

	Audit and Standards Advisory Committee 10 July 2019
	Report from the Director of Legal, HR, Audit and Investigations
Counter Fraud Annual Report 2018-19	

Wards Affected:	N/A
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	NIL
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Michael Bradley, Head of Audit and Investigation 020 8937 6526, Michael.Bradley@brent.gov.uk

1. Summary

- 1.1 This report provides an annual summary of the counter fraud work undertaken for the period 1st April 2018 to 31st March 2019.

2. Recommendations

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

3. Internal Fraud

- 3.1 The total referrals of alleged internal fraud for the year is lower than the previous year. This includes whistleblowing referrals and a range of case types that includes financial, staff conduct and procedural irregularities. Our proactive work and our review of the National Fraud Initiative (NFI) data-matched 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. There have been three new referrals received during Q4, which is a decrease compared with the same period during the previous year (nine cases)

The table below sets out key figures in this area.

Table A – Internal Fraud

Internal Fraud	2018/19 Q4	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	9	12	8	11	11	16	22
New Referrals	3	6	9	10	25	35	28
Closed Cases	7	9	5	13	27	40	34
Open Cases c/f	5	9	12	8	9	11	16
Fraud/Irregularity Identified*	2	3	1	5	9	10	12
Dismissal	0	1	1	0	2	1	1
Resignation	0	0	0	2	2	1	2
Warning	1	1	0	1	2	2	1
Other Outcome (see below)	1	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 suspected fraud. Additionally, fraud awareness sessions have been delivered across a number of Council departments.
- 3.3 A case in Q4 resulted in disciplinary action. It related to a conflict of interest where an employee failed to disclose a personal relationship with an agency member of staff who they had hired and then approved dubious expense claims relating to travel to/from work. This resulted in a formal warning.
- 3.4 Another successful outcome during Q4 was an investigation into fraudulent counterfeit cheques drawn against a school's bank account, which totalled £77,231. (This was originally logged as an internal referral though findings concluded that the fraud originated externally.) The school recovered its funds and enquiries ruled out any internal wrongdoing.
- 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 2018 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. Sentencing took place on the 29th November and is summarised below;
- Two years' imprisonment per offence to run concurrently suspended for two years;
 - 240 hours (unpaid work);
 - Compensation in the sum of £44,669.57, and
 - Costs in the sum of £2,500 payable in 12 months.

- 3.6 The total value of the fraud was £288,111, which included fraudulent attempts, although prompt management action and investigative work meant there was no financial loss to the council. Internal Audit work on the control issues relating to this event is set out in the internal audit annual report.
- 3.7 One internal case that was concluded in April (2019/20 Q1) is worth noting. It was a Blue Badge misuse case by a member of staff. The offence was identified in September 2018 during one of the team's on-street enforcement operations. The individual had resigned pending a disciplinary hearing and subsequently pleaded guilty to a misuse offence under the Road Traffic Act. They were sentenced to a £500 fine (half the maximum) and ordered to pay £1,092 costs and a £50 victim surcharge.
4. Tenancy and Social Housing Fraud
- 4.1 The recovery of social housing properties by the Investigations team has a positive impact upon the temporary accommodation budget and remains a high priority fraud risk area for the Council. The average value of each recovered tenancy is £93,000 per property as reported by the Cabinet Office (National Fraud Initiative Report 2016). 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 Q4	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	45	43	45	28	28	82	121
New Referrals	24	43	41	43	151	130	332
Closed cases	46	41	43	26	156	184	371
Open cases c/f	23	45	43	45	23	28	82
Fraud Found	10***	2	8	7	27	42	52
Recovered Properties	7	1	7	5	20	38	44
Applications Refused	1	1	0	1	3	1	0
Property Size Reduced	0	0	0	0	0	2	4
Right To Buy	1	0	1	1	3	1	4
Value of properties recovered*	744,000	186,000	651,000	558,000	£2,139,000	£738,000	£864,000
Value of Right to Buy Discount Prevented**	108,000	NIL	103,900	103,900	£315,800	£103,900	£311,700
Cases with Legal for Possession/Prosecution	8	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. *** Fraud Found includes one housing case where Council Tax fraud/irregularity (£145.10) was identified.

- 4.2 A total of 23 housing recoveries, with a notional value of £2,139,000, were recorded as a result of fraud / irregularity up to Q4. The recoveries are less than the same period as last year.
- 4.3 A total of 26 recoveries is recorded, which includes an additional three Right to Buy applications that were stopped due to fraud / irregularity being identified and thus retaining the tenancy housing stock. The actual discount that was prevented represents £315,800 giving an overall savings figure of £2,454,800.
- 4.4 The total referrals in 2018/19 have been lower compared with the previous three years. The overall fraud detection rate against closed cases for the year is 16.67%. This has increased slightly since Q3 (13.63%) due to an increase in outcomes in Q4.

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 = 16.67% (156 cases closed, detected fraud in 26 cases).
- 4.4 At the end of Q4 there were an additional eight cases involved in various stages of legal proceedings to recover properties and a further 17 tenancy investigation reports have been issued that recommend recovery proceedings are instigated.
- 4.5 There are a number of reasons for the downturn 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.
- 4.6 In order to mitigate this downturn, the team have provided fraud awareness training and assistance to key colleagues with the introduction of enhanced verification for discretionary tenancies and succession applications that commenced in Q4. 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 Q2 2019/20. In addition, the team has commenced a tenancy fraud awareness campaign since April, which includes promotion using various media and communication with all council tenants via direct messaging and the quarterly tenancy newsletter.
- 4.7 A notable case is the recent recovery of a council property in April 2018, where the tenant had used fraudulent ID from the outset of the tenancy (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 which has now been received by the Council.
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- 4.8 Another 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.
- 4.9 A further notable case is a recent withdrawal of a Right to Buy application following an investigation, where the discounted purchase would have totalled £108,000 had it gone through. The tenant had failed to declare capital of £145,000 which they had concealed in undisclosed bank accounts for approximately four years whilst claiming full Housing Benefit and Council Tax Support. The team is currently pursuing a joint investigation with the Department of Work and Pensions for potential criminal offences.

5. 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 8 – External Fraud

External Fraud	18/19 Q4	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	7	17	12	13	13	14	57
New Referrals	42	41	39	20	142	88	161
Closed Cases	29	51	34	21	135	89	204
Open cases c/f	20	7	17	12	20	13	14
Fraud / Irregularity *	4	7	7	5	12	12	22
Prosecution	1	0	0	1	1	1	2
Warning / Caution	2	1	1	0	1	2	6
Overpayment/Saving	1	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 of the investigation. 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.

- 5.3 The defendant had pleaded not guilty and following a six-day trial in March was found guilty by a unanimous jury verdict of nine counts of forgery at Harrow Crown Court – for the false documents they submitted to Brent, Enfield and Haringey Councils in support of applications for Disabled Person's Freedom Passes and a Disabled Person's Blue Badge. The team is also prosecuting a further three charges on behalf of Waltham Forest Council. The defendant had pleaded guilty to these on the same day they were convicted but before sentencing was scheduled in April, they applied to vacate their plea. It is anticipated the judge will deal with the defendant's application in July 2019 and then consider sentencing.
- 5.4 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. In addition, a further two Blue Badge cases resulted in cautions being issued during Q4 for misuse.
- 5.5 During the last year, the team has logged 41 referrals relating to Blue Badge misuse from a variety of sources and with four directly from the Parking team. At the end of Q4 an agreed process between the Investigations team and Parking was implemented to generate increased quality referrals from Civil Enforcement Officers. In the first two months of Q1 (2019/20), 20 referrals have been received as result of the new process with the majority being progressed. It is anticipated that this referral stream will continue to develop and improve with initial outcomes being reported in the next progress report.
- 5.7 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 in Q4.
- 5.8 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. 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.
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Savings Summary:	Yr 2018/19	Q4 2018/19*	Q3 2018/19*	Q2 2018/19*	Q1 2018/19*	Yr 2017/18
Client Funds	367,842.78	77,231.50	290,611.28	0.00	0.00	63,000
Council Tax Benefit	NIL	0.00	0.00	0.00	0.00	2,000
Council Tax Support	NIL	0.00	0.00	0.00	0.00	5,000
Council Tax SPD	52,846.21	145.10	51,900.08	0.00	801.03	1,000
Direct Payments	NIL	0.00	0.00	0.00	0.00	35,000
Housing Application	279,000	93,000.00	93,000.00	0.00	93,000.00	18,000
Housing Tenancy	1,860,000	651,000.00	93,000.00	651,000.00	108,000.00	720,000
Insurance Claims	NIL	0.00	0.00	0.00	0.00	2,670
Rent Allowance (HB)	NIL	0.00	0.00	0.00	0.00	15,000
Rent Rebate (HB)	NIL	0.00	0.00	0.00	0.00	27,000
Pension Fraud/Irregularity	NIL	0.00	0.00	0.00	0.00	7,000
Right To Buy Fraud	315,800	108,000.00	0.00	103,900.00	103,900.00	104,000
Blue Badge	10,125	1,150.00	4,025.00	2,875.00	2,075.00	1,000
Freedom Pass	NIL	0.00	0.00	0.00	0.00	90,000
Parking Permits	4,600	2,300.00	0.00	2,300.00	0.00	NIL
NNDR / Business Rates	12,276.41	0.00	12,276.41	0.00	0.00	NIL
Caution – Voluntary Contrib.	0.00	0.00	0.00	0.00	0.00	250
Litigation Compensation	120,000	120,000.00	0.00	0.00	0.00	NIL
Year to Date Total:	3,022,490.40	1,052,826.60	544,812.77	760,075.00	664,776.03	1,090,600

* Quarterly savings breakdown does not include live cases where values have been recorded e.g. prosecution case.
Figures are up to 31st March 2019.

7. 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 Person's 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. The new exercise will continue throughout the year with a provisional deadline of 30th September 2019. To date, there are a total of 6,258 data matches of which 791 have been reviewed and 130 cases have been passed to the Council Tax team to remove the discount. 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. An update on the current exercise will be set out in the next progress report for 2019/20 Q1 and Q2.
- 7.2 There have been four **Blue Badge** enforcement operations led by the team and carried out across the borough at known risk areas. This has resulted in 184 badges being checked and 22 badges seized with appropriate cases investigated further for criminal offences. These operations are planned confidentially and incorporate multiple council teams and the Police. A recent operation occurred in June and an update will be provided in the next progress report.
- 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.

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 were generated in Q4. These matches total 19,296 covering multiple data reports and are currently being reviewed by the team. One report that was recently completed relates to deceased person records against live Blue Badges, which has resulted in 277 (of 348) badges being cancelled with a notional value of £159,275. An update of the NFI review will be set out in the next progress report.

7.4 Government Counter Fraud Profession – Membership and 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. Once approved by the Institute for Apprenticeships it will provide a platform to train and develop investigators to a consistent standard. A LA working group, in conjunction with the Cabinet Office, has recently been set up (of which Brent is represented) to agree learning and development standards and an approach for LAs to become full GCFP members.

7.5 The team is trialling a pilot with **Cifas** (Credit Industry Fraud Avoidance System) as part of its commitment to anti-fraud. The pilot commenced in April 2019 for twelve 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 National 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. An additional pilot is being considered by Brent to become members of the Cifas' Internal Fraud Database, which is an anti-fraud membership to prevent and detect internal employee and recruitment fraud.

DWP joint working pilot

- 7.6 The Investigations team is trialling a pilot exercise with the DWP, which commenced on 28th January 2019, to jointly investigate suitable cases involving Housing Benefit and Council Tax Support.

Fraud Awareness Strategy 2018/19

- 7.6 Engagement across the council is ongoing and as set out in this report, which includes 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 reviewed and updated our strategy, which was presented to committee in March. Further fraud awareness sessions are being planned for Registrars, Electoral Services, Benefits and Finance.

8. Financial Implications

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

9. Legal Implications

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

10. Equality Implications

- 10.1 None.

11. Consultation with Ward Members and Stakeholders

- 11.1 None

12. Human Resources/Property Implications (if appropriate)

- 12.1 None.

Report sign off:

Debra Norman

Director of Legal, HR, Audit and Investigations
