



**Audit and Standards Advisory
Committee**
26 July 2018

**Report from
the Chief Finance Officer**

Counter Fraud Annual Report 2017-18

Wards Affected:	All
Key or Non-Key Decision: (only applicable for Cabinet, Cabinet Sub Committee and officer decisions)	N/A
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:	N/A
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1.0 Purpose of the Report

- 1.1 This report provides an update on the counter fraud work for the period 1 January 2018 to 31 March 2018 (Quarter 4) including key activity for the year end.

2.0 Recommendations

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

3.0 Internal Fraud

- 3.1 There have been nine new referrals received during Q4 and a total of 35 referrals this year, which is a small increase from the previous year. This includes Whistleblowing referrals and a range of case types that include various financial, conduct and procedural irregularities. It does not include related proactive work or our review of the National Fraud Initiative (NFI) data matching reports, which are covered in the 'proactive' section of this report. Internal fraud typically has the fewest referrals but is generally more complex in nature and is the team's main priority.

The table below sets out key figures captured in this area.

Table A – Internal Fraud

Internal Fraud	2017/18 Q4	2017/18 Q3	2017/18 Q2	2017/18 Q1	2017/18 (year)	2016/17 (year)	2015/16 (year)
Open Cases b/f	13	12	16	16	16	22	21
New Referrals	9	12	6	8	35	28	42
Closed Cases	11	11	10	8	40	34	31
Open Cases c/f	11	13	12	16	11	16	22
Fraud/Irregularity Identified*	2	4	2	2	10	12	9
Dismissal	1	0	0	0	1	1	3
Resignation	0	1	0	0	1	2	5
Warning	0	1	0	1	2	1	1
Other Outcome (see below)	2	2	2	1	7	8	4

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

- 3.2 An officer from Private Housing Services (Enforcement) was dismissed following various irregularities with sickness absence and whilst working from home. A lack of control was identified in how officers are managed whilst working remotely.
- 3.3 An anonymous Whistleblowing allegation concerning the management of Brent Direct Leasing (BDL) properties where no evidence of officer wrongdoing was identified but instead failings in the BDL / Repairs system were found where Brent took on the full cost of repair instead of private landlord at the VOID property stage. A total of £25,050.02 was unnecessarily paid out on the two properties under investigation and the matter passed to Internal Audit as part of a wider review in that service.
- 3.4 A further case was closed at the prosecution stage due to an unlikely chance of success during criminal proceedings. This related to an ex-employee who was dismissed in September 2016 for abuse of the ZipCar system with cost to Brent of £15,921.75.
- 3.5 One referral that has been prominent during Q3 and Q4 concerned allegations relating to traces of asbestos found at Paddington Cemetery in May 2017. This was initially reported to the Audit Advisory Committee (AAC) in December. This was closed as NFA after a number of lines of enquiry were followed but closed by the Counter Fraud team.
- 3.6 There has been an increase in internal referrals logged during 2017/18 compared with the previous year. The increase in this referral type has coincided with a requests that all whistleblowing events are referred to the Audit and Investigations Service as well as an increased presence on the council's website that enables members of the public to report all fraud.

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 estimated that the average national value of each recovered tenancy is £18,000* per property. A probably more realistic value is £93,000 per property as reported by the Cabinet Office (National Fraud Initiative 2016). These are notional values and for consistency in reporting, we use the lesser value. The counter fraud activity to end of year is summarised in the table below:

Table B – Tenancy and Social Housing Fraud

Housing Fraud	17/18 Q4	17/18 Q3	17/18 Q2	17/18 Q1	2017/18 (year)	2016/17 (year)	2015/16 (year)
Open cases b/f	47	61	76	82	82	121	174
New Referrals	16	51	36	27	130	332	250
Closed cases	35	65	51	33	184	371	314
Open cases c/f	28	47	61	76	28	82	121
Fraud Found	8	21	7	6	42	52	73
Recovered Properties	7	19	7	5	38	44	63
Applications Refused	1	0	0	0	1	0	2
Property Size Reduced	0	1	0	1	2	4	5
Right To Buy	0	1	0	0	1	4	3
Value of properties recovered*	£144,000	£342,000	£126,000	£90,000	£702,000	£792,000	£1,134,000
Value of property size reduction*	0	£18,000	0	£18,000	£36,000	£72,000	£90,000
Value of Right to Buy Discount Prevented**	0	£103,900	0	0	£103,900	£311,700	£282,000
Cases with Legal for Possession/Prosecution	11	13	19	25	11	26	18

* Notional value of recovered properties (including housing applications stopped and property size reduction) used for reporting purposes is £18,000

** Actual amount of Right to Buy discount stopped

- 4.2 A total of 42 properties, with a notional value of £738,000, were recovered as a result of fraud/irregularity during 2017/18 (8 in Q4). This is down on last year's performance, where 52 properties were recovered. As reported previously, we anticipated there may be a temporary dip in recoveries in the final quarter due to a slow-down in referrals as well as the temporary disruption of a service restructure.
- 4.3 The total referrals in 2017/18 have been lower compared with the previous two years. However, referral quality has increased and the fraud detection rate of closed cases has increased from last year. Higher referrals in the previous two years was a result of proactive work relating to risk factors such as tenants not

reporting repairs for a long period. This type of rationale has resulted in a low detection rate despite apparently higher referrals. This approach to proactive work has been revised - the focus in future will be on intelligence-led proactive exercises with improved collaboration with the Tenancy and other relevant housing teams.

The fraud detection rate against closed cases for last three years are 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)

4.4 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. There are other factors including Freedom Pass, Blue Badge and Housing Benefit that were all obtained under the fraudulent identity. Criminal proceedings are being instigated with initial court hearing in July 2018. We are also liaising with DWP regarding the benefits matters.

4.5 The source of referrals has also changed over the year, notably referrals from RSLs (Housing Associations) have decreased and referrals from our new online reporting system have been significant since its introduction in June 2017. This is summarised in the table below;

Table C – Referral sources for Tenancy and Social Housing Fraud

Referral Source	17/18 Q1	17/18 Q2	17/18 Q3	17/18 Q4
A&I proactive	0	2	0	0
BHM Forced Entry	7	3	9	1
BHM Management/Service	7	7	12	7
BHM Right To Buy	2	0	0	0
Electoral Services	0	1	0	0
From Other Investigations	1	0	0	0
Hotline	2	0	2	0
Hotline - via BHM	2	2	0	0
Hotline - via RSL	0	0	1	0
HNS Management/Service	0	0	3	1
L&Q Housing	0	1	0	0
Metropolitan Housing	1	5	0	0
NFI (National Fraud Initiative)	0	2	0	0
Octavia Housing	0	0	1	0
Other LA fraud team	0	0	1	1
Police	0	1	1	0
Public non-Hotline (from June 2017)	5	12	20	6
Stadium Housing	0	0	1	0
Totals	27	36	51	16

4.6 One notable case was where a tenant, whose property was recovered in July 2017, had failed to attend multiple court hearings regarding housing fraud offences. The court has issued an arrest warrant and this matter remains outstanding.

- 4.7 In addition to reporting successful tenancy recoveries, the Counter Fraud team undertake detailed value adding work even when a tenancy is not recovered. In most of these cases, where no further action is taken, the team will often complete a tenancy verification including confirmation of the entire household composition. This will be held on the tenancy file and contributes towards the Tenancy team's objectives. By completing these verifications it serves to prevent fraudulent tenancy succession claims where an applicant may dishonestly claim to reside at a property. A total of 17 cases have been closed with no fraud/irregularity and a tenancy verification completed. This is in addition to ongoing proactive work undertaken with Housing Management during 'Gas Forced Entries', where tenancy verifications are conducted if the tenant is available.
- 4.8 Engagement with the Tenancy and RTB teams has continued during Q4 to enhance joint working, verification processes and increase the quality of referrals for investigation:
- The Investigations team has provided both teams with a specifically designed referral form for both teams to use when tenancy fraud is suspected;
 - It has been agreed that a collaborative proactive exercise between Tenancy and Investigations will be undertaken to target a high risk area where unlawful subletting is known to be prevalent. This exercise will be intelligence-led and initial preparations have taken place for the exercise to commence during Q4 and into the following year with a further review at the end of Q2 (2018/19), and
 - It is proposed that a proactive review of RTB applications will take place during 2018/19. This is despite the RTB team increasing its verification processes over the last 18 months. This proactive approach is because RTB remains a high-value and key risk area for the council.
- 4.9 The table below summarises the key housing tenancy fraud figures. It shows that the team had a total recoveries target of 61 and a total of 42 recoveries has been completed. The new 2018/19 target has been re-set at 55, which is anticipated to be challenging but a more realistic objective given this and the previous year's results.

Table D - Housing Tenancy Fraud Summary 2017/18

2017/18 recovery target: 61

Total Recovered Properties to date:	38	
Total Housing Applications Refused to date:	1	(last 3 year average: 60.67)
Total Property Size Reduced to date:	2	(2016/17 total recoveries = 52)
Total Right To Buy Stopped to date:	1	(2015/16 total recoveries = 73)
Total Recoveries (fraud/irregularity identified):	42	(2014/15 total recoveries = 57)
Value of housing fraud identified to date:	£841,000	

5.0 External Fraud

- 5.1 'External fraud' includes all other 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	17/18 Q4	17/18 Q3	17/18 Q2	17/18 Q1	2017/18 (year)	2016/17 (year)	2015/16 (year)
Open cases b/f	18	22	13	14	14	57	20
New Referrals	29	16	29	14	88	161	99
Closed Cases	34	20	20	15	89	204	62
Open cases c/f	13	18	22	13	13	14	57
Fraud / Irregularity *	16	6	2	4	12	22	10
Prosecution	0	1	NIL*	NIL	1	2	NIL
Warning / Caution	1	2	NIL	NIL	2	6	3
Overpayment/Saving	15	6	2	3	11	7	7

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

- 5.2 This type of referral has remained constant from Q1 to Q4. Half of the referrals received during Q3 were received from the public using the online fraud reporting tool. It should be noted that although there was an increase of referrals during Q2, 17 of these were self-generated by the team as part of an on-going investigation into an organised Freedom Pass fraud.
- 5.3 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 was due to appear in court on 26 June 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 cost Brent approximately £350 per pass to administer. The case is currently with Legal for criminal proceedings under the Fraud Act against the main suspect plus 'Aiding and Abetting' charges against those who have benefited from the use of the fraudulent Freedom Passes.
- 5.4 An insurance case was prosecuted in Q1. The defendant pleaded guilty to section 2 of the Fraud Act for attempting to defraud the council with a false

damage claim to their vehicle. In addition to the claim being repudiated, the defendant was fined £1,800 and ordered to pay costs/surcharge of £870.

- 5.5. In Q3 a Blue Badge case resulted in a formal caution being offered and accepted as an alternative to criminal proceedings. A further case in Q4 has been concluded in this way and resulted in the offender paying a voluntary contribution of £250 towards our investigations costs.

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 and notably, we have placed a value of £90,000 savings against the Freedom Pass investigation that was concluded recently based on the cost to the council of individual freedom pass usage. The table does not reflect all positive outcomes such as some NFI data matching reviews which is reported separately (below) and certain internal fraud cases where it may be difficult to accurately identify 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 2017/18*	Q3 2017/18*	Q2 2017/18*	Q1 2017/18*	Yr 2016/17
Client Funds	63,158.02	25,050.02	0.00	38,108.00	0.00	43,154.95
Council Tax Benefit	2,311.31	0.00	2,311.31	0.00	0.00	1,429.64
Council Tax Support	4,617.66	0.00	3,434.91	0.00	1,182.75	1,849.91
Council Tax SPD	1,277.03	0.00	1,277.03	0.00	0.00	2,483.02
Direct Payments	34,646.90	0.00	34,646.90	0.00	0.00	0.00
Housing Application	18,000.00	18,000.00	0.00	0.00	0.00	0.00
Housing Tenancy	720,000.00	126,000.00	360,000.00	126,000.00	108,000.00	810,000.00
Insurance Claims	2,670.00	0.00	2,670.00	0.00	0.00	0.00
Rent Allowance (HB)	14,655.17	0.00	0.00	0.00	14,655.17	12,641.11
Rent Rebate (HB)	26,461.07	0.00	26,461.07	0.00	0.00	20,255.77
Pension Fraud/Irregularity	7,154.30	0.00	1,427.56	2,231.69	3,495.05	0.00
Right To Buy Fraud	103,900.00	0.00	103,900.00	0.00	0.00	415,600.00
Blue Badge	1,000.00	500.00	1,000.00	0.00	0.00	3,880.00
Section 17 Payments NRPF	0.00	0.00	0.00	0.00	0.00	5,074.32
Freedom Pass	90,000.00	90,000.00	0.00	0.00	0.00	0.00
Caution – Voluntary Contrib.	250.00	250.00	0.00	0.00	0.00	0.00
Year to Date Total:	1,090,601.46	259,800.02	537,128.78	166,339.69	127,332.97	1,316,368.72

* Quarter savings breakdown does not include live cases where values have been recorded e.g. prosecution case.

7.0 Proactive Counter Fraud Activity

- 7.1 Two proactive exercises were closed in Q3;
- **Conflicts of Interest** – this identified some inadequacy in system controls and, although no fraud was identified, it will now be considered as part of next year's internal audit plan.
 - **Blue Badge** – a proactive exercise was undertaken in July 2017. There were six parking fines issued for Blue Badge related offences. One vehicle was removed, four badges were retained and 12 parking fines were issued for other parking offences.

7.2 There were a number of proactive exercises that were planned from Q3 onwards. An update on these are summarised below;

- **Direct Payments** (Q3) – this is underway and involves a review of four cases provided by the client where fraud/irregularity has been suspected. The review includes checks on the decision making process and monitoring of expenditure. To date, no evidence of fraud has been identified, although evidence was found in each case of inadequate expenditure monitoring and financial assessment. The exercise is expected to be completed in July 2018. A further proactive exercise in this area will be considered later in 2018/19.
- **Business Rates** in high risk industrial areas (Q2 2017/18) – this proactive has not commenced as an internal audit was planned and undertaken. We will review again in Q3 (2018/19) as to whether a proactive is worthwhile.
- **Council Tax** - students – this proactive was considered for Q2 (2017/18) but the data supplied was unclear and needed further preparatory work before taking forward. This is now underway and expected to conclude by the end of Q2 (2018/19).
- **Procurement** (Q3) – a proactive was planned in this area but due to the service coming back in-house, it was decided to postpone this until such time that new structure and processes have been established.
- **Blue Badge** – one day per month (Q2/3/4) – we have continued with quarterly, rather than monthly events. The Counter Fraud team has been working with the parking enforcement teams since Q1 to provide training with Blue Badge enforcement, inspection/seizure of badges and retention of evidence. We have also assisted the parking enforcement team to develop an intelligence database to help identify persistent misuse, respond to customer complaints of misuse and target hotspots.
- **Housing** – visiting high risk blocks / estates (Q4) – initial preparation for this proactive is underway and will be based on known risk areas for unlawful subletting, supported by good intelligence from both teams. It is anticipated exercise will commence during Q1/2 (2018/19) and will be a collaborative approach with the Tenancy team with an additional focus to emphasis fraud awareness to staff.
- **Blue Badge (Q4)** – the Counter Fraud team led on a successful Blue Badge proactive exercise in January which resulted in good publicity. On this occasion, it included officers from the Enviro-crime and Private Housing enforcement teams along with Police officers from Brent's Partnership Tasking Team and representation from the ASB and Crime team. The operation demonstrated excellent collaborative team work and had multiple successes, which are summarised below;
 - **Counter Fraud team and Parking Enforcement**
 - 35 Blue Badges checked
 - 12 PCNs issued (six for Blue Badge related offences)
 - Two vehicles towed for displaying stolen Blue Badges.
 - **Enviro-Crime Enforcement**
 - Five Fixed Penalty Notices for littering.
 - Found five separate pieces of evidence in black bags dumped on the street.
 - Found a knife off High Street Harlesden - taken by the police as evidence.

- **Private Housing Services Enforcement**

- Identified several properties where the landlord should hold a licence.
- Identified unlicensed one-bed maisonette with a minimum of 12 occupants.

7.3. Since Q3, the Counter Fraud team has engaged with the Enforcement Managers Practitioner's Group (EMPG) to increase awareness of the team and encourage collaborative working. It was a direct result from this engagement that led to the success of most recent Blue Badge operation in January and this has continued with another recent successful operation on 7th June 2018.

7.4. The **National Fraud Initiative** (NFI) 2016/17 data matching exercise is now under way following data submission in October 2016 and matches generated since January 2017. There are a total of 20,463 data matches (8,036 are 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 either been reviewed or are under review.

To the end of May 2018, the overall summary of NFI work is as follows;

- Matches processed/reviewed = 1,099 (up to Q1 was 854)
- Investigating = 24 (up to Q1 was 52)
- Cleared = 747 (up to Q1 was 507)
- Fraud/Error identified = 319/3 (no change since Q1)
- Overpayment/Savings identified = £168,177.44 (no change since Q1).

Notable results from NFI reports reviewed is as follows;

- Blue Badge data to deceased persons; 447 matches reviewed and 304 fraud/errors 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.
- Insurance multiple claims within Brent; one case identified with a reserve of £7,100 which has been cancelled/withdrawn.
- In January, Benefits team have started reviewing several Housing Benefit and Council Tax Support related reports. The reports include matches against both Brent's and other organisations' payroll and pensions records. An update on these results will be reported in the next report but early indications are that there are a few discrepancies with the majority of data matches either already known or previously resolved.

7.5 This year we have introduced an enhanced risk scoring system for all types of referrals to complement our existing intelligence checking capability. This has helped to screen referrals and focus resources on higher priority cases.

- 7.6. In June 2017, the Counter Fraud team introduced an online fraud reporting tool for both the internet and intranet (links below), which allows informants to provide information anonymously or supply their contact details. Current figures suggest the system is effective with an increase of online referrals from the public and a slight decrease in telephone referrals as set out in the table below.

Period	Online referrals	Hotline referrals
Q1*	15	5
Q2	24	2
Q3	32	4
Q4	26	2

** reporting system introduced in June 2017*

- external; <https://www.brent.gov.uk/firmstep/forms/report-fraud/>
- internal; <https://internal.brent.gov.uk/firmstep-intranet-forms/fraud-affecting-the-brent-council/>

- 7.7 At the end of Q2 the Investigations team introduced a **Simple Caution** process as a disposal method for suitable first-time and low-level criminal offences as part of our sanction authorisation procedure. This acts like a Police caution and can be taken into consideration for future offences. This process falls within the scope of the Anti-Fraud and Bribery Policy. Two cautions (one in Q4) have been processed, both for Blue Badge related offences with £250 received in voluntary contributions.

Fraud Awareness Strategy 2018/19

- 7.8 A refresh of the main Anti-Fraud policies was approved by the Audit 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. We are currently unable to update our relevant webpages on the intranet due to site development but anticipate that this will be done during Q2.
- 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. We aim to review our strategy at the end of Q2.

8.0 Financial Implications

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

9.0 Legal Implications

- 9.1 None.

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