



West Midlands Combined Authority

Internal Audit Report:

National Fraud Initiative

Report Date: 27th February 2024

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1. Executive summary

Introduction and Background

- 1.1 A review of the WMCA compliance with the National Fraud Initiative (NFI) was included in the Annual Internal Audit Plan 2023/24 as approved by the Audit, Risk and Assurance Committee (ARAC). The NFI is an exercise co-ordinated by the Cabinet Office with the aim to detect and prevent fraud. Every two years public bodies are required to submit a range of electronic data sets to the Cabinet Office and are matched to data held by other public bodies e.g. Department for Works and Pensions (DWP). Where the matching exercise identifies any anomalies or matches, these are further investigated and appropriate action is undertaken by an authorised member of staff.
- 1.2 The objective of our audit was to ensure that WMCA has implemented an adequate system to administer the NFI data matching exercise and the associated control framework. This included allocation of responsibility, access and reporting arrangements. To this effect audit testing was undertaken to ascertain whether the required data sets were submitted on time and any returned matches were investigated and corrective action taken to effectively address these. Details of the outcome of the review are set out below.
- 1.3 As per the guidance available on Gov.uk for public sector data submission requirements, Combined Authorities were required to submit Payroll, Trade Creditors Standing data and Trade Creditors Payment History data, along with any additional data related to concessionary travel passes and pensions. For the NFI 2022/23 exercise, all the mandatory and additional data sets were submitted as per the guidance.

Objectives, potential risks, and scope of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following:

Objectives:	The objective was to undertake a review of WMCA's processes to ensure it meet all obligations of the 22/23 NFI exercise including its response to identified data matches.
Potential Risks:	<p>The following potential risks have been identified and form the basis of the review.</p> <ul style="list-style-type: none">• If there is no commitment by the Authority, the Executive, ARAC and Senior Management to supporting the NFI process then there are risks that sufficient resources are not deployed and the outcomes are not delivered in a timely and complete manner.• If NFI is not an integral part of the Authorities corporate policies and strategies for preventing and detecting fraud and error, then there is a risk that fraud will go undetected which could result in financial loss.

	<ul style="list-style-type: none"> • If NFI additional data matching services offered by the NFI are not considered, then there is a risk that resources will not be used to their full capacity. • If the Key Contact / and Senior Responsible Officers are not the appropriate officers for NFI then there is a risk of a lack of oversight. • If NFI progress and outcomes are not reported regularly to the Executive and ARAC then there is risk that the outcomes and benefits of participating in NFI are not realised. • If expected datasets are not submitted or returned matches are not investigated, then there is a risk that this could lead to sanctions from the Cabinet Office. If reliance is placed on alternative fraud detection arrangements how successful have they been? • If key contacts do not have the time to devote to the exercise, then there is a risk that matches will not be investigated in a timely manner and the costs of the fraud continue. • If the Authority does not confirm promptly using the online submission facility that the Authority has met the Privacy Notice requirements, then then there a risk of breaching data protection legislation. • If priority is not given to following up high risk matches, then the matches could become quickly out of date with the consequent risk of reputational damage if the fraud is not stopped quickly. If appropriate action is not taken when fraud is detected, then there is a risk that the Authority continues to suffer a financial loss.
<p>Scope:</p>	<p>To review the processes involved in 2022/23 matching exercise.</p>
<p>Limitations to the scope of our audit:</p>	<p>The review will not examine the detailed outcomes of individual matches for each of the submitted data sets.</p>

Overall conclusion

Our conclusion is that a well-established process is in place, and compliance is satisfactory. Our overall conclusion based on Internal Audit Standard Assurance Matrix, is that the system is “satisfactory.” This means our audit provides **Satisfactory** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified.

We rate each issue identified in section below, based on the following:

Red Action is imperative to ensure that the objectives for the area under review are met	Amber Action is required to avoid exposure to significant risks in achieving objectives	Green Action is advised to enhance risk control or operational efficiency
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We have identified one **Amber** issue and two **Green** issues (See section below) where improvements could be made, arising from the issues which have been identified.

Summary of matches for the 2022/23 exercise.

NFI DATA SUBMISSION	RETURNED MATCHES	RESULT
Pension gratuity to DWP deceased information	11	11 matches (£14,023.25) relate to a legacy pensioners payroll, where the retiree's were awarded an additional payment to be paid as a pension upon leaving. Of the 11 cases, 4 are subject to recovery of entitlement (£5270.96)
Payroll	41	Reviewed no issue.
Concessionary Fares	23,659	Returns are rated (high 16,651 cases, medium 7,007 cases and low 1 case). The Team cancels the pass based on the notification of death and no further action is taken. NFI have calculated a notional saving figure of £733,057.00
Creditors	1256	Reviewed no issue.

VAT overpaid	236	See recommendation 3 below
Duplicate records	51	Reviewed no issue
Procurement	21	Reviewed no issue
Total matches	25,281	

NFI Policy

Internal Audit reviewed the governance arrangements in order to ensure compliance with the NFI process. It was noted that there is no such NFI policy in place to provide guidance on the roles and responsibilities related to the NFI exercise, the data submission, or investigation of matches.

The responsibility for uploading the data sets and investigating the returned matches rests on persons who have been historically working on this data exercise. They are informed through an email circulation before each activity by the Group Payroll & Pensions Manager, providing the NFI submission dates as per the timetable available on the NFI website. The recipients of this email are responsible for their department's submission.

However, for the 2022/23 exercise, the Customer Services team, which is responsible for the uploading of concessionary travel passes data set, did not receive any such email and therefore could not file the data within the normal time. As a result, the Authority had to seek an extension for filing.

Reporting of outcomes of the NFI exercise

Reporting arrangements around the NFI exercise were also reviewed. Whilst the Combined Authority has been participating in the NFI exercise as required, there is no periodic reporting structure in place to either management of the services that participate in NFI or to ARAC on its outcome. Also, the Terms of Reference for ARAC does not directly include any requirement for the reporting of NFI.

Closing of the returned matches on NFI Portal

Once the NFI matches are uploaded, these need to be investigated and closed on the NFI website using appropriate narration as provided within the portal. For the most recent activity there was 25,281 records which were to be processed and required action to be undertaken. This included 23,654 matches related to concessionary travel passes, 1,036 matches related to duplicate creditor records and 236 matches related to overpaid VAT. Only 209 such VAT overpaid matches were processed and closed however, while no action has been taken on the remaining 27 matches.

Appropriate recommendations to address the issues raised above are set out below in section 2 of this report.

Examples of good practice identified.

We identified the following examples of good practice within the system and in the management of risk.

- For the 2022/23 activity, WMCA did submit all the mandatory/key as well as the additional data sets.
- There is division of responsibility regarding the investigation of returned matches for different data sets among Payroll, Creditors and Customer Services Teams who are responsible for their respective areas.
- The matches returned have been investigated, closed and any required action undertaken within a period of between three to nine months of the data matches being made available, the exception of the above-mentioned overpaid matches which are awaiting investigation and closure.

Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned for their time and efforts.

2. Findings and recommendations

<p>Action is required to have governance arrangements in place for NFI in the form of a formal policy document.</p>		<p>Amber</p>
<p>NFI Policy.</p>		
<p>Findings:</p> <p>It was noted that there is no such NFI policy in place to provide guidance on the roles and responsibilities related to the NFI exercise, data submission and investigation of matches. As a result, there are no clearly laid out arrangements for reporting lines, use of management information, resource allocation or training provision in place relating for this activity.</p> <p>The Group Payroll & Pension Manager is named as the key contact on the NFI website. There are persons for different types of data sets, both for submission and investigation of the returned matches, who have been historically working on this data exercise. They are informed through an email circulation before every activity by the Group Payroll & Pensions Manager about the timelines etc. and they are then responsible for their submissions.</p> <p>However, the Customer Experience Delivery Manager, who is responsible for uploading data for the concessionary travel passes, stated that they did not receive any such email for the most recent activity, and they missed the deadline for submission. Ultimately an extension was granted by NFI and they were able to submit the concessionary travel passes data set.</p>		
<p>Implication:</p> <p>If the roles and responsibilities related to the NFI submission and the timeline for the investigation of returned matches is not clearly laid out in the form of a formal document, there is a possibility that important deadlines can be missed leading to fine or sanctions from the Cabinet Office. Non-existence of clear lines of responsibility and the lack of adequate training for other staff can lead to single points of failure if the key contacts who have been performing this activity historically are no longer working with the WMCA.</p>		
<p>Recommendation:</p> <ol style="list-style-type: none"> 1. There should be governance arrangements in place in the form of an NFI policy document to ensure that roles and responsibilities are clearly laid out as to the NFI activity submission, the timescale to undertake the investigations and the closure of matches. The policy should also set out reporting lines, use of management information, resource allocation and training provisions for staff. 		
<p>Agreed Actions/Management Comments</p> <p>Agreed. Policy to be produced in readiness for the 2024/25 exercise, commencing October 2024</p>		
<p>Responsible Officer: Kate Ketteringham – Group Payroll & Pension Manager</p>		<p>Target Date: End of July 2024</p>

Action is required to have formal arrangements for reporting of the outcomes from the NFI activity.		Green
Reporting of NFI outcomes to Senior/Service Management and ARAC		
Findings: Currently there is no such practice in place to periodically report the progress and outcomes from the NFI to the Service Management, Executive Board, or ARAC.		
Implication: There is a risk that the outcomes and benefits of participating in NFI are not realised.		
Recommendation: 2. Consideration should be given to report the outcomes from the NFI matching exercise to management and ARAC as part of its anti-fraud measures to demonstrate the progress and identification of any savings.		
Agreed Actions/Management Comments: Agreed. To be applied following the NFI matches returned for 2024/25 exercise		
Responsible Officer: Kate Ketteringham – Group Payroll & Pension Manager		Target Date: End of March 2025

Action is required to formally close the remaining matches related to overpaid VAT on the NFI Portal		Green
Closure of the returned matches.		
Findings: For the 2022/23 NFI matches, there were 236 matches related to overpaid VAT, however only 209 such VAT overpaid matches were processed/closed, with no action having taken place on the remaining 27 matches on the NFI portal.		
Implication: Non-compliance with NFI guidelines to formally investigate and close the pending matches.		
Recommendation: 3. The remaining matches related to the overpaid VAT should be investigated and resolved.		
Agreed Actions/Management Comments: This was already completed prior to the issue of this draft audit		
Responsible Officer: Kate Ketteringham – Group Payroll & Pension Manager		Target Date: Actioned

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted, or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Stage	Date
Draft issued	20/02/2024
Exit meeting	21/02/2024
Final issued	27/02/2024
ARAC meeting date	11th March 2024