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Protecting the public purse

Local government fighting fraud

This summary report is an overview of our full national report published on 15 September 2009



The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

For the purpose of the report we define fraud as any intentional false representation, including failure to declare information, or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss. We include cases where civil, criminal or management action such as disciplinary action has been taken.

The financial cost of fraud does not fully reflect the personal impact it can have on victims. Councils in England spend £154 billion yearly on providing public services. Every pound that is lost through fraud directly affects citizens by increasing national and local taxation levels or threatening essential services such as social care, housing and education. There has been a growing recognition of the damaging impact that fraud has on the UK economy and on citizens. This recognition has been matched by some important initiatives to combat fraud.

Every pound lost through fraud affects citizens by increasing taxation and threatening essential services

Councils have done much in recent years to combat fraud and many are managing the risk well by:

- developing a zero-tolerance approach towards fraud;
- adopting good practice in managing the risk of fraud; and
- creating a strong counter-fraud culture and implementing counter-fraud policies and procedures.

Councils can do more

However, there is more that could be done to reduce the risk and incidence of fraud. We have identified three areas of fraud risk that are often not adequately addressed at a local level:



Housing tenancy fraud is conservatively estimated to have reduced available social housing for allocation in England by nearly 50,000 properties, worth over £2 billion.



False claims for single person discount (SPD) on council tax could be costing honest taxpayers almost £2 million a week.



Recruitment fraud can have severe outcomes and which fraudsters often exploit to commit other types of fraud.

Housing tenancy fraud

There is great demand across the country for social housing (both council and housing association homes), and there has been a significant increase in the housing waiting list in the last six years.

In the London area alone there are around 746,000 social housing properties – almost 20 per cent of England's total social housing stock. Housing tenancy fraud is a particular problem in London.

over 50% increase in housing waiting lists in the last six years

We identified three London boroughs which had reclaimed 274 homes in a year through targeting fraudulent tenancies. In the worst cases, some properties are being sub-let for personal profit.

A council housed a family, who were escaping civil war in their home country. When the war ended, the family moved back to their home country where the tenant became the director of a medical centre. However, the tenant sub-let, for profit, the property the family had previously occupied. After an investigation and legal action, the court granted the council a possession order for the property.

Case study

Almost 50,000 properties (with an asset value of more than £2 billion) could potentially be brought back into social use. This figure assumes a conservative estimate for tenancy fraud levels of 2.5 per cent in London and 1 per cent elsewhere, and that unlawful occupation of social housing is comprehensively tackled. More research is needed but this is undoubtedly a problem that affects those in need of social housing and the taxpayer.

Council tax single person discount fraud

Local council taxpayers meet the cost of the 25 per cent discounts payable to individuals who are the only adult over 18 living at an address. False claims for SPD are estimated at £90 million each year.

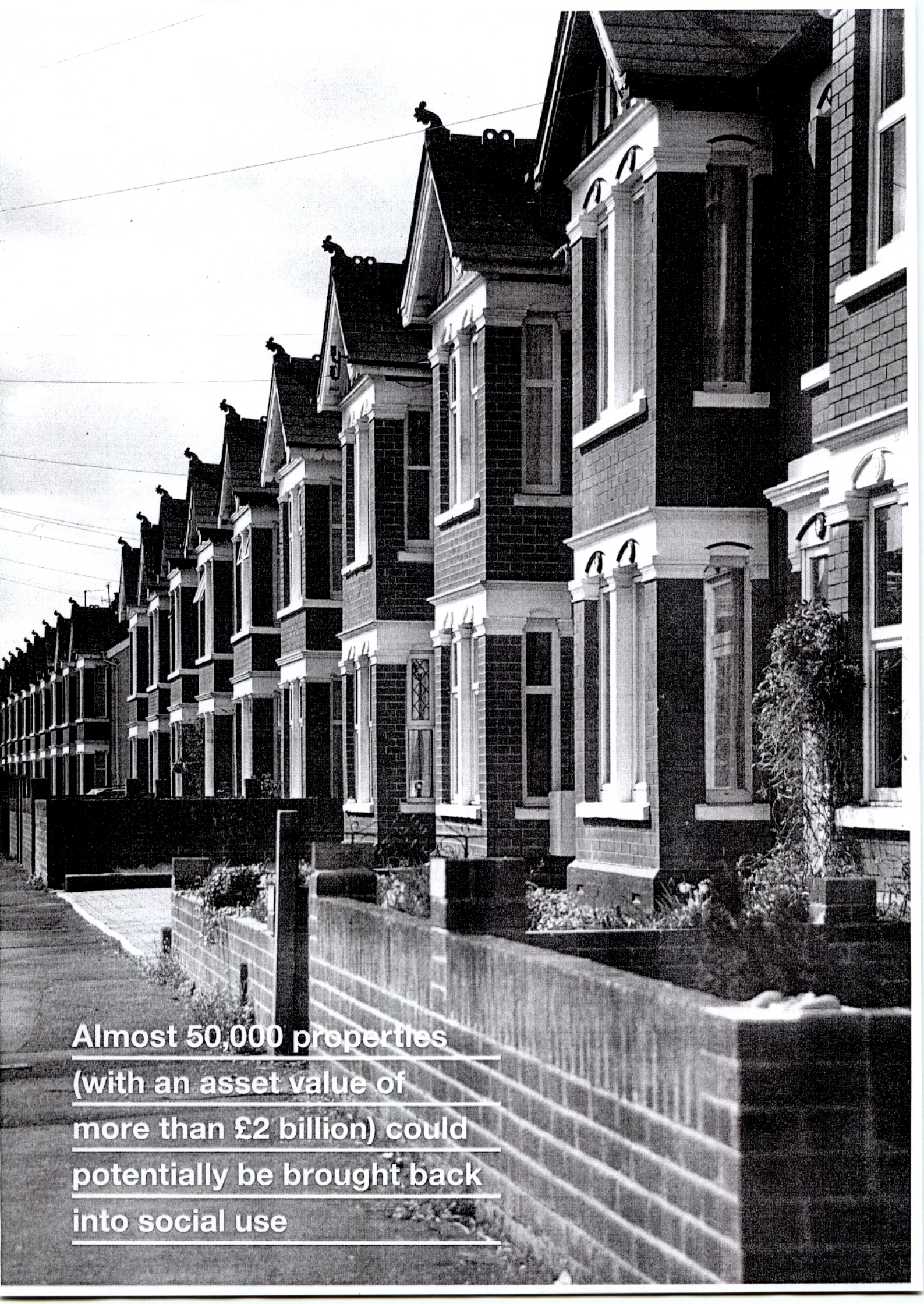
Our research found one council which used data matching and other IT checks to identify 657 SPD claimants in one year who were not entitled to claim the discount. The amount wrongly claimed totalled £235,000, most of which has already been repaid to the council. In one case, a resident had been wrongly claiming the discount since 2003 and has had to repay £2,460.

Recruitment fraud

Councils employ around two million permanent staff and many thousands of temporary and contract staff at any one time.

The importance of verifying the identity, qualifications, employment history and criminal record of those employed in, or applying for, posts is a key defence against fraud and other abuses.

It is fraudulent for job applicants to fail to declare a criminal record or make false statements about their qualifications, experience or their entitlement to work in the UK



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Suspicious about the activities of a cleaner were raised by a council employee, who noticed that the cleaner's birth certificate stated that he was born in 1977 at a hospital that was not actually built until 1986. A search warrant was executed at the cleaner's home and forged identity documents were recovered, as well as numerous items of council property. These included computers, hand-held devices, mobile phones, sim cards, memory sticks and software. The court sentenced the cleaner to three months' imprisonment.

Case study

Other risks

Our *Protecting the Public Purse* report highlights other significant fraud risks the Commission considers still need attention:

■ **Housing and council tax benefit**

Of the £18.5 billion spent every year, fraudulently obtained overpayments are estimated to exceed £200 million.

■ **Procurement**

Councils need to ensure that their procurement arrangements reduce the risk of fraud and are working as intended.

■ **Social care direct payments**

The move towards personalising social care involves important cultural and operational changes. It is important that councils implement appropriate and proportionate checks that balance the operational benefits of improved choice against the potential risk that fraudsters may attempt to misuse public funds.

■ **Disabled parking concessions (blue badges)**

Fraudsters use these badges to avoid parking charges.

■ **Insurance claims**

The UK insurance industry estimates losses of more than £1.9 billion a year, due to bogus or inflated claims, including those made against councils.

■ **Abuse of position frauds**

Although few in number, some frauds occur where weak internal controls allow individuals to abuse the trust placed in them.

Partnership working

The full report contains various case studies that highlight councils' successes in partnership working.

In one example, the London Borough of Croydon and anti-fraud colleagues from several public bodies in the area formed the Croydon Fraud and Enforcement Forum. This initiative arose out of a realisation that many of

£80 billion
annual spend by
councils on capital
projects and
buying goods
and services

the frauds and fraudsters the council encountered were common to other public sector organisations based in the same area.

Following a tip-off from a social worker, Croydon's corporate anti-fraud team discovered that a fraudster who had no right to work in the UK had claimed more than £135,000 in benefits from the council by using someone else's identity. A joint investigation with the UK Border Agency and the NHS Local Counter Fraud Specialist showed the fraudster was also working at a care home and receiving a £17,650 bursary from the NHS while studying to be a nurse. The investigation further found out the fraudster's sister was using the alternative identity to work illegally in a hospital. A police raid on the fraudster's home found prescription drugs worth around £12,000, and forged documents.

Case study

Data matching and whistleblowing

The London Public Sector Counter Fraud Partnership Annual Survey 2007/08 showed that, across London, the key sources of information leading to the discovery of frauds were data matching and whistleblowing.

Data matching includes exercises such as the National Fraud Initiative (NFI), the Department for Work and Pensions' Housing Benefits Matching Service and other local initiatives. The Commission has run the NFI data matching exercise once every two years since 1996 to compare sets of data in order to identify inconsistencies or circumstances that might suggest fraud or error. Since its launch it has helped identify an estimated £500 million of fraud and overpayments.

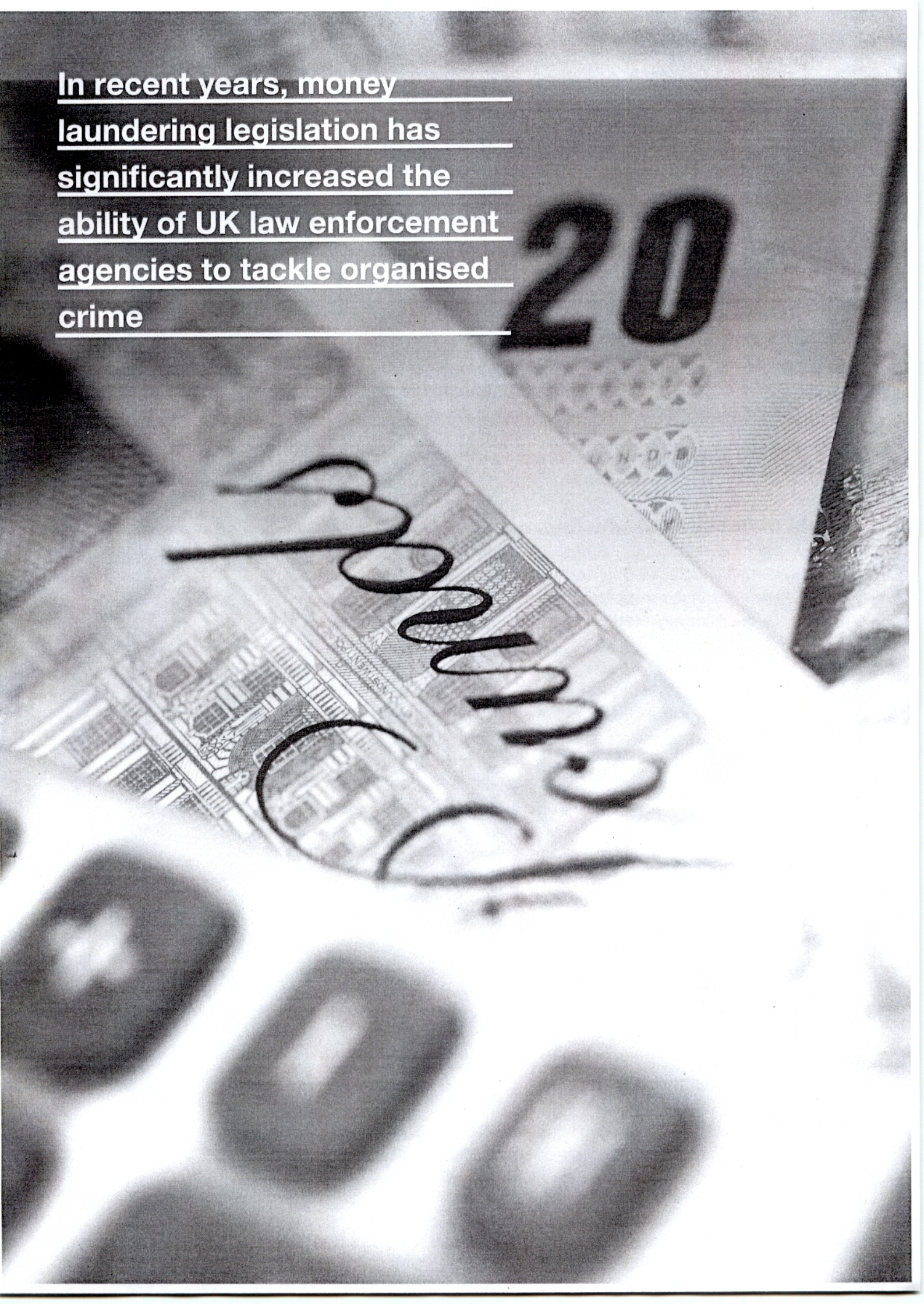
Fraud surveys also regularly identify whistleblowers as one of the principal sources of information by which public bodies identify and stop frauds. The Public Interest Disclosure Act 1998 set up protection for employees victimised or dismissed after raising a concern about wrongdoing or malpractice.

We urge councils to ensure that their whistleblowing arrangements are sound, embedded in their everyday procedures and are communicated to and understood by staff. They should also ensure that they engage local citizens properly in the fight against fraud.

Reporting suspicions

In recent years, money laundering legislation has significantly increased the ability of UK law enforcement agencies to tackle organised crime by requiring certain regulated bodies to report any known or suspected money laundering.

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To support the collection of information on known or suspected money laundering, the Serious and Organised Crime Agency runs a national reporting system, which received around 220,000 suspicious activity reports in 2008.

**£500 million
seized since the
Proceeds of Crime
Act 2002 came
into force**

However, for much of the public sector including local government there is no statutory requirement to comply with these reporting arrangements. In 2008, councils only submitted 55 suspicious activity reports.

We recommend that councils comply with the spirit and principles of the legislation, and do more to improve staff awareness of how to report any suspicions of money laundering and criminal activities.

Planning ahead

The best councils have counter-fraud plans based on a robust fraud risk assessment, regular reporting to those charged with governance, and qualified fraud investigators focused on both proactive and reactive work. We advise councils to set clear targets and expected outcomes for the work of counter-fraud teams and suggest that teams report regularly to management on their performance.

Culture is key

A strong counter-fraud culture is fundamental to reducing the harm caused by fraud and in ensuring that public confidence is not undermined.

This means the right tone from the top in an organisation is vital, as is a zero-tolerance approach towards fraud. Councils should be seen by their staff to have made a clear commitment to the fight against fraud.

We have developed the Changing Organisational Cultures toolkit to help public organisations improve their counter-fraud culture, compare themselves with others and chart their progress over time.

Our analysis of the use of the toolkit at public bodies so far shows that although many organisations have made a strong commitment to fight fraud, they still need to do more to ensure that:

- their commitment translates into action;
- staff at all levels are aware of and understand the organisation's values and what the council expects of them;
- everyone in the organisation is confident that whistleblowing arrangements are effective and preserve confidentiality; and
- controls are not being overridden.

**The organisations
that are most
at risk are those
where awareness
is low**

What councils can do

Tackling fraud effectively needs a collaborative response. Councils can maximise their counter-fraud activities and contribute to preventing and detecting fraud when they work with other public, private and voluntary organisations.

How the Commission can help

Our report highlights the significant benefits to both councils and taxpayers that can be achieved where councils adopt good practice and focus counter-fraud activities and resources on those areas of greatest financial risk or and social harm. At the end of this document we attach a checklist which councils can use to assess their organisation's fraud defences against the good practice we have identified.

We are launching an annual survey to monitor the levels of fraud in local Government. We will also help track frauds and emerging risks through our fraud reporting system and our work with the National Fraud Authority.

Since the Audit Commission launched the NFI, it has led to the identification of an estimated £500 million of fraud and overpayment

In addition, data matching capabilities such as the Audit Commission's NFI will continue to be used to help councils prioritise counter-fraud activities and highlight risk areas that have previously not been given enough attention.

As Steve Bundred, Chief Executive of the Audit Commission, concludes,

'It has never been more important that councils fight fraud because every pound lost to cheats is a pound that can't be used for people in real need. This report is a comprehensive look at existing and developing threats facing town halls which calls on councils to urgently reassess their counter-fraud plans.'

The full version of the *Protecting the Public Purse: Local Government Fighting Fraud* report can be downloaded from the Audit Commission's website at www.audit-commission.gov.uk/publicpurse

Checklist for those responsible for governance

General	Yes	No	Action
1 Have we committed ourselves to zero tolerance against fraud?	<input type="radio"/>	<input type="radio"/>	
2 Do we have appropriate strategies, policies and plans?	<input type="radio"/>	<input type="radio"/>	
3 Do we have dedicated counter-fraud resources?	<input type="radio"/>	<input type="radio"/>	
4 Do the resources cover all of the activities of our organisation?	<input type="radio"/>	<input type="radio"/>	
5 Do we receive regular reports on fraud risks, plans and outcomes?	<input type="radio"/>	<input type="radio"/>	
6 Have we assessed our management of counter-fraud resources against good practice?	<input type="radio"/>	<input type="radio"/>	
7 Do we raise awareness of fraud risks: <ul style="list-style-type: none"> • New staff (including agency staff)? • Existing staff? • Members? 	<input type="radio"/>	<input type="radio"/>	
8 Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?	<input type="radio"/>	<input type="radio"/>	
9 Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?	<input type="radio"/>	<input type="radio"/>	
10 Do we identify areas where internal controls may not be performing as intended?	<input type="radio"/>	<input type="radio"/>	
11 Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on outcomes?	<input type="radio"/>	<input type="radio"/>	

Fighting fraud in the recession		Yes	No	Action
12	Have we reassessed our fraud risks because of the recession?	<input type="radio"/>	<input type="radio"/>	
13	Have we amended our counter-fraud action plan as a result?	<input type="radio"/>	<input type="radio"/>	
14	Have we reallocated staffing as a result?	<input type="radio"/>	<input type="radio"/>	

Some current risks and issues		Yes	No	Action
15	Do we take effective action to ensure that social housing is allocated only to those in need?	<input type="radio"/>	<input type="radio"/>	
16	Do we take effective action to ensure that social housing is occupied by those to whom it is allocated?	<input type="radio"/>	<input type="radio"/>	
17	Are we satisfied that payment controls are working as intended?	<input type="radio"/>	<input type="radio"/>	
18	Have we reviewed our contract letting procedures against the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?	<input type="radio"/>	<input type="radio"/>	
19	Are we satisfied that our recruitment procedures are: <ul style="list-style-type: none"> • preventing employment of people working under false identities? • validating employment references effectively? • ensuring applicants are eligible to work in the UK? 	<input type="radio"/>	<input type="radio"/>	
20	Where we are moving to direct payments (for example, social care) have we introduced suitable and proportionate control arrangements in line with recommended practice?	<input type="radio"/>	<input type="radio"/>	
21	Are we effectively controlling the discounts and allowances we give to council taxpayers?	<input type="radio"/>	<input type="radio"/>	
22	Are we satisfied that we are doing all that we can to tackle housing and council tax benefit fraud?	<input type="radio"/>	<input type="radio"/>	
23	Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?	<input type="radio"/>	<input type="radio"/>	

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk

Stock code: GSY3573



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