



# AUDIT COMMITTEE

11 March 2015

# Report

**Subject Heading:**

Fraud Progress Report  
1<sup>st</sup> October to 31<sup>st</sup> December 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]

## SUMMARY

This report advises the Committee of the work of the Internal Audit Corporate Fraud Team and the Investigations Team from 1<sup>st</sup> October to 31<sup>st</sup> December 2014.

## RECOMMENDATIONS

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.

## REPORT DETAILS

### **1. FRAUD RESOURCES UPDATE**

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

1.1.1 The transfer process for Havering employees to Department of Work and Pensions continues to run in conjunction with the internal oneSource change management process. Currently all eight employees remain in scope for the transfer as the consultation is yet to close for the restructure.

#### **1.2 OneSource Service Review**

1.2.1 The Consultation on the restructure was launched on 9<sup>th</sup> January 2015. At the time of drafting this report the consultation remains open.

### **2. CORPORATE FRAUD TEAM: UPDATE OCTOBER TO DECEMBER 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 three, training was provided on the Prevention and Detection of Fraud as part of the corporate induction.

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 advice and guidance to management on specific risk, control and compliance issues. 53 cases relating to advice and assistance to Directors and Heads of Service were referred at the end of Quarter 3 of which 51 are completed.

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 3 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 a separate report is being produced for 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. An investigator from the investigations team has been on secondment to support the work of the Corporate Fraud Team.

### 2.3 Reactive Fraud Cases: OCTOBER to DECEMBER 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 3 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	21	11	0	7	9	16

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 3 2014/15</b>	
<b>Number of Referrals/ Type</b>	<b>IA Fraud Reports Qtr 3</b>
Anonymous Whistleblower	3
External Organisations / Members of the Public	2
Internal Departments	6
<b>Total</b>	<b>11</b>

2.3.3 The table below shows the number and categories of potential Corporate Fraud cases reported in the Quarter 3 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 Qtr 2</b>	<b>Current Cases end of Qtr 3</b>
PC – Misuse and Abuse	3	2
Breach of Code of Conduct	9	4
Breach of Council Procedures	1	3
Misuse of Council Time	1	1
Direct Payments	4	4
Safeguarding	0	
Overpayment of Pension	0	
Security	0	
Theft	2	1
Disabled Facility Grant	1	1
School Admissions	0	
<b>Total</b>	<b>21</b>	<b>16</b>

2.3.4 The table below shows the case outcomes for the Internal Audit Corporate Fraud Team from October to December 2014.

<b>Case Outcomes</b>	
<b>Outcome</b>	<b>Qtr 3</b>
Management Action Plan	2
Resigned	2
Disciplinary	4
Dismissed	1
No case to answer	7
Reduced Direct Payment Service	0
Withdrawn Application	0
Prosecution	0
<b>Total</b>	<b>16</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 Three.

## **2.5 Successful Fraud Cases.**

### **Details of one employee Disciplinary Outcome**

2.5.1 An employee was dismissed for 'Breach of the Council's Code of Conduct'. The investigation revealed that the employee failed to:

- Comply with the Council's Standing Orders and Financial Regulations
- Comply with the Council's Contract Procedure rules.
- Comply with the Council's print strategy.
- Report financial irregularities giving opportunity to fraud.
- Comply with the Manager's Guide to Responding to a Reference Request.

### 3.1 BENEFITS AND HOUSING TENANCY INVESTIGATIONS UPDATE OCTOBER TO DECEMBER 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.

<b>Caseload Quarter 3 2014/15</b>						
<b>Team</b>	<b>Cases At start of period</b>	<b>Referrals received</b>	<b>Referrals rejected/ overloaded</b>	<b>Cases of Fraud not Proven</b>	<b>Success -ful Cases</b>	<b>Cases at end of period</b>
HB & CTS	305	84	48	59	36	246
HT	67	22	-	10	5	74
<b>TOTAL</b>	<b>372</b>	<b>106</b>	<b>48</b>	<b>69</b>	<b>41</b>	<b>320</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.

<b>Source of Referrals &amp; Fraud Reports Quarter 3 2014/15</b>			
<b>Type and Number of Referrals</b>	<b>HB/CTS Referrals</b>	<b>HT Referrals</b>	<b>Total</b>
Anonymous	38	8	46
External Organisations / Members of the Public	4	2	6
Internal Departments / Whistleblowers	22	1	23
Social Landlords (inc HiH)	20	11	31
Data Matching / Proactive initiative	-	-	-
<b>Total</b>	<b>84</b>	<b>22</b>	<b>106</b>

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

<b>Referrals by Category</b>	
<b>Potential Fraud</b>	<b>Quarter 3 14/15</b>
Capital	5
Income from Other Sources	8
Living Together	14
Non-Dependant	9
Non-Resident/vacated	11
Working	10
Non Commercial Tenancy	-
Contrived	5
Tenancy Fraud	13
Other	9
<b>Total</b>	<b>84</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 3 14/15</b>
Subletting	7
Not main/principal home	11
Fraudulent RTB	-
Fraudulent Housing Register Application	4
Fraudulent succession	-
<b>Total</b>	<b>22</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 December 2014</b>
Capital	21
Contrived Tenancy	5
Income from Other Sources	17
Living Together	74
Non-Dependant	18
Non-Resident/vacated	31
Other welfare benefits	-
Working	23
Non Commercial Tenancy	2
Other	3
Single Person Discount	5
Tenancy Fraud	44
Financial Investigation	3
<b>Total</b>	<b>246</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/ Offence Type</b>	<b>Administrative Penalties</b>	<b>Cautions</b>	<b>Prosecutions</b>
Capital	1	-	1
Working & Claiming	-	-	2
Living Together	4	1	1
Non Residence	3	-	-
Contrived Tenancy	-	1	-
Other Income	-	2	2
Non Dependants	-	-	-
<b>Total</b>	<b>8</b>	<b>4</b>	<b>6</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>	
(Note: Cases may have multiple outcomes)	
<b>Outcome Type</b>	<b>Qtr3 14/15</b>
Tenancy Relinquished voluntarily (keys handed in)	3
Property recovered via court action	2
Indefinite Suspended Order	-
Housing Register application withdrawn	-
Prosecution	-
<b>Total</b>	<b>5</b>

### 3.2 Successful Benefit and Housing Fraud Cases.

Details of 3 successful benefit prosecution cases are provided below.

3.2.1 A “living together” investigation led to the prosecution of Mrs X and her sister-in-law when details of a further fraud emerged. Mrs X had been claiming Council Tax and disability benefits since 2003 on the basis that she was a lone parent residing with her children. An in-depth investigation and subsequent search of the property revealed substantial evidence which established that Mrs X had been sharing the same household with Mr X and that he had been providing financial support. This couple were found to be leading an extravagant lifestyle. Along with documentation gathered, pictures and videos obtained from computers showed that the couple had enjoyed 16 luxury holidays over a 6 year period. This footage also showed that Mrs X was not disabled. Their home was decorated and furnished to a high standard and Mr X owned several high spec vehicles. Mrs X had only declared one bank account to the Benefits department but the couple actually had numerous including several joint accounts. An analysis of the accounts identified considerable income and expenditure including many visits to a casino. During the investigation it was discovered that Mr X also owned a property in Barnet where his sister, Miss Y, lived. Enquiries into Miss Y’s situation revealed that she had not declared her relationship with her brother and that out of £1,200 benefit she received a month, she only parted £100 to pay for the mortgage. Miss Y’s overpayment was £189,000 for which she received an 18 month suspended sentence. Mrs X’s was overpaid £88,700 for which she also received an 18 month suspended sentence. Havering Council are pursuing recovery of the monies via Proceeds of Crime.

3.2.2 The investigation into Mrs Z began as a tenancy fraud. It had long been suspected that Mrs Z didn’t actually reside in her Council Property but lived at her partner’s address across the road. This was confirmed following an early morning visit to the property by Local Authority investigators and the Police. During Mrs Z’s interview under caution she claimed to have lived with her partner for 3 months but then admitted it was actually 3 years.



Mrs Z incurred an overpayment of £17,500. It was decided to offer Mrs Z an administrative penalty in respect of the overpayment as an alternative to prosecution. However, Mrs Z disputed the overpayment and denied that she had been living with her partner for 3 years, contrary to what she stated on tape. Her partner also complained that his Single Residency Discount had been removed too soon. In spite of 3 attempts inviting Mrs Z to accept an administrative penalty, Mrs Z failed to appear. A prosecution file was prepared and Mrs Z was summonsed to Court where she pleaded guilty. She received a 12 month community order to carry out 150 hours unpaid work and pay £210 costs.

- 3.2.3 This prosecution commenced as a joint investigation regarding Mr A's failure to declare his work since 2005. Several attempts were made to interview Mr A but he was always evasive and claimed to be sick. When he finally attended an interview, he struggled to walk and breathe and needed to take medication. He also advised that he had a hospital appointment the following day. It was decided that Mr A was too ill to be interviewed and he agreed to reschedule the interview after he had sought medical advice. When Mr A failed to make further contact to re-attend, the investigator visited Mr A's employer. From their records it showed that Mr A had worked all day before his previous interview. He then had a day's leave on the day of the interview but had returned to work the following day. Mr A was seen working on one of the stores check-outs. The investigator hand delivered an interview under caution appointment letter to Mr A's home. Mr A was seen through the window wearing his blue work jacket but by the time he came to the door he was wearing only a vest and using his walking aid. Mr A claimed he was too sick to attend the interview but did attend a later one where he admitted that he should have notified the DWP and the Council when he started work and that he had been dishonest by not doing so. Mr A incurred a total overpayment of £68,364.68. He failed to attend Court following a summons and was subsequently arrested. At Court Mr A pleaded guilty and received a 12 month sentence suspended for 18 months with community service.

Details of three successful housing tenancy cases are detailed below

- 3.2.4 Neighbours of Mr B had been complaining for a while that he had not been residing at his property and only came back occasionally to pick up the mail. Mr B had a bank and medical link to another address where his alleged partner lived, however the partner's family denied that he lived there. The Police had also attended Mr B's flat and confirmed that no-one lived there. Investigator took statements from the concerned neighbours and left cards for Mr B to make contact. His Housing Benefit ceased when he failed to do so. The civil hearing for possession was listed to be heard just before Christmas 2013 but due to lack of court time the hearing was adjourned until July 2014. Just before this hearing, Mr B's circumstances with his partner changed and he returned to the flat. The hearing was adjourned with liberty to restore but in the meantime Mr B had accrued rent arrears and was in breach of a previous suspended possession order. The Council was therefore able to apply to Court for an eviction warrant. Mr B did not appeal this application and the property was returned to the Council.

3.2.5 A benefit investigation led to the return of a Guinness Trust property. Evidence had been gathered to establish that Miss C, who was claiming benefit as a lone parent, was actually residing with her partner. When investigators attended the property with Police Officers in relation to the offence, it was discovered that cannabis was being cultivated at the address and that the electricity was being illegally abstracted. The property was also found to be decorated to a very high standard and contained expensive appliances. Miss C received a suspended sentence for the drug and electricity offences. She incurred a benefit overpayment in the region of £40,000 and received a custodial sentence. Guinness Trust liaised with the investigator as their case relied heavily on the evidence obtained by the council investigation to gain possession of the property under Ground 14 of the Housing Act 1988. Possession was granted to the claimant following a further police raid on the property where drugs were found.

3.2.6 A phone call on the hot line was received from someone stating that he was concerned that he was paying rent to Mrs D for a flat in Harold Hill but Mrs D had left the country and he was now paying rent to her brother. The property was found to be a council flat and Mr & Mrs D were identified as the legal tenants. Further enquiries revealed that the sub-tenant was paying £700 per month into the account of Mr D. A witness statement was taken from the sub tenant and details of the false tenancy agreement obtained. An NTQ was served and Mrs D called to find out why she was being investigated. She was interviewed under caution and admitted that she'd lived away in Rwanda for a year and her husband was still there. She denied knowledge of the sub-let and blamed this on her husband. She advised that she was returning to Rwanda. Following the interview Mrs D handed the keys of the property back, however the subtenant remained in the property and initially refused to leave. Court proceedings were instigated and a meeting was held to advise the sub-tenant of his options. The sub-tenant consequently left the property four days prior to the court hearing.

### 3.3 HB/CTB/CTS Fraud Overpayments

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

3.3.2

<b>Fraudulent Overpayment</b>		
<b>Type</b>	<b>Qtr 3</b>	<b>To date</b>
Rent Rebate	£98,693.65	£449,450.30
Rent Allowance	£124,830.35	£464,844.09
Council Tax Support	£68,147.93	£163,599.83
<b>Total</b>	<b>£291,671.93</b>	<b>£1,077,894.22</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**

Description	Risks	Plan days	Qtr 1 Status
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	Final 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	Draft Report
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	Delayed due to Restructure of service
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 Applications	This could involve any 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.	20	Planned

Description	Risks	Plan days	Qtr 1 Status
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. Court sentence applied
PCN's paid for on Purchase Card	Qtr 1	£110		Employees work related parking fines paid via the Council's Purchase Card.
Possible Theft	Qtr 1	£25.00		Employee falsified a receipt and a medical letter to obtain an additional £25.00 expense claim.
Direct Payment Fraud	Qtr 1	£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.
Application for Disabled Facility Grant	Qtr 2	£700		Council's prosecution costs following court sentence. More info provided in last report.
7 Blue Badges	Qtr 2	£7,000		7 Blue Badges estimated savings by Audit Commission minimum £1k each.
Goldcare Homes	Qtr 3	£8,314.56		Internal Audit advice to Directors recovered outstanding sums owed to the Council

Direct Payments	Qtr 3	£8,388		Payments made to an ironing company. Care plan cancelled.
<b>Total</b>		<b>£75,522.56</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.