

Confidential
Internal Audit Report

Payments to Forge House Associates
Limited

Business Management

February 2019

Distribution List:	
For Action	
1.	Director of Finance and Investment
2.	Corporate Director for Business Management

Report produced by:	Report authorised by:
Lead Auditor	Chief Internal Auditor

Wirral Internal Audit Service

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1. Introduction

- 1.1 An audit review has been undertaken following a referral made to Internal Audit, in accordance with the Council's Anti-Fraud and Corruption Policy and Fraud Response Plan, regarding concerns that the Council is paying invoices to a company for consultancy services, that is listed on "Companies House" as dissolved and the VAT registration number the company is using is invalid.
- 1.2 The aim of this audit review has been to assess the current position regarding the payment for the consultancy services.

2. Methodology

- 2.1 The Senior Manager for Financial Planning and Policy contacted the Internal Audit Manager on Wednesday 16 January 2019, in relation to the payment of consultancy services.
- 2.2. An initial review of the concerns was undertaken by Officers within the Financial Management Team and as a result of the review it was recommended that Internal Audit undertake further work in relation to the concerns.
- 2.3 Internal Audit has held discussions with relevant officers and reviewed appropriate documentation relating to the concerns.

3. Purpose of report

- 3.1 The purpose of the report is to provide the Director of Finance and Investment with the findings and recommendations resulting from the audit review of the documentation, assessment of existing processes and the discussions held with relevant officers.

4. Findings

4.1 Payments made by Wirral Council for Consultancy Services

- 4.1.1 Prior to 2018, the consultancy services provided to the Council, were procured through Matrix Recruitment Agency. However, from February 2018 to date the Council has been paying Forge House Associates Limited for these services. See Appendix 1, for details of all payments made to Forge House Associates Limited and accompanying notes of correspondence with the company in relation to the supplier account and payments. See also Appendix 2 for a timeline of events document.
- 4.1.2 Liz Stead (LS) and Stewart Halliday (SH) are both listed on Companies House as Directors of Forge Associates Limited (Dissolved 25 Sep 2018) and as "persons with significant financial control" in relation to Forge House Associates LYNCS Limited (Incorporated 3 October 2018). However, Forge House Associates Limited has been quoted on all invoices received by the Council prior to and after the 25 September 2018, which would make the later invoices "false" as the company is dissolved.

- 4.1.3 On the original October 2018 invoice sent by Forge House Associates Limited to the Council, a VAT registration number was not quoted. Following receipt of the invoice a Payments Officer contacted LS, who is the sole director and company secretary, to advise her that the VAT number had been omitted. This was in accordance with the Council's policy and procedure, which requires all invoices that have VAT included on the invoice to have the VAT registration number quoted on the supplier invoice.
- 4.1.4 LS subsequently submitted an amended invoice quoting the VAT registration number 249 570 771, which is associated with the dissolved company and is invalid. However, this invoice included two charges for VAT and was therefore rejected by the Payments Team, who requested a revised invoice, which was subsequently received and paid.
- 4.1.5 As there is no requirement for Payment Officers' to check the validity of VAT numbers on supplier invoices, it was not identified that the VAT registration number was invalid at this stage.
- 4.1.6 On 1 October 2018 LS sent an email to the Payments Team to advise them of a change of bank account. See Appendix 3 for details. The Payments Team contacted SH on 3 October 2018 to verify that the change in bank details was legitimate and SH answered all required questions correctly, in accordance with the agreed procedure.
- 4.1.7 There is no evidence on Accounts Payable or CIVICA that the company informed the Council that Forge House Associated Limited was dissolved.
- 4.1.8 As the new company, Forge House Associates LINCS Limited was set up after Forge House Associated Limited dissolved, it is our belief that SH and LS are now using the new company to provide consultancy services, but are continuing to quote the previous company name on correspondence to the Council, so as not to declare that the Forge House Associates Limited is dissolved.
- 4.1.9 The Senior Manager for Financial Planning and Policy confirmed via the VAT information Exchange System (VIES) website that VAT registration number 249 570 771 is invalid. This was following information they received from a Senior Accountant and Principal Accountant that during budget monitoring of Economic and Housing Growth, the Senior Accountant had been informed by the budget holder that Forge House Associates Limited was showing on Companies House as dissolved.
- 4.1.10 As there is no requirement to verify the validity of the supplier VAT registration number, there is no way of knowing at this stage, when the VAT registration number 249 570 771 became invalid. This can only be confirmed through contact with HM Revenue and Customs (HMRC).
- 4.1.11 The Principal Tax Manager emailed the VAT Officer on 16 January 2019 and asked them to contact the Operations & Development Team Leader (Payments), for more information on the payments made to Forge House Associates Limited and to ask about the VAT implications for Wirral Council. See Appendix 2 - timeline of events document.
- 4.1.12 The VAT Officer confirmed to Internal Audit that VAT registration numbers cannot be reused and there should be a different VAT registration number for the "new" company, Forge House Associates LINCS LTD.
- 4.1.13 The Council has reclaimed the VAT from HMRC in relation to the four invoices paid after the dissolution of the company, when the Council may not be legally entitled to.

4.2 Actions taken/proposed since the referral to Internal Audit

- 4.2.1 The Operations & Development Team Leader (Payments) made the decision to put the supplier account on hold on 16 January 2019, after the issue had been brought to the attention of the Payments Team by the Senior Accountant on 16 January 2019.
- 4.2.2 The VAT Officer made the decision to raise a journal on 21 January 2019 to credit the input tax account (00000 / 105Z / Z0062) by £9,440.00 to correct the Council's VAT with HMRC. The VAT Officer notified the Senior Manager for Financial Planning and Policy of the actions they had taken relating to the VAT on 21 January 2019.
- 4.2.3 On 24 January 2019 the Chief Internal Auditor contacted the Director of Finance and Investment to advise them of the emerging findings in relation to this issue and at the conclusion of the Internal Audit review on 24 January 2019, provided the Director of Finance and Investment with a copy of the initial draft report of the findings from the review, who subsequently informed the Corporate Director for Business Management of the findings.
- 4.2.4 Councillor Ian Lewis sent an email to the Director of Governance and Assurance and Monitoring Officer on 24 January 2019, stating that he had contacted the Chief Executive that day to enquire about payments made to Forge House Associates Limited, from September 2018 (the month in which the company dissolved). Councillor Lewis explained in the email that since his earlier correspondence with the Chief Executive, he had identified all payments made to the company after the company dissolved date, from the Council's published list of payments to suppliers and as a result, required further information relating to this matter.
- 4.2.5 The Corporate Director for Business Management called a meeting on 25 January 2019 to discuss the findings from the Internal Audit review and to decide upon what actions would be taken next. The meeting was attended by the Corporate Director for Business Management (Chair), Director of Finance and Investment, Director of Governance and Assurance and Monitoring Officer (via conference call), Group Solicitor, Head of Human Resources, Chief Internal Auditor, Lead Auditor and the Head of Communications.
- 4.2.6 On the advice of the Director of Governance and Assurance, the Director of Finance and Investment contacted HMRC, who confirmed that they were the appropriate body for reporting such matters to and the Director of Finance and Investment subsequently sent the details of the Payments made to Forge House Associates to HMRC, on 25 January 2019. It was also confirmed that HMRC are responsible for notifying all other agencies, including the Police, in relation to any further investigation/actions, if deemed appropriate.
- 4.2.7 Following a request from the Director of Finance and Investment on 29 January 2019, Internal Audit reviewed all expenditure relating to the Growth Company after 25 September 2018, the date that Forge House Associates Limited dissolved, to establish if SH had approved or agreed any of the expenditure.
- 4.2.8 It was found that SH does not have responsibility for a budget or has access to the i-Procurement system and therefore does not have the authority/responsibility for raising purchase orders or authorising invoices for payment.

4.2.9 It was identified that SH signed a number of invoices to evidence that the goods/services had been provided, which would have led an officer to receipt the goods/services on the i-procurement system, allowing payment to be made to the supplier. See Appendix 4 and 5 for details of the payments made after 25 September 2018.

4.2.10 The process for authorising and making payments is well established at Wirral Council and from the examination of the payments made after 25 September 2018, it was found that SH did not authorise any of the invoices for payment and an adequate separation of duties was evident in relation to the payment of all of the invoices.

5. Conclusion

5.1. It would appear that payments to the company are genuine in the sense that this was the route the consultant was being paid. However, despite that fact the Council's procedures were followed correctly in relation to the validation of the change in bank details, ensuring the supplier invoices were arithmetically correct and that the VAT registration number was quoted on the supplier invoices, the Council has paid invoices to a company in good faith that no longer legally exists and whose VAT number has been declared invalid by the tax authorities.

5.2 Management should implement the recommendations/actions required in the attached schedule to correct the current position, strengthen internal control and prevent a reoccurrence.

6. Recommendation/Actions Required Summary

	Recommendation/Action required	Person to Action	Implementation Target Date
1.	<p>(i) The Officers responsible for commissioning the services of Forge House Associates Limited should be made aware that the company is now dissolved and that no further consultancy services should be procured from them.</p> <p>(ii) It should be established why the Directors of the company did not inform the Council that Forge House Associates Limited was dissolved in September 2018 and why they continued to quote the dissolved company name and invalid VAT registration number on correspondence with the Council. Appropriate action should be taken, following the conclusion of any further work.</p>	Corporate Director for Business Management	Immediate
2.	The Council's VAT Officer should inform HMRC at the earliest opportunity about the details relating to the invalid VAT registration number, quoted by "Forge House Associates Limited".	Director of Finance and Investment	Implemented by the Director of Finance and Investment on 25/1/19.
3.	No further payments should be made to Forge House Associates Limited.	Director of Finance and Investment	Immediate
4.	Advice should be sought from HMRC, to establish if Wirral Council should seek to recover any monies from SH to cover the cost of the VAT paid by Wirral Council, from the day that Forge House Associates Limited dissolved.	Director of Finance and Investment	Immediate
5.	<p>Internal Audit should be commissioned to undertake detailed reviews, to provide management with assurances regarding the efficiency and effectiveness of the systems in operation in the following areas:</p> <p>(i) Verification of the validity of supplier VAT registration numbers.</p> <p>(ii) Appointment and employment status of Interims/Contractors.</p> <p>At the conclusion of each review the outcomes should be reported to Senior Management and Members.</p>	Director of Governance and Assurance and Monitoring Officer.	Implemented by the Director of Governance and Assurance and Monitoring Officer on 7/2/19.
6.	A review of the payments made to those suppliers identified in Appendix 4 and 5, where SH has signed the invoices, should be undertaken to obtain assurance that the goods/services have been provided.	Corporate Director for Business Management	Immediate

7. Appendices

1	Payments made to Forge House Associates Limited.
2	Timeline of events relating to Forge House Associates Limited.
3	Bank account change request relating to Forge House Associates Limited.
4	Payments made using cost code B8466 – Growth Company (Ongoing costs).
5	Payments made using cost code F2009 – Growth Company (Set up costs)