

Benefit Fraud Inspectorate Report
for the Secretary of State

***Watford Borough Council
Inspection of Security***

February 2007

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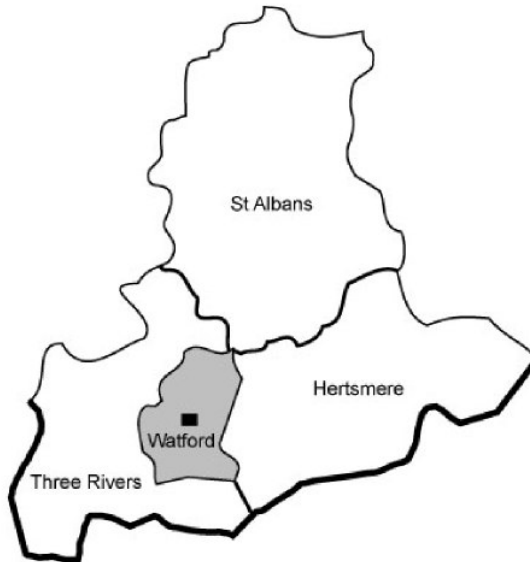
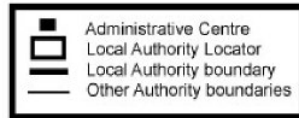
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The maps on this page show the area covered by Watford Borough Council in relation to neighbouring authorities, and its geographical location in the country.



Executive summary

Background

1.1 This report assesses Watford Borough Council's Security arrangements. We have limited the scope of this inspection to those Performance Standards components that have a direct impact on the council's Security performance, which includes counter-fraud work.

1.2 This report should be read in conjunction with the Performance Standards pack, which can be downloaded from the Department for Work and Pensions' (the Department) website:

<http://www.dwp.gov.uk/housingbenefit/publications/perf-stands/index.asp>

1.3 Watford Borough Council was selected for a Security focused inspection as it was identified as high risk by the Department's risk engagement process.

1.4 In 2005/06, the council's Housing Benefit (HB) and Council Tax Benefit (CTB) expenditure was £23 million paid to 6,232 customers. This represented 21% of the council's gross revenue expenditure of £107 million.

1.5 The Revenues and Benefits Service was part of the Finance Directorate. The Benefits service comprised 2 Benefits Managers, the Training and Performance Manager and the Fraud Manager who reported to the Head of Revenues and Benefits. The fraud team consisted of the Fraud Manager, Senior Investigator, 2 Fraud Investigators, one Fraud Visiting Officer and one Administrative Assistant.

1.6 The Fraud Manager left the council in September 2006 and we did not have the opportunity to speak to the person before they left. An interim Fraud Manager was appointed while we were on site.

1.7 To establish the effectiveness of Watford Borough Council's performance we:

- examined its policies and procedures
- interviewed:
 - ż managers
 - ż staff
 - ż the Member responsible for benefits
 - ż the local Fraud Investigation Service Manager
 - ż External Audit
- examined its management information

- selected a random sample of 30 new claims and 15 changes of circumstances decided between June and August 2006 to establish the quality of verification on those claims
- selected a random sample of 30 investigations closed between April 2005 and August 2006 to validate the performance and quality of investigations. The sample included 11 sanction cases.

1.8 The on-site phase of the inspection took place between 2 and 20 October 2006. We are grateful to Watford Borough Council for its help and cooperation throughout this inspection.

Overall performance

1.9 The council had established an effective anti-fraud and corruption policy, which was endorsed by Members and provided clear guidance for counter-fraud work. This was supported by an increase in the number of professionally trained investigators.

1.10 The numbers of sanctions being applied had significantly improved during the first half of 2006/07, with successful prosecutions being well publicised.

1.11 The council lacked assurance over the quality of counter-fraud work and the level of fraud referrals was reducing. An ineffective risk assessment process had led to the number of cases held by each investigator being unmanageably high. This was compounded by a lack of effective management direction. We were concerned that 6 (20%) cases in our sample contained potential breaches of legislation, and 4 of these had sanctions applied.

1.12 Managers had failed to adequately address the lack of reliable data concerning several areas of work.

1.13 The standards of verification were generally good. In contrast, efforts to secure the system from fraud and error once payments were made, were poor. Data matches were not cleared in a timely manner and targets for interventions were likely to be missed.

1.14 There was an effective risk-based internal audit plan but its good work was undermined by delays in implementing agreed recommendations, and this diluted assurance over the adequacy of controls given to Members and senior officers.

Summary of recommendations

1.15 The following tables list the recommendations we have made in this report in priority order.

Recommendations		
High priority		
We recommend that Watford Borough Council:		Paragraph
1	<ul style="list-style-type: none"> • plans its interventions work effectively to ensure that targets for interventions and visiting are met and that cases for intervention are always selected on the basis of an effective risk assessment. 	2.7, 2.10
2	<ul style="list-style-type: none"> • improves the range and quality of data it gathers and reports to Members, senior officers and the Department concerning security, specifically: <ul style="list-style-type: none"> ○ interventions ○ data matches ○ visits ○ fraud referrals. 	2.6, 2.13 2.16, 2.52 2.78, 5.7 5.17, 5.20 5.47
3	<ul style="list-style-type: none"> • maximises and improves the quality of fraud referrals from key sources by: <ul style="list-style-type: none"> ○ developing an ongoing programme of fraud awareness training for all staff ○ providing regular written feedback on referrals from staff ○ publicising its referral form and guidance for its completion. 	2.36, 2.37 2.38, 2.40
4	<ul style="list-style-type: none"> • introduces a method for managing fraud cases to provide support for the management and control of counter-fraud work by: <ul style="list-style-type: none"> ○ reviewing its risk scoring methodology ○ introducing processes for allocating cases ○ monitoring the case holdings of investigators and the progress of investigations. 	2.45, 2.46 2.50, 2.55 5.36

High priority		
We recommend that Watford Borough Council:		Paragraph
5	<ul style="list-style-type: none"> • introduces a comprehensive system of counter-fraud management checking that covers: <ul style="list-style-type: none"> ○ the quality of investigations ○ compliance with legislation ○ compliance with the council's counter-fraud policy. 	2.68, 2.76 2.77, 2.100
6	<ul style="list-style-type: none"> • develops its counter-fraud business plan to support its sanctions policy and counter-fraud strategy that will: <ul style="list-style-type: none"> ○ set measurable targets ○ monitor outcomes ○ provide assurance to Members and senior officers. 	5.13
7	<ul style="list-style-type: none"> • collates and analyses the results of all its management and accuracy checks to: <ul style="list-style-type: none"> ○ inform training needs ○ inform verification standards ○ improve performance. 	3.9
8	<ul style="list-style-type: none"> • ensures that recommendations from Internal Audit are implemented within the agreed timescales. 	2.54, 5.55

Medium priority		
We recommend that Watford Borough Council:		Paragraph
9	<ul style="list-style-type: none"> • carries out a risk assessment of its IT security arrangements to ensure that access to its IT systems is strictly controlled. 	5.41
10	<ul style="list-style-type: none"> • develops a code of conduct providing clear guidance on the expected behaviours for its fraud investigators. 	2.61
11	<ul style="list-style-type: none"> • introduces procedures for all aspects of investigation work. 	2.60
12	<ul style="list-style-type: none"> • updates job descriptions to provide clarification of roles, responsibilities and training requirements for the specific roles. 	5.31
13	<ul style="list-style-type: none"> • improves security by revising and strengthening its post opening procedures. 	5.44
14	<ul style="list-style-type: none"> • ensures its self-assessment against Performance Standards and its performance returns to the Department are accurate. 	5.22
15	<ul style="list-style-type: none"> • ensures that plans are all regularly updated so that targets are synchronised and consistent. 	5.5

BFI findings

Security

2.1 It is important that councils have effective measures and processes to prevent, deter and detect fraud. Councils should verify information supplied by customers and reconcile conflicts identified through data matching. Sufficient resources must also be employed to investigate suspected fraud thoroughly and professionally, and appropriate sanctions should be applied.

2.2 The council was on course to achieve one of the 3 Performance measures and met only 11 of the 21 enablers for Security. The Department had not set targets for the remaining 4 Performance measures.

Security of administration

2.3 This section reports on the arrangements for interventions and the verification of claims. The Performance measures are designed to measure the impact of the council's performance in detecting fraud and error.

Performance measures

2.4 Figure 2.1 shows Watford Borough Council's reported performance against the security of administration Performance measures from April to September 2006.

Fig. 2.1: Performance	measures – Security		of administration	
Performance measures	Description	Target for 2006/07	April to September 2006	On course to meet minimum requirements?
PM 10	Number of interventions for which review action completed	3,020	390	No
PM 11	% of data matches resolved within 2 months	100	7	No
PM 12	Number of customers visited	1,210	663	Yes

Source: Watford Borough Council

Interventions

2.5 In 2004/05 interventions were carried out by visit using an external service provider, but this function was brought in house for 2005/06. We were told that the intention for 2005/06 had been to meet the interventions target by visits alone. However, delays in deploying the officers required to carry out the visits meant the council only commenced 592 interventions against its target for the year of 2,730. The council had not submitted figures to the Department for 2005/06. The figure of 592 for that year was taken from its self-assessment against Performance Standards.

2.6 The council had no confidence in the figures for interventions that it had submitted to the Department for 2005/06 and the first half of 2006/07 for the reasons we give under Monitoring performance. It was unable to provide figures that it considered reliable. **See recommendation 2.**

2.7 The Housing Benefit Matching Service provided the council with lists of cases most at risk of fraud or error. We confirmed that despite the lists being received every month, they had not always been considered for the selection of visits. On occasions a block of flats had been selected and visits made to all the customers living there. This approach did not meet the Department's policy intention that interventions should be related to the level of risk of benefit being paid incorrectly. **See recommendation 1.**

2.8 From September 2006, higher risk cases on the risk list were selected for visit and lower risk cases selected for postal intervention. We were told that the first postal review forms were sent out in September 2006 but no postal interventions had been completed by the end of that month.

2.9 The Head of Revenues and Benefits had delegated the responsibility for meeting the overall interventions target to managers. It was shared between the Fraud Manager, who had responsibility for intervention visits, and the 2 Benefits Managers who had joint responsibility for the postal interventions. There was no overall strategy or plan for how the council intended to meet the interventions target set by the Department. We found a lack of certainty amongst managers and staff as to how many interventions were to be done by visit in 2006/07, how many by post and whether any would be done by telephone.

2.10 On the basis of the number of visits completed by the end of September 2006, and the delay in commencing postal interventions, it was difficult to see how its interventions target would be met. We concluded that insufficient effort was being made to secure the benefits system from fraud and error after claims were in payment. **See recommendation 1.**

Data matches

2.11 The council did not submit returns on its performance against PM11 to the Department in each quarter of 2005/06. In its self-assessment against Performance Standards for that year, it reported that it had resolved 70% of the data matches within 2 months. However, we were unable to ascertain how this figure was arrived at, and it was difficult to reconcile it with the figures submitted to the Department and with information we received from the Housing Benefit Matching Service.

2.12 The returns sent to the Department for the first 2 quarters of 2006/07 showed 135 data matches received in the half-year and only 10 matches resolved within 2 months. However, we obtained figures from the Housing Benefit Matching Service, which showed that the performance in the first half of 2006/07 had improved significantly from that in 2005/06. In 9 of the 12 batches of data matches sent to the council in 2005/06, over half of the matches were still unresolved after 2 months. In contrast, all the data matches in the first 4 monthly batches referred to the council in 2006/07 were resolved within 2 months, though none of those in the fifth batch were resolved within 2 months.

2.13 For the above reasons we did not have confidence in the accuracy of the council's self-assessment of the percentage of data matches resolved within 2 months. We were unable, therefore, to judge the performance against this Performance measure. **See recommendation 2.**

Visits

2.14 From July 2005 the council had 2 officers carrying out intervention visits, with none being done in the first quarter of the year. The target of 1,090 visits set by the Department for 2005/06 was not met. The council did not submit figures to the Department for each quarter of that year, but reported in its self-assessment against Performance Standards that it commenced 902 visits.

2.15 From April 2006 one of the 2 officers continued to carry out intervention visits while the other became a Fraud Visiting Officer. The visits undertaken by both these officers, together with visits done by the Fraud Investigators were correctly being included in the total of customers visited for the purposes of this Performance measure.

2.16 Returns sent to the Department showed that 663 customers had been visited by the end of September 2006, which was 55% of its target for 2006/07 of 1,210 visits. However, spreadsheets held by the Interventions Visiting Officer and the Fraud Visiting Officer showed that they had visited 416 customers by that date. This figure did not include visits undertaken by the Fraud Investigators, but they accounted for comparatively few visits and we did not have confidence in the figures submitted to the Department.

See recommendation 2.

Enablers

Compliance with HB/CTB Security Guidance

2.17 Watford Borough Council met neither of the 2 enablers.

2.18 To consider the quality of verification being undertaken we looked at a sample of 30 new claims. Figure 2.2 shows our findings.

Fig. 2.2: Performance in verifying claims

Verification item	Number requiring verification	Number where sufficient evidence held on file	% verified
National Insurance number – customer	30	30	100
National Insurance number – partner	10	10	100
Identity – customer	30	30	100
Identity – partner	10	10	100
Liability to pay rent	29	28	97
Residency	30	29	97
Liability to pay Council Tax	21	21	100
IS, JSA (IB) and Pension Credit	14	14	100
Income – customer	16	16	100
Income – partner	7	7	100
Income – dependants	0	0	N/A
Capital – customer	13	9	69
Capital – partner	4	4	100
Capital – dependants	0	0	N/A
Non-dependants' circumstances	2	2	100

Source: BFI analysis

2.19 Our sampling showed a generally good performance in verifying evidence provided by customers in support of their claims. The one area of weakness and in which guidance had not been complied with was the verification of capital. Evidence to support what the customer had declared as capital was obtained in all of the 13 cases where this was appropriate. But in 4 of these cases the evidence obtained did not fully meet the requirements of the *HB and CTB Security Guidance*. In 3 cases the bank statements provided did not cover the 2-month period required and in one of these cases the evidence obtained

was not sufficiently up to date. In another case evidence was obtained for only one of the 3 bank accounts declared.

2.20 Discussions with benefits assessors showed a lack of consistency concerning the action to take if a customer did not have an up to date bank statement. Some would award benefit on the basis of bank statements that were several months old, though they said they would ask the customer to provide the next statement that they received. Departmental guidance requires that a current statement should be obtained unless a charge is made for copies, and even in these exceptional cases a balance should be obtained.

2.21 As soon as the findings from our sample were brought to the council's attention, it issued a note to all benefits assessors reminding them of the requirements concerning evidence of capital.

2.22 Our sample of new claims also contained examples of good verification practice concerning capital. For example, benefits assessors had identified and followed up when:

- a bank account declared on a previous claim was not declared on the new claim
- details on a bank statement suggested that another bank account and shares were held that the customer had not declared.

2.23 We found that all necessary evidence was obtained and verified correctly in our changes of circumstances sample.

2.24 Interviews with staff showed that they were aware that only original documents rather than photocopies should be accepted as evidence in support of claims. However, the stamp used for documents received on the counter did not contain wording to confirm that the document seen was an original. This applied to 19 of the new claims we examined and 5 of the changes of circumstances. While we were on site the council issued a reminder to staff to use a stamp indicating an original document had been seen.

2.25 All staff responsible for assessing cases had been given verification training when the council became compliant with the Verification Framework in October 2003. Some of them were also given refresher training in October 2006. The visiting officers had also received verification training. Discussions with benefits assessors and visiting staff showed a good level of awareness of verification requirements.

2.26 Some of the counter staff who verified documents had been doing so without having had verification training until this was delivered during the time we were on site. Prior to this they had not been made aware of what to look for to identify forged documents. We also found that although an ultraviolet scanner was available to counter and post-opening staff, prior to October 2006 not all counter staff used it or had been trained to use it. We saw evidence while we were on site that the training delivered at that time had led to an immediate improvement in the action being taken by the newly trained counter staff to identify forged documents. Both the lack of knowledge on how to identify fraudulent documents and the lack of use of the ultraviolet scanner had previously represented a risk to the security of the Benefits service.

2.27 Our sampling of cases and discussions with staff identified weaknesses in action taken to address foreseeable changes in circumstances. Some unreported changes were identified by reports produced weekly, but discussions with benefits assessors showed differing opinions on what cases they would set a control for on the Benefits IT system. Only one of the 6 cases in our sample of new claims that had foreseeable changes had a case control set to review the case. Four of the cases concerned short-term tenancy agreements where verification of continuing liability to pay rent would be required. Discussions with staff showed that this was not a foreseeable change for which they usually set a case control. The other case where a case control should have been set concerned the cessation of contribution-based Jobseeker’s Allowance, which we were told was a change for which a case control was usually set. While we were on site the council issued guidance to staff on setting diary dates on the Benefits IT system for these types of changes.

Compliance with data integrity

2.28 Watford Borough Council met the enabler.

2.29 We confirmed with the Department that the council had accurately provided HB data on the specified dates throughout 2005/06 to enable the Housing Benefit Matching Service to produce data matches. There were no incidents that the council failed to resolve within a 3-month period.

2.30 Councils are required to match 98% of National Insurance numbers with those held by the Department, as good quality data allows the identification of high-risk reviews. This target was exceeded in 2005/06 as 99.6% of National Insurance numbers matched Departmental records.

Counter-fraud activities

2.31 This section reports on the council’s efforts to detect and deal with fraud.

Performance measures

2.32 Figure 2.3 shows the council’s reported performance against the Department’s Performance measures in 2004/05 and 2005/06.

Fig. 2.3: Performance	measures – Counter-fraud	activities	
Performance measures	Description	Performance 2004/05	Performance 2005/06
PM 13	Number of fraud referrals per 1,000 caseload	112.60	101.68
PM 14	Number of fraud investigators employed per 1,000 caseload	0.34	0.45
PM 15	Number of fraud investigations per 1,000 caseload	81.98	66.87

Source: Watford Borough Council

2.33 The current *Business Plan for the Fraud and Overpayments Section* anticipated an increased number of referrals as a result of its fraud hotline, the interventions scheme and joint working with the Department's Fraud Investigation Service. However, we found that the number of referrals had dropped from 687 in 2004/05 to 620 in 2005/06. This trend continued with a significant drop to 178 referrals reported in the first half of 2006/07. Similarly the number of investigations also showed a downward trend, the council reported 500 in 2004/05, 408 in 2005/06 dropping further to 176 in the first half of 2006/07. We were concerned about this downward trend as the number of investigators was increased from 2 to 3 in May 2005.

Enablers

Fraud referrals

2.34 Watford Borough Council met one (E21) of the 2 enablers.

2.35 The council had a standard referral form but it was not used. Referrals from benefits staff were made electronically using the Benefits IT system. Details of the referral were entered by staff into a free text box with no prompts to help the user provide the necessary information. Staff told us they were aware of how to make a referral and that they often first consulted with the Fraud Investigators if they were unsure of what information to record.

2.36 Investigators told us that the quality of referrals from benefits staff was varied with some not providing enough information. There was no written guidance available to assist benefits or other council staff to complete a referral. **See recommendation 3.**

2.37 The quality of feedback that staff received on their referrals was inconsistent. Benefits staff were told if a referral was going to be investigated and its outcome, but no feedback was given on extra information that may be needed on a referral. **See recommendation 3.**

2.38 Fraud awareness training was provided to new staff during induction. However, there was no ongoing programme of refresher training and none had been given in the last 3 years. **See recommendation 3.**

2.39 The fraud team opened 430 investigations in 2005/06. Less than 100 of these were referrals from benefits staff, which was a low number as we would expect benefits staff to be a main source of referrals.

2.40 The lack of guidance on referrals and the absence of any ongoing fraud awareness training meant that the council had failed to fully engage council staff in its attempts to counter benefit fraud. **See recommendation 3.**

2.41 The council had a dedicated telephone line for the public to report allegations of benefit fraud and in 2005/06 this produced 72 referrals. Fraud staff answered calls during office hours and an answering machine was used to receive calls at other times. The standard referral form was not used to enter details of the call, which meant that all relevant information was not always captured.

2.42 The fraud hotline was well publicised through:

- the council's website
- advertisements on local buses and shops
- posters in council offices
- information leaflets issued with Council Tax bills.

Risk profiling referrals

2.43 Watford Borough Council met one (E23) of the 2 enablers.

2.44 The council introduced risk assessments for fraud referrals in April 2005. Each referral was risk-assessed by the Fraud Administration Officer by recording details such as the customer type, type of fraud and referral source. This produced a risk score. If the referral was below a certain score, it was not investigated but passed instead for a visit.

2.45 The council was not using the risk assessment to effectively monitor referrals to identify trends or to manage the number of investigations. This led to poorer quality referrals being accepted for investigation resulting in high case holdings. It is important to use this information effectively to ensure that scarce fraud resources are used efficiently. **See recommendation 4.**

2.46 The Fraud Manager did not control allocation of referrals to individual investigators and there was no set procedure to decide the basis of allocation. **See recommendation 4.**

2.47 In October 2006, 20 referrals remained unallocated, the oldest one being from February 2006. We were told that only urgent cases were being passed to investigators due to their high case holdings.

2.48 The Fraud Administration Officer did some initial intelligence gathering on referrals before passing the case to the investigator. This included checking the Benefits IT system and obtaining wage records from an employer if relevant. The investigators made good use of the National Anti-Fraud Network for intelligence gathering. This source had been used in all 9 relevant cases in our sample of 30 fraud investigations.

Action on referrals

2.49 Watford Borough Council met neither of the 2 enablers.

2.50 The council used the fraud module of its Benefits IT system to record its counter-fraud work. There was no effective case management system in place or effective monitoring of the progress of investigations. As a result, each of the 3 investigators had at least 90 ongoing investigations when we were on site. **See recommendation 4.**

2.51 Performance Standards require that a referral should be sifted within an average of 10 working days from the date of receipt and an investigation started within an average of 10 working days of the referral being sifted.

2.52 In our sample, we were unable to measure the council against these enablers as the information was not captured or recorded. In addition, the

council was unable to produce any reliable management information on sources of referrals or individual case holdings. **See recommendation 2.**

2.53 Housing Benefit Matching Service matches went initially to the Fraud Administration Officer who then passed all the referrals to the Training and Performance Team. The matches were then passed to the 2 Benefits Managers who distributed them amongst their staff. All matches with current discrepancies were then passed back to the fraud team for investigation. This sometimes led to delays in starting investigations and the waste of trained fraud resources in investigating 'non-fraud' matches.

2.54 The Internal Audit report on the fraud team's work in March 2006 included recommendations that the time taken to sift referrals and the time taken to commence investigations after the sift should be recorded and monitored. We were concerned that in October 2006, these recommendations had not been implemented. **See recommendation 8.**

2.55 We were concerned that there was no management involvement in allocating work and therefore no assurance that investigations would be dealt with quickly as possible thereby minimising overpayments and reducing delays that could affect potential sanction action. **See recommendation 4.**

Fraud investigators' code of conduct

2.56 Watford Borough Council met 2 (E27 and E29) of the 4 enablers.

2.57 Our sample found that files were constructed and maintained in a consistent format and documents were identifiable and filed in chronological order. Investigation case notes were held in each individual fraud file and maintained clerically. However, we found that 15 (50%) of the 30 cases in our sample did not have a clear audit trail of why an action was taken or evidence obtained.

2.58 Investigators did not have notebooks to record their daily activities. We were told that details were recorded in the investigation case notes either on location or upon returning to the office. This is not good practice and may compromise the security of the investigation file. However, while we were on site the council introduced the use of the QB50 notebooks for the investigators.

2.59 The fraud team room had restricted access and investigation files were stored securely within it. Files were securely disposed of 3 years after the closure of the investigation. Interview tapes and the recently introduced QB50 notebooks were securely held in a locked cupboard.

2.60 The fraud team had limited operational procedures, which did not cover all aspects of investigation work. Although fraud staff had access to the National Anti-Fraud Network website, they did not make use of the Department's Fraud Procedures and Instructions manual available on it. We were told that use was made of the Department's circulars and individual cases were discussed within the team. **See recommendation 11.**

2.61 The council's Code of Conduct for Employees made clear the standards of conduct expected of each member of staff. It did not however, provide specific details of the standards of behaviour expected of a fraud investigator. **See recommendation 10.**

2.62 We found delays during the course of the investigation in 20 (67%) cases in our sample. We were concerned about delays identified during 8 investigations where no action had been taken for periods ranging from one to 5 months. We identified a further 5 cases with extensive delays between the last action and closure of the file. These delays ranged from 3 to 11 months.

2.63 We also found in 13 (43%) cases in our sample that not all avenues of enquiry had been followed. These included actions such as interviewing third parties and verifying that information provided was correct.

2.64 The reasons for delays and not pursuing all avenues of enquiry had not been recorded. However, we were told that the large case holdings of the investigators had prevented them from ensuring that all investigations were progressed promptly and without incurring delays. It is important that lengthy delays are avoided as they may result in cases being time-barred or breaches of human rights legislation.

Interviewing customers

2.65 In our sample, we found that in all 17 cases where an interview under caution had been appropriate, one had been carried out. In all cases the Code of Practice for questioning suspects in accordance with the Police and Criminal Evidence Act 1984 had been complied with. Preparation plans had been completed to ensure all relevant questions were covered. However, while most aspects of good practice had been followed for questioning suspects and tape recording interviews, we were concerned that some interviews had exceeded 2 hours.

2.66 We were concerned to find potential breaches of the Police and Criminal Evidence Act 1984 Code of Practice during the course of 6 investigations in our sample. In each of these cases following the receipt of an allegation and the start of the investigation, an investigator had visited the customer. During the visit a benefit review form had been completed. We found no recorded evidence that the investigator had initially informed the customer of the fraud allegation or advised them of their rights. These investigations continued and in 4 of the cases, an interview under caution was undertaken at a later date, resulting in 2 prosecutions and 2 administrative penalties.

2.67 We were told that the visits had been undertaken to establish any further information that would help to progress the case. However, the completion of the review form had not provided any new information in any of these cases.

2.68 The Police and Criminal Evidence Act 1984 Code of Practice prescribes that the suspect must be informed of the allegation and made aware of their rights. This practice could be seen as an attempt to let customers incriminate themselves without being made aware of the allegation, thereby not complying with the Police and Criminal Evidence Act 1984 Code of Practice. Whilst we were on site, we were told that this practice had been stopped.

See recommendation 5.

Use of surveillance

2.69 The relevant Code of Practice of the Regulation of Investigatory Powers Act 2000 provides guidance on how and when surveillance could be legitimately used by criminal investigators within the public sector.

2.70 The Solicitor to the Council was responsible for ensuring that applications for surveillance were recorded in a central register. The appropriate Heads of Service were responsible for reviewing and monitoring authorisations. We confirmed that authorisations had been made correctly. Authorised requests for surveillance on benefit investigations were held and monitored by the Fraud Manager and the Head of Revenues and Benefits.

2.71 The council's *Criminal Investigations (Surveillance)* policy and procedures were last reviewed in January 2006. The procedures were comprehensive and clearly set out what action was required to comply with the legislation.

2.72 The Office of Surveillance Commissioners, following its inspection in February 2006, recommended that:

- some minor amendments should be made to the council's policy and procedures
- a new authorisation form be introduced
- a central register be introduced to monitor the authorisation, review and cancellation of surveillance requests.

We confirmed that all of the recommendations had been implemented and were in operation.

2.73 No instances of surveillance were found in our sampling. We were told that no surveillance had been undertaken in the past year.

Management checking

2.74 We were told that case reviews were undertaken on a monthly basis between the Investigation Officers and the Senior Investigation Officer and between the Senior Investigation Officer and the Fraud Manager. We found it difficult to envisage how the management review could effectively cover a case holding of over 90 cases for each investigator.

2.75 Comments from these reviews were not being recorded on the fraud files and there was no set criteria for the check. Our evidence of delays in investigations and all lines of enquiry not being followed indicated that these reviews were not effective, and did not provide assurance about the quality of investigation work to senior officers. The Internal Audit report on benefit fraud prevention and investigation in March 2006 had noted that monitoring of casework was 'erratic at both individual and team level'.

2.76 We were told that investigations could only be closed with the Fraud Manager's authorisation. All of the cases in our sample had been initialled and dated by the Fraud Manager. However, we found no evidence of formal processes in place for the checking of all aspects of investigation work to provide management information. Therefore, the council had no information on areas such as individual performance and only had limited assurance on the quality and outcomes of its counter-fraud activity. **See recommendation 5.**

2.77 The council's failure to undertake management checks at key stages of investigations meant that it had no assurance that:

- all avenues of inquiry were explored and appropriate investigative techniques had been used
- avoidable delays were identified
- investigations had clear direction
- legislation and internal policies had been fully complied with
- suitable cases for sanction action were identified. **See recommendation 5.**

2.78 Monthly reports on the number of referrals, investigations and sanctions were provided to senior officers. However, no information on other areas such as individual performance, quality of investigation work and compliance with legislation was reported. Therefore, the council had only limited assurance on the quality and outcomes of its counter-fraud activity. **See recommendation 2.**

The council fraud policy

2.79 Watford Borough Council met 4 (E31, E32, E33 and E34) of the 5 enablers.

2.80 Approved by Members in March 2006, the *Corporate Anti-Fraud and Corruption Strategy* set out the council's approach to tackling fraud and corruption including benefit fraud.

2.81 The document was comprehensive and included the council's anti-fraud policy statement and also provided guidance on:

- roles and responsibilities
- planned methods of prevention, detection and deterrence
- reporting and investigating internal and external fraud
- the council's policy on prosecution, the use of sanctions and whistle blowing.

2.82 The council's policy on prosecution provided guidance on the monetary value of fraudulent overpayments to be used when considering cases for prosecution, administrative penalties and formal cautions.

2.83 The monetary value of fraudulent overpayments used in the council's policy did not reflect that of the Department's sanction policy. However, the council and the Department's Fraud Investigation Service agreed that this difference had not hampered the application of sanctions.

2.84 The council operated the 'Do not re-direct' scheme in accordance with the legislation and its guidance. The council's *Do not re-direct procedure* was last updated in March 2006.

Authorised officers

2.85 Section 11 0A of the Social Security Administration Act 1992 provides for local authorities to authorise individuals to exercise the powers under Sections 109B and 109C of the Act.

2.86 From our sample of fraud cases, we found that authorised officer powers had been used in 5 (17%) cases to request earnings information from an

employer. The issue of requests and leaflets explaining the powers was centrally recorded.

2.87 Our sampling confirmed that all information requests using the National Anti-Fraud Network were authorised and made in the appropriate manner. These included requests to Her Majesty's Revenues and Customs.

Fraud Partnership Agreement

2.88 Following Departmental guidance, the council had not signed a Fraud Partnership Agreement, but a letter of intent had been agreed locally with the Department's Fraud Investigation Service.

2.89 The Fraud Manager was the nominated liaison officer and the Senior Investigation Officer attended the Joint Operational Board to represent the council. Our sampling and interviews showed that good local working arrangements were in place. There was daily contact between the fraud team and the Fraud Investigation Service and formal liaison meetings were used to resolve any outstanding issues.

2.90 The Fraud Investigation Service told us that they had applied 4 joint sanctions in partnership with the council during 2005/06.

2.91 A case in our sample demonstrated the level of cooperation, particularly the undertaking of joint interviews under caution. The fraud team had been invited to jointly prepare and undertake an interview under caution with the Fraud Investigation Service. This ensured that the HB and CTB overpayment was taken into account and the Department administered an administrative penalty.

Sanctions

2.92 This section reports on the arrangements for applying sanctions against benefit fraudsters.

Performance measures

2.93 Figure 2.4 shows the council's reported performance for 2004/05 and 2005/06.

Fig. 2.4: Performance measure – Sanctions			
Performance measure	Description	Performance 2004/05	Performance 2005/06
PM 16	Number of successful sanctions per 1,000 caseload	3.1	3.3

Source: Watford Borough Council

2.94 A total of 19 sanctions had been applied in 2004/05, increasing to 20 in 2005/06. In contrast, the council had reported a significant improvement in performance, applying 19 sanctions in the first half of 2006/07, against its target of 27 for the year.

Enablers

A balanced sanctions policy

2.95 Watford Borough Council met 2 (E35 and E36) of the 3 enablers.

2.96 It is important that a council and its Members demonstrate to its staff and the public its commitment to deal with benefit fraud in an even-handed manner. We reported earlier that the council's *Corporate Anti-Fraud and Corruption Strategy* provided clear guidance for the administration of sanctions.

2.97 The Fraud Manager authorised sanction cases and undertook checks on the customer's history to find out if there had been any previous sanctions. We confirmed that in all 11 sanction cases in our fraud sample checks had been made against the Department's database and the Police National Computer. We also confirmed that the appropriate notification to record the outcome of the investigation had been issued to the Department.

2.98 However, we found 2 cases in our sample where the sanction decision did not comply with the council's sanction policy. No explanation had been recorded to explain why the decisions did not comply with the council's policy.

2.99 The *Corporate Anti-Fraud and Corruption Strategy* stated the council's intention to take forward for prosecution any cases where an administrative penalty or formal caution was refused. (XXXXXXXXXXXXXXXXX).

2.100 While we were on site, a standard form was introduced to record the sanction decision-making process. **See recommendation 5.**

Claims administration

Claims processing

3.1 It is important that new claims and changes of circumstances are processed rapidly and accurately in order to eliminate the risk of fraud or error entering the system.

Enabler

Gathering information

3.2 We did not look at all aspects of enabler (E3), but did examine the procedures for obtaining a certificate of earnings from the customer's employer.

3.3 Benefits assessors and the Interventions Visiting Officer showed a good knowledge of when to ask for a certificate of earnings from the customer's employer.

3.4 (XXXXXXXXXXXXXXXXXX).

3.5 Staff were alert to the possible need to obtain additional evidence if there was any reason to doubt the evidence concerning earnings that the customer provided. We were told that if they had any doubt, they would send a certificate direct to the employer to complete or contact the employer direct in some other way, assuming the customer had given permission.

Quality and reducing error

3.6 Members and senior officers, who are accountable for the delivery of effective and secure HB and CTB administration, need assurance that the Benefits service and counter-fraud efforts are working as planned. Councils should therefore ensure that they have arrangements to make full use of management information and checking data across the full range of their benefit activities.

Enabler

Using quality checks to improve performance and reduce error

3.7 Watford Borough Council did not meet the enabler.

3.8 The council undertook statistical accuracy checks, 4% management checks and 100% checking of the work of new staff. Our sampling of new claims, changes of circumstances and fraud cases showed evidence of some management checks being undertaken. Interviews with managers and benefits assessors confirmed that individual errors identified by the checks were fed back to the officer who made that error. The accuracy of an individual benefits assessor's work and any problems they had were also discussed during the staff appraisal process.

3.9 The checking officers kept details of the check results, however there was no formal system in place for collating and analysing errors. Also, the council was not making use of information available from other sources, including outcomes of interventions, overpayments or counter-fraud work. As a result managers were not able to effectively:

- identify common errors and trends
- improve performance
- inform training plans. **See recommendation 7.**

3.10 Without analysing the results of checking, the council did not have information on the overall levels of weaknesses in its caseload to enable it to make improvements.

Overpayments

Enabler Recovery

3.11 Watford Borough Council met the enabler (E16).

3.12 The council had effective procedures in place for the recovery of administrative penalties. The Overpayments Administration Officer monitored the outstanding amount and the recovery arrangements on a monthly basis.

User focus

Customer service

4.1 We examined one aspect of User focus that had a bearing on Security.

Enabler

Dealing with enquiries

4.2 Watford Borough Council met the enabler (E43).

4.3 An over-the-counter service was provided for customers submitting completed claim forms and supporting evidence at the Town Hall in Watford. Counter staff and benefits assessors checked completed benefit claim forms and verified the evidence brought in so that customers did not need to post key documents to the council.

4.4 The benefits counter area was open for 45 hours per week. These long opening hours provided a good opportunity for customers to bring in key documents rather than having to post them.

Resource management

5.1 Benefit administration, including counter-fraud activity, has to be set within the broader context of a council's overall strategies and responsibilities. Members, managers and staff should therefore have a clear sense of direction, purpose and focus for their work. Members and senior officers should also have assurance that HB and CTB administration is effective and secure.

5.2 The council met 4 of the 14 relevant enablers for Resource management.

Strategic management

Enablers

Managing the Benefits service

5.3 Watford Borough Council met one (E51) of the 3 enablers.

5.4 The council's planning included a:

- *Performance Plan 2006-2011 for Watford Borough Council*
- *Strategic Plan for the Benefits section of the Revenues and Benefits Services*
- *Budget and Service Plan 2006-2011 for the Revenues and Benefits Service*
- *Business Plan for the Fraud and Overpayments Section.*

5.5 We found that some specific Best Value Performance Indicator targets for 2006/07 in these 4 plans were not consistent. The council told us the correct targets were those in the performance plan, and these were the ones that were reported to Members and senior officers. **See recommendation 15.**

5.6 The performance plan included the council's vision and objectives, together with links to county and national agendas. It also included key priorities and targets for all Best Value Performance Indicators as well as achievements for past periods.

5.7 The 2006/07 targets in the performance plan were derived by reviewing past performance and assessing the capacity and capability of the Benefits service. They included all the statutory Best Value Performance Indicators and were realistic and stretching. However, we comment under *Monitoring performance* that data relating to Security underpinning these targets was unreliable. We therefore had concerns that any Security targets based upon this data may also be compromised. **See recommendation 2.**

5.8 The focus of the Benefits service was on meeting the Best Value Performance Indicator targets in the performance plan. Two Benefits targets were included in the 10 corporate targets designated as key performance

indicators. These were for processing new claims and changes of circumstances.

5.9 The strategic plan outlined:

- the corporate and service vision
- targets and how these would be achieved
- potential risks facing the service.

5.10 The medium term *Budget and Service Plan 2006-2011 for the Revenues and Benefits Service* included the aim and purpose of the service and its links with corporate plans and objectives. Performance and achievements for past periods were included as well as targets for 2006/07. It also included a *Service Delivery Plan* showing specific actions required to meet performance targets, together with lead responsibilities and target dates for completion.

5.11 The *Business Plan for the Fraud and Overpayments Section* contained links to corporate and service plans and priorities as well as aims and objectives for the section.

5.12 The plan had been presented to and approved by the Audit Committee on 26 March 2006 but we considered it a poor document for the following reasons:

- it appeared to be a duplication of the previous year's plan with some references to 2006/07 added
- the analysis of past performance related to 2004/05 rather than 2005/06
- it contained targets for 2005/06 with those for 2006/07 shown as not set
- one of its stated aims for 2006/07 was to maximise rewards under the Safeguarding Against Fraud and Error scheme that ceased in April 2006.

5.13 Used effectively, the business plan is an opportunity to drop below the more strategic level of performance plans and medium term plans, and address lower level and more detailed operational issues. This should support other plans by including additional targets such as Performance measures and any local indicators. Currently, Performance measures PM 10, PM11 and PM13 were not included in any documents as targets nor were they reported to Members or senior officers. **See recommendation 6.**

5.14 There was a *Business Continuity Plan* in respect of the Benefits service that documented all essential information required to continue services in the event of the unavailability of IT systems. This covered only IT unavailability, not aspects such as the possible loss of paper files or unavailability of staff.

5.15 The *Strategic Plan – Benefits Section*, which was updated in December 2005, contained a section on potential risks to the Benefits service and what controls existed to address these risks. This included consideration of risks other than the unavailability of IT systems, for example fire or loss of key staff. We were told that risks were reviewed annually. A risk matrix was used and a report made at the quarterly review if any risk had gone over a certain threshold.

Monitoring performance

5.16 Watford Borough Council met neither of the 2 enablers.

5.17 We had serious concerns about the quality of data being provided to the Department by the council. **See recommendation 2.**

5.18 We were told that the council relied on its Benefits IT system to provide statistics on interventions and data matches, but that the system had not produced reliable statistics on these during 2005/06. Throughout that year the council had waited for a system release from its IT provider that would correct this. The relevant fields on statistical returns sent to the Department were either left blank or submitted with the figures produced by the system, which were known to be inaccurate. The IT system release for the provision of statistical information in 2006/07 did not solve the problem and the council raised the problem with its IT supplier while we were on site. The IT provider acknowledged the problem and informed the council that it was working to resolve it.

5.19 There was no evidence that the council had taken prompt action to take up the problem of producing the statistics with its IT provider or put in place alternative record keeping that would enable it to provide reliable statistics on its interventions work and the speed with which it was resolving data matches.

5.20 We had no confidence in the figures reported to the Department for fraud and interventions. The council acknowledged that there were concerns about the accuracy of the management information available.

See recommendation 2.

5.21 When selecting our sample of changes of circumstances, we rejected 5 (25%) out of 20 cases because they had been incorrectly recorded as changes of circumstances on the Benefits IT system. Such errors would have affected the accuracy of management information and recording of performance indicators.

5.22 The self-assessment against Performance Standards submitted for our inspection did not match our findings. We concluded the council met 17 (44%) of the 39 enablers that we assessed. However, in its self-assessment the council said that it met 31 (79%) of these enablers. The council needs to be more rigorous in its examination of its performance in order to provide a reliable picture to its Members and senior officers. **See recommendation 14.**

5.23 The Head of Revenues and Benefits discussed performance fortnightly with section managers and the Member responsible for benefits. A quarterly report was provided to Members detailing performance for each Best Value Performance Indicator. It showed achievement against the target, including any necessary explanations for variance. A report was also sent to senior officers each month for the key performance indicators.

5.24 Where performance against a Best Value Performance Indicator was poor, the Head of Revenues and Benefits would be called before the Scrutiny Committee to explain the reasons for this and the plans for improvement. This happened for the visiting and sanctions results for the first quarter of 2006/07.

Providing for a skilled and competent work force

5.25 Watford Borough Council met both enablers.

5.26 The council had a range of documented policies and procedures in place that covered recruitment, training and development, appraisal and diversity.

5.27 The council also had an induction training pack that included a development plan and an introduction to benefits. The development plan for benefit assessors included all their training requirements, how the training would be delivered and the timescale for the delivery of the training. New recruits appointed to the Benefits service were subject to pre-appointment checks including 2 references, medical, identity and qualifications.

5.28 We were told Criminal Records Bureau checks were carried out on all staff that might come into contact with vulnerable people away from the office, including fraud investigators and visiting officers.

5.29 Benefits staff were required to sign a declaration of interest protocol, which was updated every 6 months. The form required staff to declare whether they had any interest in a benefit claim of a resident in the council's area. Any files relating to claims in which an interest had been declared were locked away and were only accessible to the senior officers.

5.30 New assessors recruited to the Benefits service followed a detailed benefits training programme that covered, among other areas, a benefit overview, assessing different types of claims and legislation. Records of training received by individual members of staff were also maintained and updated once a training session was delivered.

5.31 All fraud investigators were accredited in Professionalism in Security. The Fraud Visiting Officer had not been given fraud training because it was not managers' intention that the post involved any investigative work. We considered that the job description for this post was not sufficiently detailed to make this clear. **See recommendation 12.**

5.32 The council operated a performance appraisal scheme. The scheme required all employees to hold an annual appraisal review with their manager to discuss performance. We were told that training needs and concerns of staff were discussed at these annual reviews. Any identified training requirements beyond those that could be met by desk training were passed to the Human Resources team to action.

Value for money

Enablers *IT systems*

5.33 Watford Borough Council met neither of the 2 enablers.

5.34 The IT systems supported all aspects of paying and accounting for benefit. The Benefits IT system interfaced with the Council Tax system, Rent system and the Sundry Debtor system.

5.35 The Benefits IT system did not provide accurate management information reports on all aspects of work, as we explained under *Monitoring performance*. We were told that it was possible to obtain one-off reports from the system as and when required.

5.36 There was no fraud case management system in place to provide support for the management and control of counter-fraud work. This led to problems such as an inability to monitor delays sifting referrals, commencing investigations or bringing investigations to a conclusion.

See recommendation 4.

5.37 We were told that the council rarely had problems with the Benefits IT system and that contact with the IT provider was easy. However, no monitoring was undertaken against the contract for the Benefits IT system to ensure that the IT provider was meeting agreed performance standards.

Assurance

5.38 Large numbers of HB and CTB payments pass through a council's accounting and payment system. It is therefore essential that there are rigorous internal control mechanisms to provide assurance that the benefits system is secure.

Enablers

Internal control mechanisms

5.39 Watford Borough Council met none of the 3 enablers. **IT**

Security

5.40 Effective processes were in place that ensured that appropriate levels of access to the Benefits IT system were given to staff. For instance, the fraud team had 'view-only' access. The Training and Performance Manager had administrator's privileges enabling them to reset passwords and create users.

5.41 (XXXXXXXXXXXXXXXXXX)

See recommendation 9.

5.42 There were effective procedures in place to back up servers and to store the tapes off site. There was also a disaster recovery plan in place.

5.43 Processes were in place to test new IT system releases before they went into the live user environment.

Post opening

5.44 The council had documented post-opening procedures in place. However, there was no evidence that these were subject to review. There was also no evidence of management checks of the post-opening process to provide assurance of its security. **See recommendation 13.**

5.45 Post opening involved 2 members of staff and post was opened in a separate room with restricted access. There was no supervision during the process. The staff involved in the process signed a register to record their attendance.

5.46 All post was stamped with the date of receipt. Valuables were recorded in a valuables register and returned to customers. (XXXXXXXXXXXXXXXXXX)

Validating Performance measure data

5.47 There was no formal checking procedure or sample case check in place to ensure the integrity of the Performance measure data. This meant that the council could not give assurance over the accuracy of its data returns to the Department, or to Members and senior officers. **See recommendation 2.**

Secure administration

5.48 Watford Borough Council met one (E64) of the 2 enablers.

5.49 The council operated an Internal Audit programme to examine and provide assurance on the operation and adequacy of key controls throughout the authority. *The Internal Audit Service Plan and Annual Plan 2006/07* had been presented to and approved by the Audit Committee in March 2006. It set out the council's Internal Audit purpose as well as performance measures, resources and priorities to assist in delivering the plan. The plan had been compiled in accordance with the Chartered Institute of Public Finance and Accountancy Code of Practice.

5.50 Internal Audit used a risk-based approach to determine work plans that considered overall levels of expenditure and individual risk factors such as the adequacy of control and impact on corporate objectives. Under these arrangements benefits was designated as a high-risk area and audited each year.

5.51 During 2005/06 Internal Audit completed 3 audits of the Benefits service including one addressing benefit fraud prevention and investigation, which was finalised in March 2006. Each report contained an agreed action plan for implementing recommendations complete with target dates and priority rating.

5.52 Internal Audit recorded all recommendations in a database to monitor their implementation. Internal Audit would contact the Head of Service between 4 and 5 months after the audit to ascertain the progress of recommendations. We confirmed from audit records that a request and 3 reminders had been issued on the 2 audits of the Benefits service and implementation of the recommendations was incomplete.

5.53 When we were on site, there were a total of 19 recommendations that had not been implemented by the agreed date. Of these, 14 were designated as high priority and 4 were medium. Two of the high priority recommendations had been carried forward from a previous audit. Internal Audit had written to the responsible Director raising its concerns over these delays.

5.54 Internal Audit had not followed up the 11 recommendations in the benefit fraud prevention and investigation audit because of the departure of the Fraud Manager and our impending inspection.

5.55 The delay in implementing recommendations meant that Members and senior officers had only a limited assurance about the effectiveness of internal controls and security of the administration of HB and CTB and its counter-fraud operations. We were particularly concerned about these delays as we also raised issues regarding some of the same aspects as part of our inspection. **See recommendation 8.**

5.56 External Audit confirmed that its work was undertaken in accordance with the Audit Commission Code of Practice. It used the 'managed audit' approach that meant it relied heavily on Internal Audit to conduct reviews of the council's fundamental systems. External Audit reviewed the reports and working papers of Internal Audit to confirm the quality of work carried out on its behalf.

