	Audit and Standards Advisory Committee **8 December 2020**
Brent	**Report from the Director of Legal, HR and Audit & Investigations**

Counter Fraud - 2020/21 Progress Report Q2

Wards Affected:	N/A
Key or Non-Key Decision:	Non-key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	None
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Michael Bradley, Head of Audit and Investigations Service Michael.Bradley@brent.gov.uk 07920 581620

1.0   Purpose of the Report

1.1   The report sets out a summary of the counter fraud activity for 2020/21 up to Q2, and the impact that Covid-19 arrangements have had on the service.

2.0   Recommendation

2.1   To note the report content prior to circulation at the Audit and Standards Advisory Committee on 8 December 2020.

3.0   Detail

Internal Fraud

3.1   Internal referrals include whistleblowing referrals and a range of case types such as staff conduct, financial and procedural irregularities. 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. The table below sets out key figures in this area for 2020/21.

Table A – Internal Fraud

Internal Fraud	2020/21 (full year)	2020/21 Q4	2020/21 Q3	2020/21 Q2	2020/21 Q1	2019/20 (full year)	2018/19 (full year)
Open Cases b/f	12			17	12	5	11
New Referrals	20			7	13	35	28
Closed Cases	19			11	8	28	34
Open Cases c/f	13			13	17	12	5
Fraud / Irregularity Identified*	4			3	1	12	11

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

3.2   There were 20 new referrals opened during the first six months from a variety of sources that also related to whistleblowing. The volume of referrals is consistent with recent years, and the trend suggests the service profile and engagement across the council remains effective. Due to the confidential nature of the type of referrals, it is not appropriate to provide details in this report. A summary of the main case types received is as follows:

- Advice or guidance;
- Breach of financial / other regulations;
- Bribery and Corruption;
- Conflict of Interest;
- External offences/conduct by staff;
- Misuse of IT;
- Recruitment irregularities, and
- Theft of cash / assets.

3.3   Two concluded cases involved misuse of IT systems by new members of staff whilst on probation. Both officers resigned during a disciplinary investigation.

3.4   Another case involved a conflict of interest relating to the procurement of temporary accommodation. Management agreed to implement recommendations to improve their verification process, and improve procedures for staff involved with procuring properties for temporary accommodation.

3.5   With most cases under this category, the Counter Fraud team will report to management with any recommendations to improve control and to mitigate future occurrences. It will also liaise with the Internal Audit team for wider consideration in the Audit Plan. Recommendations arising from fraud investigations are followed up with the same rigour as those from Internal Audit work.

3.6   The team arrange regular fraud awareness workshops across all council services. This is an on-going commitment and coverage includes services where fraud has occurred or where the team's own fraud risk assessment of a service suggests there is a higher fraud risk.

Tenancy and Social Housing Fraud

3.7   The recovery of social housing properties by the Counter Fraud team has a positive impact upon the temporary accommodation budget and remains a high priority fraud risk 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 for 2020/21 is summarised in the table below.

Table B – Tenancy and Social Housing Fraud

Housing Fraud	2019/20 (full year)	2019/20 Q4	2019/20 Q3	2019/20 Q2	2019/20 Q1	2019/20 (full year)	2018/19 (full year)
Open cases b/f	66			82	66	23	28
New cases	114			42	72	176	151
Closed cases	109			53	56	133	156
Open cases c/f	71			71	82	66	23
Fraud Identified	4			2	2	19	27

* 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)

3.8   The total number of fraudulent housing cases concluded up to Q2 was four, which is lower than recorded for the same period in the previous year of seven. The total notional and actual value of these cases is £372,000. In addition, the team has completed five tenancy verifications where fraud was not identified.

3.9   The number of housing frauds detected during the first six months has reduced when compared to an average of 29 total recoveries over the previous three years (19, 27, and 42). Referrals from Brent Housing Management's Home and Communities team have declined over the last two years, though both teams are working to address this and help improve the quality and quantity of referrals. Of the 114 referrals logged in Q1 and Q2, 19 were from BHM teams. In comparison, of the four successful fraudulent cases concluded in the same period, two were from direct engagement with BHM and the remaining two from

internal proactive work. This emphasises the importance of receiving good quality referrals from housing staff through their normal engagement with council tenants.

3.10 There are currently 100 live housing investigations – of these, 13 cases are involved with legal proceedings to recover the property, and a further 19 cases have been concluded by the team with a report issued to Housing Management and other RSLs to instigate recovery action. The team is working closely with the relevant teams to progress these cases.

3.11 The team is currently working with Housing Management to provide appropriate access to anti-fraud and tracing systems for their staff to aid verification, particularly with Succession and Right to Buy applications. It is also assisting management to formulate a tenancy audit and anti-fraud strategy by the end of this Q4.

External Fraud

3.12 '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 for 2020/21 is summarised in the table below:

Table C – External Fraud

External Fraud	2020/21 (full year)	2020/21 Q4	2020/21 Q3	2020/21 Q2	2020/21 Q1	2019/20 (full year)	2018/19 (full year)
Open cases b/f	37			94	37	20	13
New Referrals	207			63	144	193	142
Closed Cases	145			58	87	176	135
Open cases c/f	99			99	94	37	20
Fraud / Irregularity identified*	10			4	6	49	23

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

3.13 There has been a significant increase in referrals of this type throughout this year. This is mainly due to a new referral process developed last year with the Parking Service and its contractor Serco to tackle Blue Badge fraud and misuse. Another reason is an increase in referrals relating to Business Rates, particularly business support grants, which is in addition to various proactive work undertaken by the team in this area. The team has processed 207 referrals so far this year, compared with 193 in the previous year.

3.14 Successful outcomes decreased compared to the previous year, which includes five cautions/warnings issued for Blue Badge fraud or persistent misuse. A further three Blue Badge cases have been approved for further sanction or legal proceedings.

3.15 There are currently 84 live cases, which includes 22 Blue Badge, 13 Council Tax and four Business Rates related cases. Other case types include; insurance claims, payments from Adults and Children services, theft of client funds, grants, benefits and other alleged offences affecting the council.

3.16 A notable case was a long-standing insurance claim for a personal injury where the council had admitted liability. The original claim, which included loss of earnings, was suspected to be fraudulent with a worst-case scenario value of £1.13M. The claimant withdrew their case as evidence provided by the Investigations team enabled solicitors to move to plead Fundamental Dishonesty in an amended defence. The claimant's solicitors accepted a drop hands offer, which resulted in a net saving for the council of £350,000. A Freedom Pass that the claimant had obtained fraudulently was identified during the investigation and cancelled, producing a further saving of £6,000.

Proactive activity

3.17 There were no Blue Badge operations undertaken during Q1 due to Covid-19 restrictions. Two smaller targeted operations were undertaken during Q2 covering the Neasden and Willesden areas. This was part of a visible presence with other enforcement teams. It resulted in 32 badges inspected and one seized for misuse. A further case where a stolen badge was identified is under investigation. The team will continue to review the Covid-19 risks during Q3 and Q4 before conducting larger operations though will continue to support other enforcement teams in smaller targeted operations.

3.18 The mandatory data submissions for the National Fraud Initiative (NFI) 2020 exercise has was recently uploaded. The results should be available during 2020/21 Q4. The previous exercise generated 19,296 data matches covering multiple data reports across the full range of data sets that include Payroll, Pensions, Finance, Creditors, Housing, Benefits, Direct Payments, Parking Permits and concessionary travel. In addition, there is an annual data match between Electoral Roll and Council Tax Single Persons Discount records, which produced over 6,500 matches this year, and resulted in £251,765 actual savings. To date, the review of NFI reports has identified over £570,000 savings from fraud and error covering a range of service areas. It contributes to the national savings figure of £215M as reported in the NFI July Report. This is in addition to the notional and actual savings identified from other team investigations during Q1 and Q2 that totals £749,996.

3.19 The team did not commence any new proactive work during Q1 due to an increase in referrals and the provision of additional counter fraud advice and support to services impacted by Covid-19.

3.20 In Q2, a post assurance proactive exercise commenced on the business support grants processed by Capita and paid by the council in Q1. This involved data matching approximately 3,600 payment records against anti-fraud systems to identify fraudulent applications. The exercise found 91 matched cases and of these, only 15 were identified for further investigation, which are ongoing. The team had also shared ongoing intelligence of known UK-wide

grant fraud cases with Capita. This enabled them to identify several fraudulent applications prior to payment, some of these were referred to the team for further investigation with an estimated saving in excess of £100k. This exercise did not include the discretionary grant payments paid to local businesses during Q2, as the fraud risk was less due to additional verification and controls, including business and bank account verification checks. These additional checks helped to identify £30k savings prior to payment.

3.21 The service is proposing that the Council obtain full membership access to an Internal Fraud Database (IFD) that has been developed and maintained by CIFAS (a not-for-profit UK fraud prevention service). An update was sent to CMT earlier this year and the membership agreement is currently awaiting approval from the Director of Legal, HR and Audit & Investigations.

- The IFD is a repository of fraud risk information that can be used to reduce exposure to fraud and other irregular conduct and inform decisions according to risk appetite. This system is focussed on employee fraud and recruitment controls.
- The system will enable the Council to have additional assurance around recruitment and provide the Investigations team with additional resource when conducting internal investigations.

Impact of Covid-19 on service

3.22 There were 341 referrals across all case types logged during Q1 and Q2, compared with 207 in the same period last year (and 150 the year before). This included 20 Internal, 114 Housing and 197 External referrals. The approximate 60% increase in referrals has coincided with the government's lockdown arrangements.

- Alleged unlawful subletting makes up the majority of Housing referrals at 72, with 64 coming from the public and four received from internal teams. In addition, a fifth of the total received have come from Housing Management, and the majority of these relate to non-residence and false tenancy succession applications.
- Approximately 80% of all external referrals received were from the public with the majority related to household occupancy, business grant schemes, parking and other breaches related to lockdown arrangements.

3.23 The team has provided volunteers to support Adult Social Care with contacting vulnerable and high-risk residents at the start of Q1.

3.24 Plans to install four new ID scanners at the Civic Centre in April had to be postponed, and will be rearranged once it is safe and feasible to do so.

3.25 The arrangements during Q1 had prevented the team from undertaking visits and interviews, which meant some cases did not initially progress as normal. The team introduced temporary arrangements at an early stage to manage formal cautions and referrals for legal proceedings. Risk assessments and workable solutions for interviewing and visiting duties were implemented by the start of Q2, which was shared with other services similarly affected. In addition,

restrictions with court and other legal proceedings affected the progression of a number of cases throughout Q1 and Q2.

3.26   Plans to recruit three new staff in Q1 using a Government anti-housing fraud grant were suspended and will be reviewed in Q3. This also affected planned training for staff to undertake the Counter Fraud Apprenticeship, which has just recently commenced.

3.27   The team have coped and adapted well with the ongoing workload, which has enabled it to assist the council with contacting vulnerable residents, and taking a more advisory approach to help other services cope with increased fraud risks. This has included significant involvement with the both the Business Grant and Business Discretionary Grant schemes to mitigate fraud.

3.28   Advice was provided to all managers at the beginning of the pandemic period on fraud awareness when making interim changes to processes and controls in order to deal with the crisis. Additionally specific advice was provided on certain high-risk initiatives such as payment of small business grants.

4.0   Alternative Options Considered

4.1   N/A

5.0   Financial Implications

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

6.0   Legal Implications

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

7.0   Equality Implications

7.1   None.

8.0   Any Other Implications (HR, Property, Environmental Sustainability - where necessary)

8.1   None

9.0   Proposed Consultation with Ward Members and Stakeholders

9.1   None.

Report sign off: ***Debra Norman***   Director of Legal, HR, Audit and Investigations