

+

## **Audit & Anti - Fraud Service Annual Fraud and Irregularity Report 2018/19**

A status report and analysis of reported fraud and financial irregularity within the London Borough of Hackney

---

June 2019



**Finance and Corporate Resources Directorate  
Audit and Anti-Fraud Division**

## 1. Introduction

- 1.1 This report provides a summary of the work undertaken in respect of anti-fraud activities carried out by the Council's Audit Investigation Team (AIT), Tenancy Fraud Team (TFT) and Pro-Active Anti-Fraud Team (PAFT) during the past year. During the financial year 2018/19 the teams received 1,810 referrals and enquiries in relation to fraud and irregularity, which is consistent with the workload from 2015/16 onward.

## 2. Background

- 2.1 The Council's position on fraud is embedded in a series of policy documents which enhance and reinforce the attention given to this particular aspect of the Council's processes and procedures, namely: -

The Constitution	The Council's Fraud Policies
<ul style="list-style-type: none"> <li>• Members' Code of Conduct</li> <li>• Officers' Code of Conduct</li> <li>• Financial Procedure Rules</li> <li>• Standing Orders</li> <li>• Contract Standing Orders</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-Fraud &amp; Corruption Policy</li> <li>• Whistleblowing Policy; and</li> <li>• Anti-Money Laundering Policy</li> </ul>

- 2.2 Regular reviews of both Member and Officer compliance with the Council's policy in respect of corporate governance arrangements are undertaken and this informs the Annual Governance Statement which is required to be included as part of the final accounts process.
- 2.3 The Council's Anti-Fraud & Corruption Policy reinforces that managers, as 'owners' of the Council's systems and process, are responsible for ensuring that adequate systems of internal control are in place to prevent or detect fraudulent activity. The primary responsibility for the prevention and detection of fraud therefore rests with managers and staff. AAF's role is to undertake independent assessments of the key risks and associated controls within systems across the organisation. AIT has systems in place to receive, assess and react to potential fraud referrals from all stakeholders.
- 2.4 Managers are required to ensure that all staff receive training in fraud awareness. In addition, all new employees should be briefed on the Council's approach and be provided with a copy of the policy as part of the induction process. AAF offer advice and where necessary undertake training in key areas of activity.
- 2.5 The Council has procured an external provider, Expolink, to provide a confidential corporate whistleblowing hotline. This facility is available 24/7 to all Council workers. Nominated Officers within the Council have been identified to receive confidential reports. Following the integration of Hackney Learning Trust into the Council in 2014/15 this facility was rolled out to all schools. In addition, there are also a number of fraud hotlines (e.g. Tenancy and Blue Badge) which are maintained for members of the public. An annual whistleblowing report is provided to Committee separately, most recently in April 2019.

### 3. Anti-Fraud & Corruption Activity during 2018/19

3.1 Investigation work is undertaken by three teams which specialise in the following operational areas:

- The Audit Investigation Team (AIT) investigate allegations of fraud and irregularity involving staff, partner organisations and any concern that is not specific to one of the other fraud teams. In addition, the AIT is responsible for investigating allegations of Blue Badge and parking fraud (Section 4) and providing investigative support to the CACH No Recourse to Public Funds Team (NRPF) initiative (Section 5);
- The Tenancy Fraud Team (TFT) investigates allegations of subletting and other housing fraud committed against Council and Registered Providers' housing stock in the Borough (Section 6);
- The Pro-Active Anti-Fraud Team (PAFT) was established as a result of AIT enquiries into contracts that were formerly held and managed by Hackney Homes (Section 7).

3.2 Table 1 below provides a comparison of all enquiries received in the last year.

#### Yearly Comparison of Investigation Work

Investigation Type	2018/19	2017/18	2016/17	2015/16	2014/15
AIT and PAFT referrals	44	41	42	47	53
Parking (Blue Badge)	198	243	196	166	194
Tenancy Fraud	388	461	394	359	421
Overstaying Families (OFIT)	75	104	130	89	122
Fraud enquiries	1105	1,237	1,283	1,402	539
<b>Total</b>	<b>1810</b>	<b>2,019</b>	<b>2,010</b>	<b>2,125</b>	<b>1,697</b>

Table1

3.3 A breakdown of the cases dealt with by AIT and PAFT during 2018/19, broken down by directorate and referral type, is shown in tables 2 and 3 below.

#### Breakdown of Referrals by Directorate

Directorate	Brought Forward from 2017/18	Referral received in 2018/19	Case completed during 2018/19	Cases ongoing at 1 April 2019
Chief Executive's Directorate	2	10	8	4
Children, Adults & Community Health (excluding OFIT)	3	6	4	5
Hackney Learning Trust	0	5	1	4
Finance & Resources	4	9	8	5
Neighbourhoods & Housing	4	9	11	2
Hackney Homes	26	5	23	8
<b>Total</b>	<b>39</b>	<b>44</b>	<b>55</b>	<b>28</b>

Table 2

### Breakdown of Referrals by Type

Description	Neighbourhoods	Children, Adults & Community Health		Finance	Chief	Total
	& Housing	CACH	TLT	& Resources	Executives	
Theft	0	0	1	1	0	2
Cheque/Credit card fraud	0	0	1	2	0	3
Immigration/ID issues	0	0	0	0	0	0
Employee issues	12	3	2	3	3	23
Payments, contracts, procurement	0	1	0	0	0	1
Housing irregularities	0	1	0	0	1	2
Staff parking	0	0	0	0	1	1
Other	2	2	1	3	4	12
<b>Total</b>	<b>14</b>	<b>7</b>	<b>5</b>	<b>9</b>	<b>9</b>	<b>44</b>

Table 3

3.4 An analysis of the principal outcomes arising from AIT investigations during 2018/19 is shown in Table 4 below.

Analysis of Outcomes	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14
Dismissal	7	2	7	7	14	6
Resigned/Left under investigation	8	3	5	11	8	5
Other Disciplinary	1	3	1	8	2	3
Referral to other agency (e.g. Police, UK Border Agency)	12	13	22	11	12	25
Council service or discount cancelled (excl NRPF)	8	10	3	5	11	7
Reports Issued	19	12	14	19	19	16
No Further Action	11	14	12	11	8	13

Table 4

The percentage of investigations which result in a 'not proven' outcome remain satisfactorily low, indicating that referrals are generally of good quality and internal investigation assessment processes are effective.

3.5 The AIT also dealt with 1,105 fraud enquiries from outside agencies (e.g. DWP, police, Home Office, other LA's, etc). These requests are largely related to providing information to other public bodies to assist with investigations and in most cases do not involve an investigation by Hackney. This represents a huge increase on the 155 equivalent enquiries undertaken in 2013/14 and is entirely due to consequences arising from the transfer of the Housing Benefit investigation function from LBH to DWP in December 2014 (see Section 8).

#### 4. Blue Badge Fraud Team

- 4.1 AIT has been responsible for investigating Blue Badge fraud and other parking dispensation irregularities since August 2010. Investigations take place in response to allegations of misuse and are also proactively targeted at areas of known significant abuse. AIT officers regularly work with the Police and other enforcement agencies when investigating blue badge misuse. A total of 41 misused permits were recovered during the year, 29 parking tickets were issued and 2 vehicles were removed following misuse.
- 4.2 The Audit Commission estimated the cost of each fraudulently used Blue Badge to be £100 (which is only equivalent to the cost of on-street parking in the Hackney Central zone of less than 39 hours). Fees of £65 are also payable where a Penalty Charge Notice is issued as part of the enforcement process, or £265 if the vehicle is also removed. The financial value of this work during the year on these conservative measures was £6,385.

#### Blue Badge and Other Parking Investigations

	2018/19	2017/18	2016/17	2015/16	2014/15
Number of referrals (including cases identified through proactive measures)	203	243	196	167	194
Number of PCNs/removals	29/2	60/44	49/40	47/32	24/10
Number of prosecutions	0	0	1	4	19
Number of Blue Badges and other misused parking permits recovered	41	100	95	94	52
Number of misuse warnings issued	19	28	50	36	27

Table 5

#### 5. No Recourse to Public Funds (NRPF)

- 5.1 NRPF is a Children & Young People's Service initiative. The team prevent false claims by families who are not entitled to public funds from central government due to their immigration status, but are nevertheless eligible to receive public money from Hackney tax payers because of local authority obligations under the Children Act 1989. A dedicated fraud investigator is attached to the team to assist with access to information and to provide additional scrutiny of suspect applications. The achievements reported here result from the work of the NRPF team as a whole.
- 5.2 The success of NRPF in preventing payments to those that are not in genuine need is a result of collaborative working by CYPS and AAF; one key element of this approach has been the investigator's ability to access information from Hackney records and external data sources that would not ordinarily be available to CYPS staff. Where evidence is identified to show that applicants have alternative means

of support available to them, the Council may cease to provide financial assistance, or may prevent a claim being paid from the outset. Some claims have been withdrawn by the applicant or are not pursued by them when they become aware of the Council's verification process.

- 5.3 Table 6 summarises the savings arising from NRPF cases that were prevented or cancelled following the involvement of the AIT investigator in NRPF enquiries (additional cases were addressed without any input by the investigator). The figures are a conservative account of the financial benefit arising from the work because they assume the minimum accommodation cost and do not consider the additional social worker costs that arise from Children Act cases.

#### **NRPF Investigations 2018/19**

	2018/19	2017/18	2016/17	2015/16
No. Claims cancelled	71	95	108	78
Weekly Cost	£33,015	£36,765	£41,796	£29,327.22
Annual cost	£1,721,496	£1,917,032	£2,179,362	£1,525,015.44

\* Cost estimated on the basis of an average 2018/19 weekly support package of £465 **Table 6**

- 5.4 Other teams and departments within CYPS have also benefited from direct access to an anti-fraud specialist embedded within the service. Assistance has also been provided where concerns have arisen such as child protection, child trafficking and exploitation, and absence from school.
- 5.5 Additional benefits that have arisen from NRPF enquiries are that:
- The Home Office have resolved long-standing immigration applications following Council enquiries so that applicants are granted UK immigration status that allows them to support themselves financially in the UK. This also results in a right to claim public funds from central government rather than LBH local funding under the Children Act.
  - There is a perception among neighbouring boroughs that Hackney is not seen as a destination of choice among potential clients, although this is difficult to quantify. This is significant because the NRPF client group is potentially more transient than the general population which means that in practice they have more discretion as to which Local Authority to approach to seek assistance.

## **6. Tenancy Fraud Team**

- 6.1 AAF currently works with 12 Registered Providers (RPs, i.e. housing associations) to investigate tenancy fraud, with the Council receiving additional nomination rights for each unlawfully sublet tenancy that is recovered. Hackney's pioneering approach of working with our RP partners has previously been held up as best practice by the Audit Commission in their annual report '*Protecting the Public Purse*', and has been further recognised by Alarm (the Association of Public Sector Risk Management). Some of the larger RPs have recently developed their own capacity to tackle tenancy fraud in their housing stock, and Council investigators also support these enquiries to ensure that tenancy fraud in Hackney is limited as far as is possible. This has contributed to a decline in the number of referrals to the LBH TFT in recent years, allowing the team to focus its resources on Council owned properties.

- 6.2 AAF started to investigate tenancy fraud in RP stock in 2010/11, and in the Council's housing stock in June 2012. This has resulted in the recovery of more than 800 sublet or misused properties up to 31 March 2019.
- 6.3 Investigations into the LBH housing waiting list and homelessness cases began in August 2013. These enquiries are important to prevent misuse of social housing from the outset, and they can reasonably be expected to reduce the number of time consuming and costly legal actions needed to recover an asset if it is wrongly allocated. This work has resulted in the cancellation of more than 320 housing applications to the end of the 18/19 financial year.
- 6.4 TFT have worked with the RTB Team since 2014 to investigate suspected fraudulent applications and to strengthen anti-fraud arrangements. This led to increased vetting of claims by the RTB team and referral to TFT where concerns were identified.
- 6.5 The work of Council investigators, Housing Officers and Legal staff helps to make sure that limited, valuable resources are allocated to those in genuine need, in addition to protecting Council budgets by reducing housing needs costs and preventing social housing being sold at discount to those who do not qualify for Right to Buy. Each Right to Buy purchase attracts a discount on the market value of the property which increases each year. The 18/19 value of the discount was £108,000; in effect limited housing resources must be sold below the market rate, this adds to the long term limited availability of affordable housing resources, and increases cost pressures from efforts to maintain capacity.
- 6.6 During 2018/19 a total of 63 RP and LBH properties were recovered as a direct result of investigations undertaken by the TFT and 42 housing applications were cancelled (see Table 7). This represents a reduction against previous years and results in part from an increased awareness of the Local Authority response among perpetrators. The hard work and dedication of the investigators in post have maintained Hackney's position as a top 3 authority when it comes to tackling this abuse within London and nationally. Independent estimates place the value of each recovered tenancy at £18,000 and each rejected housing waiting list claim at between £4,000 and £18,000 (the lower estimate is used in the calculations set out in table 7 below). Thirteen Right to Buy claims were denied or withdrawn in 2018/19 following investigation, preventing the award of discounts totalling £1,404,000, in addition to preventing the loss of 13 homes to applicants who were not eligible to purchase them.
- 6.7 As of 31 March 2019 a further 111 tenancy cases were subject to a legal process that had not yet concluded. On the basis of past performance, the majority of these cases are likely to result in the recovery of a social housing tenancy, albeit that the legal process can be time consuming.

## Tenancy Fraud Investigations

	2018/19	2017/18	2016/17	2015/16	2014/15
Number of referrals (tenancy fraud)	214	306	304	305	494
Number of tenancies recovered	63	66	103	107	125
<b>Estimated value of recovered properties*</b>	<b>£1,134,000</b>	<b>£1,188,000</b>	<b>£1,854,000</b>	<b>£1,926,000</b>	<b>£2,250,000</b>
Number of referrals (housing application)	80	52	55	116	295
Number of housing applications cancelled	42	40	49	57	67
<b>Estimated value of cancelled applications</b>	<b>£168,000</b>	<b>£160,000</b>	<b>£196,000</b>	<b>£228,000</b>	<b>£268,000</b>
Number of referrals (Right to Buy)	34	36	34	35	
Number of RTBs cancelled or withdrawn	13	14	17	10	10
<b>Estimated value of RTBs prevented</b>	<b>£1,404,000</b>	<b>£1,512,000</b>	<b>£1,783,300</b>	<b>£1,049,000</b>	<b>£1,049,000</b>
<b>Total value all housing investigations</b>	<b>£2,706,000</b>	<b>£2,860,000</b>	<b>£3,833,300</b>	<b>£3,203,000</b>	<b>£3,567,000</b>

\*This figure is based on the value of £18,000 per property as quoted by the Audit Commission

**Table 7**

## 7. Pro-Active Anti-Fraud Team (PAFT)

- 7.1 An investigation has run throughout 2018/19 concerning irregularities in the management of various legacy Hackney Homes contracts. The review is wide ranging and is high profile, having already gained media attention. One line of enquiry has resulted in a police investigation that is being fully supported by AAF.
- 7.2 Multiple work streams have been reviewed. Consequences to date include the retention of payments against one contractor and revisions to the contract management process.
- 7.3 AAF has worked closely with LBH Procurement and Housing Directorate technical officers during these enquiries, and there is a consensus that further work streams and contracts should also be systematically reviewed. Arrangements with existing contractors are being reviewed by the team as part of the planned audit work to provide additional assurance that control arrangements are appropriate.

## 8. Housing Benefit

- 8.1 The responsibility for Housing Benefit investigations was transferred from LBH to DWP on 1 December 2014 as part of the government's Single Fraud Investigation Service scheme. The responsibility for Housing Benefit administration remains with LBH for the time being.
- 8.2 LBH had already successfully realigned investigative resources away from HB to focus on other fraud threats, resulting in the achievements set out in this report. Hackney was therefore better placed to deal with the consequences of SFIS than



many other authorities, particularly those outside of London. However, the following impacts have arisen:

- DWP do not have direct access to LBH HB records. All HB investigations must proceed via an AAF officer who is employed specifically to receive and respond to data requests (the additional work referenced at Section 3.5 of this report). DWP have previously provided minimal funding for this work and have not yet communicated how or if they will resource this in 2019/20 (limited contingency exists at cost to LBH until March 2020 following the AAF restructure). There have been preliminary discussions with the DWP to explore the feasibility of DWP staff being given direct access to LBH HB records which could reduce the burden on AAF.
- While the AAF officer assigned to this work has been able to facilitate routine investigations, it has not been possible to review the 2,514 HB NFI matches received in 2019 (see Section 9). Previously, matches were sifted by the 6 officers who transferred to DWP as part of SFIS; DWP do not accept that the identification of fraud is their responsibility under the current arrangements. This impasse is an issue across all local authorities;
- LBH has less influence over the investigation process and how an enquiry should proceed, and there is inevitably less effective communication between the HB administrative and investigative functions;
- HB and other fraud enquiries (e.g. tenancy, right to buy) are no longer co-ordinated to the same degree due to differing organisational priorities. Further down the line, there are concerns about continued access to HB data to support other fraud enquiries;
- Investigation teams, particularly those outside London, have been severely diminished by the introduction of SFIS. This is likely to impact on future LBH investigations and the overall resilience of local government to fraud.

## **9. National Fraud Initiative (NFI)**

9.1 The Cabinet Office (previously the Audit Commission) conducts a biennial data matching exercise, the NFI. AAF coordinates the provision of data, undertakes investigations in some areas and coordinates responses from other Council teams that are involved in verifying match data. The NFI matches are assessed for investigation according to local priorities and experience of previous NFI data quality. It is important to note that matches are often a result of data quality issues and do not necessarily indicate fraud.

9.2 Match data received in January 2019 is currently being reviewed.

9.3 The value of fraud and error identified through the NFI is calculated according to Audit Commission methodologies. Details of the progress on matches received are shown below in Table 8. Outcomes for the previous 2016 NFI cycle are also provided, some of this work took place during 2018/19.

### **NFI 2018 Outcomes to Date**

Document Number: 22056164

Document Name: Investigations annual report 201819 Appendix 1

Type of Match	Total Matches (Recommended)	Number Matches Cleared	Investigation in progress	Value of fraud or error identified	Outcomes NFI 2016
Payroll	145	8	0	-	1 fraud
Housing Benefit	2,539	68	4	-	n/a
Housing tenants	1,044	6	0	-	18,000
Right to Buy	45	0	0	-	n/a
Housing waiting list	2,607	19	0	-	98,940.57
Concessionary travel / parking	203	59	124	-	46 permits cancelled
Creditors	6,428	0	0	-	n/a
Pensions	217	200	0	-	n/a
Council Tax	40,450	845	1,191	£173,516.94	n/a
Council Tax Reduction Scheme	1,846	24	4	-	n/a
Other	40	21	0	-	n/a
<b>Total</b>	<b>55,581</b>	<b>1,250</b>	<b>1,323</b>	<b>£173,516.94</b>	

Table 8

## 10. Other activity

10.1 AAF have provided fraud awareness support to the following teams and external partners during 2018/19: -

- Housing Needs
- Right to Buy
- All Housing Neighbourhood offices
- Children and Young People's Services
- Adult Social Care
- Business Support (Blue Badge team)
- School finance officers

10.2 It should be noted that not all referrals to AAF result in an investigation. In some instances the allegation will relate to reported practices that are more appropriately dealt with by management action. Similarly there may be suspected irregularity that is more appropriately dealt with elsewhere within the Council and/or key partner organisations.

10.3 AAF have also assisted the police, other local authorities/public sector agencies and partner organisations where appropriate with enquiries and investigations in

the interest of prevention, detection and deterrence of crime. Shared information is released in accordance with data protection legislation.

## 11. Regulation of Investigatory Powers Act (RIPA)

- 11.1 The Corporate Head of Audit, Anti-Fraud and Risk Management has the corporate responsibility for the Council's RIPA powers. The policy is available on the Council's intranet and has been publicised to all staff.
- 11.2 Use of RIPA by all local authorities was severely curtailed during 2012/13 following new legislation requiring local authorities to obtain approval from a Magistrates Court before surveillance can take place. Hackney has a process in place with local courts.
- 11.3 Update reports on the Council's use of RIPA are provided quarterly to the Audit Sub-Committee. No RIPA applications were made or authorised in 2018/19. This is partly a consequence of the legislative change, but is also reflective of a culture within Hackney that seeks to minimise intrusiveness where possible, while still accepting that surveillance remains a valid investigative technique in certain circumstances. A breakdown of the RIPA authorisations for recent years are shown in Table 10 below.
- 11.4 The Council's RIPA arrangements were most recently reviewed in March 2017, the report commended the arrangements that are in place.

### RIPA Authorisations

Type of Investigation	Number Authorised 2018/19	Outcomes	Number Authorised 2017/18	Number Authorised 2016/17	Number Authorised 2015/16
ASB	0	n/a	0	0	0
Trading Standards	0	n/a	0	0	0
Housing Benefit	0	n/a	0	0	0
Parking	0	n/a	0	0	0
<b>Total Authorisations</b>	<b>0</b>	<b>n/a</b>	<b>0</b>	<b>0</b>	<b>0</b>

Table 10

## 12. Money Laundering

- 12.1 Whilst legislation relating to money laundering does not specifically require the Council to implement formal detection and reporting procedures it is nevertheless considered that such procedures are best practice and were recommended by the Audit Commission.
- 12.2 A corporate policy outlining the Council's approach to money laundering is in place which introduces a requirement to identify any cash sums in excess of £9000 received by the Council, and to report any transaction where the funds involved are suspected to originate from criminal activity. Guidelines direct councils to report such occurrences to the National Crime Agency (NCA).
- 12.3 Training requirements for staff working in areas considered to be most at risk from this activity are considered, this has resulted in training being provided to key Right to Buy officers.

- 12.4 During 2018/19, 2 referrals were received by AAF, both concerned the source of funds for proposed Right to Buys. Following internal review both matters were notified to the NCA in line with our corporate procedures.

### **13. Future Developments**

- 13.1 Considerable advances have been achieved in the last six years to tackle tenancy, parking, OFIT and staff fraud, and to address known concerns in specific contract arrangements. This work will continue through 2018/19 and maintaining current performance will in itself be a challenging target for the year ahead. A risk based assessment will be undertaken to ensure that the Service focusses resources where most beneficial to the Council.
- 13.2 Links between the Tenancy Fraud Team, Housing and Legal Services are being strengthened. Regular liaison involving senior officers takes place to identify any barriers to effective joint working and ensure that these are resolved. This will build on the fraud awareness sessions that have been well received by all Neighbourhood Offices throughout the year.
- 13.3 There is no reason to think that the high level of reactive casework received in 2018/19 will abate and this will impact the capacity for pro-active work. The existing level of referrals is likely to be influenced by the level of organisational change and the consequences of this on the control environment. The links between the Anti-Fraud teams and Internal Audit will continue to be important.
- 13.4 Proactive work including Blue Badge and OFIT investigations and the ongoing review of prioritised NFI2018 matches will continue. Where the need for greater counter-fraud involvement is identified through our reactive work, we will endeavour to carry out proactive enquiries where feasible.
- 13.5 Hackney is closely monitoring the development of the London Counter Fraud Hub initiative as a way to identify irregularities in key service areas and as a further way to prevent fraud entering the system in the first place. As of the date of this report there remain some issues to resolve before our participation can be confirmed, but this is a development that Hackney is broadly supportive of.
- 13.6 Our key counter fraud partners, including legal teams, the Police and the Home Office, will continue to face resource challenges in the year ahead. These are likely to impact on the options available to the Council to tackle certain fraud types, but the service will continue to innovate and respond flexibly to these issues.