

Report To: Audit Committee

Date of Meeting: 13 January 2022

Report Title: Chief Auditor's Summary Audit and Risk Report

Report By: Tom Davies
Chief Auditor

Key Decision: No

Classification: Open

Purpose of Report

To inform the Audit Committee of the key findings from the National Fraud Initiative Data Matching Exercise - 2020/21.

Recommendations

- 1 That the Audit Committee accepts the report.
-

Reasons for Recommendations

To monitor levels of control within the organisation.

Summary Report to Audit Committee
National Fraud Initiative Data Matching Exercise – 2020/21

Background

1. The purpose of the National Fraud Initiative (NFI) data matching exercise is to prevent and detect fraud, whilst also identifying potential errors caused by duplicate payments made to suppliers.
2. The NFI data matching exercise is conducted every two years and compares computer records held by Hastings Borough Council with data from organisations such as the Department for Work and Pensions (DWP), National Health Service, Companies House and other local authorities.
3. Datasets were uploaded to NFI during March 2021 and the audit testing took place during October and November 2021.
4. Data matching is also conducted by cross-checking the Council's own records in the following areas:
 - Housing Benefit claims.
 - Creditor payments.
 - Payroll transactions.
 - Licencing.
 - Procurement.
5. The NFI matches within these categories highlight identical data values such as payment amounts, reference numbers, addresses and recipient details. However, these results do not guarantee that an error has occurred and therefore further investigation is always required.
6. A total of 535 matches were identified from the 2020/21 exercise, broken down into the following categories:

Category – 2020/2021	Number of Matches
Housing Benefit	83
Payroll	14
Creditors	431
Procurement	7
Total	535

-
7. When comparing these results with figures from the previous NFI exercise in 2018/19 (see below), the volume of matches in all categories has significantly reduced with the exception of Creditors:

Category - 2018/2019	Number of Matches
Housing Benefit	358
Payroll	33
Creditors	221
Procurement	14
Total	626

8. Further analysis of the matches contained within the Creditors category can be found within the “Key Findings” section of this report.

Audit Conclusion

Overall Audit Assessment: **A – Good.**

The significant reduction in the total number of matches indicates that controls are in place and working effectively in most areas. Although the volume of matches within the Creditors category have significantly increased, the number of duplicate payments identified is comparatively low.

Key Findings

9. Internal Audit fully investigated 452 NFI matches, with the exception being the remaining 83 results in the Housing Benefit category. These matches will be examined as part of the Housing Benefit audit, which is included within the agreed Audit plan for 2021-22.
10. For the 21 data matches within the Payroll and Procurement categories, there were no significant issues identified.
11. Creditor payments over the 23 month period 1 April 2019 to 28 February 2021 amounted to £63,398,005.71 and the total volume paid out was 28,666 transactions. This was the total in the file uploaded for matching but includes council tax refunds and large payments to HMRC and the pension fund.
12. Within the 431 cases in the Creditors section, 10 duplicate payments were identified – equating to 2.3% of matches in this category. An additional duplicate payment was found whilst examining payments to one specific company whose company account reference number was almost identical to that of the correct supplier.

13. The total value of duplicate payments amounted to £21,226, of which £8,980 has already been recovered. The remaining cases are currently with the Creditors team awaiting recovery action.
14. Audit have analysed the circumstances that contributed to each duplicate payment and have outlined the results below:

No. of duplicate payments	Cause of duplicate payment
1	Two documents received from the supplier with different dates and invoice reference numbers but identical goods description - payment was therefore made twice to the same company. The first document appears to be an order summary and the second document was the invoice.
1	One invoice was posted for payment twice on the same day under different invoice reference numbers to the same supplier
1	One invoice was paid twice (approximately one week apart) to an incorrect supplier account and then to the correct supplier account. However, the invoice paid to the correct supplier was recorded with an incorrect invoice number. When the erroneous payment to the incorrect supplier was identified, payment was then made to the correct supplier for a second time but using the correct invoice reference number. The supplier account reference numbers were almost identical apart from one digit.
1	Two identical invoices were received from the same supplier, three days apart. The two invoices were paid to different supplier codes, which relate to separate departments within same company.
1	Two almost identical invoices were received from the same supplier, three days apart - the second invoice was titled "Invoice Monitoring Copy". The first invoice was paid to the correct supplier account but the second invoice was paid to an incorrect supplier account. Both supplier accounts belong to the same county council.
3	A purchase order was initially raised for an incorrect supplier and when the first invoice was received, payment was then made to the incorrect supplier. An identical invoice was subsequently received and payment was then made to the correct supplier.
3	An invoice from one supplier was paid to the account of a different supplier, despite the purchase order being raised correctly.

15. It should be noted that the Unit4BW finance system will only prevent duplicate invoices being posted to the same supplier if the invoice number is entered identically on both occasions. The system will also highlight any occasions where the cumulative value of invoices recorded against the same purchase order number exceeds the value of that purchase order. In all of the examples listed above, the finance system could not have

prevented the duplicate payments.

16. Audit are satisfied that, in every instance, all duplicate payments were caused by administrative errors and not as a result of deliberate fraudulent activity.
17. The council also underwent a free demonstration trial for its creditor payments with a private data matching company. The results were impressive clearly demonstrating sophisticated data matching methods and the exercise could be run more frequently than the 2 year period National Fraud Initiative (NFI) timetable but the overall value of duplicate payments identified was similar and wouldn't justify the subscription at this point in time. However, we will continue to keep this option under review.

Summary

18. With regard to creditor payments, the Creditors service is performing well and recovery of identified duplicate payments progressing satisfactorily. Internal control could be further strengthened by refresher training / guidance to Creditors and Service areas as well as, given the findings, more frequent testing.
19. Options for more frequent testing are:
 - To export the data to a spreadsheet inhouse then sort to identify potential duplicate payments for investigation
 - Use the National Fraud Investigation Service to data match which has the advantage of filtering the information (there is a modest fee for this service) or
 - Use the private data matching company identified in paragraph 17 above.
20. The management responses below address these recommendations.

Management Response

21. Audit have discussed the findings of this exercise with the Chief Accountant who has accepted the report and will discuss the administrative errors highlighted on creditors to explore how these could be mitigated.
22. Audit will also issue a briefing to all staff regarding the importance of ensuring purchase orders are raised correctly and that invoices are checked thoroughly prior to referral for payment.
23. Audit will instigate a more frequent checking regime over potential duplicate payments using one of the options listed under paragraph 19, commencing 1 July 2022.

Timetable of Next Steps

Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Provide training / guidance for Creditors Service.	N/A	30 April 2022	Chief Accountant
Provide training / guidance for Service staff.	N/A	30 April 2022	Chief Auditor
Instigate a more frequent checking regime over potential duplicate payments	N/A	1 July 2022	Chief Auditor

Wards Affected

None

Policy Implications

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No
Legal	No

Additional Information

None

Officer to Contact

Tom Davies
tdavies@hastings.gov.uk