



AUDIT COMMITTEE

21 December 2011

Subject Heading:

Fraud Progress Report

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.

Financial summary:

There is no specific financial impact to be considered from this report.

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 Benefit Investigation Section and the Internal Audit Fraud Team from 1st July 2011 to 30th September 2011.

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 the cases highlighted or the performance of the respective teams.

REPORT DETAIL

This report contains three sections; the content of each section is outlined below:

- Section 1. Background & Resources
- Section 2. HB/CTB Fraud Work & Internal Audit Fraud Work
 - A) Referrals & Fraud Reports
 - B) Current Case Load
 - C) Outcomes
 - D) HB/CTB fraud overpayments
 - E) Savings & Losses
- Section 3. Housing Tenancy Fraud Work
- Section 4. Proactive Fraud Audits
- Section 5. Direction of Travel

Section 1 Background & Resources

- 1.1 The September report aligned the reporting periods for the various fraud activities therefore this is the first quarterly report to Committee covering all anti fraud and corruption activity within the Council. Since the change in line management in September the two fraud teams have continued to work on there respective fraud activity areas. The key focus for this time period has been to establish a dedicated Housing Tenancy Fraud resource within the Benefit Investigations Team, an update on progress with this is included later in this report.
- 1.2 As previously reported the change in line management was as a result of a decision to more closely align the organisations fraud resources with a view to create a Corporate Fraud Team. The Council awaits further clarity regarding the planned creation of Single Fraud Investigation Service, particularly with regards funding arrangements, before it commences a review of resources and structures.
- 1.3 The Benefit Investigations Section is fully resourced using agency workers to cover the posts which have become vacant due to officers seconding to the Housing Tenancy Fraud posts.

- 1.4 The Fraud Team within Internal Audit currently has one post vacant; the substantive post holder is acting up within the systems audit side of the team. Up to October this post was covered by an agency worker, this post is being held vacant while the restructure is completed.
- 1.5 The Budgets are yet to be fully aligned to activity and adjustments are still being made to reflect what has transferred to Finance and Procurement. The forecast outturn for 2011/12 is currently within the allocated budget.

Section 2 HB/CTB & Internal Audit Fraud Work July to September

A) Referrals & Fraud Reports

2.1 The table at para. 2.2 provides the sources of fraud referrals for the respective sections.

2.2

Source of Referrals & Fraud Reports Quarter 2 2011/12 (Q2 10/11 is included for HB/CTB for comparison)				
Number of Referrals/ Type	HB/CTB Referrals Q2 11/12	HB/CTB Referrals Q2 10/11	IA Fraud Reports Q2 11/12	Overall Total Q2 11/12
Anonymous	38	38	4	42
External Organisations / Members of the Public	25	47	2	27
Internal Departments Whistleblowers	66	95	1	67
Data Matching	107	0	0	107
Total	236	180	7	243

2.3 The table at para. 2.4 shows the categories of the potential fraud referrals from July 2011 to September 2011. For comparison purposes the same quarter last year has been included in the table.

2.4

Referrals by Category		
Potential Fraud	Quarter	Quarter
	2	2
	10/11	11/12
Capital	25	19
Contrived Tenancy	9	-
Income from Other Sources	14	13
Living Together	66	66
Non-Dependant	7	11
Non-Resident/vacated	13	35
Other welfare benefits	-	-
Working	36	18
Non Commercial Tenancy	4	2
Other	6	5
Single Person Discount	n/a	67
Fraudulent Housing Application	n/a	2
Total	180	236

2.5 The table at para. 2.6 shows the categories of the potential fraud reports from July 2011 to September 2011.

2.6

Reports by Category	
Potential Fraud	Quarter
	2
	11/12
PC – misuse and Abuse	1
Misuse of Council Time	1
Breach of Code of Conduct	1
Breach of Council Procedures	11
Falsification of Records	1
Overcharging by Supplier	1
Overpayment Recovery	0
Total	7

B) Current Caseload

2.7 The table at para. 2.8 shows the current caseload by category.

2.8

Current Cases by Category	
Potential Fraud	As at Dec 11
Capital	41
Contrived Tenancy	1
Income from Other Sources	41
Living Together	85
Non-Dependant	21
Non-Resident/vacated	51
Other welfare benefits	0
Working	31
Non Commercial Tenancy	5
Other	6
Single Person Discount	63
Fraudulent Housing Application	6
Total	351

2.9 The table at para. 2.10 shows the current caseload by category.

2.10

Current Cases by Category	
Potential Fraud	As at end of Quarter 2 11/12
PC – misuse and Abuse	2
Misuse of Council Time	2
Breach of Code of Conduct	1
Breach of Council Procedures	2
Falsification of Records	1
Overcharging by Supplier	1
Overpayment Recovery	1
Total	10

C) Outcomes

2.11 The number of successful outcomes for the benefits investigations team from July 2011 to September 2011 is detailed in Table 2.12 below.

2.12

Successful Outcomes			
Sanction/ Offence Type	Administrative Penalties	Cautions	Prosecutions
Capital	4	2	-
Working and Claiming	3	2	1
Contrived Tenancies	1	1	-
Living Together	2	-	4
Income from other sources	-	9	-
Vacated	-	1	-
Non Dependants	1	2	-
Total	11	17	5

2.13 The financial investigator has been in post for a year, she currently has seven ongoing Proceed of Crime (POCA) cases which have resulted in the restraint of ten houses, several cars, two speedboats and a Winnebago. As a direct result of her POCA action two large overpayments were repaid in full, one for £40,000 and one for £8,000.

2.14 Press releases are issued to publicise the successful outcomes of cases, extracts from two of the most successful cases, during the period to which this report relates have been included below. Names have been removed from the press releases, although the information is in the public domain, due to the time that has elapsed since Court hearings.

- 2.15 A 37 year old mother of two from Saddleworth Square, Romford was sentenced to 16 months imprisonment on 21/09/11 by His Honour Judge Saggerson at Basildon Crown Court. At an earlier hearing the woman had pleaded guilty to fraudulently claiming over £140,000.00 in Housing Benefit, Council Tax benefit and Income Support between 1996 and 2009. She had declared that she was a single parent but was living with her husband. A joint investigation by Havering Council and the DWP fraud teams revealed that the couple had a joint bank account and were both registered on the tenancy for the property. The childrens' schools held the same address and home phone numbers as emergency contacts for both parents. Companies House also held the husband's home address as that of his wife. During an interview, the claimant maintained that her husband stayed a few nights a week but slept on the settee. She said that they had separated eleven years earlier.
- 2.16 Mr X 52, of West Close Rainham, RM13 9AR was sentenced on to 12 months imprisonment for a £46,000 Housing Benefit fraud. The fraud began when Mr X claimed to be renting a property from a female to whom he denied being related. This person was in fact in wife and the owner of the property where they lived together with their two children. Mr X declared that he had to pay £875 .00 a month rent when in actual fact his wife was paying the mortgage. When interviewed by Council investigators, Mr X admitted that he had done wrong and pleaded guilty at Court. Although he was given credit for this by His Honour Judge Davies, the judge also stated that Mr X had fraudulently obtained money that is meant for the poor and therefore it had to be known that this was a serious offence where only an immediate custodial sentence was justified. This was not the first time that Mr X had been jailed for fraud. In 2002 he was sentenced to three years imprisonment for stealing £475,000 from his employer, The Workers' Educational Association, a charity that provides educational help for the unemployed. At the time Mr X was its senior accountant.

2.17 The case outcomes for the Internal Audit investigations from July to September are detailed in table 2.18 below.

2.18

Case Outcomes	
Outcome	Qtr 2
Management Action Plan	0
Disciplinary	1
Dismissed	1
Resigned	1
Contract ended	0
Insufficient Evidence	10
No case to answer	1
Refund received	0
Property Recovered	1
Total	15

2.19 One of the cases involving a tenant who admitted making a fraudulent Right to Buy application received a Police Caution for committing an offence of Fraud by False Representations contrary to Section 2 Fraud Act 2006.

- False Representation – The Right to Buy application was false as the answer to the principal home question was untrue the property being purchased was proved not to be his principal home.
- Gain – The tenant would have gained a council property worth £92,500 to which he was not entitled. He would have gained a discount of £38,000 on the purchase price to which he was not entitled therefore purchasing the property for around £54,500.
- Loss – The tenant would have caused a loss to the London Borough of Havering of at least £38,000, this being the discount on the purchase price of the property
- A valuable housing resource would have been lost along with future rental income.

D) HB/CTB Fraud Overpayments

2.20 The value of fraudulent housing benefit overpayments generated for the second quarter of the 2011/12 year are contained in table 2.21.

2.21

Fraudulent Overpayment	
Type	Qtr 2
Rent Rebate	37,376
Rent Allowance	102,046

Council Tax Benefit	44,977
Total	184,399

E) Savings and Losses

2.22 There have been no losses identified since the start of the financial year; results from prior periods have previously been reported to Committee. However following an anonymous allegation that a tenant was purchasing a Council property under the Right to Buy scheme but did not live in the property the result of the Internal Audit investigation successfully establish this resulting in a savings of £38,000 Right to Buy discount and unquantifiable future rental income which would have been lost (see 2.19).

Section 3 Housing Tenancy Fraud Work

A) Background

- 3.1 Grant money has been awarded to Local Authorities to assist them in strengthening their arrangements to tackle Housing & Tenancy Fraud. This grant money is intended to free up both Council properties and those managed by Registered Social Landlords (RSLs) in the Borough. There is a commitment for this grant money to continue until 2012/13.
- 3.2 In August 2011 two temporary dedicated Housing Tenancy Fraud Posts were established within the Benefits Investigation Team. Some specialist project support resource has also been procured to support the implementation of the new processes.
- 3.3 Good progress has been made to establish links with both Homes in Havering and the more significant Registered Social Landlords in the Borough. In addition we are working closely with the councils Homeless and Lettings Teams to try to pick up fraud cases before they are signed up for secure tenancies.
- 3.4 Homes in Havering are the biggest landlord in the Borough with approximately 10,000 tenants. We have established a variety of mechanisms to support their work such as carrying out large scale tenancy audits on their behalf, providing fraud awareness training for the staff and holding a fortnightly surgery morning at Chippenham Road where the staff can drop-in and get advice and assistance with potential fraud cases.
- 3.5 The Tenancy Fraud team currently have 60 cases under investigation. These are mostly Homes in Havering properties (46) but there are also four London and Quadrant, two Guinness Trust, three Old Ford, three from the councils Tenant Management Organisation's and two Public Sector Leased.
- 3.6 The Team carried out their first large scale tenancy audit exercise on behalf of Homes in Havering over the weekend of 21-22 October. The Waterloo Road Estate was chosen as its central Romford location and its proximity to the station make it attractive for rental purposes. 182 addresses were checked and the exercise was very positively received by all the residents. Due to the success of the exercise it has been agreed that the tenancy fraud team will organise three per year.

B) Referrals

3.7 Referral source and category.

Source of Referrals Aug-Nov 2011	
Number of Referrals/ Type	
Social Landlords (inc. HiH)	34
Anonymous	24
External Organisations / Members of the Public	1
Internal Departments / Whistleblowers	8
Proactive initiative	8
Total	75

3.8

Referrals by Category	
Potential Fraud	Aug-Nov 2011
Subletting	38
Not main/principal home	31
Obtained tenancy by deception	1
False claim for Succession	2
Fraudulent assignment	0
Fraudulent RTB	0
Unlawful Mutual Exchange	0
Fraudulent Housing Register Application	0
Fraudulent Homeless Application	3
Total	75

C) Outcomes

3.7

Successful Outcomes (Note: Cases may have multiple outcomes)	
Outcome Type	Aug-Nov 2011
Tenancy Relinquished voluntarily (keys handed in)	4
Property recovered via court action	0
Succession / assignment / Mutual Exchange prevented	0
RTB stopped	0
Homeless Duty discharged	1
Housing Register application withdrawn	0
Temporary accommodation withdrawn	1
Prosecution	0
Total	6

D) Case Studies and Proactive Work

3.8 False Homeless Application

Ms X applied to Havering council for assistance with Housing. Initially she applied to go on the Housing Register and then after the birth of her child she applied as Homeless. She told council staff that she had been living in her sister's house and that her sister was throwing her out as she was selling the property. She was provided with Temporary Accommodation, initially in a hostel and then subsequently she was moved into Private Sector Leased (PSL) accommodation. She claimed Income Support and Housing Benefit. She complained to the PSL team that her accommodation was not suitable due to her daughter's medical condition. Her case was reviewed, as required by law. She was asked to supply medical evidence of her daughter's condition. The correspondence supplied had a different address on it. The review officer was suspicious and referred the case to the Tenancy Fraud Team. A full investigation was carried out. It was discovered that prior to making her homeless application Ms X had been living at a different address (also owned by her sister). This address had not been declared on any of the three application forms that she had completed and had not been sold. Ms X was interviewed under caution. She did not admit that that she had done anything wrong but after the interview she moved out of the PSL property and handed the keys back. The council has now discharged its housing duty to Ms X and the file is being prepared for prosecution.

3.9 Tenancy and Housing Benefit Fraud

Ms X was the tenant of a two Bedroom Council property in Collier Row. She was in receipt of Housing Benefit as she was apparently a lone parent. In September an anonymous caller contacted the fraud team and informed us that Ms X had got married and moved out of her council property. A full investigation was undertaken and it was discovered that Ms X had indeed married and was living with her new Husband, a company director, in his large detached house in the Marshalls Park area. Ms X was interviewed under caution. She admitted that she had moved out. She said that she had kept the flat for her teenage daughter. A Notice to Quit was served at the end of the interview. Ms X handed the keys to the property back to Homes in Havering and she will be cautioned for the Housing Benefit fraud.

Section 4 Proactive Fraud Assignments

4.1 Proactive fraud assignments are planned audits either:

- resulting from previous audits that have highlighted potential weaknesses;
- the follow up of recommendations that have been agreed and implemented;
- management have identified potential areas of fraud and require assurance; or
- the use of a matrix of risks has identified areas of high income or expenditure.

4.2 Details of proactive audits completed to date and currently in progress are set out below:

Description	Outcome
Welfare benefits for provision of care	Completed
Banking arrangements	Completed
Honoraria payments	Completed
Corporate Plant	In progress
Electricity usage and payments	In progress
Trade refuse	In progress

Section 5 **Direction of Travel**

- 5.1 The Audit Commission annually publish a paper on protecting the public purse. This paper gives an overview of fraud within the public sector and details some best practice. The London Borough of Havering have been mentioned in the November 2011 issue in relation to the single person discount exercise they undertook. The report also mentions that Havering recovered five council properties as a direct result of the data match.
- 5.2 The report highlighted procurement as a current key fraud risk. In particular, they cited: cartels involved in bidding collusion; claims for extra costs; provision of inferior goods/services; contractors ignoring minimum pay and Health & Safety; false invoices; and inflated performance.
- 5.3 The report also highlighted direct payments as an emerging risk - in particular, a national increase in reported fraud cases of 55%. They cite:
- fraud by the person managing the budget for someone else;
 - fraud by the provider of care services; and
 - difficulty in detecting and proving fraud.
- 5.4 The Fraud Team were aware of these issues and will consider these and other emerging risk areas as part of the planning process for future plans and allocation of resources.
- 5.5 With the introduction of Universal Credit (UC) the DWP and HMRC planned to create a Single Fraud Investigation Service (SFIS). The aim of this is to improve efficiency and consistency in the investigation of fraud. The initial plan was for fraud investigators from Local Authorities, DWP and HMRC to form one service from April 2013 and for powers to be removed from the Council at that time. Various options were identified and consulted upon. A significant proportion of Local Authorities have gone for 'Option 1' which keeps the resources employed by the Local Authority but has them working under DWP processes and procedures.
- 5.6 Following consultation it has been agreed that Option 1 be implemented. However, this is seen as an interim option. Over the long term, the nature of fraud investigation operations will change once UC has been substantially rolled out. It is therefore anticipated that secondary legislation will be passed so that Local Authorities retain the power to investigate HB/CTB and UC Fraud and that changes are likely to impact in 2015 rather than 2013. The preparation for SFIS continues and work to understand the financial impacts on Local Authorities will now proceed. Internally work will also commence to make sure the fraud resources available to this organisation are directed to where they add most value and ensure efficient and effective processes are in place by aligning activity.

IMPLICATIONS AND RISKS

Financial implications and risks:

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 benefit to which claimants are not entitled which are to be recovered by the Council. There are however, no direct financial implications or risks arising directly from this report.

Legal implications and risks:

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

Human Resources implications and risks:

The planned restructure of the Fraud resources will be dealt with in accordance with the Councils Managing Organisational Change and Redundancy policy, procedures and guidance.

Equalities implications and risks:

None arising directly from this report. These risks are considered as part of all corporate policies so as with the HR implications the planned restructure will take account of equalities.

BACKGROUND PAPERS

'Protecting the Public Purse' – Audit Commission.