

## **Audit Committee 27<sup>th</sup> June 2012**

### **Final Internal Audit Progress Report – Appendix 2**

#### **Anti-Fraud**

##### **1. Introduction**

- 1.1. Fraud typologies can be split between internal i.e. committed by staff against the authority, and external i.e. committed by third parties against the authority. The latter can be further split into two major divisions: Housing Benefit and Housing Tenancy Fraud. Other types of external fraud include false applications for social services support (direct payments), blue badge abuse and single person discounts. Internal investigations also include disciplinary matters which are not necessarily fraudulent but represent a serious breach of financial regulations or the code of conduct.
- 1.2. On occasion frauds fall into more than one category, i.e. an officer working and claiming benefit; a housing tenant subletting their property and claiming benefit; false declaration of income for the purpose of claiming benefit and a renovation grant

##### **2. Housing Benefit Fraud**

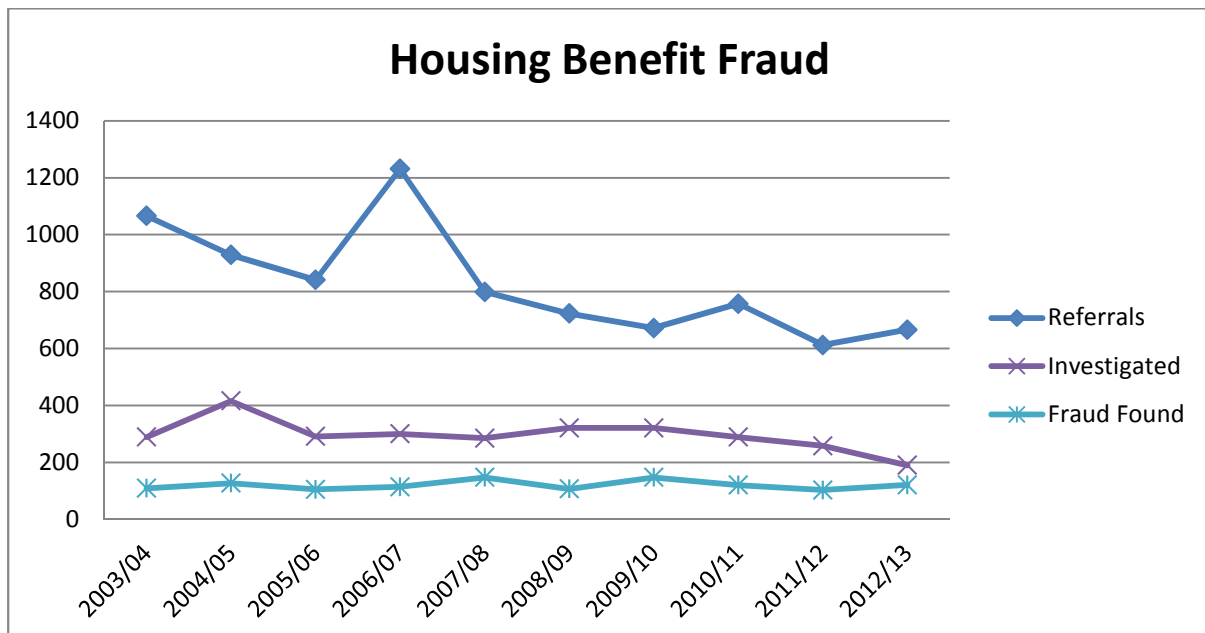
- 2.1. Members will be aware of the DWP plans to introduce a Universal Credit (UC) to replace a range of benefits, including housing benefit, for new applications from October 2013, transitioning all existing claims by April 2017. The UC will be assessed and paid by the DWP. Council tax benefit is excluded from UC with separate schemes established and administered by each local authority.
- 2.2. These changes include the establishment of a Single Fraud Investigation Service (SFIS) which will have responsibility for the investigation of all Universal Credit fraud. How that service is to be delivered is yet to be determined although it is likely to reflect DWP priorities, policy and procedure. The DWP are piloting a number of approaches to SFIS prior to the introduction of UC where DWP, HMRC and Local Authority staff will work together with the intention of investigating the current disparate benefits, i.e. HB, Income Support, Tax Credit as a single investigation. How this will work in practice is yet to be determined.
- 2.3. There will be major implications for the council's housing benefit and council tax benefit delivery and fraud investigation functions. Once definitive plans are set out by the DWP, they will be the subject of a further report to this committee.
- 2.4. Until such time as SFIS is fully funded and resourced by the DWP, the council will continue to be responsible for the investigation of fraud in HB. The team continues to receive a very high volume of fraud referrals and, as with previous years, a high percentage of cases have to be screened out without investigation. There is a process of case screening which considers the quality of evidence, likely value of overpayment and other factors. Those which are not screened out are passed for investigation. An investigation will be closed once there is sufficient evidence to establish that a fraudulent overpayment of benefit has occurred and a sanction

has been applied or no further action is warranted. Investigations range in length from a few months to many years for complex prosecutions.

2.5. The sanctions available for HB fraud are: Overpayment recovery, a caution administered by the council, an administrative penalty and criminal prosecution. In recent years the Audit and Investigation team have prioritised high value fraud resulting in a higher proportion of prosecutions. These take longer to prepare than cautions and administrative penalties. This has resulted in fewer sanctions but higher value overpayments. Performance has also been affected by carrying three vacant investigator posts out of a total of five. Historical case load data and current performance is shown below:

<b>HB Fraud</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2010/11</b>	<b>2012/13</b>
Referrals	723	672	757	612	666
Closed	832	744	675	597	622
Screened Out	511	423	386	339	432
% dropped	61%	57%	57%	57%	69%
Investigated	321	321	290	258	190
Fraud Found	118	150	121	102	121
Hit Rate	37%	47%	42%	40%	64%
Caution	7	5	1	3	0
Admin Penalty	46	40	20	28	34
Prosecution	31	36	50	30	28
Total Sanctions	84	81	71	61	<b>62</b>
Summons Only	1	0	2	0	4
Overpayment Only	21	73	47	40	53

**Table 1 – HB Fraud Caseload 2008 to 2013**



**Chart 1 – HB Fraud Caseload 2003 to 2013**

- 2.6. A key objective for the team over recent years has been to identify large scale fraud. This has, inevitably, resulted in a lower volume of cases being dealt with but a higher value of overpayment identification. Most HB claimants have other national benefits in payment such as job seekers allowance or income support and investigators will identify a range of overpaid benefits during enquiries. Overpayment figures are shown in table 2:

<b>Fraudulent Overpayments by Benefit Type</b>	<b>08/09</b>	<b>09/10</b>	<b>10/11</b>	<b>11/12</b>	<b>12/13</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Housing Benefit</b>	849,505	1,332,014	1,660,613	1,267,041	1,598,371
<b>Council Tax Benefit</b>	80,535	183,266	201,615	168,032	187,746
<b>Income Support, Job Seekers Allowance, DLA, Other</b>	371,713	411,909	660,546	302,679	665,618
<b>Total</b>	<b>1,319,932</b>	<b>1,927,189</b>	<b>2,522,774</b>	<b>1,737,752</b>	<b>2,451,735</b>

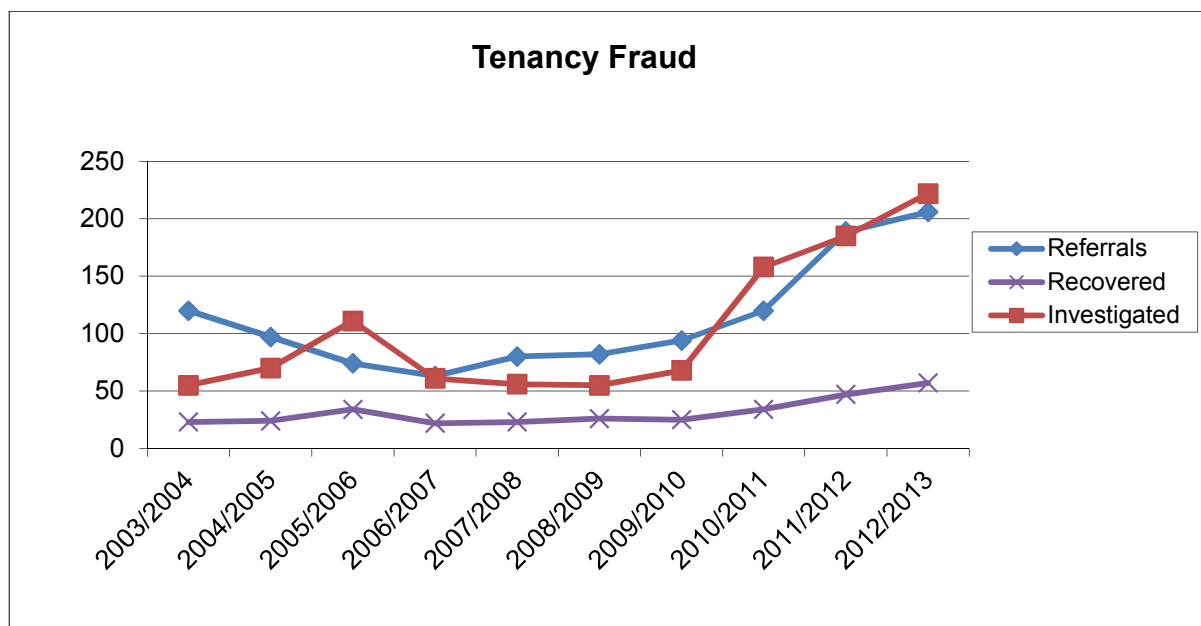
**Table 2 – Fraud overpayment by benefit type and year**

### **3. Housing Tenancy Fraud**

- 3.1. Tenancy fraud occurs due to the sub-letting of council properties and false declaration of circumstances on housing and homeless applications. The council has taken tenancy fraud seriously for many years. Over the past five years investigation work by A&I has resulted in the recovery of 189 properties. The Audit Commission currently estimates that each unlawfully sub-let council property results, on average, in a financial loss of some £18,000 per annum.
- 3.2. Caseload information is shown below.

<b>Housing Fraud</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Referrals	82	111	120	189	206
Closed	55	82	166	185	227
Screened Out	3	9	10	13	5
Investigated	52	73	155	172	222
Fraud Found	21	26	37	48	59
Recovered Property	21	26	34	47	57
RTB Stop	1	0	0	1	0
Application refused		0	2	0	1
Property Size reduced					1

**Table 3 – Housing Fraud Caseload 2008 to 2013**



**Chart 3 – Housing Fraud Caseload 2003 to 2013**

- 3.3. Since 2010/11 the government has provided additional funding to encourage council's to work with housing associations to investigate sub-letting. The Audit and Investigation Team engaged with a number of housing associations in the borough and have set up service level agreements with nine housing associations in the borough. A&I officers investigate referrals on behalf of the housing association who then take appropriate recovery action. This is beneficial in that the council maintains nomination rights to any properties recovered. The funding has enabled the council to employ two additional staff in this area. Five of the properties recovered belong to housing associations.

#### **4. Blue Badge Fraud**

- 4.1. This abuse takes a number of forms. The lowest level is misuse of a badge by a family member when the badge holder is not present. This abuse is dealt with by the parking enforcement team and is not covered in this report. More serious offences such as persistent misuse, false applications for a badge, forged or counterfeit badges or misuse by a council officer are dealt with by Audit and Investigations. Given the materiality of this type of fraud, only limited resources can be applied.
- 4.2. There have been 28 new reactive referrals in 2012/13 within the more serious categories, such as persistent misuse, false applications for a badge, forged or counterfeit badges or misuse by a council officer. Misuse has been identified in 12 of 25 cases investigated. Most were dealt with by way of a warning letter from Older Peoples Services who issue the badges. There were two prosecutions and two cases where staff were involved. Both resigned prior to disciplinary proceedings being invoked.

## Internal Fraud

- 4.3. Internal fraud refers to fraud committed by employees, agency staff and staff in schools. For the purposes of this report, “fraud” includes any financial irregularity or malpractice or serious breach of financial regulations or the staff code of conduct.
- 4.4. Historic data and current year statistics are shown in the tables and charts below:

Internal	2008/09	2009/10	2010/11	2011/12	2012/13
Referrals	26	51	53	58	47
Closed	34	28	51	62	42
Screened Out	3	3	3	5	1
Investigated	31	25	48	57	41
Fraud / Irregularity	11	16	23	33	18
Dismiss / Resign	9	14	21	27	15
Warning	0	0	2	5	2

**Table 4 – Internal Fraud Caseload 2008 to 2013**

- 4.5. This year five staff were dismissed following disciplinary and a further 10 left during enquiries or prior to disciplinary proceedings. A further two received warnings and in one case, relating to a primary school, no action was taken. The nature of the irregularities is set out in table 5 below:

Internal	2012/13
Illegal working/Identity issues	4
Conflict of Interest	2
Blue Badge	2
Breach financial regulations	4
Nepotism/recruitment	1
Theft	1
False Claims for Benefit/Housing	2
Misuse of IT	2

**Table 5 – Internal Fraud Cases 2013**