

Adur & Worthing Councils

Investigation into building materials fraud
identified at Adur Building Services

18 October 2023

Supplemental Report





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Dear Emma,

I present this supplemental report setting out the findings from our independent investigation undertaken by the Forensic and Investigation Services team at Mazars LLP ("**Mazars**") into a building materials fraud identified at Adur Building Services ("**ABS**"), a team within Adur District Council ("**ADC**") which provides repairs services to ADC housing stock.

Our services were performed and this report has been prepared in accordance with our signed engagement letter dated 4 May 2023 and are subject to the terms and conditions included therein. The procedures that were performed as part of our investigation do not constitute an audit, and should not be relied on as such. None of the observations contained within this report constitutes any legal opinion or advice.

Our work was limited to the specific procedures and analysis described herein and was based only on the information made available to us during our investigation. Accordingly, changes in circumstances after this date could affect the findings and conclusions outlined in this report.

Mazars issued a Phase 1 Memorandum on 16 June 2023, included in Appendix B, and this memorandum is taken as read for the purposes of this supplemental report.

Our report is set out in the following sections:

- Phase 1 – Summary and notes to the memorandum
- Phase 2 – Review of the Audit Trail
- Appendices

We shall be pleased to discuss the observations set out in this report with you. Should you have any queries regarding this report, please do not hesitate to contact me.

Yours Sincerely

Nigel Layton

Partner, Forensic and Investigation Services

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1

Phase 1 – Summary and notes to the memorandum



1 - Summary and notes to the memorandum

1.1 Introduction

Mazars issued a Phase 1 Memorandum on 16 June 2023, which covered point *h*) of the *I. Planning* section of the scope detailed in Appendix A.

1.2 Comments on the Memorandum

As part of collaboration with Adur & Worthing Councils (“**AWC**”), we have updated this Phase 1 Memorandum with some key comments made by [REDACTED] ([REDACTED]) to aid understanding and correct errors therein. These are included within the Phase 1 Memorandum in *blue italicised text*.

This memorandum is included in Appendix B.

The clauses updated are as follows:

- 1.1.44;
- 1.1.46;
- 1.1.50 a); and
- 1.1.50 b).

1.3 Other items

We have reproduced Appendix A from the Phase 1 Memorandum and included within this report as Appendix C – Abbreviations used throughout the report.

We seek to also highlight Appendix F within the Phase 1 Memorandum, which includes comprehensive recommendations.



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Phase 2 – Review of the Audit Trail



2 – Phase 2 – Review of the Audit Trail (1/3)

2.1 Introduction

In this section, we present our approach to and the results of our Phase 2 work, namely our review of the audit trail data provided by AWC. In Phase 2 we have aimed to identify any further instances of suspected fraud.

Overall, in the data reviewed, Mazars identified £11,527 of invoices that have a risk of being fraudulent, with £3,638 of this amount being highly likely to be or confirmed to be fraudulent. This is inclusive of the bath invoice.

2.2 Our approach

We have conducted analysis of building materials ordering over time, which has focussed on the identification of patterns indicative of fraudulent use of merchant cards, starting with analysis of the free-standing bath invoice identified, which we have verified as fraudulent, where the ex-agency operative (“XAO”) had misappropriated ABS materials. We have then developed further indicators of suspected fraud within the data in our review, which we have cascaded over the general data population to gauge any entries that we suspect to be fraudulent, providing a recalculated total.

We have used our judgement to identify risk indicators, increasing the perceived risk of an invoice alongside the interaction of multiple risk factors. We have aimed to quantify the possible fraud loss from the items identified and have also utilised the findings from our interviews with [REDACTED] and [REDACTED] ([REDACTED] as well as relevant operative [REDACTED] ([REDACTED] where appropriate.

2.3 Our findings in respect of the audit trail

We were presented with 3 data sets for review:

1. City Plumbing Supplies (“CPS”);
2. Howdens; and

3. Shepherds.

In the CPS dataset, we identified the following risk factors in the initial free standing bath invoice, and subsequently through exploration of the data.

Risk		Description / Explanation
<i>Ref</i>	KEY RISK FACTORS INITIALLY IDENTIFIED FROM THE BATH INVOICE	
A	Even number Job Number.	[REDACTED] noted that all Job Numbers should be odd - the system does not generate even Job Numbers. Hence, it is rare that a Job Number recorded will be even, notwithstanding transposition errors.
B	The invoice containing the free standing bath, and associated invoices.	The free standing bath item on an invoice helped AWC to first discover the fraud. This is a high value item which would not be ordered by AWC, and it was delivered to a private address.
C	Delivery notes with [REDACTED] or [REDACTED] picked up after [REDACTED]’s departure from ABS.	[REDACTED] is the name of an ex-employee, which was used by XAO to collect the materials from the supplier. Invoices with [REDACTED] delivery notes have been isolated.
D	Invoices in the same batches with [REDACTED] items.	These are invoices which were sent in the same batch as the invoices using [REDACTED]’s name, hence are possibly related.
<i>Ref</i>	FURTHER KEY RISK FACTORS EMERGING THROUGH MAZARS ANALYSIS	
E	Chronologically out of place.	Job Numbers which, when compared to the related invoice date, are chronologically out of place, indicating that the Job Number may not have been generated by the system, which should generate sequential odd numbers.
F	Typical Job Number ending sequence (818, 819).	It has been confirmed that XAO fabricated some Job Numbers which ended in ‘818’ or ‘819’. Hence, invoices ending in these or similar numbers are suspicious.
G	After XAO’s last login per the system.	These are invoices dated after XAO had left AWC, as it appears that most of the fraud has happened after XAO’s departure.
H	Large gaps between invoice dates within a Job Number.	[REDACTED] are multiple invoices relating to one Job Number, and these invoices are dated far apart. Hence, it is possible that a genuine Job Number has been re-used for an order at a later date and is not related to the original job.
I	High Value Items in invoice (above £400 exc VAT)	High value items are rarely required for jobs by the ABS. For example, the free standing bath which has been confirmed as fraudulent.

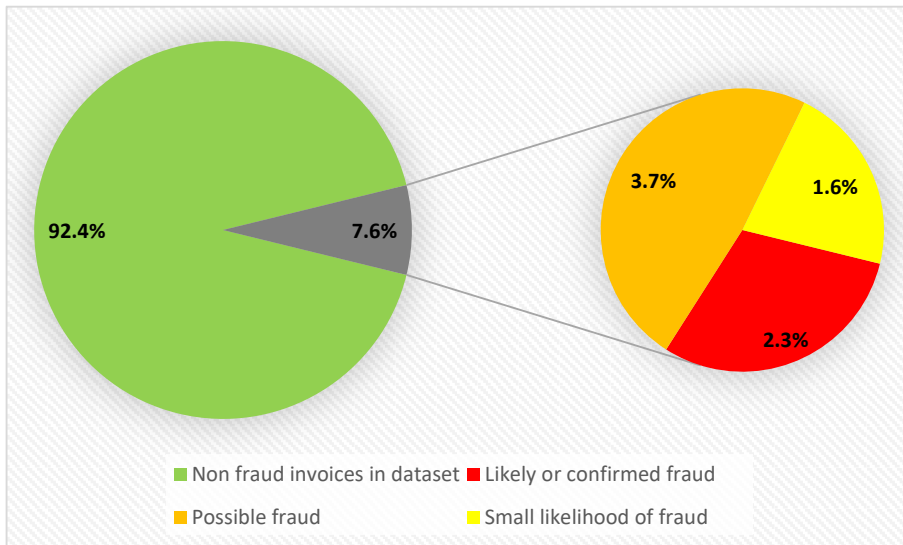


2 – Phase 2 – Review of the Audit Trail (2/3)

2.3 Our findings in respect of the audit trail (cont.)

We have the following results for CPS, with 2.3% of the dataset reviewed being designated as *Very likely or confirmed fraud*:

Results for CPS			
Total of Invoices in dataset	Very likely or confirmed fraud	Possible fraud	Small likelihood of fraud
£148,507.90	£3,429.70	£5,471.27	£2,449.97



We have included at Appendix D all invoices isolated as confirmed fraud, possible fraud, or small likelihood of fraud in an excel document. Many of these have been reviewed alongside [REDACTED] however AWC may wish to review those items not yet reviewed, considering the likelihood of possible fraud in the context of the building services jobs with which they are assigned.

Within the categories of the Results for CPS table, we have displayed sub-categories of results in the following tables:

Very likely or confirmed fraud		
Bath invoice	Confirmed as fraud upon review	Invoices in the same batches with [REDACTED] items AND after XAO's last login per the system AND other risk factors indicating possible fraud in some instances
£671.99	£227.93	£2,529.78

Possible Fraud			
After XAO's last login per the system	Chronologically out of place (90+ days)	Multiple risk factors identified within the Job Number	Other risk factors indicating possible fraud
£1,638.92	£2,784.72	£73.93	£973.70

Small likelihood of fraud			
Possibly merits review due to value	Even number Job Number	Invoices in the same batches with [REDACTED] items	Chronologically out of place
£1,252.10	£438.12	£59.51	£700.24

We recommend that the *Possible Fraud* and *Merits Review due to value* items included within the Appendix D excel document may also be reviewed by staff at AWC as a precautionary measure.



2 – Phase 2 – Review of the Audit Trail (3/3)

2.3 Our findings in respect of the audit trail (cont.)

We also analysed Howdens and Shepherds, being other key suppliers to ABS. For Shepherds, no line items were identified as suspicious in the dataset:

Results for Shepherds			
Total of Invoices in dataset	Very likely or confirmed fraud	Possible fraud	Small likelihood of fraud
£2,002.99	£0.00	£0.00	£0.00

For Howdens we have the following results:

Results for Howdens			
Total of Invoices in dataset	Very likely or confirmed fraud	Possible fraud	Small likelihood of fraud
£31,875.25	£0.00	£0.00	£175.63
			0.55%

As can be seen in the Howdens results, a very small amount has been identified as having a small likelihood of fraud. This is comprised of the following two entries which AWC may wish to review:

Reference	Doc. Type	Assignment No	Doc. Date	Orig. Amount	Comments
B120284333	Invoice	PO15299819	08/02/2022	£169.07	Typical Job Number ending sequence (818, 819).
E450115453	Invoice	20220902	02/09/2022	£6.56	Even number Job Number

2.4 Conclusions and next steps

Mazars has noted that the total of the invoices that could be considered fraudulent is likely immaterial. It does not appear, from the work conducted by Mazars, that fraudulent activity is endemic to the work of the ABS team. We do not consider that further investigation into this matter is merited due to the small amount identified.

Overall, Mazars has identified £11,527 of invoice entries within the datasets that are possibly fraudulent and related to demonstrated patterns of behaviour from XAO, and the other risk factors identified.

We recommend that AWC take on board the findings from the Phase 1 memorandum and implement strong controls to mitigate the risk of fraud going forward.

To mitigate risks going forward, [REDACTED] and [REDACTED] team may wish to implement checks related to the risk factors identified into their review of payments runs and invoices received from suppliers.



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Appendices



Appendix A – Excerpts from Engagement Letter dated 4 May 2023

Scope of work

The following is as appears in Section 1 of our Engagement Letter:

I. Planning

- a) Undertake initial planning meetings with key personnel to understand the background to the Investigation, as well as outlining the structure of the project and the cadence of communications throughout the project;
- b) Prepare initial request list, including all relevant policies and procedures;
- c) Conduct the following procedures on the area of relevant policies and procedures:
- d) Obtain a detailed understanding of the policies and procedures related to building material ordering at ABS at the time of the fraud;
- e) Identify relevant individuals with whom to conduct fact-finding interviews to supplement understanding of the building material ordering policies, and the fraudulent activity identified, conducting two interviews;
- f) Conduct review of the new procedures enacted after the identification of the fraud, considering their effectiveness in mitigating the risk of this type of fraud;
- g) Consider whether performing assessment of compliance with relevant policies in relation to building material ordering usage on a sample basis would be valuable; and
- h) Produce short memorandum detailing any weaknesses or gaps in controls/procedures in the areas reviewed, raising recommendations for improvements.

II. Audit Trail Investigation

- a) Review documents already collated internally by Adur & Worthing Councils (“AWC”) in relation to the fraudulent building material ordering to gain a detailed understanding of the fraudulent activity, requesting, if required, further documents that would be valuable to for review;

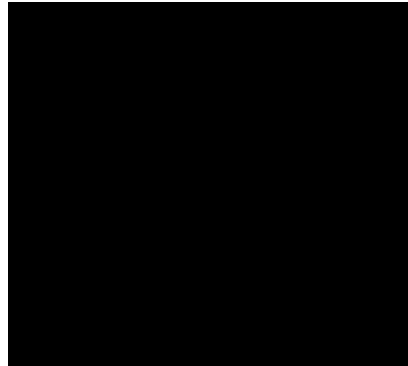
- b) With evidence provided, conduct procedures including, but not limited to:
 - i. Analysis of building material ordering over time, identifying patterns of fraudulent use of merchant cards, cascading identified indicators of misuse over the population of the building material ordering data to identify any further instances of misuse or other suspect agency operatives;
 - ii. Recalculation or verification of the building material ordering overspends already identified by AWC to ensure accurate quantification of the fraudulent activity; and
 - iii. Identify one relevant ABS agency operative with whom to conduct an interview, focussing on materials ordering, working culture, adherence to policies and procedures, and other relevant topics identified throughout the investigation.
- c) Reach out through email communication to relevant third parties with detailed questions on interactions with ABS.

III. Reporting

- a) Identify and outline any further instances of probable or actual fraudulent building material ordering, or other colluding parties;
- b) Prepare a factual, evidence-based report for AWC, including the previously issued memorandum;
- c) Issue draft report for comments;
- d) Collect and process comments and issue a final report, attaching all referenced evidence; and
- e) Present our final report to the Audit Committee at AWC (if required).



Appendix B – Mazars for AWC – Draft Memorandum 16 06 2023



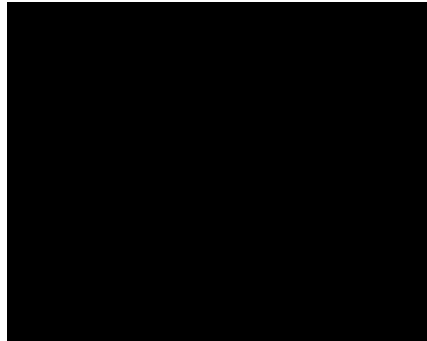


Appendix C – Abbreviations used throughout the report

Abbreviations used in report	
Name	Abbreviation
Mazars LLP	we / Mazars
Adur & Worthing Councils	AWC
Adur Building Services	ABS
Adur District Council	ADC
City Plumbing	CP
Ex-agency operative	XAO
Other ex-agency operative	AO2
Purchase Order	PO
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Whistleblower	WB
[REDACTED]	[REDACTED]
Gardner & Scardfield	G&S



Appendix D – CPS Results Excel





Disclaimer

This report (“Report”) was prepared by Mazars LLP at the request of Adur & Worthing Councils and terms for the preparation and scope of the Report have been agreed with them within the signed letter of engagement dated 4 May 2023.

The Report was prepared solely for the use and benefit of Adur & Worthing Councils. It should not be quoted, referred to or shown to any parties, other than Adur & Worthing Councils’ legal advisors, unless required by law or a regulatory authority, without our prior consent in writing. We understand that Adur & Worthing Councils operate within a regulatory environment and that this Report may be shared with their Regulators if Adur & Worthing Councils are required to make disclosures to The Regulator in respect of the matters discussed in this Report.

The Report was prepared on the basis of information and documents provided to us during the course of our work. This information was prepared by Mazars in connection with the services provided to Adur & Worthing Councils and was therefore prepared specifically for the purposes of those services and solely for the benefit of Adur & Worthing Councils. Mazars LLP neither owes nor accepts any duty of care to any third party and shall not be liable for any loss, damage and/or expense which is caused by any reliance that any other party may place on this information.

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