised a number of these invoices himself, in particular those received earliest, but at a later date has annotated one to indicate that it should be countersigned by Vikram Sahdev. From that point there have been counter signatures from Vikram or [Redacted] and then authorisations from those individuals only as more are received.
- 3.19 Some of the invoices received relate to administrative services carried out by [Redacted]. This is known to be the company of an officer that had been carrying out administrative duties for MCG. In addition there are charges for consultancy services conducted by [Redacted]. In both cases there would be no reason for them to be employed/contracted via Milo Projects Kent Ltd rather than directly by MCG.
- 3.20 A number of invoices list 'consultancy services IP' under the description of charges and dates indicate that the consultancy is two days per week. These consultancy charges are billed quarterly and are in advance, which is not standard practice for such arrangements.
- 3.21 Ian Price is employed as the MCG CEO three days per week; at his suspension meeting he indicated that he had been given a secondary contract by the Chairman (Andrew Mackness) to act as a consultant for the remaining two days per week. The other board members had no knowledge of such a contract and a copy has not been provided despite being requested.
- 3.22 Other invoices list 'Medway SEN School – RIBA stage 1/2 fees & disbursements', 'Medway SEN School – RIBA stage 2/3 fees & disbursements', 'Medway SEN School – RIBA stage 3 fees & disbursements' and 'Medway SEN School – RIBA stage 4 fees & disbursements'. A number of the credit notes received from Milo since these enquiries commenced relate to these invoices.
- 3.23 Invoices from Milo Projects Kent Ltd to MCS that refer to the SEN School total £149,068.03, while the credit notes received against these invoices since enquiries commenced total £66,355.63.
- 3.24 [Redacted] Architects have been commissioned to work on a project being managed by MCG/MCS, which relates to the building of a specialist school at Cornwallis Avenue, Gillingham. They have issued an invoice relating to 'RIBA work stages 1-2 – preparation & brief', which is accompanied by a breakdown of the overall fees for stages 1-7 to be billed directly to MCG, meaning that there would be no reason to pay any such fees via Milo Projects Kent Ltd.
- 3.25 There is also an invoice for 'consultancy services - Feasibility, Construction, Architecture and Funding Work'. It is unclear what these charges relate to or who conducted the consultancy but it has been noted that the daily rates match those on the invoices submitted for consultancy work carried out as part of Ian Price's purported secondary contract.

- 3.26 Ian Price holds a corporate credit card and expenditure between July 2017 and February 2019 totals £21,120.15. Some board members were not aware that the company had corporate credit cards and had in fact been told that there were none when a direct question was asked.
- 3.27 Analysis of the transactions shows significant expenditure relating to Hotels and travel, including flights that do not appear to relate to company business. Flights with Ethiad Air to Abu Dhabi were purchased on the card and a Hotels.com transaction also occurred on the same day, although all three have been refunded since these enquiries commenced. In addition there is significant expenditure at a number of expensive restaurants.

St Andrews Leisure/Andrew Mackness

- 3.28 As well as being a Councilor and Director of MCG, Andrew Mackness has multiple business interests and is the Director of a number of companies including St Andrews Leisure Ltd. Companies House checks show that the company was incorporated on 04 October 2016 and current Directors are listed as Andrew Mackness, [REDACTED], Chatham, [REDACTED] and [REDACTED], Kent, [REDACTED].
- 3.29 The Whistleblower raised concerns that MCG/MCS had been used to carry out works at Halling Lakes, an area owned by St Andrews Leisure, and that because of Andrew Mackness' position as Chairman of MCG, St Andrews Leisure Ltd had not been charged for the works undertaken.
- 3.30 MCS issued the following invoices to St Andrews Leisure;

Invoice Number	Date	Amount
0000032066	31/10/18	£20,823.00
0000032077	17/12/18	£11,984.35
0000033702	31/12/18	£13,581.48
0000033698	21/01/19	£3,126.92
Total		£49,515.75

- 3.31 A transaction report from the accounting system suggests the entries did not occur around the time the invoices are dated and the whistleblower has also said that all the invoices were issued after data was requested from the company for auditing purposes. This is supported by the fact that the sequence of the invoice numbers does not match their dates.
- 3.32 Invoice 32071 was found to relate to a large amount of works carried out by [REDACTED] Limited, with invoices dating back to March 2018. One invoice was of note as it was originally issued in May 2018 indicating that the full costs of £14,424.00 related to works on Aburound House, Woodlands Road. Credit notes and new invoices dated 12 December 2018 then split this invoice into two parts, with works relating to steel fencing, totaling £11,760.00 now listed as Halling.
- 3.33 Other invoices to St Andrews Leisure relate to ecological surveys, third party invoices to MCS identified, and installation of CCTV equipment but we have so far been unable to identify all third party invoices relating to these works.
- 3.34 All invoices relating to works carried out in respect of Halling Lakes have been authorised by Ian Price and were all marked as not rechargeable, although invoices have been issued since the audit commenced. The fact that a [REDACTED] Ltd invoice was re-credited and split into two separate charges after the audit commenced indicates that, potentially, it was originally intended to lose the Halling Lakes costs within those for an approved company project.

- 3.35 As of 14 February, only invoices 32066 and 32077 had been paid by St Andrews Leisure, meaning that £16,708.40 remains outstanding.

Halling Extra Care Facility

- 3.36 Expenditure has been identified in relation to a plot of Land linked to a project known as Halling Extra Care Facility. This project has not been approved by the board and there is little paperwork available to indicate the full purpose.

- 3.37 Invoices to MCG from [REDACTED] Architects show the following;

18.093 – Halling Extra Care Facility, adjacent to Brooks Place, Halling Kent Architectural Material up to the submission of a detailed planning application. 10% of agreed lump sum fee 5% internal printing & expenses	Net (£)	VAT Rate
	7,840.00	20.00%
	392.00	20.00%
Total Net	8,232.00	
Total VAT	1,646.40	
Invoice Total	9,878.40	
18.093 – Halling Extra Care Facility, adjacent to Brooks Place, Halling Kent Architectural Material up to the submission of a detailed planning application. 25% of agreed lump sum fee (10% previously billed) 5% internal printing & expenses		
	19,600.00	20.00%
	980.00	20.00%
Total Net	20,580.00	
Total VAT	4,116.00	
Invoice Total	24,696.00	

- 3.38 In addition, invoices from [REDACTED] have been identified and relate to an ecological appraisal with the site reference listed as 'Land at Halling, Rochester, Kent, ME2 1HP. This indicates that they relate to the same plot of land as those from [REDACTED].

- 3.39 The invoices from [REDACTED] and [REDACTED] total £35,648.40, have all been authorised by Ian Price and all are marked as **not** re-chargeable.

- 3.40 Google maps shows that Brooks Place is at the edge of a residential development in Halling owned by Redrow and the land adjacent sits between the residential development and the Halling Lakes site. Enquiries with the planning dept at Medway Council indicate that St Andrews Leisure were purchasing the land from Redrow and that it was representatives of St Andrews Leisure that were involved in pre-application discussions regarding the site.

- 3.41 This indicates that the works have been undertaken on behalf of St Andrews Leisure Ltd or at the very least that the works would be to the benefit of the company and its Directors.

4 Suspicions

4.1 Based on the findings we have reason to believe that Vikram Sahdev, Ian Price and Andrew Mackness have been using their positions with MCG to divert funds from the company through their own businesses and/or making personal gain from works undertaken through the course of MCG/MCS business.

4.2 The grounds for these suspicions are as follows;

- There has never been board approval for a large number of projects allocated to Integrated Response.
- There has never been board approval for a secondary contract (yet to be confirmed) to be issued to Ian Price for consultancy days to be undertaken in addition to his salaried post.
- There is no reason for consultants or administrators to be contracted via Integrated Response or Milo Projects Kent Ltd.
- Vikram Sahdev is known to have been the user of the Land Rover Discovery as a Dart Charge fine, issued 04/08/2017, was disputed on behalf of Vikram by an officer from MCG. This indicates that the claim for mileage expenses during 2017-18 may be inflated or completely false. It also raises questions over other claims for expenses.
- Charges for RIBA works relating to the SEN school being paid via Milo Projects Kent Ltd when [REDACTED] had already quoted MCG directly and commenced works with partial payment in advance.
- Credit card expenditure appears to be facilitating a lavish lifestyle for Ian Price, including expensive hotel stays and Michelin star restaurants,
- Consultancy charges for Integrated Response and Milo Projects Kent Ltd have been billed in advance, which is not standard practice.
- Ian Price has been authorising payments to a company for which he has a beneficial interest.
- There appears to have been effort to hide the costs of works undertaken at land/premises owned by Andrew Mackness as evidenced by the amended invoice of [REDACTED] Ltd.
- Information supplied by a whistle-blower includes a covert recording of a conversation between Ian Price and another MCG employee the transcript of which is as follows; Price: *"well, the problem we've got and I'm going to be very blunt about this is that I think if we get rid of him a whole heap of shit will hit the fan. There's stuff that I think has gone on with [REDACTED] and Mackness that MCG have paid for, I'll be honest about that. Erm, this CCTV thing with Mackness and Halling is fucking me off as well. I think that Mackness thinks this is his own business, his own money. So what I don't want to do is throw [Redacted] to the wolves and a whole load of shit come back, so we've got to figure out between you, me and Vik how we manage that. If Mackness has had some stuff, it would be very simple, just raise an invoice and say you're fucking paying for it and then if there was an investigation we've covered it"*.
- £227,246 has been spent on plant hire from [REDACTED] While MCG do use cherry pickers to carry out CCTV maintenance work, they have access to such equipment owned by the council. There is a concern that the invoices do not indicate what type of plant was hired or where it was used and therefore could relate to works carried out at the Halling sites, which has also not been recharged.
- Works are being undertaken for a project that has not been approved by the board that would see the building of a care facility (and possible retail units based on planning discussions) on land owned by St Andrews Leisure. All charges to date for architects and ecological surveys have been met by MCG and not recharged to St Andrews Leisure.
- A company called [REDACTED] has been identified, having been incorporated in June 2018 with [REDACTED] and [REDACTED] listed as two of the three Directors. A future project for MCG was the conversion of waste to energy and it is believed that this company was created in order to be awarded the contract for works, which would then be sub-contracted at cheaper rates to allow the company to take a slice of the costs as profit.

4.3 We have already identified an offence under the Companies Act 2006. Section 182 states;

- (1) Where a director of a company is in any way, directly or indirectly, interested in a transaction or arrangement that has been entered into by the company, he must declare the nature and extent of the interest to the other directors in accordance with this section.

This section does not apply if or to the extent that the interest has been declared under section 177 (duty to declare interest in proposed transaction or arrangement).

(2) The declaration must be made—

- (a) at a meeting of the directors, or
- (b) by notice in writing (see section 184), or
- (c) by general notice (see section 185).

4.4 Section 183 confirms it is an indictable offence to fail to comply with the requirements of Section 182.

4.5 It is also suspected that there may be a conspiracy between the three, and possibly other parties, to defraud the company. The sums paid to date suggest that the actions of Ian Price lead to profit for Vikram Sahdev as well as himself and if the secondary contract for Ian Price does exist, Andrew Mackness has enabled Ian Price to profit. It is highly suspected that once funds have been paid to Integrated Response and Milo Projects Kent Ltd, proceeds of their activities are shared between with the other parties.

4.6 Forensic Accountants have already been employed to look at the finances of the company and we would like to formally refer the matter to Police for criminal investigation as a consequence of the matters identified in this report.