

Report to: Audit & Risk Assurance Committee
Agenda item: 2
Date: 26 January 2016
Subject: Frith Street Forensic Review
Sponsor: BTPA Financial Director
For: Information

1. Purpose of Paper

- 1.1 The purpose of the paper is to inform the Audit and Risk committee of the status of the Forensic review being carried out by Frith Street .

2. Background

- 2.1 Frith Street Consulting submitted a proposal for fraud risk assurance work to the BTPA/BTP in October 2015. The proposal outlined tests that might be undertaken to give assurance that the weaknesses identified in Phase 2 of the Finance Review had not resulted in any significant fraud or loss to the BTP and BTPA.
- 2.2 The BTPA Audit and Risk Committee instructed Frith Street to undertake the 'quick win' procedures laid out in the proposal document. They commenced their work in November 2015.

3. High level summary

- 3.1 From the work completed so far Frith Street have reported that it is unlikely any finance officials have been involved in the processing of fraudulent payments or the suppression of records since April 2012.
- 3.2 There are some areas of work which will now be conducted under the National Fraud Initiative, including any matching of employee bank account details to supplier bank accounts or tests on the integrity of payroll payments and allowances. These will be reported on by the Finance department internally, outside of the Frith Street reporting.
- 3.3 The section of work surrounding the processed cheques has been re-timetabled for February due to existing time and work pressures within the Finance department.

4. Detailed progress update regarding “quick-win” procedures

Test No Ref	Test description	Action taken	Status
1a	Matching against already held permanent bank account change information to identify any potential fraudulent diversion of funds	<p>All permanent bank account information for suppliers for the three and a half year period from April 2012 to November 2015 has been checked to identify if the originally approved bank account details had been altered and then reverted. Two supplier accounts were identified where this had happened.</p> <p>Item 1. There were no financial transactions during the period of the changed bank account, which had been subsequently reverted to the original details.</p> <p>Item 2. An additional bank account for some payments to a supplier. While it is potentially suspicious the amounts involved are not large and there is no evidence that anyone in BTP Finance caused the further account to be set up.</p> <p>Further checks have been carried out of any accounts dormant in 2012 to see if they had been reactivated with a changed bank account. No instances found.</p>	Complete
b	Checking for unusual payments to existing suppliers	<p>Benford’s Law analysis of all supplier payments made over the three and a half years performed. The overall analysis showed a slight bias for two digits, including the one that is the most usual indicator of fraud, but there was insufficient bias for any clear conclusion to be drawn.</p> <p>A further Benford’s Law analysis broken down by those who had input the supplier invoice according to the accounting system records performed.¹ The</p>	Small anomalies to be researched further. Time required with BTP Finance team.

¹ Benford’s Law identifies the statistical frequency in a financial population (such as paid supplier invoices) of values beginning with the digits 1 to 9. Statistically valid analysis shows that

		<p>results for most individuals who had input supplier invoices were consistent with the overall BTP Benford's Law profile. However there are some small anomalies still to research with the team.</p> <p>An in-depth examination of suppliers paid in 2014-2015 identified a number of potential issues with unusual small suppliers and unusual payments to one or two other suppliers. None of the items identified have yet pointed to any issues within BTP Finance.</p>	<p>A small number of items still to discuss further to fully complete this investigation. Time required with BTP finance team.</p>
c	Checking for one-off supplier payments	Examination of a selection of one-off supplier payments identified in the 2014-2015 year. From a limited sample undertaken no fraudulent supplier identified.	Complete
d	Checking for breaches of authorisation levels by officials for payments other than pension fund related payments to one-off or rarely used organisations	<p>All records of cheque payments identified in the purchase ledger between April 2012 and November 2015.</p> <p>A number of breaks in cheque sequences identified, some of which may be due to a new cheque book usage but others are as yet unexplained and need to be resolved. There are some other smaller queries to resolve with the BTP team.</p>	<p>Discussion and resolution of these remaining queries have been delayed until the BTP finance team are available.</p>
e	Additional checks requested by the Treasurer following identification by the Treasurer and the Head of Finance of weaknesses in the system for making cheque payments to some suppliers.		
2	Checking bank account records and home	Testing to be performed in-house as a result of decision to take part of National Fraud Initiative where	No further work required - To be performed in

approximately 30% of all financial numbers start with the digit 1, reducing number by number to only 4.5 % for the digit 9. Normal accounting populations conform to this principle and it is therefore possible both to identify an unusual accounting population and also to identify an individual processing transactions or a supplier who does not fit the expected profile for those supplying similar goods or services. Significant exceptions to Benford's Law, particularly higher than expected percentages for the high value digits, such as 8 or 9, may be caused by fraudulent activity.

	addresses for employees against bank account records and addresses for suppliers	one of the products will be a regular matching and reporting of such data.	house.
3	Examining in depth the supporting records and explanations available for transactions already highlighted for follow-up investigation from the review of 2014-15	<p>i. Checking how and why some suppliers were selected</p> <p>ii. Checking for valid evidence that appropriate goods or services were provided</p> <p>iii. Checking for any breach of public procurement legislation and BTPA financial regulations</p> <p>On hold.</p>	To be reviewed once BTP staff are available.
4	Examining on line banking records to identify any unusual single signatory items	On hold	Timetabled for Feb
5	Analysing the spending trends under categories to identify high earning suppliers or employees by type of activity	On hold	Timetabled for Feb
6	Analytical review of pay data to check for potential fraud or error	Testing to be performed in-house as a result of decision to take part of National Fraud Initiative.	No further work required - Testing to be performed in house.
7	Matching of pay data to supplier information to check for potential fraud or error	As above	No further work required - As above.

5. Recommendations

5.1 Members are asked to note the report.