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| REPORT TO: Audit Committee | DATE 20 September 2011 | CLASSIFICATION | REPORT NO. | AGENDA NO. |
| REPORT OF: Corporate Director, Resources | | <i>Annual Anti Fraud Report 2010-11</i> | | |
| ORIGINATING OFFICER(S): <i>Tony Qayum, Corporate Fraud Manager Minesh Jani, Head of Risk Management and Audit</i> | | <i>Ward(s) Affected: N/A</i> | | |

1. Introduction

- 1.1 This report provides the Audit Committee with an update of reactive and Anti Fraud work undertaken during 2010/11.
- 1.2 The report captures the work of the Audit Service as well as that of the Housing Benefit Investigations Team, Parking Service and the insurance claims experience.

2. Recommendations

- 2.1 The Audit Committee is asked to note this report.

3. Background

- 3.1 This report provides the Audit Committee with a summary of work on sensitive and reactive enquiries undertaken during 2010/11. It includes an overview of the results of the investigations carried out by Housing Benefits Investigations, the Parking Service, and Insurance Services.
- 3.2 The following chart shows the resources expressed as full time equivalent (FTE) posts of the key services included within this report.

| Service | FTE | Role |
|-----------------------------|--------|--|
| Risk Management | 2 | <ul style="list-style-type: none"> • Head of Audit Services • NFI Co-ordinator and Corporate Fraud Manager |
| | 3 1 | <ul style="list-style-type: none"> • Tenancy Fraud Officers • Insurance Claims Officer |
| Central Benefits Fraud Team | 1 | <ul style="list-style-type: none"> • Fraud Manager |
| | 2 | <ul style="list-style-type: none"> • Team Leaders |
| | 8 | <ul style="list-style-type: none"> • Investigation Officers |
| | 1 | <ul style="list-style-type: none"> • Intelligence Officer |
| | 1 | <ul style="list-style-type: none"> • Admin Support |
| Parking Services | 2 | <ul style="list-style-type: none"> • Parking Fraud Investigation Officers |

3.3 A detailed analysis of the results of the anti fraud and reactive work carried out by the Audit service is attached as Appendix A.

4. Key matters arising from the Audit Service Outturn for 2010-11

- 4.1 There have been five substantial inquiries which have involved close working between the relevant Directorates, Audit Services, the Police and Legal Services. The matters arose from internal referrals.
- 4.2 The resultant investigations covered an extensive range of systems and processes and required substantial staff resources to finalise all of the issues relating to criminality. The matters were referred to the Metropolitan Police in all cases.
- 4.3 The Audit Service has also provided support to Directorates upon request. This included an ongoing review of the National Indicator Performance returns, a review of systems and procedures associated with the management of petty cash systems and arrangements for care assessments for officers required to work abroad.
- 4.4 We have also reviewed the control environment for the provision of services to those placed in residential care and for which the Council has taken responsibility for client's financial affairs and undertaken inquiries around officers working at two sites simultaneously.

- 4.5 We have continued to work closely with the Council's Legal Service on a number of matters including employment law issues and governance matters including Money Laundering, Data Protection and the Parking Service with regard to Blue Badge irregularity and worked corporately where instances of Resident Parking Permits and Blue Badge irregularity has involved members of staff.
- 4.6 We have further developed the small team of Housing Tenancy Fraud Investigators to assist the Council in tackling Sub Letting of Tower Hamlets Homes and Registered Social Landlord properties. A separate paper on the progress of this initiative is covered in detail on a separate report elsewhere on the agenda.
- 4.7 We have organised and run several training sessions with staff on Risk Management and the Anti Fraud and Corruption Strategy as part of our proactive initiatives and more are planned for this financial year.
- 4.8 Appendix B attached is a summary of the results and value of anti fraud work carried out in 2010/11 including the outturn of the findings for the NFI 2008/09.

5. The National Fraud Initiative (NFI)

- 5.1 The National Fraud Initiative (NFI) data matching exercise has continued to be supported, and our efforts continue to maximise the benefits from its output. The Audit Commission manage this under their powers in the Audit Commission Act 1998.
- 5.2 The NFI is managed and co-ordinated by the Audit Service with joint working and protocols with all the key services including Central Benefits Investigations Team, Payroll, Pensions, Rents and Right-to-Buy services to examine, refine and investigate the data matches.
- 5.3 For this exercise there were also formal joint working arrangements in place between the Central Benefits Team and the local fraud team from the Department of Works and Pensions (DWP) to work on cases which affected both Housing and Council Tax benefits along with the DWP benefits.
- 5.4 The work on the NFI is largely finalised with all reports having been examined and refined. Investigations have also been generally completed although there are still some investigations in progress.
- 5.5 The Audit service has undertaken detailed reviews of all subject areas to ensure the final out turn for the exercise is robust and evidenced based.

5.6 The following is a summary of the results of the LBTH outcome from the NFI work -

- § £641,455.46 has been identified as overpayment/loss and is in the process of recovery. This includes the following break down:-
- § £238,267 in Housing Benefit / Council Tax overpayments.
- § £15,675 representing 9 deceased pensioners
- § £79,840 representing Payroll to UK Visa's
- § 5 Staff members left the Councils employment following the NFI probity checks

5.7 In addition to the above there were thirteen employees who have left the Councils employment following investigative work

6. Other Audit Activity

6.1 The following work areas have been undertaken, during 2009/10 by the Audit Service:-

- ◆ On-going liaison and support to corporate and departmental personnel;
- ◆ Proactive joint working with other Local Authorities, the Police, the DWP and other government Agencies; and
- ◆ Training and Development via the Public Sector Partnership with the Metropolitan Police.

7. Insurance Claims Experience

7.1 The Council operates a system for the management of its Insurance risks through a specific team within Risk Management. During 2010-11 the Council introduced a new case management system that lends itself to better reporting of claims activity.

7.2 The table below shows the Councils claims experience for information. It is envisaged that this will be a regularly reported to reflect trends and the outcome of anti fraud initiatives designed to minimise the Insurance Fund's exposure to Fraudulent/ exaggerated claims.

| Year | No Claims | Closed) (settled £0) | Closed (Paid) | Open | Total Paid £ | Total Est Outstanding £ | Total Claim £ |
|-------|-----------|----------------------|----------------|------|--------------|-------------------------|---------------|
| 2009 | 557 | 225 | 181 | 151 | 225,062 | 238,477 | 1,684,272 |
| 2010 | 510 | 157 | 110 | 243 | 36,405 | 2,295,879 | 2,332,285 |
| 2011* | 183 | 24 | 8 | 151 | 1,162 | 1,519,945 | 1,521,107 |

* represents part year only.

8. Housing Benefits Investigation Service

8.1 The Housing Benefits Investigation Service is responsible for the reactive and proactive management and investigation of Local Government benefit fraud, including:-

- § Benefits Whistle-blowing hotline;
- § Internal Referrals;
- § External Referrals (Agencies and public);
- § Joint working with Department of Work and Pensions (DWP);and
- § Data matching referrals (NFI and Housing Benefit Matching Service output from DWP);

8.2 During 2010/11 the Service has had the following successes and has been evidenced as one of the most successful of London Boroughs with:-

- § 187 cases being dealt with;
- § 29 convictions at court;
- § 53 cautions (i.e. proven cases of fraud, whereby the amount was small or where there were mitigating circumstances to avoid prosecution);
- § 42 Parking Offence Cautions
- § 63 Administrative Penalties; and
- § Total Housing and Council Tax overpayments that represent these cases equates to £542,860.94.

9. Parking Services

9.1 The Parking Service investigations have resulted in twelve parking fraud cases being presented for prosecution.

9.2 Of the twelve cases investigated all resulted in convictions with fines amounting to £1,125 and costs in the sum of £1,550 - both of which were awarded to the Council.

10. Comments of the Chief Financial Officer

10.1 These are contained within the body of this report.

11. Concurrent Report of the Assistant Chief Executive (Legal Services)

11.1 There are no immediate legal implications arising from this report.

12. One Tower Hamlets

12.1 There are no specific one Tower Hamlets considerations.

12.2 There are no specific Anti-Poverty issues arising from this report.

13. Risk Management Implications

13.1 This report highlights fraud risks arising from weaknesses in controls. Effective risk management is an essential part of good governance and management is responsible for putting in place adequate controls to manage the authority's exposure to risks.

14. Sustainable Action for a Greener Environment (SAGE)

14.1 There are no specific SAGE implications.

Local Government Act, 1972 SECTION 100D (AS AMENDED)

List of "Background Papers" used in the preparation of this report

Brief description of "background papers"

Contact :

N/A

Tony Qayum, 0207 364 4773

APPENDIX A

| <u>Tower Hamlets Homes</u> | | |
|-----------------------------------|--|--|
| <i>No. of Days</i> | <i>Audit Activity</i> | <i>Comments/Outcome</i> |
| 5 | Whistle blow concerning in appropriate allocation of property. | Allegations of inappropriate allocation were not substantiated, although systems control weaknesses identified. Improved system of control being implement by management |
| 10 | Lettings and Housing Management Support and Advice | Close working on Lettings and General Housing Management issues arising from the work of Tenancy Fraud Team |
| 5 | RTB valuation and litigation | On-going support on the litigation resulting from in-appropriate valuations of RTB's |
| 6 | Follow-up work RTB employee | Support to management, employee has now left organisation |
| 8 | 6 Police and other external agency referrals | Joint working with other agencies concerning THH current and employees |
| 15 | 7 Whistle bows under 5 days | Management of whistle blows and investigations as necessary |
| 10 | Allegation that repairs recharges had been incorrectly applied through Council's Insurance | Investigation of complaint regarding misuse of Councils Insurance policy and misrepresentation by officers. Matter fully reviewed and outcome assessed independently to ensure transparency. No material issues found. |
| 15 | NFI investigations and apportionment of preparatory work for the 2010-11 exercise | National fraud initiative 2006-7 and 2008-9 meeting requirements for Section 151 officer under the Audit Commissions Code of Data matching Practice 2008 |
| 5 | Governance | Examination of governance matters within THH |
| 5 | Allegation of manipulation of control by family of Caretakers | Management processes reviewed and reorganisation of workloads. |
| 5 | Theft of Cheque | Leaseholder refund received by the wrong person. Complicated case regarding entitlement. No loss to THH incurred and procedures revised. |
| 19 | 8 Enquiries under 3 days | |
| 10 | Allegation of Lift Maintenance abuse | Allegation that Lift Maintenance/renewal was being manipulated for gain. Systems and procedures reviewed and enhanced. No evidence found to support allegation. |
| 5 | Anti fraud arrangements and partnership | |
| <u>123</u> | | |

| <u>LBTH Re-active</u> | | |
|------------------------------|--|---|
| <u>No. of Days</u> | <u>Audit Activity</u> | <u>Comments/Outcome</u> |
| 3 | Anti Fraud Forums | 3 Anti fraud forum groups were setup across the Council as a proactive co-ordination of anti fraud work in key areas |
| 20 | Data Quality Review and National Indicator Performance verification | This output includes all internal Audit work on supporting data quality and joint working with the Performance Review Team including review and assurances on quality of services data sampling, testing and preparation of documentation for National Indicator returns. It also includes comprehensive reviews of high risk indicator's in preparation for the external auditor's review. |
| 4 | Freedom of information enquires | Investigating and responding to freedom of investigation enquiries |
| 5 | Allegation that officer provided false reference for staff member at PCT | Investigation found that officer had made a false reference and had been running own business without Councils consent. Officer dismissed. |
| 12 | Internal referrals | Joint working and referrals from Payroll Services, Benefits Services and Trading Standards |
| 10 | Officer working at two sites | Support to department where officer was working at two sites and claiming time for both - |
| 15 | Evidence of significant Petty cash abuse | Officer had mismanaged Petty cash system resulting in inability to adequately reconcile all monies due. Officer dismissed and case referred to the police |
| 40 | National Fraud Initiative | Finalising the 2006/07 exercise and publicising consulting and initiating the 2008/09 to meet the requirements of the Audit Commission Code of Data Matching Practice. Including resultant review of output data, and co-ordinating follow-up work. |
| 11 | Outside agencies | Requests for information, and whistle blow referrals from other local Authorities, DWP and other agencies, Banks, Building Societies, Health Authorities, etc. |
| 15 | Illegal Money Lending Team | Providing assurance that the functions and governance arrangements for the initiative met good practice and that risks were adequately managed |
| 60 | Setting up and management of the Social Housing Team | Recruitment, creation and development of the Social Housing Fraud team to tackle sub letting of property |
| 15 | Police Enquiries | Reactive support to police enquires from local Financial Investigation Units on recovery of assets and support to enquires to Metropolitan Police |

| <u>No. of Days</u> | <u>Audit Activity</u> | <u>Comments/Outcome</u> |
|--------------------|---|---|
| 20 | Proactive Fraud Training and advertising | Preparing and providing training to Members, Senior Management for cascading to staff and Investigating Officers. Review of revised Anti Fraud and Corruption Strategy and Risk management awareness training |
| 4 | Public Sector Partnership (PSP) | Active members of the PSP Training Group with the Met Police, which meet during the year and feed into the overall PSP. |
| 10 | Scheme for undertaking care assessments abroad | Joint working with CSF on control arrangements associated with Staff allocated to work abroad on Child assessments as prescribed by Court. |
| 28 | Reactive work 3-5 days | 11 jobs - include management inquiries and NFI investigations concerning code of conduct follow up including reporting and supporting any subsequent action. |
| 9 | Reactive work/enquiries under 3 days | 45 Reactive responses to internal inquiries under three days, these include review and response to appropriate Service Head. |
| 10 | Support for evidence gathering on the Annual Governance Statement | This review was undertaken to support the Council's submission on its arrangements to discharge its governance effectively |
| 8 | Theft of client funds | Officer accused of manipulating system to abuse client funds. Officer dismissed, referred to Police and procedures improved. |
| 5 | Attempt to fraudulently change bank account details of major council contractor | Potential loss of £800,000 to false instruction to change bank details. Prompt action resulted in no loss to the Council but systems improvements introduced and matter being prosecuted. This was an early example of a now widespread attempt to re route large payments to contractors via false banking instructions. |
| 3 | Allegation of overcharging for dilapidation by former PLA provider. | Matter focused on sample of cases. Review found that all work had been reviewed by several staff within the Council and segregation of duties existed on the approval of payments made. No evidence of fraud but need to tighten procedures. |
| 10 | Servicing Committees and management support | |
| 15 | Theft of monies x2 cases | Investigations into theft of monies from clients within Ault services by employee's and support to both internal action and police |
| 15 | Third Sector Provider | Department and Third Sector provider invited Audit to under take a review of its governance arrangements following the concerns around adequacy of grant claims made |
| <u>347</u> | | |
| <u>470</u> | <u>Total days</u> | |

| APPENDIX B | | | | |
|---|-----|-------------------------------|-------------------------------------|----------------------------|
| | No. | Notional future savings value | Notional future savings value total | Actual Value |
| <u>NFI 2010/11 (Final 2 year outturn)</u> | | | | |
| Identified value of overpayment/losses - recovery in the process | | | | 641,455.46 |
| Housing properties recovered. | 36 | 75,000.00 | 2,700,000.00 | 7,200,000.00* |
| 5 Staff members left the Councils employment following the NFI probity checks | 5 | 5,000.00 | 25,000.00 | |
| | | | <u>2,725,000.00</u> | 7,841,455.46 |
| <u>Value of other anti Fraud work carried out in 2010/11</u> | | | | |
| Employees leaving after identity checks | 14 | 5,000.00 | 70,000.00 | |
| Benefits Prosecutions | 29 | 3,200.00 | 92,800.00 | |
| Benefits Cautions | 53 | 1,200.00 | 63,500.00 | |
| Benefits Administrative penalties | 63 | 1,200.00 | 75,600.00 | |
| Housing benefits overpayments under recovery | | | | 542,860.94 |
| Blue badge recoveries | 12 | 1,500.00 | 18,000.00 | |
| | | | <u>319,900.00</u> | <u>542,860.94</u> |
| | | | | |
| <i>overall totals</i> | | | <u>3,044,900.00</u> | <u>8,384,316.40</u> |

* Figure based on a conservative open value valuation of £200,000 per unit.