

# AUDIT COMMITTEE

25 September 2014

**Subject Heading:**

Fraud Progress Report  
1<sup>st</sup> April to 30<sup>th</sup> June 2014

**Report Author and contact details:**

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**Policy context:**

To advise the Committee of the work and performance of the Council's anti fraud and corruption resources and update on recent developments with regards the resources.

**Financial summary:**

This report details information relating to fraud and special investigations. There are no direct financial implications arising from this report which is for information only.

**The subject matter of this report deals with the following Council Objectives**

|  |     |
|--|-----|
| Clean, safe and green borough  | [X] |
| Excellence in education and learning                                 | [X] |
| Opportunities for all through economic, social and cultural activity | [X] |
| Value and enhance the life of every individual                       | [X] |
| High customer satisfaction and a stable council tax                  | [X] |

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| <b>SUMMARY</b> |
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This report advises the Committee of the work of the Internal Audit Corporate Fraud Team and the Investigations Team from 1<sup>st</sup> April to 30<sup>th</sup> June 2014.

|                        |
|------------------------|
| <b>RECOMMENDATIONS</b> |
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1. To note the contents of the report.
2. To raise any issues of concern and ask specific questions of the officers where required, either with regards to the cases highlighted or the performance of the respective teams.

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| <b>REPORT DETAILS</b> |
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## **1. FRAUD RESOURCES UPDATE**

### **1.1 Single Fraud Investigation Service**

- 1.1.1 To ensure that the transfer to Department of Work and Pensions (DWP) of the officers primarily working on Housing Benefit Fraud work fits in with the timetable for the oneSource Service Review and restructure an application to defer the transfer date to 31st March 2015 was made on behalf of both LB Newham and LB Havering and has been approved by the DWP who were previously working to dates of October and December 2014 respectively.
- 1.1.2 A meeting has taken place to brief the Trade Unions regarding the planned transfer and Human Resources have been supporting the service in providing the information required by DWP in line with their timetable.
- 1.1.3 As a result of the transfer the Council will receive reduced funding via the Housing Benefit Administration Grant. This is not how the team are currently funded so the pressure is on other budget areas of the Council. The financial implication of this transfer will be separately assessed and raised through the appropriate channels.

### **1.2 OneSource Service Review**

- 1.2.1 The Service Review Team have completed the 'As Is' stage of the review. This means the current arrangements in both Havering and Newham, for Fraud, Audit, Insurance and Risk Services, have been captured and extensive analysis completed. The outcome of this stage will be reported to management and used as a basis for the 'To Be' phase of the process which looks at the future needs of both organisations. It is still anticipated that this phase will conclude in October at which point options for a new structure will have been designed and costed and presented to management for consideration. Once approved the LB Havering's change management procedures will commence. It is envisaged that the implementation of changed implemented following this review will lead to the delivery of savings will contribute towards the achievement of oneSource business case.

## **2. CORPORATE FRAUD TEAM: UPDATE APRIL TO JUNE 2014**

### **2.1 Delivery of the Anti-Fraud and Corruption Strategy**

- 2.1.1 Work has been delivered to further develop a fraud aware workforce through an on-going programme of training. During Quarter 1, training was provided on the Prevention and Detection of Fraud.

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2.1.2 The Corporate Fraud Team also works to raise the Authority's awareness of the risk of fraud and appropriate responses to fraud through the on-going provision of advice and assistance to Directors and Heads of Service.

2.1.3 The Team also participates in the learning and sharing of best practice through the National Anti-Fraud Network and actively works with neighbouring boroughs to share learning and appropriate data.

## **2.2 Proactive Fraud Investigations**

2.2.1 The Corporate Fraud Team's proactive fraud work comprises three elements:

- A programme of proactive fraud audit investigations;
- Co-ordinating the Authority's investigation of the National Fraud Initiative (NFI) data; and
- Following up the implementation of recommendations made in previous corporate fraud investigation and proactive audit reports.

2.2.2 The proactive work plan for 2014/15 is shown in the table in Appendix A. During Quarter 1 progress was made on the plan.

2.2.3 The team's data matching work for the National Fraud Initiative (NFI) is on-going and it is anticipated that the results will be presented to the December 2014 Audit Committee.

2.2.4 There has been increasing utilisation of the resources within the Investigations Team to support the work objectives of the Corporate Fraud Team in this period to ensure most effective use of Council resources and prioritisation of work.

## **2.3 Reactive Fraud Cases: APRIL to JUNE 2014**

2.3.1 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed.

| <b>Caseload Quarter 1 2014/15</b> |                                 |                           |                                      |                               |                         |                               |
|-----------------------------------|---------------------------------|---------------------------|--------------------------------------|-------------------------------|-------------------------|-------------------------------|
| <b>Team</b>                       | <b>Cases at start of period</b> | <b>Referrals received</b> | <b>Referrals rejected/overloaded</b> | <b>Fraud not Proven Cases</b> | <b>Successful Cases</b> | <b>Cases at end of period</b> |
| Corporate                         | 13                              | 13                        | 0                                    | 3                             | 4                       | 19                            |

2.3.2 The table below provides information on the sources of fraud referrals to the Corporate Fraud Team.

| <b>Source of Referrals &amp; Fraud Reports Quarter 1 2014/15</b> |                               |
|--|-------------------------------|
| <b>Number of Referrals/ Type</b>                                 | <b>IA Fraud Reports Qtr 4</b> |
| Anonymous Whistleblower  | 2                             |
| External Organisations / Members of the Public                   | 4                             |
| Internal Departments   | 7                             |
| <b>Total</b>   | <b>13</b>                     |

2.3.3 The table below shows the number and categories of potential Corporate Fraud cases reported in the Quarter 1 period and the number of cases open at the end of the period.

| <b>Reports by Category</b>   |                                 |                                       |
|------------------------------|---------------------------------|---------------------------------------|
| <b>Potential Fraud</b>       | <b>Previous Cases<br/>Qtr 4</b> | <b>Current Cases<br/>end of Qtr 1</b> |
| PC – Misuse and Abuse        | 1                               | 4                                     |
| Breach of Code of Conduct    | 1                               | 6                                     |
| Breach of Council Procedures | 2                               | 1                                     |
| Misuse of Council Time       | 1                               | 0                                     |
| Direct Payments              | 4                               | 3                                     |
| Safeguarding                 | 0                               | 0                                     |
| Overpayment of Pension       | 0                               | 0                                     |
| Security                     | 1                               | 1                                     |
| Theft                        | 1                               | 0                                     |
| Disabled Facility Grant      | 2                               | 2                                     |
| School Admissions            | 0                               | 2                                     |
| <b>Total</b>                 | <b>13</b>                       | <b>19</b>                             |

2.3.4 The table below shows the case outcomes for the Internal Audit Corporate Fraud Team from April to June.

| <b>Case Outcomes</b>   |              |
|------------------------|--------------|
| <b>Outcome</b>         | <b>Qtr 1</b> |
| Management Action Plan | 2            |
| Resigned               | 0            |
| Disciplinary           | 1            |
| Dismissed              | 0            |
| No case to answer      | 3            |
| Withdrawn Application  | 1            |
| <b>Total</b>           | <b>7</b>     |

## **2.4 Savings and Losses**

- 2.4.1 The investigations carried out by the Corporate Fraud team provide the Council with value for money through:
- The identification of monies lost through fraud and the recovery of all or part of these sums; and
  - The identification of potential losses through fraud in cases where the loss was prevented.
- 2.4.2 The table in Appendix B shows the savings and losses identified during 2014/15 up until the end of Quarter One.

### 3.1 BENEFITS AND HOUSING TENANCY INVESTIGATIONS UPDATE APRIL TO JUNE 2014

3.1.1 The table below provides the total cases at the start and end of the period as well as referrals, cases closed and cases completed.

| Caseload Quarter 1 2014/15 |                          |                    |                                |                           |                    |                        |
|----------------------------|--------------------------|--------------------|--------------------------------|---------------------------|--------------------|------------------------|
| Team                       | Cases At start of period | Referrals received | Referrals rejected/ overloaded | Cases of Fraud not Proven | Success -ful Cases | Cases at end of period |
| HB & CTS                   | 396                      | 82                 | 35                             | 61                        | 38                 | 344                    |
| HT                         | 56                       | 16                 | -                              | 9                         | 3                  | 60                     |
| <b>TOTAL</b>               | <b>452</b>               | <b>98</b>          | <b>35</b>                      | <b>70</b>                 | <b>41</b>          | <b>404</b>             |

3.1.2 The table below provides information on the sources of fraud referrals made to the Housing Benefit, Council Tax and Housing Tenancy fraud sections during the period.

| Source of Referrals & Fraud Reports Quarter 1 2014/15 |                  |              |           |
|---|------------------|--------------|-----------|
| Type and Number of Referrals                          | HB/CTS Referrals | HT Referrals | Total     |
| Anonymous   | 33               | 4            | 37        |
| External Organisations / Members of the Public        | 6                | 5            | 11        |
| Internal Departments / Whistleblowers                 | 31               | 4            | 35        |
| Social Landlords (inc HiH)                            | 9                | 3            | 12        |
| Data Matching / Proactive initiative                  | 3                | -            | 3         |
| <b>Total</b>  | <b>82</b>        | <b>16</b>    | <b>98</b> |

3.1.3 The table below shows the categories of the potential Housing Benefit and Council Tax Benefit fraud referrals in the period.

| Referrals by Category     |                 |
|---------------------------|-----------------|
| Potential Fraud           | Quarter 1 14/15 |
| Capital                   | 5               |
| Income from Other Sources | 5               |
| Living Together           | 23              |
| Non-Dependant             | 5               |
| Non-Resident/vacated      | 10              |
| Working                   | 14              |
| Non Commercial Tenancy    | -               |
| Contrived                 | 1               |
| Tenancy Fraud             | 15              |
| Other                     | 4               |
| <b>Total</b>              | <b>82</b>       |

3.1.4 The table below shows the categories of the potential Housing Fraud referrals in the period.

| <b>Referrals by Category</b>            |                    |
|---|--------------------|
| <b>Potential Fraud</b>                  | <b>Qtr 1 14/15</b> |
| Subletting                              | 5                  |
| Not main/principal home                 | 7                  |
| Fraudulent RTB                          | 3                  |
| Fraudulent Housing Register Application | 1                  |
| Fraudulent succession                   | -                  |
| <b>Total</b>                            | <b>16</b>          |

3.1.5 The table below shows the current benefit caseload by category.

| <b>Current Cases by Category</b> |                               |
|----------------------------------|-------------------------------|
| <b>Potential Fraud</b>           | <b>As at end of June 2014</b> |
| Capital                          | 37                            |
| Contrived Tenancy                | 11                            |
| Income from Other Sources        | 32                            |
| Living Together                  | 115                           |
| Non-Dependant                    | 18                            |
| Non-Resident/vacated             | 43                            |
| Other welfare benefits           | -                             |
| Working                          | 37                            |
| Non Commercial Tenancy           | 3                             |
| Other                            | 6                             |
| Single Person Discount           | 7                             |
| Tenancy Fraud                    | 35                            |
| <b>Total</b>                     | <b>344</b>                    |

3.1.6 The table below summarises the number and types of successful outcomes for cases completed by the benefits fraud team during the period.

| <b>Successful Outcomes</b>        |                                     |                 |                     |
|-----------------------------------|-------------------------------------|-----------------|---------------------|
| <b>Sanction/<br/>Offence Type</b> | <b>Administrative<br/>Penalties</b> | <b>Cautions</b> | <b>Prosecutions</b> |
| Capital                           | 5                                   | 3               | -                   |
| Working & Claiming                | 4                                   | 2               | 3                   |
| Living Together                   | 3                                   | -               | 1                   |
| Non Residence                     | -                                   | -               | -                   |
| Contrived Tenancy                 | 3                                   | -               | -                   |
| Other Income                      | 3                                   | 1               | 1                   |
| Non Dependants                    | -                                   | -               | -                   |
| <b>Total</b>                      | <b>18</b>                           | <b>6</b>        | <b>5</b>            |

- 3.1.7 The case outcomes for the Housing investigations from April to June 2014 are detailed in table below.

| <b>Successful Outcomes</b><br>(Note: Cases may have multiple outcomes) |                   |
|--|-------------------|
| <b>Outcome Type</b>  | <b>Qtr1 14/15</b> |
| Tenancy Relinquished voluntarily (keys handed in)                      | 2                 |
| Property recovered via court action                                    | 1                 |
| Indefinite Suspended Order   | -                 |
| Housing Register application withdrawn                                 | -                 |
| Prosecution  | -                 |
| <b>Total</b>   | <b>3</b>          |

### 3.2 Successful Benefit and Housing Fraud Cases.

Details of three successful benefit prosecution cases are provided below.

- 3.2.1 An investigation established that Miss B, who had been awarded a Council Property as a lone parent had actually been living with her partner from the outset of her tenancy. Miss B was awarded her 2 bedroom home in 2005 and was then moved to a 3 bedroom in 2008. Enquiries established that although Miss B claimed benefit as a lone parent, she failed to disclose that she had married her partner Mr P, the father of her 5 children in 2004. Links for the husband to the family and the claim addresses were established through birth, medical & utility records. Emergency contact details for the children also connected Mr P to the addresses. Miss B claimed that her husband moved in her property in 2012 but the evidence showed that he had been in residence from 2005. The total overpayment incurred, including Income Support was £76,818. Miss B was prosecuted and received a 12 month suspended sentence and ordered to carry out 200 hours unpaid work.
- 3.2.2 A case which started out as joint investigation resulted in the claimant being prosecuted by Trading Standards and Benefit Fraud. It was alleged that Mr C was selling cars while claiming to be unemployed. An examination of his bank accounts showed that Mr C had received undisclosed capital and appeared to have an income derived from the selling of vehicles. Mr C had already been prosecuted by Trading Standards when he denied the Benefit offences at Court. He claimed that it was a gypsy friend of his who had sold the vehicles and as the friend was of no fixed abode, Mr C had allowed him to use his own address, computer and bank account. The Magistrates did not believe Mr C's version of events and found him guilty of both charges. It was also established that Mr C had received an inheritance of £19,000 which he had failed to declare. Mr C was given a 12 month community order to undertake 240 hours of unpaid work. He also received an electronically tagged 3 month curfew and was ordered to pay £2,500 costs plus a victim surcharge of £60.



- 3.2.3 A claimant who sold her home via a mortgage recovery scheme in order that she could still live there and pay rent was investigated following a data match referral. The referral indicated that Mrs P's mother was living at the property with the claimant and her husband because her pension was paid to the address. In her claim for benefit Mrs P stated that her husband was a kitchen fitter with a small income. A credit check highlighted more bank accounts than had been declared. Further examination of the accounts showed that Mrs P had received an undeclared student loan, and income from undeclared work. There were also credits to the accounts indicating that her husband's income far exceed his declared earnings. In interview, Mrs P claimed that her 70 year old mother lived here, there and everywhere! She also stated that she didn't think she had to report her loan or part time work. She also claimed that her husband did not have much work. Mrs P was prosecuted and received a 12 month community order to carry out 200 hours of unpaid work. She was ordered to pay £575 costs plus a £60 victim surcharge.

Details of three successful housing tenancy cases are detailed below.

- 3.2.4 A benefit claimant who was clearly living beyond his means was prosecuted for benefit fraud for failing to declare that he was running a vehicle repair business. He also failed to declare that he was living with his partner who was employed. Following his conviction Mr R became the subject of a Proceeds of Crime hearing and an application to the Court was made to repossess his council property under Ground 14, as a consequence of his criminal conviction. At Court the Judge appeared reluctant to evict Mr R stating that he had already been punished for his criminal activities. However he did award the possession order after Mr R asked to be downsized to a smaller property and refused to agree an arrangement to repay arrears. Mr R then appealed against the order on the basis that he did not have legal representation. A further application was made on the basis of the accrued rent arrears and Mr R was eventually evicted in June.
- 3.2.5 It was reported that Mrs E was actually living with her partner across the road from her 3 bedroom council property. Because she lived in such close proximity, all of Mrs E's correspondence continued to go to her council home and there was no paper trail of her actually residing with her partner. She also admitted to having a relationship with her boyfriend and therefore, when she was visited by Investigation Officers and found at her boyfriend's address, Mrs E would say that she was visiting him but still lived in her Council property which she continued to maintain. The Investigation Team requested the assistance of the Police to obtain search warrants for both properties. Mrs E was found at the boyfriend's address along with all her personal items. Personal items were also found at the council address (where the electricity had been turned off) but it was evident that these were old and unused. Video footage was recorded at both properties. Mrs E voluntarily handed back the keys to the house a few days later.
- 3.2.6 Information was received from Homes & Housing that a property had been abandoned. There was no response to visits although neighbours had heard activity at the flat. Checks with Pupil Services showed that the tenant's child

continued to attend her school although she was now living at a different address. The address was found to belong to a couple who had included the child on their benefit claim as residing with them. Enquiries were made at the address and it was established that the couple were the paternal great grandparents of the child. The tenant had moved to Germany and her daughter had been left in their care. The father of the child also resided with his grandparents. While at the property, the child told the Investigation Officers that her mother had given some friends her keys and they occasionally used the property to sleep at and for parties. This would explain the noises heard by neighbours. Following receipt of the Investigator's report, the property was recovered and the locks changed.

### **3.3 HB/CTB/CTS Fraud Overpayments**

3.3.1 The value of fraudulent housing benefit overpayments generated by the team for the first quarter of 2014/15 and the year to date are contained in table below.

3.3.2 A comparison with the same period last year has been provided. The level of overpayments has reduced due to: focus of some resources on wider corporate fraud activity including fraud deterrence activity.

| <b>Fraudulent Overpayment</b> |                    |                    |
|-------------------------------|--------------------|--------------------|
| <b>Type</b>                   | <b>Qtr 1</b>       | <b>Q1 13/14</b>    |
| Rent Rebate                   | £157,896.44        | £185,276.65        |
| Rent Allowance                | £116,703.45        | £149,263.89        |
| Council Tax Support           | £37,765.33         | £48,396.67         |
| <b>Total</b>                  | <b>£312,365.22</b> | <b>£382,937.21</b> |

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

There are no direct financial implications or risks arising directly from this report which is for information only.

However, Fraud and corruption will often lead to financial loss to the authority. By maintaining robust anti fraud and corruption arrangements and a clear strategy in this area, the risk of such losses will be reduced. Arrangements must be sufficient to ensure that controls are implemented, based on risk, to prevent, deter and detect fraud. The work of the fraud team often identifies losses which may be recouped by the Council. The work of the Benefit Investigation Team regularly identifies benefits to which claimants are not entitled to, which are to be recovered by the Council. It should be noted that both the transfer to SFIS and the outcome of the oneSource service review will have financial implications. These will be separately assessed and raised through the appropriate channels as required.

### **Legal implications and risks:**

There are no Legal implications from noting the contents of this Report.

### **Human Resources implications and risks:**

There are no HR implications from noting the contents of this Report.

### **Equalities implications and risks:**

There are no Equalities implications from noting the contents of this Report.

## **BACKGROUND PAPERS**

None.

**Appendix A: Corporate Fraud Proactive Audit Plan 2014/15**

| <b>Description</b>                       | <b>Risks</b>   | <b>Plan days</b> | <b>Qtr 1 Status</b>     |
|--|--|------------------|-------------------------|
| Grants                                   | Identification of grants provided to charity organisations to inspect and confirm that supporting documentation for expenditure is valid and used for the purpose intended in the original application or as stipulated by the Council on approval of the grant. Review formal acceptance documentation and payment and bank records to ensure payments are accounted for. | 20               | In progress             |
| Payment of Election expenses             | Review appointment of staff, entitlement, and payment of fees/arrangements including postal votes and counting. Completion of claims and receipt.  | 10               | In progress             |
| Learning & Physical Disability Residents | Review bank accounts, building society accounts, income and expenditure records and receipts.  | 20               | Draft Report            |
| Internet Abuse - Review of blocked sites | Bluecoat reporting to ascertain if employees are attempting to access blocked internet sites.  | 10               | In progress             |
| Blue Badge                               | Identification of procedures to ensure records retained and maintained and badges are recovered following death. That badges are used in accordance with the legislation.  | 10               | In progress             |
| NNDR                                     | A full review of the NNDR process to gain a position statement and establish the recovery levels to date and possible weaknesses in system particularly with Charities and 'Pop Up Shops'  | 20               | Planned for End October |
| Direct Payment Assessments               | This to include the assessment and payment calculations and follow ups with the Care Assessors to establish processes and evaluate controls.   | 15               | Planned                 |
| Employee                                 | This could involve any applications,   | 20               | Planned                 |

| Description             | Risks  | Plan days  | Qtr 1 Status |
|-------------------------|--|------------|--------------|
| Applications            | including attempts, to gain employment or subsequently where any of the details prove to be false including, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.   |            |              |
| Procurement of Services | False payments to contractors for house modifications, either by internal or external persons or companies including, but not limited to: violation of procedures; manipulation of accounts; records or methods of payment; failure to supply; failure to supply to contractual standard.  | 15         | Planned      |
| Debt Avoidance          | This is any fraud linked to the avoidance of a debt to the organisation including, but not limited to: council tax liabilities (do not include SPD from question 4.1); rent arrears; false declarations; false instruments of payment or documentation.  | 15         | Planned      |
| Payroll                 | This includes, but is not limited to: the creation of non-existent employees; unauthorised incremental increases; the redirection or manipulation of payments; false sick claims; not working required hours; or not undertaking required duties.  | 30         | Planned      |
| NFI                     | The match identifies addresses where the householder is claiming a council tax single person discount on the basis that they are the only occupant over 18 years of age yet the electoral register suggests that there is somebody else in the household who is already or approaching 18 years of age. This may or will make the SPD invalid. | 30         | Planned      |
|                         | <b>TOTAL</b>   | <b>215</b> |              |

**Appendix B: Savings, Losses and Potential Recoveries 2014/15**

| <b>Case details</b>                           | <b>Qtr reported</b> | <b>Savings Identified</b> | <b>Losses Identified</b> | <b>Details</b>   |
|---|---------------------|---------------------------|--------------------------|--|
| Application for Disabled Facility Grant       | Qtr 1               | £9,895                    |                          | Applicant submitted a quote from what appeared to be a bogus contractor. When challenged to provide evidence of the contractor applicant withdrew the Disability Facilities Grant Application.   |
| False Declaration for Disabled Facility Grant | Qtr 1               | £30,000                   |                          | Applicant declared not to have any assets or other income. Investigation proved owns another property and has a rental income. Proceeding to court.  |
| PCN's paid for on Purchase Card               | Qtr 1               | £110                      |                          | Employees work related parking fines paid via the Council's Purchase Card.   |
| Possible Theft - RS                           | Qtr 1               | £25.00                    |                          | Employee falsified a receipt and a medical letter to obtain an additional £25.00 expense claim.  |
| Direct Payment Fraud - Mrs R                  |                     | £11,090                   | £24,170                  | Mrs R did not maintain a dedicated bank account or timesheets and double handed care did not correspond with carer's invoices. Reassessment of care reduced to single handed care package of 2:25 hours per day annual saving to the Council of £11,090. |
| <b>Total</b>                                  |                     | <b>£51,120.00</b>         | <b>£24,170</b>           | £24,170 loss can not be recovered by the Council.  |

**Key:**

**Savings:** Refer to the amounts of money that the detection of the fraud has prevented being lost. A prime example of this would be the discount on a right to buy. If we prevent the sale then we prevent the discount being given and thereby we save the Council money.

**Losses:** These are the sums of money that the audit determined have been lost or stolen.