

	PAPER NO: AC.35(12)	
Board/Committee:	Audit Committee	
Date:	20 June 2012	
Paper title:	Anti fraud, bribery and corruption report	
Author:	Richard Flatman – Executive Director of Finance	
Executive sponsor:	Richard Flatman – Executive Director of Finance	
Recommendation by the Executive:	That audit Committee note the position as reported below and the investigation report from the internal auditors.	
Aspect of the Corporate Plan to which this will help deliver?	Financial control/performance.	
Matter previously considered by:	Audit Committee	At each meeting.
Further approval required?	N/A	
Communications – who should be made aware of the decision?	In accordance with anti fraud policy.	

Executive summary

1. The Financial Controller was made aware on the 21st May, that gross payment of £138,669.31 was made to a member of staff University's March payroll. The cost to the University of the transaction, including National Insurance and pension contributions, was £174,693.70, and the net payment made to the member of staff, following deductions, was £77,353.65. The Financial Controller considered this an irregular payment with no supporting documentation. The employee concerned has now returned the net payment to the University and the payroll team are in the process of recovering overpaid tax, NI and pension contributions.
2. Initial investigations show that on 15 March 2012 the Assistant Payroll Manager's payroll system user ID was used to processed three pay adjustments for the overpaid employee of £99,999.99, £33,015,06 and £2,217,35. As a

result of these transactions the University has suspended two employees; the Assistant Payroll Manager and the Senior Payroller.

3. PWC were requested to conduct an investigation which is currently underway. The terms of reference for this investigation are shown in **Appendix 1** and a note detailing their initial findings in **Appendix 2**
4. The University alerted HEFCE in accordance with the terms of our Financial Memorandum, and this correspondence is attached in **Appendix 3**
5. During the year to date, no other major instances of fraud, corruption, bribery or other irregularity have been discovered or reported to the Executive Director of Finance.

London South Bank University

Terms of reference-Payroll investigation audit

To: *Martin Earwicker, Vice Chancellor*
From: *Justin Martin, Head of Internal Audit*



This review is being undertaken in addition to the 2012/2013 internal audit plan approved by the Audit Committee.

Background

London South Bank University (“the University”) has requested our assistance with an investigation audit into the circumstances around an apparent anomalous payment made to a Course Director in the Faculty of Arts and Human Sciences (“the Course Director”) through the payroll system.

We have been informed by the Financial Controller that on 22 March 2012 a gross payment of £138,669.31 was made to the Course Director through the University’s payroll system. The cost to the University of the transaction, including National Insurance and pension contributions, was £174,693.70, and the net payment made to the Course Director following deductions was £77,353.65. The Financial Controller considers the payment to be anomalous and the University has requested the monies back from the Course Director.

The Financial Controller has advised that payroll transaction reports show that on 15 March 2012 the Assistant Payroll Manager’s payroll system user ID was used to process three pay adjustments of £99,999.99, £33,015.06 and £2,217.35 for the Course Director.

As a result of the transaction the University has suspended two employees; the Assistant Payroll Manager and the Senior Payroller.

Scope and approach

The University has requested that we undertake an investigation to determine the following:

- i) The facts surrounding the apparent anomalous payment made to the Course Director and, if possible, establish the root cause;
- ii) Whether there is any prima facie evidence of any potential further anomalous payroll transactions during the past six months; and
- iii) Whether any anomalous payments made were as a result of control design or compliance issues.

When undertaking the investigation we will perform the following work:

- Review available system audit reports produced by the University’s providers of payroll and information technology services in relation to the anomalous payment made to the Course Director.
- Review available system audit reports produced by the University’s provider of payroll services for a six month period to be agreed by the University to identify potentially anomalous pay adjustments.
- Review relevant University policies and procedures in relation to payroll, information technology and general conduct.

- Review payments made through the payroll system between November 2011 and May 2012 to the following individuals:
 - The (former) Hourly Paid Lecturer Payroll Clerk
 - The Course Director
 - The Assistant Payroll Manager
 - The Senior Payroller.
 - Conduct searches of the following University email accounts:
 - The (former) Hourly Paid Lecturer Payroll Clerk
 - The Course Director
 - The Assistant Payroll Manager
 - The Senior Payroller.
 - Conduct exploratory interviews with the two suspended employees and the Course Director
 - Conduct exploratory interviews with finance, human resources and payroll staff as required in order to obtain an understanding of the payroll system, procedures and controls.
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Limitations of scope

We will conduct reviews of system audit reports that are provided to us by the University or their supplier of payroll services. We will not be extracting data for analysis from the University's systems.

Searches of email accounts will be facilitated by the University. We will not be taking forensic images of email accounts.

Undertaking the above steps cannot provide assurance as to whether there has been any fraudulent activity using the University's payroll system.

Investigation team

Name	Title	Role	Contact details
Justin Martin	Partner	Engagement Leader	justin.f.martin@uk.pwc.com
David Wildey	Senior Manager	Engagement Manager	david.wildey@uk.pwc.com
Tim Hooper	Senior Auditor	Anti-fraud manager	timothy.j.hooper@uk.pwc.com

Key contacts – London South Bank University

Name	Title	Role
Richard Flatman	Executive Director of Finance	Key Contact
Natalie Ferer	Financial Controller	Key Contact
Katie Boyce	Director of Human Resources	Key Contact

Timetable

Fieldwork start	29 May 2012
Fieldwork completed	15 June 2012
Draft report to client	22 June 2012
Response from client	[Date]
Final report to client	[Date]

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

[Appendix 1], Information request

Documentation/records:

- University Code of Conduct
- University Information Technology usage policy
- Suspension letters for the two suspended employees
- Payroll system process notes and documentation
- Payroll system audit/transaction report for March 2012
- Computer audit log reports for March 2012
- Payroll staff attendance records for March 2012
- Payroll system audit/transaction report for a six month period to be agreed by the University
- Payroll transaction reports for a period to be agreed by the University for the following individuals:
 - o The (former) Hourly Paid Lecturer Payroll Clerk
 - o The Course Director
 - o The Assistant Payroll Manager
 - o The Senior Payroller.
- Access to the following University email accounts:
 - o The (former) Hourly Paid Lecturer Payroll Clerk
 - o The Course Director
 - o The Assistant Payroll Manager
 - o The Senior Payroller.

Access to the following staff:

- The Course Director
- The Assistant Payroll Manager
- The Senior Payroller
- Payroll staff as required
- Logica staff as required

The above is an initial indication only and it is anticipated that further requests will be made during the investigation.

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Payroll Investigation Audit – Update Memorandum

Introduction

London South Bank University (“the University”) has requested PricewaterhouseCoopers’ assistance with an investigation audit into the circumstances around an apparent anomalous payment made to a Course Director in the Faculty of Arts and Human Sciences (“the Course Director”) through the payroll system in March 2012.

Scope

The University has requested that we undertake an investigation to determine the following:

- i) The facts surrounding the apparent anomalous payment made to the Course Director and, if possible, establish the root cause;
- ii) Whether there is any prima facia evidence of any potential further anomalous payroll transactions during the past six months; and
- iii) Whether any anomalous payments made were as a result of control design or compliance issues.

Limitations

We have been asked by the Financial Controller to prepare a summary of work undertaken for the University’s audit committee on 12 June 2012. Our investigation is not yet complete, and the accuracy and completeness of findings set out below cannot be guaranteed at this stage.

Work undertaken

We have performed the following work to date as part of our investigation:

- Reviewed available system audit reports produced from the University’s Payfact system in relation to the anomalous payment made to the Course Director;
- Reviewed available system audit reports produced by the University’s Payfact system during the period October 2011 - March 2012 to identify potentially anomalous pay adjustments;
- Reviewed relevant University policies and procedures in relation to payroll, information technology and general conduct;
- Reviewed payments made through the payroll system between November 2011 and May 2012 to the following individuals:
 - The (former) Hourly Paid Lecturer Payroll Clerk;
 - The Course Director;
 - The Assistant Payroll Manager; and
 - The Senior Payroller.
- Conducted exploratory interviews with the following individuals:
 - The Course Director;
 - Financial Planning Manager;
 - Director of Human Resources;
 - Business Support Manager for Arts and Human Sciences;
 - Interim Payroll Manager;
 - Business Partner for Arts and Human Sciences, Human Resources;

- Assistant Human Resources Advisor; and
- Support Services Consultant, Logica.

Summary of Findings

1) The facts surrounding the apparent anomalous payment made to the Course Director and, if possible, establish the root cause;

The Course Director's gross salary payment for March 2012 was £138,669.31. This was comprised of the following elements:

- Basic pay - £136,193.38;
- London weighting - £258.58; and
- Arrears - £2,217.35.

The basic pay figure of £136,193.38 appears to have resulted from the following two inputs on the Payfact system:

- i) An adjustment was made to the monthly basic pay for period 23 November 2002 to 31 August 2010 of £1,426.18, which generated a total payment of £133,015.05 for the period. It is not known as to which user ID input this adjustment or on what date. It would appear as though this payment was "committed" for processing as part of a batch of transactions on 15 March 2012. It would appear as though the payment of £133,015.05 was automatically split by the system into two payments of £99,999.99 and £33,015.06. It is not known as to who "committed" the batch for processing within Payfact, however it would appear as though the network user was "SArcher". We could not locate any supporting documentation in relation to the adjustment; and
- ii) A change was made to the monthly basic pay to £3,178.33 made on 14 March 2012 by Payfact user ID 'SPA'. It would appear from HR records that this amount is the Course Director's revised monthly basic pay following her taking on a new full time position in January 2012.

The basic pay figure of £136,193.38 therefore appears to be comprised of £133,015.05 and £3,178.33.

It would appear as though the London weighting amount of £258.58 was input on 14 March 2012 by Payfact user ID 'SPA'. It would appear from HR records that this amount is the Course Director's revised London weighting rate following her taking on a new full time position in January 2012.

A series of pay adjustments were made against the "arrears" pay code, which resulted in an additional "arrears" payment of £2,217.35. It is not known as to which user ID input these adjustments or on what date. It would appear as though this payment was also "committed" for processing as part of a batch of transactions on 15 March 2012. As stated above it is not known as to who "committed" this batch for processing within Payfact, however it would appear as though the network user was "SArcher". We also could not locate any supporting documentation in relation to these adjustments

2) Whether there is any prima facia evidence of any potential further anomalous payroll transactions during the past six months;

We have reviewed payroll transactions between November 2011 and May 2012 for the four individuals listed above, and a sample of payroll transactions for the period October 2011 - March 2012 that were above £7,000 in value. Our work in this area is not yet complete, however our initial observations suggest that payments examined are supported by HR records and are likely to be bonafide.

3) Whether any anomalous payments made were as a result of control design or compliance issues.

The root cause to the salary overpayment has not yet been established. However our initial findings suggest the following:

- There appear to have been a number of amendments to the Course Director's payroll records at the time of the payment for which source documentation cannot be located;
- It would appear as though a batch of payroll adjustments were "committed" for processing on 15 March 2012. There is no evidence that these adjustments were reviewed in accordance with the established control procedures and verified to source documentation prior to "commitment";
- Logica generates a number of exception reports following the monthly payroll. These include a report that highlights where a member of staff has received a higher than a pre-defined limit. The report generated for March 2012 identified the salary overpayment to the Course Director. However there was no evidence that this report had been reviewed by management in accordance with established control procedures;
- There do not appear to be any formally documented procedures within Payroll that specify which payroll exception reports should be reviewed and by whom;
- It is understood from employee suspension letters and correspondence that two members of the payroll team were using the Assistant Payroll Manager's Payfact system ID at the time of the erroneous payment; and
- The salary overpayment was identified by the Business Support Manager for Arts and Human Sciences as part of the monthly expenditure review in March 2012. However this was not formally reported to management until May 2012.

Next steps

We are due to perform the following work in order to complete our review:

- Conduct exploratory interviews with the two suspended employees;
- Liaise with Logica to identify, if possible, which Payfact user IDs processed certain adjustments;
- Undertake searches of selected email accounts; and
- Review selected payroll transactions against source documentation held by HR.

Our internal work has been performed in accordance with CIPFA's Audit Code of Practice. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

This report has been prepared solely for the London South Bank University in accordance with the terms and conditions set out in our services contract and in accordance with our Terms of Reference dated May 2012. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This Memorandum should not be disclosed to any third party, quoted or referred to without our prior written consent.

This Memorandum has been issued in draft and therefore findings are subject to amendment or withdrawal. Our definitive conclusions will be those contained in the final report.

From: Stevenson, James 7
Sent: 22 May 2012 17:47
To: 'd.hicks@hefce.ac.uk'; Jacqui Brasted (j.brasted@hefce.ac.uk)
Cc: Earwicker, Martin (martin.earwicker@lsbu.ac.uk); Flatman, Richard
Subject: reporting a financial irregularity

Dear Derek and Jacqui,

As required under HEFCE procedures, we need to draw your attention to a financial irregularity that came to light yesterday. We are treating the matter as a potential fraud, but the facts are still being established.

The Financial Controller became aware from the Payroll Manager that an employee of LSBU received net pay in March of £77,354. The total cost to the University is £174,694 (inclusive of tax, NI and pension).

Following the University's Fraud Response Plan the following actions are being taken:

- yourselves have been notified (by this e-mail);
- the Chairman of the Audit Committee has been notified. (Please note that the Chairman was Chris Swinson who resigned as a governor on 10th May 2012 and the Chairman designate is Andrew Owen, to be confirmed at the meeting of the Board of Governors on 24th May 2012 – we were due to notify HEFCE of this change after the board meeting);
- the VC, Director of Finance and University Secretary have been notified;
- the employee has been contacted and has stated that the sum is in a deposit account. A formal request to return the sum will be issued tomorrow;
- members of the payroll team are being interviewed to determine whether they should be suspended pending further investigation;
- internal auditors, PricewaterhouseCoopers have been notified. Their counter-fraud specialist has made contact and will meet the Financial Controller to start a formal, independent investigation;

As the matter has occurred within the finance team, the VC will lead the investigation.

There will be a full report to the Audit Committee at its next meeting on 20th June 2012.

We will be in touch again to update you as facts are established.

If you require any further information please let us know.

Regards,
James Stevenson

James Stevenson
University Secretary and Clerk to the Board of Governors
London South Bank University
103 Borough Road
London SE1 0AA

Tel: +44 (0)20 7815 6011