



## Audit and Standards Advisory Committee

5 February 2019

### Report from the Chief Finance Officer

## Counter Fraud Quarterly Progress Report 2018-19

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|---|--|
| <b>Wards Affected:</b>  | All  |
| <b>Key or Non-Key Decision:</b>   | N/A  |
| <b>Open or Part/Fully Exempt:</b><br><small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small> | Open   |
| <b>No. of Appendices:</b>   | None   |
| <b>Background Papers:</b>   | None   |
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### 1.0 Purpose of the Report

1.1 This report provides an update on the counter fraud work undertaken for the period 1 April 2018 to 31 December September 2018 (Quarters 1-3).

### 2.0 Recommendation

2.1 That the Audit and Standards Advisory Committee notes the counter fraud work in the period of this report.

### 3.0 Internal Fraud

3.1 There have been six new referrals received during Q3, which is a decrease compared with the same period during the previous year (12 cases), however the total referrals to date for the year is consistent with the previous year. This includes whistleblowing referrals and a range of case types that includes various financial, staff conduct and procedural irregularities. Our proactive work and our review of the National Fraud Initiative (NFI) data-matching reports are covered in the 'proactive' section of this report. Internal fraud typically has the fewest referrals in any period but is generally more complex in nature.

The table overleaf sets out key figures in this area.

Table A – Internal Fraud

| Internal Fraud                 | 2018/19 Q3 | 2018/19 Q2 | 2018/19 Q1 | 2018/19 (year to date) | 2017/18 (full year) | 2016/17 (full year) |
|--------------------------------|------------|------------|------------|------------------------|---------------------|---------------------|
| Open Cases b/f                 | 12         | 8          | 11         | 11                     | 16                  | 22                  |
| New Referrals                  | 6          | 9          | 10         | 25                     | 35                  | 28                  |
| Closed Cases                   | 9          | 5          | 13         | 27                     | 40                  | 34                  |
| Open Cases c/f                 | 9          | 12         | 8          | 9                      | 11                  | 16                  |
| Fraud/Irregularity Identified* | 3          | 1          | 5          | 9                      | 10                  | 12                  |
| Dismissal                      | 1          | 1          | 0          | 2                      | 1                   | 1                   |
| Resignation                    | 0          | 0          | 2          | 2                      | 1                   | 2                   |
| Warning                        | 1          | 0          | 1          | 2                      | 2                   | 1                   |
| Other Outcome (see below)      | 1          | 0          | 2          | 3                      | 7                   | 8                   |

\* Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action)

3.2 There has been an increased presence on the Council’s website that enables members of the public to report all fraud as well as fraud awareness sessions being delivered across the Council.

3.3 There were two cases in Q3 that resulted in disciplinary action. One related to recruitment irregularities where the employee presented irregular ID documentation which resulted in their dismissal prior to taking up a permanent post within Housing Management (BHM).

3.4 The second case resulted in a final warning being determined following a disciplinary investigation relating to a benefit fraud investigation conducted by the Department of Work and Pensions (DWP).

3.5 During Q2, a fraud investigation was initiated against an employee and their partner concerning financial irregularities which led to the employee’s dismissal in August 2018. The criminal investigation has now concluded. The ex-employee pleaded guilty on 23rd October 2019 to four charges under Section 1 of the Fraud Act and one under Section 1(1) of the Criminal Attempts Act, with a financial value of £187,216. Charges were dropped against the partner during the court hearing because the ex-employee took full responsibility. Sentencing took place on the 29th November and is summarised below:

- Two years imprisonment per offence to run concurrently suspended for two years, and
- 240 hours (unpaid work).
- Compensation in the sum of £44,669.57.
- Costs in the sum of £2,500 payable in 12 months.

In making this decision the Judge took into account:

- The fact that the money stolen was not spent;
- Mitigation - which included letters from people who said the defendants were

upstanding members of society;

- That the offending stems from their circumstances not from greed, and
- The defendant is the mother of three young children and that those children would suffer if she goes into custody.

3.6 The total value of the fraud was £288,111, which included fraudulent attempts, although prompt management action and investigative work meant there were no financial loss to the Council. Internal Audit work on the control issues relating to this event is set out in the internal audit quarterly report. This had led to improved controls within the relevant finance areas of the Council.

#### 4.0 Tenancy and Social Housing Fraud

4.1 The recovery of social housing properties by fraud investigations has a positive impact upon the temporary accommodation budget and remains a high priority fraud risk area for the Council. The Audit Commission has previously estimated that the average national value of each recovered tenancy is £18,000\* per property. A more meaningful value for Brent is £93,000 per property as reported by the Cabinet Office (National Fraud Initiative Report 2016). These are notional values and for consistency in reporting, we used the lesser value up to 2017/18. For 2018/19 we will apply the higher value to housing fraud cases. The counter-fraud activity to end of year is summarised in the table below:

Table B – Tenancy and Social Housing Fraud

| Housing Fraud                               | 18/19 Q3 | 18/19 Q2 | 18/19 Q1 | 2018/19 (year to date) | 2017/18 (full year) | 2016/17 (full year) |
|---|----------|----------|----------|------------------------|---------------------|---------------------|
| Open cases b/f                              | 43       | 45       | 28       | 28                     | 82                  | 121                 |
| New Referrals                               | 43       | 41       | 43       | 127                    | 130                 | 332                 |
| Closed cases                                | 41       | 43       | 26       | 110                    | 184                 | 371                 |
| Open cases c/f                              | 45       | 43       | 45       | 45                     | 28                  | 82                  |
| Fraud Found                                 | 2        | 7        | 6        | 15                     | 42                  | 52                  |
| Recovered Properties                        | 1        | 7        | 5        | 13                     | 38                  | 44                  |
| Applications Refused                        | 1        | 0        | 1        | 2                      | 1                   | 0                   |
| Property Size Reduced                       | 0        | 0        | 0        | 0                      | 2                   | 4                   |
| Right To Buy                                | 0        | 1        | 1        | 2                      | 1                   | 4                   |
| Value of properties recovered*              | 186,000  | 651,000  | 558,000  | £1,395,000             | £738,000            | £864,000            |
| Value of Right to Buy Discount Prevented**  | NIL      | 103,900  | 103,900  | £207,800               | £103,900            | £311,700            |
| Cases with Legal for Possession/Prosecution | 12       | 12       | N/A      | 12                     | 11                  | 26                  |

\* Notional value of recovered properties (including housing and Right To Buy applications stopped, property size reduction and prevention of split tenancy) used for reporting purposes is £93,000. (£18,000 used previously)

\*\* Actual amount of Right to Buy discount stopped.

- 4.2 A total of 15 housing recoveries, with a notional value of £1,395,000, were recorded as a result of fraud / irregularity up to Q3. The recoveries are less than the same period as last year (although the notional value is higher due to the revised value placed upon each recovery).
- 4.3 The total referrals in 2017/18 have been lower compared with the previous two years and this has continued through to Q3. The overall fraud detection rate of closed cases has reduced but it is expected this will increase by the end of the year.

The fraud detection rate against closed cases since 2015/16 is as follows:

- 2015/16 = 23.25% (314 cases closed, detected fraud in 73 cases);
  - 2016/17 = 14.02% (371 cases closed, detected fraud in 52 cases);
  - 2017/18 = 22.83% (184 cases closed, detected fraud in 42 cases),
  - 2018/19 (to Q3) =13.63% (110 cases closed, detected fraud in 15 cases).
- 4.4 There are a number of reasons for the down turn in referrals and the detection rate, which include an increase in criminal prosecution activity across all fraud types and a decline in referrals from usual sources such as Housing Management and external housing associations. Referrals from the public have remained constant, although the quality of these is generally lower. In order to mitigate this downturn, the team have provided fraud awareness training and assistance to key colleagues with enhanced verification for discretionary tenancies and succession applications. The team have also started two proactive exercises relating to Right to Buy applications and tenancies in known risk areas for unlawful sub-letting, the results of which are anticipated from March 2019. In addition, the Council is exploring whether to join the London Counter Fraud Hub which has ambitions to match data on this and other fraud types from all London Boroughs. (Developments on this will be reported to the Committee in due course.)
- 4.5 A notable case is the recent recovery of a Council property in April 2018, where the tenant had used fraudulent ID from the outset (January 2009) and was unlawfully subletting the tenancy whilst residing in their privately owned property under a different (presumed genuine) identity. This case was heard at court in September 2018 where the defendant pleaded guilty and gave an undertaking to pay £120,000 in compensation before sentencing, which is scheduled for March 2019.
- 4.6 A further notable case is a recent refusal of a homeless application, where the applicant had supplied fraudulent supporting documentation including medical evidence. A judicial review in December 2018 determined the housing application was not genuine and the Council's duty to house has been rescinded. The team are currently considering the evidence with a view of instigating criminal proceedings.

## **5.0 External Fraud**

- 5.1 'External fraud' includes all external fraud/ irregularity that affects the Council. This will include (but is not limited to) fraud cases involving; Blue Badge, Direct Payments, Council Tax, Business Rates, insurance, finance, concessionary

travel and grant applications. The counter fraud activity up to end of the year is summarised in the table below:

Table C – External Fraud

| External Fraud         | 18/19 Q3 | 18/19 Q2 | 18/19 Q1 | 2018/19 (year to date) | 2017/18 (full year) | 2016/17 (full year) |
|------------------------|----------|----------|----------|------------------------|---------------------|---------------------|
| Open cases b/f         | 17       | 12       | 13       | 13                     | 14                  | 57                  |
| New Referrals          | 41       | 39       | 20       | 100                    | 88                  | 161                 |
| Closed Cases           | 51       | 34       | 21       | 106                    | 89                  | 204                 |
| Open cases c/f         | 7        | 17       | 12       | 7                      | 13                  | 14                  |
| Fraud / Irregularity * | 7        | 7        | 5        | 12                     | 12                  | 22                  |
| Prosecution            | 0        | 0        | 1        | 1                      | 1                   | 2                   |
| Warning / Caution      | 1        | 1        | 0        | 1                      | 2                   | 6                   |
| Overpayment/Saving     | 6        | 7        | 5        | 12                     | 11                  | 7                   |

**NB:** Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action).

- 5.2 Since Q1 of 2017/18, the team has led on an organised Freedom Pass fraud investigation involving several Councils in London with over 100 fraudulent applications identified to date. The team has so far identified 17 fraudulent Brent applications. The main subject of the investigation has been identified, arrested and appeared in court on 26 June 2018 relating to 21 counts of fraud, counterfeiting and forgery. The investigation was in collaboration with London Councils, Transport for London and the Police and is being led by Brent Council. The fraud has been present in our system since September 2016 and specifically targeted the ‘partially sighted’ entitlement category using false supporting documentation. This occurred due to inadequate controls on the verification of supporting documentation which was addressed by the service area at an early stage. The potential value of a Freedom Pass is approximately £6,000 per year and the cost to Councils is significantly more due to the charging structure with London Councils – it costs Brent approximately £350 per pass to administer. The defendant has pleaded not guilty and the trial is scheduled for March 2019.
- 5.3 A notable case was a recent prosecution earlier this month resulting from a previous Blue Badge enforcement operation in June 2018. The defendant pleaded guilty and was fined £660. They were also ordered to pay costs of £572 and a Victim Surcharge of £66. This will be reflected in the end of year figures.
- 5.4 The team have explored other potential fraud types and an example of this is Parking Permit fraud. Investigations this year has resulted four permits being cancelled up to Q3 with a notional value of £2,300 and a further four cases concluded earlier this month.
- 5.5 A further notable case relates to Business Rates where the subject had falsely declared their premises to be empty but was operating an active mechanics business. The investigation findings resulted in an extra liability of £12,276.

## 6.0 Counter Fraud Savings Summary

6.1 The table below summarises the main savings (both notional and actual) identified at the conclusion of investigations. Housing Tenancy remains the highest area of savings for the team. The table does not reflect all positive outcomes such as some NFI data matching reviews which are reported separately (below) and certain internal fraud cases where it can be difficult to accurately apportion a value. It should also be noted that whilst the team no longer has the remit to directly investigate Housing Benefit and Council Tax Benefit, it will take appropriate action to ensure these benefits are corrected where fraud/irregularity is identified.

| Savings Summary:             | Yr to date       | Q4<br>2018/19* | Q3<br>2018/19* | Q2<br>2018/19* | Q1<br>2018/19* | Yr 2017/18       |
|------------------------------|------------------|----------------|----------------|----------------|----------------|------------------|
| Client Funds                 | 0                |                | 290,611.28     | 0.00           | 0.00           | 63,000           |
| Council Tax Benefit          | 0                |                | 51,900.08      | 0.00           | 0.00           | 2,000            |
| Council Tax Support          | 0                |                | 0.00           | 0.00           | 801.03         | 5,000            |
| Council Tax SPD              | 1,000            |                | 0.00           | 0.00           | 0.00           | 1,000            |
| Direct Payments              | 0                |                | 0.00           | 0.00           | 0.00           | 35,000           |
| Housing Application          | 93,000           |                | 93,000         | 0.00           | 93,000.00      | 18,000           |
| Housing Tenancy              | 930,000          |                | 93,000         | 651,000.00     | 108,000.00     | 720,000          |
| Insurance Claims             | 0                |                | 0.00           | 0.00           | 0.00           | 2,670            |
| Rent Allowance (HB)          | 0                |                | 0.00           | 0.00           | 0.00           | 15,000           |
| Rent Rebate (HB)             | 0                |                | 0.00           | 0.00           | 0.00           | 27,000           |
| Pension Fraud/Irregularity   | 0                |                | 0.00           | 0.00           | 0.00           | 7,000            |
| Right To Buy Fraud           | 104,000          |                | 0.00           | 103,900.00     | 103,900.00     | 104,000          |
| Blue Badge                   | 2,000            |                | 4,025.00       | 2,875.00       | 2,075.00       | 1,000            |
| Freedom Pass                 | 0.00             |                | 0.00           | 0.00           | 0.00           | 90,000           |
| Parking Permits              | 2,300            |                | 0.00           | 2,300.00       | 0.00           | 0                |
| NNDR / Business Rates        | 12,276.41        |                | 12,276.41      | 0.00           | 0.00           | 0                |
| Caution – Voluntary Contrib. | 0.00             |                | 0.00           | 0.00           | 0.00           | 250              |
| <b>Year to Date Total:</b>   | <b>1,955,000</b> |                | 532,536.36     | 757,775.00     | 664,776.03     | <b>1,090,600</b> |

\* Quarterly savings breakdown does not include live cases where values have been recorded e.g. prosecution case. Figures are up to 20<sup>th</sup> September 2018.

## 7.0 Proactive Counter Fraud activity

7.1 Two **Council Tax** proactive counter fraud exercises have concluded in Q3, which involved a review of those receiving Single Persons Discount and Student Discount. The Single Persons Discount review was successful with over 800 cases reviewed and savings of £51,410 identified. A new more in depth review has already commenced based on data matching between Council Tax accounts and current Electoral Roll records. This will continue throughout the year with a provisional deadline of 30th September 2019. The Student Discount review proved to be less effective and was discontinued with no savings identified. This is a lower risk area and we have reviewed our approach based on this exercise.

7.2 There have been three **Blue Badge** enforcement operations led by the team and carried out across the borough at known risk areas. This has resulted in 147 badges being checked and 19 badges seized with appropriate cases investigated further for criminal offences. One of these cases relates to a member of staff and is an ongoing investigation. These operations are planned

confidentially and incorporate multiple Council teams and the Police. A further operation is planned during Q4.

- 7.3 The **National Fraud Initiative** (NFI) 2016/17 data matching exercise has been reviewed following data submission in October 2016 and matches generated since January 2017. There were a total of 20,463 data matches (8,036 were recommended) across the full range of data sets that include Payroll, Pensions, Finance, Creditors, Housing, Benefits, Direct Payments, Insurance, Parking Permits and concessionary travel. All NFI Key Reports have been reviewed.

The overall summary of NFI work is as follows:

- Matches processed/reviewed = 1,134 (up to May 2018 was 1,099),
- Investigating = 26 (up to May 2018 was 24),
- Cleared = 782 (up to May 2018 was 747),
- Fraud/Error identified = 319/3 (no change since May 2018), and
- Overpayment/Savings identified = £168,177.44 (no change since May 2018).

Notable results from NFI reports reviewed are as follows:

- Blue Badge data to deceased persons; 447 matches reviewed and 304 fraud/errors were found resulting in live badges being cancelled. Notional saving of £152,000 recorded (£500 for each badge cancelled);
- Brent Pensions to deceased persons; 67 matches reviewed with 12 fraud/error cases found resulting in pensions being terminated and £9,077 being recovered; and
- Insurance multiple claims within Brent; one case identified with a reserve of £7,100 which has been cancelled/withdrawn.

- 7.4 Additional work on the existing NFI exercise has ceased during Q3. The new data submissions for the NFI 2018/19 exercise was supplied in October and new data matches will be generated from February 2019.

- 7.5 **Government Counter Fraud Profession – Apprenticeship Programme** - Brent has been part of a multi-agency group across central and local government to develop a competency based counter fraud apprenticeship which has now progressed to the final stages with approval anticipated in April 2019. Once approved by the Institute for Apprenticeships it will provide a platform to train and develop investigators to a consistent standard.

- 7.6 The team is aiming to trial a pilot with Cifas (Credit Industry Fraud Avoidance System) as part of its commitment to anti-fraud. It is anticipated that the pilot will start in April 2019 for six months and Brent will be one of 10 local authority fraud teams to take part. It will enable the team to have access to the Cifas anti-fraud database, which is used by the banking and insurance industry, to share appropriate investigation data and using data matching for the prevention and detection of crime.

#### DWP Pilot

- 7.7 The Investigations team will be trialling a joint working pilot with the DWP beginning on 28th January 2019 to investigate any suitable cases involving Housing Benefit and Council Tax Support.

## Fraud Awareness Strategy 2018/19

7.8 A refresh of the main Anti-Fraud policies was approved by the Audit & Standards Advisory Committee on 5th December 2017. This has enabled the Investigations team to promote these policies (including the Whistleblowing policy) throughout the Council and amongst all stakeholders to increase awareness, generate better quality referrals and raise the team's profile. This is currently in progress.

7.9 Engagement across the Council has already commenced as set out in this report and also includes ongoing liaison with all service areas, using social media to report key messages and fraud awareness sessions. Recent sessions in Q3 were held at the School Business Managers' forum, School Governors' forum and with Housing Management staff. We aim to review and amend our strategy for March 2019.

### **8.0 Financial Implications**

8.1 There are no specific financial implications associated with noting this report.

### **9.0 Legal Implications**

9.1 There are no specific legal implications associated with noting this report.

### **10.0 Equality Implications**

10.1 None.

### **11.0 Consultation with Ward Members and Stakeholders**

11.1 None.

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer