



## Audit and Standards Advisory Committee

17 October 2018

### Report from the Chief Finance Officer

## Counter Fraud Quarterly Progress Report 2018/19

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	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 in the period 1 April 2018 to 30 September 2018 (Quarters 1 and 2).

### 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 Detail

3.1 There have been 17 new referrals received during Q1 and Q2, which is an increase compared with the same period during the previous year (14 cases). 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 Q2**	2018/19 Q1	2018/19 (year to date)	2017/18 (full year)	2016/17 (full year)
Open Cases b/f	6	11	11	16	22
New Referrals	9	8	17	35	28
Closed Cases	5	13	18	40	34
Open Cases c/f	10	6	10	11	16
Fraud/Irregularity Identified*	1	5	6	10	12
Dismissal	1	0	1	1	1
Resignation	0	2	2	1	2
Warning	0	1	1	2	1
Other Outcome (see below)	0	2	2	7	8

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

\*\* Q2 figures are up to and including 20th September 2018 when report was drafted. Full figures will be reflected in next progress report.

- 3.2 There has been an increase in internal referrals logged during 2017/18 compared with the previous year and this trend has continued into 2018/19. The increase in this referral type has coincided with a request that all whistleblowing events are referred to the Audit and Investigations Service. In addition, 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 that resulted in resignations during the investigation. One related to immigration status and the other concerned recruitment irregularities. Both of these cases were recorded in Q1 following the conclusion of the investigations.
- 3.4 In Q1 an employee was given a final warning following a disciplinary investigation relating to a benefit fraud investigation conducted by the Department of Work and Pensions (DWP). A further two cases relating to conflicts of interest issues were referred for management action.
- 3.5 During Q2, a fraud investigation was initiated against an employee and their partner concerning financial irregularities which led to their dismissal in August. This is an on-going criminal investigation. The value of the fraud is in excess of £280,000 although prompt management action and investigative work has meant there will be no financial loss to the council. Internal Audit work on the control issues relating to this event are summarised in the internal audit quarterly report.

#### 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 Q2***	18/19 Q1	2018/19 (year to date)	2017/18 (full year)	2016/17 (full year)
Open cases b/f	45	28	28	82	121
New Referrals	40	43	83	130	332
Closed cases	36	26	62	184	371
Open cases c/f	49	45	49	28	82
Fraud Found	5	6	11	42	52
Recovered Properties	5	5	10	38	44
Applications Refused	0	1	1	1	0
Property Size Reduced	0	0	0	2	4
Right To Buy	0	1	1	1	4
Value of properties recovered*	465,000	558,000	£1,023,000	£738,000	£864,000
Value of Right to Buy Discount Prevented**	NIL	103,900	£103,900	£103,900	£311,700
Cases with Legal for Possession/Prosecution	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.

\*\*\* Q2 figures are up to and including 20<sup>th</sup> September 2018 when report was drafted. Full figures will be reflected in next progress report.

- 4.2 A total of 11 housing recoveries, with a notional value of £1,023,000, were recorded as a result of fraud / irregularity up to Q2. The recoveries are comparable to 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 Q2. As previously reported, the fraud detection rate of closed cases has remained constant.

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 Q2) = 19.35% (62 cases closed, detected fraud in 12 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. This case was heard at court in September 2018 where the defendant pleaded guilty with sentencing scheduled in October 2018.

## 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 Q2*	18/19 Q1	2018/19 (year to date)	2017/18 (full year)	2016/17 (full year)
Open cases b/f	12	13	13	14	57
New Referrals	39	20	59	88	161
Closed Cases	33	21	54	89	204
Open cases c/f	18	12	18	13	14
Fraud / Irregularity *	7	5	12	12	22
Prosecution	0	1	1	1	2
Warning / Caution	1	0	1	2	6
Overpayment/Saving	7	5	12	11	7

**NB:** Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action).  
 \* Q2 figures are up to and including 20th September 2018 when this report was drafted. Full figures will be reflected in next progress report.

- 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 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 defendant has pleaded not-guilty and we are awaiting trial.

- 5.3 One notable case was a prosecution in Q1 resulting from a previous Blue Badge enforcement operation in January 2018. The defendant pleaded guilty and was fined £300. They were also ordered to pay costs of £470 and a Victim Surcharge of £30.
- 5.4 In Q2, a formal caution was issued against another person who had admitted to misusing a Blue Badge as an alternative to prosecution.

## 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 2018/19*	Q3 2018/19*	Q2 2018/19*	Q1 2018/19*	Yr 2016/17
Client Funds	0.00			0.00	0.00	63,158.02
Council Tax Benefit	0.00			0.00	0.00	2,311.31
Council Tax Support	0.00			0.00	801.03	4,617.66
Council Tax SPD	801.03			0.00	0.00	1,277.03
Direct Payments	0.00			0.00	0.00	34,646.90
Housing Application	93,000.00			0.00	93,000.00	18,000.00
Housing Tenancy	930,000.00			465,000.00	108,000.00	720,000.00
Insurance Claims	0.00			0.00	0.00	2,670.00
Rent Allowance (HB)	0.00			0.00	0.00	14,655.17
Rent Rebate (HB)	0.00			0.00	0.00	26,461.07
Pension Fraud/Irregularity	0.00			0.00	0.00	7,154.30
Right To Buy Fraud	103,900.00			0.00	103,900.00	103,900.00
Blue Badge	2,075.00			0.00	2,075.00	1,000.00
Section 17 Payments NRPF	0.00			0.00	0.00	0.00
Freedom Pass	0.00			0.00	0.00	90,000.00
Caution – Voluntary Contrib.	0.00			0.00	0.00	250.00
<b>Year to Date Total:</b>	<b>1,129,776.03</b>			465,000.00	664,776.03	<b>1,090,601.46</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 Fraud Activity

7.1 **Council Tax** proactives are in progress, which involve a review of those receiving Single Persons Discount and Student Discount. Early indications show the review of Single Persons Discount is the more effective of the two with over 30% of sampled cases due to have the discount terminated. An update on the outcomes of both exercises will be provided in the next progress report. The Student Discount review is proving the less effective and will most likely be discontinued.

7.2 **Blue Badge (Q1)** – the Counter Fraud team led on a successful Blue Badge proactive exercise in June which resulted in good publicity. On this occasion, it included officers from the Enviro-crime and Trading Standards enforcement teams along with Police officers from Brent’s Partnership Tasking Team and representation from the ASB and Crime teams. The operation demonstrated excellent collaborative team work and had multiple successes, which are summarised below;

- **Counter Fraud team and Parking Enforcement**
  - 62 Blue Badges checked
  - 11 PCNs issued (six for Blue Badge related offences)
  - One vehicles towed for fraudulently displaying a cancelled Blue Badge.
  
- **Enviro-Crime Enforcement**
  - Six Fixed Penalty Notices for littering.
  - Found two separate fly tips.
  
- **Trading Standards**
  - Visited five shops to discuss preventing under age sales and where relevant, voluntary non sales of corrosive substances. Two of the shops signed up for their responsible trader scheme. Two shop owner contacts obtained to follow up and an audit carried out on an existing member of the scheme.
  - Conducted an undercover Test Purchase for tyre safety testing purposes.

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 either been reviewed or are under review.

To 20 September 2018, 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)
- Overpayment/Savings identified = £168,177.44 (no change since May 2018).

Notable results from NFI reports reviewed is 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.

Preparations are now under way for the new data submissions for the NFI 2018/19 exercise, after which data matches will be generated from January 2019.

The Cabinet Office has recently produced its NFI 2018 report for the most recent exercise and has announced; *“We are delighted to announce that due to the hard work of all of the 1,200 public and private sector organisations that participate in the National Fraud Initiative, over £300 million fraud and error has been prevented or detected in the period April 2016 to March 2018.”*

- 7.4 **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. Once approved by the Institute for Apprenticeships it will provide a platform to train and develop investigators to a consistent standard.

#### Fraud Awareness Strategy 2018/19

- 7.5 A refresh of the main Anti-Fraud policies was approved by the Audit Advisory Committee on 5<sup>th</sup> 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.
- 7.6 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. A further session has been arranged with the School Business Managers forum in October. We aim to review our strategy after Q2.

#### **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