



HANDLING OF HUMAN INTELLIGENCE SOURCES – REVISITED

A follow-up inspection that examines the progress made by HM Revenue & Customs in implementing the recommendations of the HMIC Report *“Inspection of HMRC Handling of Human Intelligence Sources”* (2007)



Inspecting policing
in the **public interest**

Her Majesty's Inspectorate of Constabulary

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Inspecting policing
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29 June 2009

Rt Hon Stephen Timms MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

Dear Sir,

Please find attached a copy of my inspection report that relates to the examination of progress made by HM Revenue & Customs (HMRC) in implementing the recommendations of HMIC's inspection report "Handling of Human Intelligence Sources", which was published in 2007.

HMRC recognise that human intelligence sources are a key element in tackling tax evasion, fraud and smuggling. They have taken steps to ensure that all staff are aware of the procedures for dealing with information provided by the public. The National Humint Centre at Ipswich is a leader amongst UK law enforcement for evaluating the sources and identifying those that fall into the category of Covert Human Intelligence Sources (CHIS). The volume of material received by HMRC has caused issues in the processing of information received and this is to be addressed through a recently initiated national project.

CHIS are recognised as a key method of developing covert intelligence. Since 2006, HMRC have made significant progress in ensuring that CHIS operations are correctly administered. Their efforts in this area have been recognised by the Office of Surveillance Commissioners. There is, however, a level of conservatism that has constrained proactivity with the result that the number of CHIS operations has contracted. A wider recognition within HMRC of the value of CHIS is necessary along with a clear strategy to fully integrate the technique into the investigative process. This will enable CHIS to be a highly effective tool in tackling those elements of serious organised crime that are involved in revenue fraud and smuggling.

Whilst work still needs to be done, HMRC are taking positive steps to ensure that their legal obligations to human intelligence sources are fulfilled and that the intelligence derived is put to the appropriate use. I have forwarded copies of the final report to Lesley Strathie, Permanent Secretary and Chief Executive HMRC and to Mike Eland, Director General Enforcement & Compliance.

Yours sincerely

VIC TOWELL
HM Assistant Inspector of Constabulary



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17 September 2009

Dear Mr Towell,

Thank you for your letter of 29th June 2009 enclosing HMIC's findings of the re-examination of the handling of human intelligence sources in HM Revenue & Customs.

I am pleased to note the considerable effort that has been made by HMRC to implement the recommendations made in your original report, and that in some areas you regard HMRC as leading UK law enforcement. I know that HMRC have plans to develop their processes further in areas this report highlights and I will look to Lesley Strathie and other senior leaders in HMRC to ensure that the pace of the necessary improvements is maintained.

Yours sincerely,
Stephen Timms

Rt Hon Stephen Timms MP

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Background

Chapter 1

Background

- 1.1 During 2005-6, HM Inspectorate of Constabulary inspected HM Revenue and Customs' (HMRC) systems and procedures for the handling of human intelligence sources. The resulting report *Inspection of HMRC Handling of Human Intelligence Sources* highlighted a range of issues that HMRC needed to address in order to improve the effectiveness and robustness of its existing processes. These were encapsulated in 13 recommendations. This revisit sought to evaluate the progress HMRC has made in addressing these recommendations.
- 1.2 In reviewing the recommendations, it has been important to place the activity of handling human intelligence sources in context with structural changes that have occurred within HMRC during the intervening period. Shortly after the inspection, approximately 40% of the former HM Customs & Excise (HMCE) investigation and intelligence capacity transferred to the Serious Organised Crime Agency (SOCA). The past three years have also witnessed a drive by the Department to merge the former Inland Revenue (IR) and HMCE investigative and intelligence capabilities, at a time when it is under pressure to reduce its workforce significantly. The Risk and Intelligence Service (RIS), which has responsibility for the handling of human intelligence sources, has undertaken a number of reorganisations in order to address staffing pressures and has created the Criminal Intelligence Group (RIS-CIG) to focus its criminal intelligence activity.

Chapter 2

Executive summary

Overview

- 2.1 The reputational damage caused by the failure of high profile HMCE cases involving human intelligence sources between 1998 and 2001 and subsequent abuse applications was keenly felt. Considerable effort has been made over the past three years to re-establish the reputation of HMRC within the law enforcement arena. This has included the development of Covert Human Intelligence Source (CHIS) activity to address new business needs.
- 2.2 In June 2006, to address the issues raised in the HMIC report, HMRC CHIS operations (CHISOPS) management prepared an implementation plan that was subject to regular review. It addressed both the CHIS and HumInt¹ aspects of the report. A review by HMRC Criminal Justice and Enforcement Standards (CJES) in August 2007 remarked, *“excellent progress is being made against the recommendations and identified issues”*. By February 2008, the implementation plan noted, somewhat prematurely, that all recommendations relating to CHIS and most relating to HumInt had been discharged. Whilst there has undoubtedly been progress in a number of areas, HMIC consider that only one recommendation has been fully discharged. The report is based upon the prevailing situation as at January 2009.

CHIS

- 2.3 Since 2006, HMRC has made significant progress in ensuring that its CHIS operations are properly administered. The standard of documentation and administration has improved despite the fact that the intended electronic based record system – THEMIS – was abandoned, as it was judged unfit for purpose. Reward applications, subject of adverse comment in the HMIC report, are now being processed efficiently to the satisfaction of CHISOPS staff.
- 2.4 The migration of a significant number of experienced CHIS practitioners to SOCA has resulted in a reorganisation of CHISOPS resources into fewer Source Management Units (SMUs) and a National Source Unit (NSU). Recruitment exercises have been run to fill the gaps caused by the SOCA de-merger but the pool of suitable officers has diminished and staff are no longer drawn from the Criminal Investigation (CI) Directorate on a rotational basis. Consequently, certain SMUs have minimal staffing levels, which limit operations, and best use is not being made of CHIS as a proactive law enforcement tool.
- 2.5 Currently, there is no formal HMRC CHIS strategy. Although CHISOPS is now engaged in the tasking and co-ordination process, SMUs still lack direction and intelligence is being developed for which there is no identified customer. Whilst CHISOPS officers still see CI as their primary customer, it was surprising that many SMU officers are unaware of CI priorities. There is a perception, particularly amongst CI officers, that the focus of CHISOPS has drifted away from their business area.

¹ HumInt is defined in the HMRC Enforcement Handbook as; “all persons who give information to the Department relating to a possible criminal offence or regulatory breach (including any offences that may ultimately be dealt with under ‘civil’ provisions) or regulatory breach. The term HumInt covers all those who provide information to the department whether they receive such information in the course of their trade, profession, business or employment and who, out of civic duty, volunteer information or those we categorise as ...CHIS”.

Executive summary

There needs to be greater visible engagement between the two directorates to resolve these issues and to counter the CHIS aversion that is still evident within elements of CI. One way to address this, as advocated by the Office of Surveillance Commissioners, would be to move CHISOPS to CI, which already manages HMRC's other covert resources.

- 2.6 Since the original inspection, there has been a reduction in the number of CHIS managed by HMRC. This decrease is of concern since, at face value, there appears to be capacity to handle significantly more however there is no single reason as to why this has occurred. The lack of sufficient Level 6² trained CHIS recruitment and cultivation officers, and SMUs' increased focus on the management of HumInt have impacted upon this. Whilst there are certain productive HumInt, who due to sensitive issues require specialist SMU skills, the bulk of HumInts referred by the National HumInt Centre (NHC)³ have little operational potential.
- 2.7 HMRC have established a 'HumInt for life' policy, whereby HumInt referred to an SMU have to remain under their control, in order that neither the NHC nor the receiving officer are aware of which sources have been authorised as CHIS. Referring a HumInt back to the NHC would flag that it has not been adopted as CHIS. This has created a burden for SMUs, as dealing with these sources detracts from their core function. Simply because 'status drift' exists does not necessarily mean that the HumInt is able to provide pertinent and timely intelligence in line with HMRC priorities. It merely signifies that the source has moved, or is potentially moving, into a covert relationship with the subject they are providing information about. It is essential that there is a system to monitor status drift; however, a process should be developed to ensure that this important function does not reduce the capacity of SMUs to manage CHIS assets and develop intelligence.
- 2.8 Past experience has led to CHISOPS developing a level of conservatism that has constrained proactivity. HMRC should consider the numerous factors that have impeded CHISOPS expanding its core role. With a clear strategy in place that fully integrates CHIS into the investigative process, it will be possible for CHISOPS to be a key element in tackling revenue fraud.

HUMINT

- 2.9 In October 2006, a HumInt Plan was introduced across HMRC to raise staff awareness of, and compliance with, the Department's HumInt instructions. RIS instigated an educational programme based around an e-learning package and an audio-visual presentation. The commitment to the process varied significantly across the business streams. Supporting the plan were focal point officers (FPOs) primarily drawn from the ranks of pre-surplus⁴ RIS staff. The FPOs' role was to assist those non-Enforcement staff within their area of responsibility to understand the HumInt process and to complete the 5x5x5 intelligence reports and either quality control or complete the Human Contact Report (HCR) forms on their behalf. The FPOs were trained by NHC staff and continued to liaise with them in respect to processing and quality issues.

² Level 6 of the ACPO accredited training programme.

³ The National HumInt Centre (NHC) receives Human Contact Reports (HCR) from officers that receive information from the public. The HCR has the details of the person providing the information and is accompanied by the details of the information provided usually in the form of a 5x5x5 intelligence report. The NHC then risk assesses the individual based upon the HCR in order to determine if the person has, or is likely to have, a covert relationship with the subject they are reporting on. If a covert relationship or potential covert relationship, known as 'status drift', is identified the HumInt is referred to a SMU for assessment as a potential CHIS.

⁴ Pre-surplus is a term used to identify staff whose posts have, or will be, transferred or discontinued under the HMRC workforce change programme.

- 2.10 The HumInt plan succeeded in raising awareness across HMRC but failed to ensure full compliance across the Department. This was in part due to the lack of 'buy-in' by some senior managers, the inability to train all staff in customer-facing business areas and the collapse of the FPO network precipitated by the departure of pre-surplus staff to other permanent positions. RIS sought to resolve these issues by initiating the Scottish HumInt Project (SHP); a proof-of-concept model on which a revised national programme could be based.
- 2.11 The SHP endeavoured to fill the gaps in the original HumInt system by capturing all information, including that supplied anonymously, received by the Department from the public; not just verbal information. Support from business managers coupled with educational visits to units by NHC staff and the Scottish FPOs ensured a high level of awareness and compliance amongst staff. HCRs were quality assessed prior to submission to the NHC and the accompanying 5x5x5 intelligence reports were processed by a dedicated Information Management Unit (IMU). This addressed the intelligence capture issue that had previously been inconsistent.
- 2.12 The success of the SHP encouraged RIS to expand the project nationally. Under the National HumInt Project, RIS will retain HumInt policy but will devolve responsibility for implementation to the individual directorates. RIS will support activity by providing training and guidance, however, each director is expected to nominate FPOs from within their own resources, supported by a designated RIS FPO. The rollout is scheduled for April 2009, with key customer-facing directorates due to receive the initial tranche of training. The system aims to reinforce the awareness of the HumInt system and increase compliance, however, sustainability will only be achieved through a robust governance structure that is, at the time of writing, yet to be formalised.

Progress against the inspection recommendations

Chapter 3

Progress against the inspection recommendations

- 3.1 **RED/AMBER/GREEN** (RAG) indicators are often used as a quick and efficient visual business tool to portray the status of a project. HMIC has applied a RAG status assessment to each recommendation together with an arrow denoting the current trend. An up arrow denotes progress leading to an improvement in the position, whilst a downward pointing arrow denotes a worsening position. An arrow that points sideways denotes a static position with no improvement or deterioration.

Recommendation 1

RAG Status: **GREEN** ↔

HM Inspector recommends that HMRC should consider producing Standard Operating Procedures (SOPs) for CHIS practitioners, to provide these officers with step by step advice and guidance on managing CHIS.

Action Taken

- 3.2 The NSU issued the first edition of HMRC's National SMU Standard Operating Procedures (SOPs) in late 2006. This is derived from the ACPO Manual of Standards (MoS), which had previously been adopted by HMRC but incorporated certain derivations from the Manual necessitated by operational differences between HMRC and the police. The SOPs, therefore, supplement the ACPO MoS. Defined by the NSU as a "living document", the SOPs are reviewed quarterly and practitioners are notified of updates through NSU disseminations.

Impact

- 3.3 The SOPs fulfil the requirements in the ACPO MoS for law enforcement agencies to produce CHIS management policies in compliance with the standards set in the Manual. In general, they have been well received by practitioners and are regularly referred to by SMU staff.

Areas for Improvement

- 3.4 Although the SOPs are wide-ranging in scope, they would benefit from clearer, detailed guidance on some issues. The current procedures relating to the authorisation of multiple contacts with CHIS is one area where the SOPs are insufficiently detailed: failing to provide unambiguous instruction on whether a new authorisation should be sought prior to returning a call terminated by a source⁵. Although it is not possible to detail procedures for every possible eventuality, the SOPs should provide clear guidance on potentially common situations, such as this, in order to ensure consistency of approach.
- 3.5 The SOPs have been in place for over two years and have not yet been subject to a comprehensive review to ensure that they are relevant; accurate; fully reflect the ACPO Manual of Standards and can be applied effectively to all SMUs. NSU should consider conducting such a review and evaluate any local practices that SMUs have developed.
- 3.6 NSU should consider introducing a process to create a new updated version of the SOPs after a set number of NSU Disseminations are produced. Alternatively, they should update the SOPs on the secure Departmental intranet, thus ensuring the most accurate version of the SOPs is always available to practitioners.

⁵ The HMIC report highlighted this issue as an example of where SOPs would provide CHIS practitioners with clear guidance.

Progress against the inspection recommendations

Recommendation 2

RAG: **AMBER/RED** ↑

HM Inspector recommends that HMRC should consider introducing a quality control regime for Human Contact Report (HCR) submissions.

Action Taken

- 3.7 Whilst HMRC have not introduced any formal quality control programme, the Department has sought to address the varying quality of HCRs through a number of initiatives. A cross-directorate HumInt training programme, involving computer based training and a video, was rolled out in October 2006 with the aim to provide all HMRC officers with an awareness of HumInt and an understanding of the process, including the completion of HCR forms. RIS supplemented this by establishing a Focal Point Officer (FPO) network to improve the quality of the HCR returns submitted by those directorates not regularly dealing with criminal justice matters. The FPOs received training from the NHC and a number were, and continue to be, proactive, engaging with staff within their area of responsibility and explaining the HumInt system. However, these were predominantly pre-surplus staff from RIS and as they moved to other, permanent posts, were not replaced.
- 3.8 The NHC has also assisted in supporting training events and providing individual advice when asked and has launched a revised HMRC HumInt intranet site in March 2007.

Impact

- 3.9 The quality of HCRs received by the National HumInt Centre (NHC) has improved during the past two years, although inconsistencies remain and the NHC concede that it is rare to receive HCRs where staff have completed everything properly. Between 2006 and 2008, NHC rejected approximately 10% of all HCRs it received. In some cases, rejection was due the omission of the minimum information required for the NHC to conduct a risk assessment, and in others, it is due to the subject not meeting the HumInt criteria. These problems remained at the time of the re-inspection.
- 3.10 The NHC front office, the first filter for HCRs, weeds out those it considers suitable for rejection. These are subject to a second vetting process to confirm that rejection is appropriate. This is, in effect, the only quality control regime for HCRs at the NHC. However, this rejection mechanism is only part of the role of the NHC when reviewing the inboxes, since the prioritisation of HCRs and guidance of the registration/assessment process for risk is also undertaken. This system is therefore not so much about quality as to do with ensuring the HCRs are actioned appropriately, since incomplete, and potentially inaccurate, HCRs do go forward for assessment.
- 3.11 According to the NHC, the quality of HCRs received from the directorates covered by FPOs, markedly improved after their introduction. This was particularly demonstrated during the SHP, where officers experienced in handling human intelligence sources were appointed as FPOs. The contraction in the number of FPOs has led to a decline in the quality of HCRs.

- 3.12 The NHC is responsible for the HumInt instructions and takes the opportunity to explain the HCR procedure to the wider Department through training events and individual advice. However, NHC resources are limited and are not sufficient to conduct a comprehensive national educational regime. Likewise, the NHC was expected to address the needs of quality with individual managers but this has been on a case-by-case basis. The NHC has attempted to make the system more user-friendly through revised intranet guidance, revisions of the HCR form and the issuing of a HumInt Aide-Memoir.
- 3.13 In addition to an HCR, the NHC should receive a sanitised 5x5x5 intelligence report relating to most HumInt contacts⁶. Whilst staff in RIS, CI and Detection are responsible for preparing their own intelligence reports, other directorates delegate this responsibility to the FPOs. During the re-inspection, instances have been identified where HCRs have been submitted with either unsanitised intelligence reports; reports with no information of value; or no reports at all. Furthermore, there are no procedures in place to routinely generate intelligence logs for information received by some of HMRC's hotlines. In these instances, the intelligence gathered is neither disseminated nor placed on the Centaur intelligence database and consequently most is not utilised by the Department.

Areas for Improvement/Comment

- 3.14 To facilitate a comprehensive HumInt risk assessment, it is vital that all pertinent information is accurate and available to the assessor. The quality of the HCR is fundamental to this process. The HumInt training programme has undoubtedly raised general awareness of the HumInt system across HMRC. The efforts made to address quality have been appropriate; however they have not been sustained, due to issues including the reduction of the FPO network; lack of buy-in to the HumInt process in certain areas of HMRC and a high workload for the NHC that prevent it devoting more resource to education and assurance. Consequently, quality remains an issue as exemplified by a higher HCR rejection rate in 2008 than in 2007.
- 3.15 The continued inconsistency in the quality of HCRs requires a re-evaluation of the HumInt process. The SHP demonstrated that both output and quality of HumInt submissions can be improved. This has led to RIS relaunching HumInt through the National HumInt Project. Underpinning it is an educational programme, which will include further guidance on the completion of HCRs, that will reach out to all staff from the most senior managers down. The reintroduction of a robust FPO network is essential to sustainability of the project. With each Director accountable for HumInt within their own business area, it is expected that managers will take a more active role in ensuring staff are aware of the system and procedures to be followed. To underpin this buy-in, FPOs will be drawn from staff within the individual directorates. They will be trained by the NHC and will provide a local centre of expertise. Through these initiatives RIS are therefore making a concerted effort to ensure compliance, however, at the time of writing, an internal assurance mechanism had still to be finalised.
- 3.16 It is anticipated that the National HumInt Project will enable this recommendation to be met, as a quality control function will form part of the FPO role, however, in order to prevent earlier failures, it will be necessary for a robust governance and assurance framework to be in place.

⁶ There is a different system for handling intelligence received by hotlines and SMUs.

Progress against the inspection recommendations

Recommendation 3

RAG: VfM assessments **RED** ↔

Integrity assessments **AMBER/GREEN** ↑

HM Inspector recommends that HMRC should consider ensuring its Quality Assurance Bureau integrates value for money and integrity assessments in SMU reports.

Action Taken

- 3.17 Since the original HMI inspection, the Quality Assistance Bureau has been subsumed into HMRC's CJES unit⁷, which has undertaken a number of reviews relating to CHIS, the latest of which was conducted in June 2008. This report focussed upon CHISOPS compliance with the Regulation of Investigatory Powers Act 2000 and considered integrity in terms of whether CHIS activity was properly registered and authorised, but value-for-money assessments did not fall within its scope.
- 3.18 Additionally, in response to HMI's recommendation and adverse comment in respect to an audit of HMRC registered CHIS, controllers reviewed the value-for-money of all CHIS in 2006. An ongoing audit regime was then introduced to ensure that Grade 7 and Grade 6 managers regularly reviewed each CHIS file.

Impact

- 3.19 Assurance reports such as the CJES review of HMRC CHIS, address HMI's recommendation in respect to integrity assessments. However, the concerns raised in 2006 around the lack of any corporate process for anyone outside of the authorisation chain to assess the value for money of individual CHIS are still pertinent.

Areas for Improvement

- 3.20 It is necessary for CJAT to continue to assure CHIS operations in terms of integrity and HMI strongly advise HMRC to either incorporate value for money assessments into CJAT's reviews of SMUs as an extension of their existing protocol, or establish an alternative mechanism for independent assurance.

⁷ CJES has since evolved into the Criminal Justice Assurance Team (CJAT).

Recommendation 4

RAG: **DISCHARGED**

HM Inspector recommends that HMRC should consider giving handlers access to the National Rewards Matrix (NRM) in order to reduce delays processing rewards for CHIS.

Action Taken

3.21 During 2006, CHISOPS commissioned a trial that provided staff at one SMU with access to the NRM in order to establish whether access would assist in reducing delays in the payment of rewards. Subsequently, in 2007, the NSU introduced a system to ensure that all rewards would be paid within a set time limit once the completed reward application was received. With this new system in place, CHISOPS management determined that SMU access to the matrix was no longer required.

Impact

3.22 The system introduced by the NSU, that ensures all claims are processed within the set time limit, has alleviated the problem of delayed payments. Practitioners are satisfied that the system is working, with claims being settled by the deadline.

Areas for Improvement/Comment

3.23 HMI recommended that handlers were to be granted access to the NRM in order to streamline the payment of rewards. Although HMRC have decided not to enact this, HMIC is content that the new system introduced by the NSU adequately addresses the underlying concern and at present, no further action is required. If HMRC adopts a more proactive approach to the use of human intelligence sources and increases its CHIS complement, it is essential that the NSU regularly evaluate the system's utility in the light of any increased volume of reward applications.

Progress against the inspection recommendations

Recommendation 5

RAG: **AMBER** ↔

HM Inspector recommends that HMRC should consider developing a structured succession planning process for SMU staff.

Action Taken

3.24 This recommendation was formulated against the backdrop of the impending de-merger of staff from HMRC to SOCA in 2006. CHISOPS contested that it was not possible to introduce a structured succession plan prior to the de-merger, as they only received finalised figures on how many staff were going to transfer less than a month before they left. In the absence of such a succession plan, a revised CHISOPS structure was introduced in 2006, which incorporated HumInt and Debriefing (H&D) within the SMU structure. It was envisaged that this would, in the medium to long term, allow for natural progression and rotation of staff from H&D to CHIS management roles.

Impact

- 3.25 Following the de-merger, CHISOPS actively sought to recruit staff to replace those who transferred to SOCA with the last vacancy being filled in late 2007. Notwithstanding this, CHISOPS management concede that structured succession planning for SMU roles is still aspirational, the intention of rotating staff between the HumInt and CHIS disciplines has not been realised and challenges remain in recruiting staff to CHIS management positions.
- 3.26 During the recruitment campaigns, staff from former direct tax backgrounds were actively encouraged to apply for SMU vacancies and the recruitment of such officers has helped broaden SMUs' skills base. This has gone some way to addressing HMIC's concern in the original report that *"SMUs (are equipped) with a broader skills base to reflect its new business priorities⁸"*.

Areas for Improvement/Comment

3.27 In spite of officers being appointed to fill the gaps in the CHISOPS establishment, there is still no effective succession planning. This is compounded by the inadequate pool of suitably skilled officers available to take up a post. In the past, handlers, controllers and authorising officers were recruited from specialist investigators within Criminal Investigation (CI) or from officers with a criminal intelligence background, however by moving away from this, a skills shortfall has occurred. Although it is possible to recruit and train officers from outside of CI, the lack of an investigative background militates against a cohesive approach to CHIS operations. This is reflected by attitudes within CI that consider CHISOPS to be a standalone entity, remote from mainstream investigative work. It is essential that officers appointed to roles within the CHIS regime meet the minimum standards as stipulated by ACPO and therefore must have the appropriate background in criminal justice issues. CHISOPS should review its recruitment policy and consider seeking agreement with CI to second staff on a rotational basis to ensure that handlers, in particular, have investigative experience. It is also essential that appropriate levels of staffing be maintained to ensure that every SMU remains a viable unit.

⁸ HMIC (2007) Inspection of HMRC Handling of Human Intelligence Sources, Paragraph 4.4.6.

Recommendation 6

RAG: **AMBER** ↔

HM Inspector recommends that HMRC should consider whether the ratio of CHIS to handlers represents value for money.

Action Taken

3.28 HMRC addressed this recommendation through the establishment of a tasking and co-ordination mechanism, which was introduced to ensure that CHIS operations were in line with Departmental requirements.

Impact

- 3.29 Whilst efforts have been made to realign CHIS activity to meet current HMRC needs, the number of registered CHIS remains low. As at November 2008, the ratio of CHIS to specially trained CHIS staff was less than at the time of the original inspection. One SMU, comprising of a team leader, controllers and handlers, had so few active CHIS that its viability was questionable. There is a consensus amongst CHIS handlers that the current ratio of CHIS to handler is low.
- 3.30 Overall, the situation is not satisfactory and HMRC must seek to make greater use of a potentially powerful investigative tool. In order to do this, CHIS operations must move away from a conservative approach towards one of increased proactivity, with far greater customer engagement. The tasking and co-ordination mechanism has yet to deliver the means whereby the ratio of CHIS to handlers is assessed for value for money.

Areas for Improvement/Comment

- 3.31 Although the de-merger of HMRC staff to SOCA clearly had an effect on the number of CHIS managed during that period, other fundamental issues also affect the Department increasing its CHIS/Handler ratio.
- 3.32 The lack of a CHIS strategy means that there is no clear definition of requirements or methodology to address customer needs. The RIS-CIG tasking and co-ordination process is embryonic and the key relationship between CHISOPS and CI has deteriorated. This is partly due to structural issues within HMRC and the latent aversion to CHIS amongst some CI officers. As CHIS are sought against specific tasking requests, customer demand directly influences the number of sources that are being handled.
- 3.33 Many SMUs have to dedicate resources to handling HumInt. Other than a small number of HumInt who for sensitive reasons may require specialist handling skills, only those HumInt being assessed for recruitment as CHIS should, ideally, be controlled by SMUs. With no quality control mechanism to identify CHIS or to sift referrals to the SMUs it is unsurprising that their core business is being affected. RIS should consider the feasibility of developing a system to enable SMUs to transfer the control of HumInt to other units when they do not meet the criteria for CHIS as opposed to 'handling them for life'.
- 3.34 There is a need for practitioners to look critically at how they handle CHIS. Many SMUs use a resource intensive approach whilst others are more selective in the methods they employ. Such factors have a bearing upon the number of CHIS that can effectively be handled by a SMU. Whilst the handling of each CHIS must be assessed in its own right, it is necessary for a greater emphasis to be placed upon the methods employed and costs involved.

Progress against the inspection recommendations

Recommendation 7

RAG: **AMBER** ↔

HM Inspector recommends that HMRC should consider adopting a more proactive approach to developing CHIS who can provide intelligence in-line with the new Department's priorities.

Action taken

- 3.35 Following the HMIC inspection report, CHISOPS liaised with National Intelligence Units (NIUs) to establish intelligence gaps and identify areas where SMUs could assist. The intention was to deliver the "CHIS of choice" for the NIUs. However, the restructuring of RIS resulted in the NIUs being disbanded and CHISOPS are now engaged with the RIS-CIG tasking and co-ordination process.
- 3.36 In the light of changing Departmental objectives, CHISOPS management have refocused activity towards opportunities to counter direct tax fraud and have promoted their activities to other directorates.

Impact

- 3.37 The action taken to address this recommendation has not had any significant impact upon increasing proactivity and HMRC are still not making the best use of potential CHIS opportunities that are presented to them. Most have been referred either by the NHC and other HMRC units or externally, primarily by the Police.

Areas for Improvement/Comment

- 3.38 Fundamental issues impact upon the ability of CHISOPS to deliver against this recommendation. HMRC structures have generated a silo mentality, resulting in CHISOPS, which is located within RIS, being disconnected from investigation priorities. This gulf between CHISOPS and CI has done little to dispel an aversion to using CHIS as an investigative tool, particularly amongst specialist criminal investigators.
- 3.39 The low level of engagement with CI is reflected in a general lack of awareness of the current CI priorities amongst SMU officers. With no CHIS strategy in place they have no clear direction. SMUs are often in the unenviable position of having to find a customer for their intelligence product. This devalues their efforts and is demoralising to SMU staff. It suggests that they are not being tasked appropriately and thereby not focusing upon customer needs. This may, however, be addressed by the introduction of a system designed to offer SMUs a one-stop shop for the processing and dissemination of all SMU intelligence.
- 3.40 Centrally, CHISOPS are seeking to support other business areas, such as Special Investigations, (formerly NTSCI), and this is perceived by some intelligence and investigation officers as an effort to move away from CI, who has been its traditional customer. Whilst CHISOPS have a role in assisting these areas, particularly as CI can only undertake a finite number of investigations, it has to be recognised that CHIS are a specialist investigative tool. It should therefore be considered alongside other investigative techniques during the planning process. It is anticipated that CHISOPS engagement with the RIS tasking and co-ordination process will provide greater clarity and direction for CHIS activity.

- 3.41 The majority of currently registered CHIS are only focused upon certain priorities. SMUs consider that they need time to develop capacity in other areas. They require greater guidance on the current frauds being perpetrated along with an indication as to where sources may be best recruited to provide intelligence on these. Rather than refocusing activity at the expense of current work, SMUs should seek to expand their capabilities.
- 3.42 CHIS are frequently tasked along commodity lines, however the intelligence they provide often relates to multiple areas of criminality. It is important that all intelligence is processed, even if it relates to matters peripheral to the original tasking. It should also be recognised that in order to penetrate serious organised criminality, such as that involved in Missing Trader Intra-Community (MTIC) fraud, it is inevitable that CHIS will report on other areas of crime. Mechanisms must be in place to effectively capture this and direct it to the appropriate authority. SMUs should not be left to do this in isolation, as has been the case on numerous occasions.
- 3.43 To maximise opportunities, CHISOPS need the assistance of other intelligence and investigative units. Without such relationships, CHISOPS is not making best use of recruitment opportunities presented by assets targeted on serious organised criminal activity. Likewise, CHISOPS should seek to support case development either through RIS-CIG teams or in conjunction with specialist CI teams. The benefit of such co-operation underlines the requirement for CHISOPS to be fully integrated into the investigative process.
- 3.44 The level of liaison between SMUs and CI offices vary across the country. In certain locations there is a high level of co-operation, whilst in others there is little contact. Given the potential benefit of the relationship, consideration should be given to factoring this into the tasking and co-ordination process to enable SMU and CI offices to mutually assist one another on a local basis.
- 3.45 The lack of a CHIS strategy has also resulted in SMUs regularly handling HumInt. This diverts resources from their core business. Even in locations where there are dedicated HumInt & Debriefing (H&D) teams, SMUs are expected to control HumInt. The debriefing role has never been properly defined and consequently, different units interpret their role in different ways. It would be more appropriate for such teams to be badged as Operational Intelligence Teams with HumInt forming part of their responsibilities. They could also undertake debriefing activity, not only of cases but also of offenders in order to better inform the intelligence process and provide opportunities for CHIS recruitment. As such, they would need to interface with other business areas including Detection, which will soon be incorporated into the United Kingdom Border Agency (UKBA). Such matters impact upon the wider concerns of the RIS-CIG structure.
- 3.46 The NHC consider the CHIS potential of a HumInt even where there is no 'status drift'. By considering the nature of the information supplied, its relevance, the potential access to the information source and whether that access is current, NHC officers select HumInt for referral to SMUs. This is a positive approach to developing sources and is to be encouraged. It does depend, however, upon the NHC being constantly aware of any change in SMU priorities and would therefore benefit from being incorporated into a CHIS strategy.
- 3.47 Whilst there needs to be a step-change in the approach to CHIS recruitment, this can only be achieved by developing a strategy.

Progress against the inspection recommendations

Recommendation 8

RAG: **RED/AMBER** ↑

HM Inspector recommends that HMRC should consider producing a clear implementation plan for HumInt and at the earliest opportunity, introduce the system to the whole Department.

Action Taken

- 3.48 The HumInt policy was rolled out across the Department on 1st October 2006 and associated training was provided to staff. RIS's FPO network supports the initiative by assisting colleagues in directorates outside of RIS, CI and Detection.
- 3.49 Due to shortcomings in the HumInt process, in August 2007, RIS launched the SHP, a proof-of-concept model to capture and assess all HumInt and anonymous information received by HMRC staff within Scotland. This addressed comments in the HMIC inspection report that attributable letters should be included in a HumInt system. The Project was operational until April 2008. Following the perceived success of the SHP and recognition that there were high levels of non-compliance with the HumInt policy, HMRC have developed plans to expand it, as a national project, in stages across the Department from 1 April 2009. As a precursor to this, an ECMB⁹ backed letter was sent to all Directors by the Director RIS detailing their responsibilities and accountabilities in relation to the programme and offered to provide them with personal training. At the time of writing 24 Directors and above, including both the Chairman and the Chief Executive, were in the process of being trained

Impact

- 3.50 HMRC management recognise that adherence to HumInt policy has been patchy. The awareness of HumInt across HMRC has increased; however, in many areas misunderstandings of the policy, non-compliance and confusion remain. RIS appreciated these difficulties within months of the rollout of the HumInt plan and therefore initiated the SHP in an attempt to improve compliance. The implementation and co-ordination of this project was undertaken by experienced intelligence staff. The result was that it effectively captured the vast majority of HumInt and anonymous information received by HMRC business streams within Scotland. This information was assessed, processed and recorded appropriately, meeting the disclosure and other legal requirements of Criminal Procedures and Investigatory Act 1996 (CPIA), Regulation of Investigatory Powers Act 2000 (RIPA) and Data Protection Act 1998.

Areas for Improvement/Comment

HumInt 2006-2008:

- 3.51 The HumInt Plan was more a policy initiative than a structured implementation plan. RIS retained ownership of the initiative, however, found difficulty in managing the rollout across the whole of HMRC. The commitment to the HumInt process varied significantly between directorates and between units within those directorates. The FPO network, which was seen as vital to maintaining momentum, was staffed by pre-surplus RIS personnel. Consequently, these individuals sought permanent posts elsewhere and by September 2008, just over half remained and not all of these were solely dedicated to FPO duties. The decline in the number of HCRs produced was seen to correspond to the decline in FPOs.

⁹ Enforcement and Compliance Management Board.

- 3.52 Confusion over the purpose of HumInt and the actions of receiving officers only served to dissuade staff from acquiring information from the public. In a number of areas officers felt that they were unable to accept information directly and referred members of the public to HMRC hotlines. Others believed that they could only receive the information given and not seek further clarification. Unhelpfully, the HumInt process focused solely upon verbal information and therefore that received by letter, e-mail or fax was not included.
- 3.53 Even where HumInt are risk assessed by the NHC, the information provided was not always captured for intelligence purposes. In many cases, 5x5x5 intelligence reports are either not completed or are not entered upon the Centaur database. Such information is effectively lost to the Department and as a consequence impacts upon HMRC being able to discharge its disclosure obligations under CPIA.
- 3.54 The risks to HMRC of a non-compliant HumInt system were recognised by RIS-CIG in September 2008 and included:
- “Failure of Department to meet duty of care for its HumInts
 - Failure of Department to identify status drift
 - Collapse of criminal investigations due to disclosure
 - Further external criticism of the Department’s compliance with HumInt policy and the consequent risk to our reputation as a law enforcement body
 - A continual reduction in the number of HCRs generated by the business and consequential decline in the receipt of information and intelligence in support of our compliance strategies”

The Scottish HumInt Project:

- 3.55 The Scottish HumInt Project proved that information received from the public in any form could be captured and processed effectively. From the start, effort was placed upon engaging with senior management in the key ‘customer facing’ business areas and ensuring that their staff understood what the HumInt process was about and their role within it. By treating all information as HumInt, including that received anonymously, an unequivocal message was relayed to staff. This, supported by experienced FPOs and a dedicated IMU which disseminated the intelligence generated and recorded it onto the Centaur system, created the environment for success.
- 3.56 RIS, however, had no exit strategy for the project. Although it was anticipated that the excellent results would lead to a national rollout, there were no transition arrangements. Consequently the SHP was terminated prior to the commencement of the National HumInt Project although in reality the flow of HumInt could not be stopped, since once ‘Pandora’s box’ was open, it could not be closed’. HCRs and intelligence reports continued to be generated and the FPOs reviewed and forwarded them to the NHC. Once risk assessed the HCRs and intelligence reports were sent to the IMU. However, the IMU was disbanded on the 30th November 2008 and was not replaced. In the absence of this, there is no procedure for inputting information from these intelligence reports onto any Departmental system. This situation raises concerns about the Department’s management of intelligence and its ability to meet its disclosure obligations.

Progress against the inspection recommendations

The National HumInt Project:

- 3.57 The National HumInt Project aims to address all the shortcomings of the previous HumInt plans. The Director RIS wrote to all directors emphasising their obligations to the HumInt system and offering assistance in terms of awareness training. Furthermore, directors and above will all be provided with their own dedicated FPO and so for the first time they will be fully integrated into the system. In addition, the Director RIS sent a further letter to Directors in business areas that were deemed 'high risk'¹⁰ explaining their vulnerabilities, their responsibilities and the action that should be taken. This included a request for a resource commitment from within their Directorates of an officer who would be their nominated FPO. RIS would then provide the appropriate support in terms of a bespoke training programme. It is anticipated that this approach will encourage directorates to 'buy-in' to the HumInt system.
- 3.58 As part of the project, RIS are to relaunch a programme of education across HMRC in order to reinforce the HumInt message. This will initially be rolled-out across Local Compliance, Special Investigations (formerly NTSCI), Debt Management and Banking, Customer Contact, Claimant Compliance and the Centre for Research and Intelligence (within RIS). Information will be treated as HumInt no matter how it is transmitted by the public.
- 3.59 There are, however, issues still to be addressed surrounding the handling of the intelligence generated. RIS are considering the creation of an Intelligence Management Unit to process intelligence reports however this will require a significant resource to be effective. Until the intelligence issue is addressed, there will remain a major weakness in HMRC being able to meet duty of care and legal obligations as it will continue to 'not know what it knows'.
- 3.60 For the National HumInt Project to succeed there will need to be sufficient milestones in place whereby assessments are regularly made in respect to the quality of the training. Remedial action can then be taken on an on-going basis. To leave the assurance to a post implementation review will be too late. Once fully rolled-out, a robust governance structure will be required in order not to repeat the shortcomings of the earlier HumInt plans.

¹⁰ RIS identified the high risk areas as Local Compliance, Debt Management and Banking, Customer Contact and Specialist Investigations (formerly NTSCI).

Recommendation 9

RAG: **RED/AMBER** ↑

HM Inspector recommends that HMRC should consider providing further staff training that improves compliance whilst emphasising the potential value of intelligence from human sources of information.

Action Taken

3.61 This issue was addressed by the training provided as part of the October 2006 HumInt rollout. This involved computer based training, updated guidance on the HMRC intranet site and the provision of HumInt aides memoir.

Impact

3.62 The training raised awareness of HumInt across HMRC but failed to improve compliance significantly.

Areas for Improvement/Comment

3.63 The potential value of the intelligence generated from human sources was lost as the emphasis was upon process. Instead of the HumInt system being seen as a safeguard within the wider effort to secure actionable intelligence it was generally perceived by those outside of law enforcement as an end in its own right. The key difference between a HumInt and a CHIS is still not understood even in areas of CI and RIS. Many still view it as tasking rather than the relationship between the individual passing the information and the person to whom the information relates.

3.64 The training also did not reach all areas of HMRC. Many senior managers did not undertake the computer based training module. Also some call centre staff and some Detection units failed to receive the training.

3.65 The lack of understanding about HumInt has been reflected in many instances where officers either do not seek information from the public, or refer callers to a hotline rather than deal with the matter themselves. One example that was cited was of a Detection officer working in the Red/Green Channel at an airport who refused to accept information from a traveller and gave them the number of a RIS unit to call. Similarly, at some HMRC Enquiry Centres, members of the public who walk-in to provide information, are told to make an appointment, or referred to a phone in a public area to pass their information to a hotline. Such unacceptable practices illustrate the difficulties that have to be addressed.

3.66 A revised training programme will underpin the National HumInt Project. There will be mandatory computer based training for staff across HMRC. For directors and above, the training is optional and will be delivered either through a presentation by RIS or by a guided learning unit. The Chairman and CEO of HMRC have requested training and this will be undertaken in January 2009. Refresher training will be provided for those senior managers that have already received a level of HumInt training. The awareness of the project will be raised through articles on the intranet and in the in-house 'Pulse' magazine. Supplementing the e-training 'HumInt road shows' will be conducted across business areas where it is thought appropriate. In order to clearly relay the HumInt message the project will initially be targeted at the directorates, outside of law enforcement, that have the potential for the highest incidence of HumInt, namely Special Investigations (formerly NTSCI), Debt Management & Banking, Local Compliance and Customer Contact. These will be the first to establish a FPO network.

Progress against the inspection recommendations

- 3.67 With the buy-in of directorate management, the re-establishment of the FPO network and support from RIS in terms of training and advice, it is anticipated that HumInt can effectively be addressed across HMRC, providing that it is also underpinned by the appropriate assurance mechanisms. The incorporation of all methods of information transmission including that supplied anonymously should ensure that 'status drift' is being addressed in a comprehensive manner. A concern still remains with the assessment and processing of the intelligence generated. This needs attention in order to ensure that duty-of-care issues are effectively discharged.

Recommendation 10

RAG: **AMBER/RED** ↑

HM Inspector recommends that HMRC should consider introducing line management oversight of Human Contact Reports prior to submission to the National HumInt Centre.

Action Taken

3.68 This recommendation was incorporated into the Enforcement Management Assurance Framework (EMAF) as a control measure during 2006. The extent to which line management assure HCRs prior to submission is, however, questionable. This may be partly due to a contradiction between the strategic control measure, which requires that HCRs are assured prior to submission and the operational control measure that refers to checking HCR accuracy after submission. The result is that EMAF is primarily being used by managers to ensure that their staff are HumInt aware.

Impact

3.69 There is no consistency in the quality of HCRs being received by the NHC. The success of the SHP was largely built around FPOs' role in ensuring HCRs were being completed appropriately and their engagement with receiving officers and management. Some line managers, however, have seen the appointment of the FPOs as a way of disconnecting themselves from the HumInt system since they perceive the matter of HumInt as being an issue between the receiving officer and the FPO or the NHC. As the numbers of FPOs have diminished, the lack of line management oversight of HCRs has resulted, in most instances, to an absence of any pre-NHC assurance of HCRs.

Areas for Improvement/Comment

3.70 The effectiveness of line management oversight in ensuring a higher standard of HCRs submitted to the NHC is dependent upon the managers themselves being familiar with both the process and the importance of correctly completed forms in order to achieve a meaningful risk assessment. This understanding varies widely between managers across directorates; therefore, it is not surprising that this recommendation has not been fully implemented.

3.71 It is anticipated that the National HumInt Project will address these underlying issues through training. In many directorates there will now be dedicated FPOs appointed from within the business stream to provide advice and review HCRs. Given adequate resources, this system should provide the necessary mechanism for the oversight of HCRs and thereby address the recommendation. Line managers, however, should not be cut out of the process, indeed they should be encouraged to take an active interest in the engagement their staff have with HumInt and the quality of the documentation and this is vital in those areas where FPOs are not being introduced.

3.72 The ambiguity in the EMAF measures needs to be resolved urgently as it undermines the credibility of the system. The subsequent reinforcement of this recommendation through the EMAF programme could greatly assist in improving quality.

Progress against the inspection recommendations

Recommendation 11

RAG: **RED** ↔

HM Inspector recommends that HMRC should consider ensuring that all branches comply with the Quality Assurance Programme, as described in the HumInt instructions.

Action Taken

- 3.73 Quality assurance of the HumInt system within Enforcement and Compliance (E&C) was incorporated into EMAF. The HMRC Action Plan created to track progress against the HMIC recommendations stated that CJES will provide CHISOPS with:
- Relevant exception reports (produced to identify any failures or good practice) received by them. These will address individual areas of concern identified during the EMAF process by managers
 - Annual assurance that HumInt issues have been included within all branch assurance reports

Impact

- 3.74 The Enforcement Handbook outlines a list of assurances that managers should undertake that would constitute an effective HumInt assurance programme. EMAF's HumInt assurance control measures do not reflect the totality of this list. Although the inconsistencies in EMAF's HumInt control measures, (highlighted above), are reflected in varying levels of HumInt assurance being undertaken across Enforcement and Compliance, HMIC have not been made aware of any current HumInt assurances that fully comply with the requirements outlined in the Handbook. Moreover, since the inception of EMAF, CJES¹¹ have not received any EMAF exception reports relating to HumInt and there are concerns around the compliance of operational officers with the submission of exception reports in general. During the first 18 months operation of the EMAF system, only one exception report was received by CJES and following subsequent publicity this level have increased to six in six months. CJES, having determined not to request EMAF reports from branches, have not received any annual assurances that HumInt is being incorporated within branch assurance reports and have therefore been unable to provide any to CHISOPS.
- 3.75 Directorates outside E&C are not subject to EMAF and have their own bespoke assurance mechanisms. It is apparent that across these directorates there are similar inconsistencies in the level of HumInt assurance undertaken.
- 3.76 HMRC has been unable to provide any comprehensive branch/region assurance reports/reviews on HumInt similar to that conducted by London Region, Law Enforcement Investigation in 2004¹².

Areas for Improvement/Comment

- 3.77 The inconsistencies both between EMAF and the Handbook and within EMAF itself regarding the requisite level of HumInt assurance needs to be addressed. Once this has been achieved, it is essential that branches provide CJAT with sufficient evidence for them to be able to give CHISOPS annual assurances that that HumInt issues have been included within all branch assurance reports.

¹¹ Latterly CJAT.

¹² HMIC (2007) Inspection of HMRC Handling of Human Intelligence Sources, Paragraph 5.5.13.

Recommendation 12

RAG: **AMBER** ↔

HM Inspector recommends that HMRC should consider developing promotional campaigns, posters and other methods of encouraging the public to volunteer information.

Action Taken

- 3.78 HMRC have not instigated any promotional work directly as a result of the recommendation, however, independently, they have two primary campaigns that encourage the public to supply information.
- 3.79 HMRC has worked with Employer Direct of the Department for Works and Pensions (DWP) in respect to promoting the Tax Evasion Hotline that encourages the public to pass information regarding income tax, corporation tax, capital gains tax, VAT and National Insurance fraud¹³. Matters can be reported on-line, by telephone, fax, text or letter. Furthermore, the Customs Hotline¹⁴, formerly Customs Confidential, has been made available on-line since the autumn of 2008. This is in addition to the existing means of reporting by telephone, fax, e-mail or post. This hotline is primarily focused upon information relating to smuggling, illegal tobacco sales and certain tax frauds such as VAT and the illegal use of rebated 'red' diesel.

Impact

- 3.80 The publicity surrounding the Tax Evasion Hotline has generated a large volume of information both anonymous and HumInt but this has created processing difficulties for HMRC. The development of the on-line self-reporting system for the Customs Hotline is a positive move from the HumInt perspective, however its resource impact has yet to be assessed.

Areas for Improvement/Comment

- 3.81 There is no structured approach across HMRC in relation to encouraging the public to provide information on smuggling and fraud. Whilst publicity falls to HMRC's Communications and Marketing Unit, directorates tend to deal with them in isolation and do not consider the wider implications of their actions.
- 3.82 For instance, it would appear that little attention was paid to HMRC's HumInt responsibilities when establishing the Tax Evasion Hotline. Consequently, there are worrying duty of care issues surrounding it. These stem from the receipt of information by the call centres staffed by DWP personnel. If someone calls the Hotline number as a result of HMRC publicity and they believe that they are speaking to HMRC officer then an expectation is created. If the caller provides their personal details and the information passed relates to HMRC, the matter enters the HumInt process. If it relates to the DWP, it is passed direct to their Department for action without any HumInt assessment being made. Consequently, HMRC cannot fulfil its duty of care responsibility. At the other end of the scale, if a person is subject to the HumInt process there is no guarantee that the information provided will be assessed or actioned. Therefore, HMRC fail in their moral responsibility towards the public. Furthermore, the Tax Evasion Hotline website suggests that the details of an individual will remain confidential. This is misleading as there can be no guarantee of confidentiality.

¹³ <http://www.hmrc.gov.uk/tax-evasion/>

¹⁴ <http://customs.hmrc.gov.uk> and www.hmrc.gov.uk/customs-hotline

Progress against the inspection recommendations

- 3.83 There is an intention by HMRC to employ an outside contractor to handle Tax Evasion Hotline calls outside of normal working hours and at weekends. Given the aforementioned duty of care issues it is recommended that HMRC consider seeking legal advice to determine adequate safeguards such as ensuring that all callers are clearly aware that outside working hours they are talking to non-Governmental staff.
- 3.84 The Tax Evasion Hotline receives most of its information by telephone. Details of the callers are obtained wherever possible in order that the requirements of the HumInt system can be met. On-line responses do not request any details of the person reporting the information and therefore have to be classed as anonymous.
- 3.85 The NCU has supported the development of the on-line reporting system for the Customs Hotline although it does not have a promotional budget. Devised by the NHC, the on-line system does allow for the individual making the report to enter their details. As such, it can fulfil the requirements of the HumInt process. This is a groundbreaking development in capturing information, especially as it has global reach. However, publicity around this on-line system has been limited and therein lies a problem.
- 3.86 The Tax Evasion Hotline generates a significant amount of information, with approximately 60,000 calls per year, plus letters and e-mails. Where caller details are noted, the subject is assessed through the HumInt process. The information generated from this Hotline is handled by the Centre for Research and Intelligence (CRI) but because of volumetrics, only a portion is actioned.
- 3.87 The Customs Hotline handles fewer contacts than the Tax Evasion Hotline; however, the NCU struggle to process the information it receives even with the procedure in place to forward direct tax information to CRI. Being co-located with the NHC assists the HumInt process, as HumInt Assessors are on hand to provide advice and guidance. However, if the on-line HumInt reporting system proves popular, resources will be stretched in both the NCU and NHC.
- 3.88 Other than the on-line initiative for the Customs Hotline, neither CHISOPS nor the NHC have undertaken any independent campaigns to encourage the public to provide information although internally within HMRC efforts have been made to raise the profile of their activities through articles in the house magazine 'Pulse'.
- 3.89 Once the national HumInt project is fully operational and the FPO network is in place, HMRC need to review their campaigns for encouraging the public to provide information. There needs to be a clear strategy, not only in the way messages are presented but also in the way the information generated will be handled. All those involved must have a clear understanding of the responsibilities of HMRC in asking the public to come forward with information and must have processes in place to handle it.

Recommendation 13

RAG: OLO General Support: **GREEN** ↔

Bespoke Training: **RED** ↔

HM Inspector recommends that HMRC should consider providing Overseas Liaison Officers (OLOs) with a level of support commensurate with risks, as are provided to their colleagues in UK based SMUs, and providing a bespoke training package to take into account their unique position in CHIS handling.

Action Taken

- 3.90 **Overseas Support:** The OLOs are specialist criminal investigators but form part of the RIS-CIG Fiscal Crime Liaison Officer (FCLO) network, The control of their HumInt and CHIS functions lie with the International SMU, which is outside of the FCLO management chain. Overseas CHIS operations work to the same SOPs as apply to UK based operations.
- 3.91 In November 2006, CHISOPS stated that they were actively looking to identify areas where CHIS handling overseas could be undertaken by posting UK handlers abroad. It was envisaged that this would, afford the same level of intrusive management to international as domestic CHIS handling and relieve the burden on OLOs. However, it was determined that this option was not cost-effective, as the number of overseas CHIS had contracted significantly post the creation of SOCA. Instead, emphasis was placed upon increasing the International SMU's support for the OLOs. Subsequently, the International SMU, in conjunction with the OLO, has proactively made efforts to develop relationships with host country SMUs in order to harness their resources.,
- 3.92 **Bespoke Training:** All OLOs have received the Level 3 CHIS training. No bespoke training has been undertaken.

Impact

- 3.93 UK based support is now commensurate with the current level of overseas activity. International SMU controllers are available to provide 24/7 coverage to OLOs and UK based CHISOPS personnel will deploy overseas as necessary.

Areas for Improvement/ Comment

- 3.94 **Overseas Support:** The comments in the November 2006 paper suggested that at that time overseas CHIS operations did not receive the same level of intrusive management as domestic operations. Although this is not expanded upon, it highlights concerns over support to overseas activity. The restructuring of CHISOPS has resulted in an International SMU that is able to offer appropriate overseas support however, this needs to be constantly reviewed. If there is an increased level of CHIS activity, the International SMU must be in a position to respond. This may mean deploying handlers and/or controllers for an extended period overseas. Currently there are no budget restrictions upon such activity. Whilst each case must be reviewed on its merit, it must be clearly understood that financial considerations alone should not be used to prevent a deployment when operationally necessary. There may of course be other options to sending UK based staff, such as deploying another OLO from within the region to assist, and therefore it is essential that there is regular dialogue between CHISOPS and FCLO management.

Progress against the inspection recommendations

- 3.95 When UK based CHIS are deployed overseas to a country covered by the FCLO network or are in such a country of their own volition but reporting intelligence to their UK handler, it is imperative that the OLO responsible be informed of such activity. This will enable the OLO to make an assessment of any local risk and advise CHISOPS accordingly. In addition, FCLO management should be aware of all operations where CHIS are deployed including all occasions where UK based CHIS are sent overseas. They should also have access to risk assessments and other CHIS documentation if required. This will enable them to better fulfil their duty of care as line managers. It is understood that arrangements are being put in place to address these issues.
- 3.96 **Training and Related Issues:** FCLO management need to be proactive in assuring that OLOs are properly trained, are actively committed to developing human source intelligence and are receiving the appropriate level of support from CHISOPS. Although OLOs' role in managing sources has been included in FCLO job adverts published since HMI's original report, it remains understated. It is apparent that a number of experienced officers feel that overseas CHIS activity is not being given the emphasis it deserves. The failure to develop any form of additional training designed for the overseas arena could be considered indicative of a low priority. This situation is unfortunate given the successes of overseas CHIS operations prior to the SOCA de-merger.
- 3.97 The work undertaken by the International SMU and certain OLO posts in developing relationships with host country SMUs is to be commended. Such creativity is required when seeking overseas opportunities especially in countries where there are legal barriers to UK CHIS operations. In locations where CHIS can be handled legally, consideration could be given to making a greater effort to exploit such techniques. It is in such posts that OLOs would most benefit from training tailored to the overseas situation that should include specific instruction upon source recruitment. Consideration should also be given to refresher events for posts that do not use CHIS techniques on a regular basis.
- 3.98 OLO support staff have received CHIS/HumInt awareness training. It is recognised that due to the vulnerabilities surrounding overseas operations, it is appropriate for them to be given an appreciation of the issues surrounding human intelligence sources. This represents good practice and should continue.

Acronyms and abbreviations

Annex A

ACPO	Association of Chief Police Officers
CHIS	Covert Human Intelligence Sources
CHISOPS	CHIS Operations
CI	Criminal Investigation
CJAT	Criminal Justice Assurance Team
CJES	Criminal Justice Enforcement Standards
CPIA	Criminal Procedure and Investigations Act 1996
CRI	Centre for Research and Intelligence
DPA	Data Protection Act 1998
DWP	Department for Work and Pensions
ECMB	Enforcement and Compliance Management Board
EMAF	Enforcement Management Assurance Framework
FCLO	Fiscal Crime Liaison Officer
FPO	Focal Point Officer
HCR	HumInt Contact Report
IMU	Information Management Unit
RIS	Risk & Intelligence Service
RIS-CIG	Risk & Intelligence Service – Criminal Intelligence Group
H&D	HumInt and Debriefing
HCR	Human Contact Report
HMCE	HM Customs and Excise
HMIC	HM Inspectorate of Constabulary
HMRC	HM Revenue & Customs
HumInt	Human Intelligence
NCU	National Co-ordination Unit
NHC	National HumInt Centre
NIU	National Intelligence Unit
NRM	National Rewards Matrix
NSU	National Source Unit
NTSCI	National Teams Special Civil Investigations
OLO	Overseas Liaison Officer
OSC	Office of Surveillance Commissioners
RIPA	Regulation of Investigatory Powers Act 2000

Acronyms and abbreviations

SHP	Scottish HumInt Project
SMU	Source Management Unit
SOCA	Serious Organised Crime Agency
SOPs	Standard Operating Procedures
UKBA	United Kingdom Border Agency
VFM	Value for Money

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and formats on request.

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