

## **EAST AYRSHIRE COUNCIL**

### **GOVERNANCE AND SCRUTINY COMMITTEE – 19 NOVEMBER 2010**

#### **FRAUD RISK – ALTERATION OF BANK ACCOUNT DETAILS**

##### **Report by Executive Director of Finance and Corporate Support**

## **1 PURPOSE OF REPORT**

- 1.1** To advise the Committee of action taken to reduce the potential exposure to financial loss from fraudulent attempts to alter creditor standing data, such as supplier bank account details.

## **2 BACKGROUND**

- 2.1** Members will be aware from recent press coverage of the significant financial losses incurred by both South Lanarkshire Council and North Ayrshire Council following the fraudulent submission of requests to amend bank account details held as standing data on each of their creditor payment systems.
- 2.2** There is concern that the scope of this activity is widespread and that it has extended beyond local authorities to Housing Associations and other organisations including private sector companies. The fraud has centred on requests to change details relating to construction companies who are more often than not engaged on current capital construction projects within the Council area. This information is widely available through contract award notices and general publicity surrounding what are often significant projects in terms of monetary value.
- 2.3** The fraud is sophisticated in that:
- Often email addresses on letters submitted use extensions similar to that of the genuine company, but which are in fact operated by the criminals
  - The fraudsters have called telephone switchboards asking for contact names responsible for authorising payments in order that correspondence is directed to the relevant staff members.
  - Supplier details such as telephone numbers have been requested, presumably to be added to the fictitious requests to add authenticity.
  - There are examples of the fraudsters telephoning to chase payment, in the hope that some checks might not be carried out.
  - Company Secretary, Finance Directors and other contact authorised details, including signatures are correct – almost certainly having been scanned from published information available from various sources including the internet.

- 2.4** In late July the Chief Auditor received notification from the Risk and Audit Manager of South Lanarkshire Council that a payment had been made erroneously by that Council following a fraudulent request to update bank details of a construction company. This was immediately shared with the Finance Service where it was reinforced to all creditor staff that no changes should be made to standing data without the request being subject to further independent checks, and that these continue to be filed for future verification as necessary
- 2.5** The National Anti Fraud Network (NAFN) Intelligence Bulletin No.5 was received by the Chief Auditor on 24 August 2010, which highlighted the continued growth of the fraudulent activity across the country. This was again shared with the Finance Service who immediately implemented the use of a pro forma template, which resulted in the recording of existing checks already being carried out on a single document. This is considered important as changes notified on the face of an invoice, although checked independently were not always copied and filed separately. This revision gives additional visibility to all changes and the supporting verification obtained.
- 2.6** Internal Audit carried out a regularity audit of creditor bank accounts that covered the examination of paperwork relating to bank account changes between 23 June and 15 September 2010. This covered the period including the first fraud alert in late July and the introduction of further revised procedures on 25 August 2010.
- 2.7** The audit report concluded that whilst bank account changes were being implemented accurately further action could be taken to strengthen the overall audit trail. The three recommendations made by audit were implemented with immediate effect.

### **3. CURRENT AND ONGOING VERIFICATION**

- 3.1** Since the completion of the regularity audit further significant work has been carried out by the Exchequer Division of the Finance Service to verify all existing standing data and provide assurance as to its stability and accuracy. This includes:
- With effect from 22 October all individual BACS (bank transfers) payments with a value over £5,000 have had the supplier bank details independently verified to ensure all payments made to the correct bank accounts. At the date of writing this report this resulted in 119 payments being verified.
  - All individual BACs payments made from 1 July 2010 over £50,000 were identified and verified as being correct. In total 157 accounts were checked and confirmed as correct.
  - Internal Audit identified a number of accounts where bank details had changed during the period 16 March 2010 to 28 October 2010. 100% of these changes (65 in total) were checked and confirmed as correct.

- Internal Audit identified a number of accounts where creditor accounts had new bank details added during the period 16 March 2010 to 28 October 2010. All creditors accounts (54 in total) in this category where spend was over £25,000 during the period April to September 2010 were checked and confirmed as correct.
- Internal Audit identified a number of accounts where new creditor accounts had bank details added during the period 16 March 2010 to 28 October 2010. All creditors accounts (17 in total) where spend was over £25k during the period April to September 2010 were checked and confirmed as correct.
- Internal Audit was also able to provide details of a number of accounts, using standing data held for other audit purposes, bank account details had been added or amended during the period 12 November 2008 to 16 March 2010. A focussed sample of these has been verified with additional reliance being placed on the checks outlined above together with the control in place whereby all payments above £5,000 are verified prior to releasing the BACS payment.

**3.2** In order to further verify the accuracy of our standing data an exercise was started in August where a sample of suppliers, to whom payments in excess of £50,000 had been made, were written to and asked to verify the bank details that are currently held by the Council. To date there has been no subsequent notifications from any of these companies that would indicate our information is not valid.

## **4. CONCLUSIONS**

**4.1** To date a significant proportion of the suppliers where bank details have been either added or changed over the last 18 months have been checked and verified with no instances of incorrect data having been found.

**4.2** A robust process is in place, and operating effectively to ensure that all requests received to update supplier details, not only the bank account information but also other standing data such as telephone and contact details, is subject to independent verification.

**4.3** A control is in place whereby the bank details of suppliers for all payments in excess of £5,000 contained in each payment run are verified prior to release. Any discrepancies highlighted would result in the payment being stopped pending further investigation. Assurance can be taken from the fact that to date there have been no payments identified that required any further intervention.

**4.4** The checks carried out to date, together with the process for review and verification of new change requests to standing data provide assurance that controls are in place to help detect and prevent fraud in this area. This is

however an area, which will remain liable to further fraudulent activity and as such, will continue to be closely monitored.

**4.5** The additional checks undertaken in the previous weeks have required resource to be moved away from payment processing and, as a result, it is anticipated that performance in relation to the number of supplier payments made on time will have reduced. This is considered an acceptable consequence as the focus must remain on the detection and prevention of fraud.

**4.6** Creditor payment performance has recently been considered by the Corporate Management Team and a number of proposals to improve the overall efficiency of this process are currently being progressed. One example is the use of purchase card technology where payments would be made to suppliers by the bank concerned with East Ayrshire making a single monthly payment to the bank similar to the way a traditional credit card operates. This removes the need to hold individual supplier account details. Additional verification procedures will also be considered as part of the review.

#### **4.7 LEGAL/POLICY IMPLICATIONS**

**4.8** Nil.

### **5. FINANCIAL IMPLICATIONS**

**5.1** There are no immediate financial implications arising from the report. Any losses incurred because of a fraudulent transaction may not be recovered in part or full and as such, it is important to ensure that sufficient resources continue to be allocated to the prevention and detection of fraud across the Council.

### **6. RECOMMENDATIONS**

It is recommended that the Committee:

- i) Note the content of the report

Alex McPhee

**Executive Director of Finance and Corporate Support**

2 November 2010

### **LIST OF BACKGROUND PAPERS**

Nil

Any person wishing further information should contact Craig McArthur, Head of Finance (Telephone 01563 576300).