



City of Westminster

Audit and Performance Committee Report

Meeting:	Audit and Performance Committee
Date:	Monday 16 th July 2018
Classification:	For General Release
Title:	Counter Fraud 2017/18 – End of Year Report
Wards Affected:	All
Financial Summary:	The Council's budget
Report of:	Steven Mair, City Treasurer (Section 151 Officer)
Report author:	Andy Hyatt, Tri-borough Head of Fraud email: Andrew.hyatt@rbkc.gov.uk 020 7361 3795

The Audit and Performance Committee's Terms of Reference require that the Committee receive reports on internal and external fraud investigated by the Council. This report is intended to brief members of the Committee in respect of work undertaken by the fraud service during the period 1 April 2017 to 31 March 2018.

FOR INFORMATION

1. BACKGROUND

- 1.1 This report provides an account of fraud related activity undertaken by the Corporate Anti-Fraud Service (CAFS) from 1 April 2017 to 31 March 2018.
- 1.2 CAFS remains a shared service covering three Councils and continues to reap a number of benefits including the sharing of skills and expertise, a "compare and contrast" review to identify the best practice and the streamlining of anti-fraud related policies and procedures.
- 1.3 CAFS continues to provide Westminster City Council with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.
- 1.4 Since April 2017 CAFS identified 213 positive outcomes, including 22 prosecutions and 21 recovered tenancies. For the period 1 April 2017 to 31

March 2018, fraud identified by CAFS has a value of over £500,000 and is detailed in the following table.

Activity	2016/17		2017/18		
	Fraud proved	Notional Values (£'s)	Fraud proved	Fraud Value (£'s)	Notional Values (£'s)
Housing Fraud (inc. Applications, assignments & successions)	3	54,000	29	65,532	447,500
Right to Buy	29	3,013,100	57	121,060	5,922,300
Advisory Reports (pro-active)		-	8	16,000	16,000
Prevention subtotal	32	3,067,100	94	202,592	6,385,600
Tenancy Fraud (CWH and Registered Providers)	13	750,000	21	117,550	1,230,000
Internal Staff and Other Services	18	156,827	11	23,853	36,291
Disabled Parking	26	122,649	23	69,096	112,880
Resident's Parking	43	277,586	61	71,795	196,795
Detection subtotal	100	1,307,062	114	282,294	1,575,966
Proceeds of Crime (POCA)	5	181,352	5	17,425	23,187
Press releases and publicity	1	-	-	-	-
Deterrence subtotal	6	181,352	5	17,425	23,187
Total	138	4,555,514	215	502,311	7,984,753

1.5 Details of noteworthy cases are reported in Appendix 1.

2. WHISTLEBLOWING

3.1 The Council's whistleblowing policy continues to be the primary support route for staff wishing to report a concern.

3.2 Since April 2017 CAFS received four referrals via the whistleblowing process. Although none were deemed protected disclosures in accordance with the policy, the cases were allocated and investigated as per CAFS standard processes.

3.3 The table below provides an overview of the allegation and outcome of the investigation;

Allegation		Outcome
i.	Bribery and corruption: <i>improper performance in return for a financial advantage</i>	The case was closed no fraud proven, although the investigation revealed a minor breach of the codes of conduct resulting in disciplinary action
ii.	False accounting: <i>excessive allowances and overtime claims</i>	An investigation remains on-going
iii.	False accounting: <i>exaggerated overtime and mileage allowance claims</i>	The case was closed no fraud proven, but recommendations were accepted by the service to improve existing anti-fraud controls
iv.	Codes of conduct: <i>undeclared second employment</i>	The case was closed no fraud proven

3.4 One case referred during 2016/17 financial year, which was deemed a protected disclosure, remains an on-going investigation. However, one element of the case was resolved during this financial year when disciplinary action was taken against a member of staff for a data breach.

4. ANTI-FRAUD AND CORRUPTION STRATEGY

4.1 The Council's Anti-Fraud & Corruption Strategy is based on three key themes: Acknowledge, Prevent and Pursue, and is aligned with the National Strategy: *Fighting Fraud and Corruption Locally*.

4.2 The Strategy places emphasis upon the following anti-fraud activities:

- i. **Acknowledge:** recognising and understanding fraud risks and committing support and resource to tackling fraud to maintain a robust anti-fraud response.
- ii. **Prevent:** preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
- iii. **Pursue:** punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response.

5. ACKNOWLEDGE, PREVENT, PURSUE

(i) ACKNOWLEDGE

Committing support and resource to tackling fraud.

- 5.1 CAFS have recognised the need for a support officer to help facilitate and co-ordinate CAFS investigations at the earliest stages. To meet this demand, we have now created and recruited to a new "Trainee Investigator" post.
- 5.2 During the financial year three officers sat and passed their CIPFA Accredited Counter Fraud Specialist examination. Two officers await their results having completed the syllabus, and a further two officers will commence their studies this year.

Maintain a robust anti-fraud response.

- 5.3 There are three critical elements of the operational plan that underpins and drives the Anti-Fraud and Corruption Strategy, and CAFS refer to this as the *Fraud Resilience Triangle*. The triangle is formed of:
- 1) Fraud Risk Register (*Acknowledge*)
 - 2) Pro-Active Work Programme (*Prevent*)
 - 3) Reactive Referrals (*Pursue*)
- 5.4 Responding solely with reactive referrals often fails to provide the levels of coverage required to provide a robust anti-fraud response. Therefore, during 2017/18 CAFS have begun to increase the amount of resource dedicated to pro-active operations.
- 5.5 Guided by the fraud risk register, CAFS undertook eight reviews during the year, and details of actions are reported in *Appendix 1*.
- 5.6 Combining pro-active work plans with reactive capability increase the chances of fraud detection. But regardless of how successful a proactive fraud operation may be in detecting fraud, it can always serve as a deterrent if the work is done visibly and if it is performed in areas that fraud perpetrators may consider operating.

(ii) PREVENT

Corporate investigations

- 5.7 Corporate investigations are defined as fraud cases which relate to employee fraud or other third party fraud which does not fall within a particular CAFS service areas such as Housing or Disabled Parking Fraud.
- 5.8 Since 1 April 2017 work in this area has resulted in:
- The dismissal of a member of staff whose immigration status had changed but they had failed to inform Human Resources
 - A disciplinary hearing following an investigation into potential bribery

- Five new residential properties identified, during investigation work, resulting in additional billing of over £17,000 per annum.
- Accessible transport fraud

Housing/Tenancy Fraud

- 5.9 CAFS provides an investigative service to all aspects of housing, including the verification applications for housing support, as well as applications for the succession or assignment of tenancies. CAFS also investigate allegations of subletting or other forms of tenancy breaches as well as the checking of all right to buys.
- 5.10 For the period 1 April 2017 to 31 March 2018, CAFS has successfully prevented four false successions/assignments and removed 21 persons from the housing register when investigations revealed they were no longer in need of support.
- 5.11 In addition to the prevented housing fraud, CAFS also stopped four cases where tenants had applied to receive a cash incentive in order to vacate their property or downsize accommodation. The applications ended were valued at £15,500.
- 5.12 CAFS have also recovered 21 properties including a four-bedroom address and a three-bedroom address, both of which are in high demand and can now be allocated to a family in genuine need of assistance. Of the 21 recoveries, 16 involved the return of keys and vacant possession without the need for lengthy and costly legal action and ensuring properties can be promptly reallocated.
- 5.13 A further five cases are currently lodged with the Council's solicitors awaiting a court date. Four cases of subletting and one case of aiding and abetting a sub-letter.

Right to Buy (RTB)

- 5.14 CAFS apply an enhanced fraud prevention process to all new RTB applications, including anti-money laundering questionnaires as well as financial and residential verification.
- 5.15 For the period 1 April 2017 to 31 March 2018, CAFS have successfully prevented 57 Right to Buys from completion, where suspicion was raised as to the tenant's eligibility or financial status. In many instances, these have been as a result of the tenant voluntarily withdrawing their application once checking commenced.
- 5.16 In three cases, the checks undertaken to verify the RTB have uncovered additional criminality, namely subletting, and resulted in the properties being recovered as well as the RTBs being stopped.
- 5.17 The prevention work undertaken by CAFS in respect of RTB continues to protect valuable Council stock.

Parking investigations

- 5.18 CAFS continue to investigate the misuse of disabled parking badges, and for the period 1 April 2017 to 31 March 2018 have successfully prosecuted 22 offenders. A further nine cases are currently lodged with the Council's solicitors awaiting a court date.
- 5.19 From the successful prosecutions secured to date, fines totalling £4,580 were imposed, and defendants ordered to pay the Council a total of £7,380 in costs and victim surcharges.
- 5.20 CAFS also investigate the misuse of, and false application for, residents parking permits. For the period 1 April 2017 to 31 March 2018 have successfully detected 61 offenders who have all had appropriate sanctions applied including one individual who was successfully prosecuted for using a false permit.

National Fraud Initiative (NFI)

- 5.20 A vital component of the of the anti-fraud and corruption strategy is making better use of information and technology. To this effect, CAFS participate in the National Fraud Initiative (NFI) which is a data matching exercise carried out by the Cabinet Office.
- 5.21 The exercise matches electronic data within and between public and private sector bodies to identify inconsistencies which then require further investigation.
- 5.22 The Cabinet Office refer the high-risk cases as "recommended matches" and expect Councils to prioritise them. CAFS identified 1,000 recommended matches, and the table below shows the result of CAFS progress:

Fraud identified	On-going	Closed no fraud	Outstanding
18	47	963	84

- 5.23 The most significant of the proven fraud involved a positive match between payroll data and Home Office immigration records and indicated that a member of staff was no longer entitled to work in the UK. Further enquiries also confirmed that the employee no longer had leave to remain in the UK. Full details were provided to the UK Border Agency and the employee suspended, but she resigned ahead of any disciplinary action.
- 5.24 The other 17 positive outcomes included 14 individuals being removed from the Council's waiting list, because their circumstances had changed and they now had acquired housing outside of Westminster, and the cancellation of a disabled parking badges.
- 5.25 The Cabinet Office value the fraud identified at £162,739.

(iii) PURSUE

Deterrence

- 5.26 Stopping fraud and corruption from happening in the first place must be our primary aim. However, those who keep on trying may still succeed. It is, therefore, essential that a robust enforcement response is available to pursue fraudsters and deter others.

Sanctions and compensation

- 5.27 For the period 1 April 2017 to 31 March 2018, CAFS has successfully prosecuted 22 offenders, and currently, have fourteen cases lodged with the Council's solicitor for prosecution activity, comprising of five housing/tenancy cases and nine disabled parking offences.
- 5.28 In addition to the prosecution action detailed above, CAFS has also received £12,748 in compensation payments which act as a further deterrence for those who might contemplate defrauding the Council.

Proceeds of Crime Act 2002 (POCA)

- 5.29 Prompt and efficient recovery of losses is an essential component in the fight against fraud, and the Proceeds of Crime Act is a crucial part of the Council's counter fraud strategy.
- 5.30 Currently, CAFS is progressing two significant POCA cases. The first, a tenancy fraud investigation, which during a house search led to the seizure of £52,000 in cash, and the second, a right to buy fraud, which is due to begin later this year. Both cases could result in sizeable awards and large compensation payments to the Council.
- 5.31 The Act remains a powerful deterrent, and through the support of a Shared Service financial investigator, it is deployed by the Council, where appropriate to recover fraud losses and deter potential fraudsters. The use of POCA by CAFS makes fraudsters aware that every effort will be made by the Council to recoup losses and confiscate assets gained as a result of criminal activity.

6. LOCAL GOVERNMENT TRANSPARENCY CODE

- 6.1 The Local Government Transparency Code sets out key principles for local authorities in creating greater transparency through the publication of public data.
- 6.2 The Government believes that in principle all data held and managed by local authorities should be made available to local people. The Government believes that local people are interested in how their authority tackles fraud and have introduced a mandatory requirement in respect of fraud data.

6.3 The table below shows current activity in respect of the required data for the financial year ending 31st March 2018.

Information	17/18
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers	59
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	6
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	6
Total amount spent by the authority on the investigation and prosecution of fraud, and	£405,000
Total number of fraud cases investigated (525 referrals less 216 closed at intelligence stage)	309

David Hughes
Director of Internal Audit, Risk, Fraud & Insurance

Local Government Access to Information Act – background papers used:
Case Management Information

Officer Contact:
Andy Hyatt
Tri-borough Head of Fraud
Telephone 0207 361 3795
E-mail: andrew.hyatt@rbkc.gov.uk

PRO-ACTIVE OPERATIONS

Source	Fraud Review	Details	Risk
<p>Pro-active counter fraud work plan</p>	<p>Housing and Tenancy Fraud</p> <p>National Fraud Initiative (NFI) 2017</p> <p>Review the "highly recommended" housing tenancy matches, generated by the Cabinet Office NFI exercise, which suggests potential fraud risks.</p>	<p>Review the recommended matches in the following 12 National Fraud Initiative 16/17 reports, Reports 100, 104, 111, 315, 468, 469, 102, 103, 105, 113, 316, all in respect of Housing Tenant data matches.</p> <p>These reports generated a total of 115 potential fraud risks, and following reviews, checks, and investigations 76 have been closed off, and no fraud identified. However, 39 remain under investigation, and the outcomes of these will be reported later in the year.</p>	<p>Until the findings of this exercise are concluded the risk remains unchanged.</p> <p>No change</p> <p style="text-align: center;">↔</p>
<p>Pro-active counter fraud work plan</p>	<p>Procurement</p> <p>eLearning Course circulated to Procurement officers at Westminster</p>	<p>A bespoke eLearning course was created for procurement officers covering the following topics;</p> <ul style="list-style-type: none"> • Procurement fraud and the warning signs • Bid-rigging • Bribery and corruption • Gifts and hospitality • Conflicts of interest <p>26 officers enrolled on the course, which concluded with an evaluation test to verify understanding. Officers scored an average of 84% against a pass mark of 70%.</p>	<p>Although the eLearning is a positive action towards heightening of awareness, the risk of procurement fraud remains unchanged.</p> <p>No change</p> <p style="text-align: center;">↔</p>

<p>Counter fraud work plan</p>	<p>RTB improvements</p> <p>The audit of the Right to Buy process in 2016/17 identified four areas for improvement, and these were treated as actions for completion in the 2017/18 Counter fraud work plan:</p>	<p>All actions have been completed, and they were;</p> <ol style="list-style-type: none"> 1) Version controlled process maps and form. 2) Service Level Agreement (SLA) between Lessee Services and CAFS, which has been included in the overall CityWest Homes/CAFS SLA. 3) Records of CAFS live cases shared and reconciled each month with Lessee Services to ensure no case is delayed. 4) Bespoke fraud awareness training for Lessee Service, which was provided to all staff in the service via an eLearning package. 	<p>The involvement of CAFS in the RTB process and these implemented improvements have reduced the “likelihood” from 4 to 3</p> <p>Risk reduced</p> <p style="text-align: center;">↓</p>
<p>Pro-active counter fraud work plan</p>	<p>Petty Cash</p> <p>Scoping exercise on petty cash and impress accounts to identify and record/document all petty cash systems to create a directory for future Service Reviews.</p>	<p>The scoping exercise identified 30 sites where cash is collected and maintained securely. This included eleven libraries and thirteen schools.</p> <p>Work has detailed;</p> <ul style="list-style-type: none"> • Key contacts • Float balances, averages and annual amounts • Frequency of collections • Locations <p>This initial work will inform stage two of the plan which will include site visits and sampling. No change to the risk level until the sampling has concluded.</p>	<p>This scoping exercise and risk analysis</p> <p>No change</p> <p style="text-align: center;">↔</p>

<p>Pro-active counter fraud work plan</p>	<p>Data Analytics</p> <p>Applying analytic data techniques, including Benford's Law, against payment data to identify discrepancies for further investigation.</p> <p>Using analytics gives the work;</p> <ul style="list-style-type: none"> • credibility • risk-based analysis • coverage, and • an increased chance of finding fraud. 	<p>On a quarterly basis, CAFS analyse all Council payments and all Procurement Card transactions using Benford's Law which spots anomalies in a frequency distribution.</p> <p>The payment frequencies and amounts showed no significant peaks or troughs which might signify potential fraud or require closer inspection or sampling.</p>	<p>The analytics provide assurance but insufficient data to amend risk scores which remain unchanged.</p> <p>No change</p> <p style="text-align: center;">↔</p>
<p>Pro-active counter fraud work plan</p>	<p>Recruitment (Temporary staff)</p> <p>During an insider investigation, a control weakness was identified in the system used for the recruitment of temporary staff.</p> <p>Matrix system allows managers to search for a specific name, and receive the CV just for that candidate thereby heightening the risk of nepotism or similar.</p>	<p>A substantive sample of transactions was analysed by CAFS to ensure temporary recruitment underwent a fair process. Checking included recruiting manager and the professional references accepted for authenticity.</p> <p>In agreement with HR, CAFS will continue to analyse transactions on a quarterly basis to ensure ongoing compliance.</p>	<p>Matrix system remains unchanged. Quarterly reviews will mitigate risk but not reduce its score.</p> <p>No change</p> <p style="text-align: center;">↔</p>

<p>Service review</p>	<p>West End and City Operations</p> <p>Officers of West End and City Operations regularly interact with businesses across the Council, and they can be exposed to the risks of bribery and corruption.</p>	<p>CAFS undertook a service review to assess the risk of staff exposure to bribery and corruption, and to ensure staff were aware of the risk.</p> <p>The review concluded the need for officer training and a bespoke eLearning course was created covering the following topics;</p> <ul style="list-style-type: none"> • Bribery and corruption • Gifts and hospitality • Conflicts of interest <p>25 officers enrolled on the course, which concluded with an evaluation test to verify understanding. Officers scored an average of 85% against a pass mark of 70%.</p>	<p>Although the eLearning is a positive action towards heightening of awareness, the risk of bribery and corruption unchanged.</p> <p>No change</p> <p style="text-align: center;">↔</p>
<p>Service review</p>	<p>Road Management Service: Highways & Public Realm</p> <p>A service review was undertaken to assess the risk of fraud associated with claims for overtime and mileage within the department.</p>	<p>The sample and testing of transactions found no evidence to suggest any wrongdoing or fraudulent claims, but weaknesses were identified in the control mechanisms relating to overtime and mileage claims.</p> <p>Four recommendations were made for improvement including;</p> <ul style="list-style-type: none"> • Review of service provision to establish if alternative working patterns would lessen reliance on overtime • Immediate action to ensure approval documentation accompanies all claims 	<p>A follow up in Q1 18/19 will be undertaken. Until then the risk remains unchanged.</p> <p>No change</p> <p style="text-align: center;">↔</p>

NOTEWORTHY INVESTIGATIONS

	Case Description
1.	<p>TENANCY FRAUD – An anonymous referral suggested that a one-bedroom council flat in Erasmus Street, SW1, a stone throw from the Home Office and Channel 4 buildings, was being unlawfully sublet for £680 per month – the rent charged by CityWest Homes (CWH) was £400 per month.</p> <p>During the subsequent investigation, which included an interview under caution, the tenants seemed to realise the net was closing in on them and they tried to surrender their tenancy and claim payment of £3,500 from the Housing Department's Cash Incentive Scheme for returning vacant possession or downsizing. CAFS managed to stop the payment and armed with evidence of regular rent credits on the tenant's bank account, the tenants were refused the cash incentive but instead offered the opportunity to repay the council the unlawful profit they had made from subletting.</p> <p>The offer was initially refused, but as the date of the court hearing neared the now ex-tenants contacted the Council and agreed to settle the matter resulting in an unlawful profit order and legal fees totalling over £10k.</p> <p>As a result of the investigation, the Council have recovered the property that has since been allocated to someone in genuine need of support, prevented an incentive payment of £3,500 from being illegally claimed and agreed payment of an unlawful profit order to the Council. The total value of the savings amounted to just over £17,000.</p>
2.	<p>RESIDENTS PARKING AND COUNCIL TAX LIABILITY – An investigation into suspected permit fraud following the sighting of a vehicle of excessive height using a WCC permit. The permit had been issued to an address in Westbourne Grove above a restaurant, and the investigator also noted three other permits in the building for a flat which held no Council Tax liability.</p> <p>Enquiries confirmed that the addresses in question were both residential although one was being refurbished. It was also established that the permit holders were all employees of the restaurant.</p> <p>The owner of the vehicle, originally referred, was not resident at the property because the flat was gutted and being refurbished. Therefore, the permit was cancelled forthwith.</p> <p>It also transpired that the 4-bedroom flat occupying a whole 'floor' above the restaurant was taken off Council Tax rating in 1993 but was not included in the restaurant's NNDR account. The matter was referred to Council Tax who have sent a Valuation Officer to assess the property above the restaurant so that it can be billed accordingly.</p>

<p>3.</p>	<p>EMPLOYEE FRAUD CASE – During the investigation of a misconduct case the email file of an employee, linked to the enquiries, was extracted. The file showed no evidence in relation to the alleged misconduct. However, it became clear that the individual had sent confidential information outside the organisation to a former employee and disciplinary action was taken accordingly.</p>
<p>4.</p>	<p>HOUSING FRAUD – An individual made an application for re-housing from Gaydon House where they privately rented a one bedroom property. His request for Housing was on the basis of medical grounds and him being a single male. HOS had experienced difficulty in verifying the applicant's residency through arranged visits, and the matter was referred to CAFS.</p> <p>CAFS investigation found the property was also occupied by a female with children which raised further doubt as to the authenticity of the application for support, and further enquiries revealed a possible family relationship between the applicant and the owner of the Gaydon House property.</p> <p>The individual was asked to attend an interview after which a visit to the property at Gaydon House was agreed. When officers visited, it became apparent the property had no furnishings and was undergoing extensive renovation works. The applicant stated that someone must have removed his belongings without him knowing, before changing his account of events saying his friends had taken his belongings to undertake the works which started a few weeks ago.</p> <p>The application was cancelled forthwith, and the case eventually closed when the individual failed to attend formal interview requests.</p>
<p>5.</p>	<p>TENANCY FRAUD – a CWH Housing Officer raised concerns over the residency of a tenant at a Gloucester Terrace address.</p> <p>Following several unsuccessful visits, the Housing officer arranged an appointment via the tenant's granddaughter, the only contact number on file. However, when he attended the address, the tenant was not at the address.</p> <p>Enquiries by CAFS identified several different persons financially linked to the address, and following checks with the Home Office it transpired the tenant was primarily living in Morocco.</p> <p>Notices were served, and the tenant's son contacted the office to arrange a meeting. During this meeting, he explained that due to ill health his father would not be returning to the UK, and then relinquished the tenancy on behalf of his father and returned the keys.</p> <p>CWH took immediate vacant possession, and the property was formally recovered on Christmas Eve 2017.</p>

6.

TENANCY FRAUD – a case was referred for investigation by CWH who suspected that a one bedroom property in Oversley House was not being used by the tenants as their main or principal home.

Enquiries established that the tenants were linked to an address in Bournemouth, and further investigations found them to be the owners of this seaside property since 2005.

The tenants attended an interview under caution where they explained that they purchased the Bournemouth address as an investment, but that Oversley House remained their home as they would return to it occasionally. But once officers began to challenge their account, it became clear that their home was primarily in Bournemouth.

Following the interview, the tenants agreed to relinquish the tenancy by way of a 'Without Prejudice' offer, and CWH obtained vacant possession of the property in November 2017.

Consideration was given to criminal prosecution, but on this occasion, it was not deemed in the public interest given the age and medical condition of the subjects.