

Protecting the public purse

Local government fighting fraud

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.

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Executive summary

Fraud is bad news for the economy, councils and taxpayers because:

- the honest majority pay for it; and
- it can adversely affect the provision of public services.

Councils have done much over the last few years to combat fraud and many are managing the risks well by:

- developing a zero-tolerance approach towards fraud;
- improving governance arrangements including establishing audit committees;
- adopting good practice in managing the risk of fraud;
- creating a strong counter-fraud culture and implementing counter-fraud policies and procedures; and
- training and supporting specialist staff to prevent and detect fraud.

The Commission has identified some significant areas where the risk of fraud has not been adequately addressed at a local level:

- housing tenancy fraud, which can be conservatively estimated to have reduced available social housing for allocation in England by nearly 50,000 properties;
- false claims for single person discount on council tax, estimated at £90 million each year; and
- recruitment fraud, which can have severe consequences and which fraudsters often exploit to commit other types of fraud.

Executive summary and recommendations

Other fraud risks still need to be tackled as:

- the amount lost through housing and council tax benefit fraud, after a period of decline, has recently increased;
- procurement frauds have involved large sums; and
- there is evidence of some misuse of social care direct payments.

Fraud is likely to increase because of the recession as:

- economic distress can increase the incentive to commit fraud; and
- controls to prevent and detect fraud can come under pressure as councils reduce their costs.

And so there is more that councils could do to minimise fraud opportunities by:

- assessing the effectiveness of their current arrangements and taking action where appropriate;
- focusing on high-risk areas;
- setting clear targets and monitoring the return from their investment in counter-fraud resources; and
- working with other organisations to reduce fraud and the harm it causes.

Recommendations

Councils should:

- consider the possible impact of the recession on the risk of fraud and amend their counter-fraud plans if necessary;
- use the checklist at Appendix 1 to ensure that they have sound governance and counter-fraud arrangements that are working as intended;
- ensure they are doing all they can to address housing tenancy, single person discount (SPD) and recruitment fraud;
- work together in two-tier areas to share the costs and benefits of tackling SPD fraud;
- satisfy themselves that their vetting procedures for recruiting permanent and temporary staff accord with good practice;
- consider whether they have properly vetted staff already in post and take appropriate and risk-based action;
- ensure their arrangements for tackling housing and council tax benefit fraud are up-to-date, effective and address increased service demands;ⁱ
- ensure current arrangements are sufficiently robust to reduce the risk of procurement fraud and follow the latest Office of Fair Trading guidance to lessen the risk of unlawful practices affecting their awarding and allocation of contracts;
- consider social care direct payments guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and ensure that their procedures and processes are proportionate and secure;
- use information from the Audit Commission's National Fraud Initiative (NFI, see para 108) to the full to help focus their fight against fraud;
- test their whistleblowing arrangements against good practice guidance and ensure staff understand and trust them;
- improve staff awareness of money laundering regulations and how they can report suspicions of money laundering and criminal activities;
- identify areas where internal controls may not be effective or operating as intended;
- review their involvement in counter-fraud partnerships; and
- set clear targets and expected outcomes for the work of counter-fraud teams.

ⁱ This recommendation does not apply to county councils in two-tier county areas.

Executive summary and recommendations

Government should:

- work with the Audit Commission and other stakeholders to ascertain the extent of and tackle the incidence of housing tenancy fraud and false SPD claims; and
- put the appointment of audit committees in local government on a statutory footing.

The Audit Commission will:

- provide a single definitive source of information on reported fraud in local government for the National Fraud Authority and make that information available to inform the National Fraud Strategy by:
 - reviewing and updating arrangements for collecting reports of frauds in local government to ensure they are suitable for the emerging national fraud agenda;
 - undertaking annual surveys that collect information on fraud in local government in England, starting with the year ending 31 March 2009; and
- work with government, other key stakeholders and professional bodies to undertake research into the levels of housing tenancy and SPD fraud across the country and develop guidance to help prevent and detect such frauds.

Introduction

1 There has been a growing recognition of the damaging impact that fraud has on the UK economy and on citizens.ⁱ This recognition has been matched by some important initiatives to combat fraud. Fighting fraud is high on the agendas of the government and most private and public sector organisations. The newly formed National Fraud Authority (see para 88) is committed to measuring and analysing the incidence and impact of fraud across the UK.

2 The financial cost of fraud does not fully reflect the personal impact it can have on victims. In the public sector, every pound lost through fraud directly affects citizens by increasing national and local taxation levels or threatening essential services such as social care, housing and education. For example, families may be prevented from receiving the social housing they need because of illegal tenancies that reduce housing supply, increase the costs of temporary accommodation and inflict unnecessary suffering on those in need.

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

‘Fraud can have a devastating effect on individuals and businesses alike, causing a range of financial and emotional harms, which have often remained unrecognised.’

The National Fraud Strategy, National Fraud Authority

3 As the UK faces the many and varied pressures caused by the recession, few commentators see the risk of fraud reducing. Most anticipate that internal and external pressures on organisations will increase the risk of fraud and threaten counter-fraud defences. In addition, changes in the way that councils and partner organisations deliver services can affect the incentives to tackle fraud.

4 In the 1990s, the Audit Commission published a series of reports entitled *Protecting the Public Purse*. We published separate reports for local government and health. The NHS Counter Fraud Service is now the responsible body for fighting fraud in the NHS. This report therefore focuses on local government. It considers the key fraud risks and pressures facing councils and related bodies and identifies good practice. Councils in England spend over £154 billion each year (Ref. 1) on providing local services and the messages in this report should be viewed in this context. Many of the issues raised will also have relevance across the wider public, private and third sectors.

i For the purpose of this 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.

5 Since the 1990s, many positive changes have taken place both nationally and in individual councils. For example, national frameworks and strategic partnerships now exist with private and public sector bodies working together more effectively. Many councils have improved their governance frameworks. Most have established audit committees. External auditors review the adequacy of governance and counter-fraud arrangements at each council as part of their annual use of resources assessment.

6 In addition, data matching capabilities such as the Audit Commission's NFI have helped councils to prioritise their counter-fraud activities and to highlight risk areas that have previously not been given sufficient attention. However, the skills and capabilities of those committing fraud, either individually or as part of organised criminal gangs, are constantly evolving. Defences against fraud need to continue to be developed to maintain their effectiveness in the face of new threats and changing risks.

7 In the next two chapters, we describe some of the current and emerging fraud risks that councils face. In the final chapters, we consider how the recession could affect these risks and how councils and counter-fraud teams should respond. Our report concludes with a checklist for audit committee chairs and those responsible for governance. They should use this checklist to obtain assurance that their organisation has governance and counter-fraud arrangements that are fit for purpose and working as intended.

8 We acknowledge that some of the risks identified in this report require further research. We refer to the actions taken by a number of councils that we have identified or have been brought to our attention as working proactively to address these risks. We recognise that other councils may also be following similar approaches or may have lessened the potential fraud risks through the operation of better counter-fraud defences. Our work is intended to provide an opportunity for all councils to consider how they are responding to the risk of fraud and make improvements where necessary.

Needing more attention

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9 The work of the Audit Commission – in particular, the NFI – has identified three areas of fraud risk that are often not adequately addressed at a local level. These risks, housing tenancy, council tax single person discount (SPD) and recruitment fraud, have significant financial and social consequences for councils and citizens. Using good practice examples from some councils that are actively working to address fraud risks in these areas, we examine the potential impact and savings if all councils were to follow a similar approach.

Housing tenancy fraud

10 There are approximately 3.8 million social housing properties in England. Social housing is fundamental to the quality of life of those families and individuals who cannot access suitable accommodation from the private sector. The illegal occupation of social housing can adversely affect the quality of life of thousands of people each year and restrict the capacity of social housing providers.

Housing waiting lists have increased by over 50% in the last six years

11 This is a significant problem. Housing waiting lists have increased by over 50 per cent in the last six years and the National Housing Federation predicts that the number of people waiting for social housing may reach 2 million by 2011. Clearly, any action that increases the availability of social housing by tackling housing tenancy fraud would have a positive impact on the lives of those in need.

12 Housing tenancy fraud is the use of social housing by someone not entitled to occupy that home. It includes:

- when people submit false housing applications;
- tenancy succession fraud, where the property is no longer occupied by the original tenant; and
- the illegal sub-letting of a property for profit (see Case studies 1 and 2).

Case study 1: **Illegal sub-letting**

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.

13 Although this section of our report focuses mainly on the cost to the public purse from housing tenancy fraud, the social harm caused should not be overlooked. Families in temporary accommodation often lead more transient lives, unable to put down permanent roots in their communities. Such families may face the additional problem of creating a stable educational environment for their children while struggling to maintain a permanent place in a local school. In the longer term this has implications for the social cohesion of communities and for the health and well-being of those most directly affected.

Case study 2: **Housing tenancy and benefits fraud**

Following information from a London borough that it had initiated proceedings against a person who had been fraudulently claiming housing benefit, another London borough discovered that the same person was also its tenant and in receipt of housing and council tax benefit. The investigation revealed that the person owned a £3.5 million property elsewhere. The boroughs regained possession of their properties and are prosecuting the individual.

14 Previous NFI reports have stated that housing tenancy fraud is an area that has been significantly under-reported and is in need of greater attention. This may be because there is a view that there is no financial loss to the social housing provider as long as rent continues to be received on the illegally occupied property. However, this does not take into account the extra cost of housing homeless families in temporary accommodation and the fact that the housing provider has lost control of allocations for these homes. The following paragraphs demonstrate what can be achieved when councils work with key partners and apply good practice to reduce the cost and harm caused by tenancy fraud.

15 We examined how three London boroughs had tackled housing tenancy fraud. Even with limited resources and a partial examination of some high-risk tenancies, they were able to bring 274 properties back into social use in just one year. The activities of those boroughs were characterised by:

- a clear commitment by all organisations involved in social housing provision in those council areas to prevent and detect tenancy fraud;
- recognition of the full cost and harm caused by tenancy fraud;
- a high level of fraud awareness among staff;

274

**properties returned
to social use by three
councils in one year**

- the use of campaigns to raise public awareness of tenancy fraud and to encourage residents to report suspected illegal occupancy;
- regular housing tenancy audits to confirm that the correct tenant was in residence;
- the use of specialist counter-fraud staff to support housing officers where appropriate;
- effective use of NFI results and other data matching; and
- the use of indicators that may highlight the likelihood of tenancy fraud, for example, a tenant's failure to provide access for gas inspections.

16 One of these London boroughs increased the number of investigating officers dedicated to preventing and detecting housing tenancy fraud, with notable results. The borough recovered 43 illegally occupied properties in 2006/07 with a team of just two investigating officers. In 2008/09, by recruiting three more staff, twice as many properties (86) were recovered. Prevention and detection of fraud are equally important and the borough's housing investigations team regularly check right-to-buy, succession and homelessness applications for any indications of fraud.

50,000 properties could be back in social use if unlawful occupation is successfully tackled



17 The London examples raise questions about the extent of housing tenancy fraud across the rest of England and the full cost of such fraud to the public purse. Most housing professionals believe that tenancy fraud varies significantly across the country with the highest levels most likely in London. Here, the difference between social and private rental rates is greatest, offering the maximum opportunity to profit from sub-letting. Some have speculated that, in London and possibly other metropolitan areas, the level of housing tenancy fraud could be as high as 5 per cent of the social housing stock. There is currently no definitive research or guidance on the prevalence or full cost of housing tenancy fraud to the public purse.

18 Nationally, there is great demand for social housing, with councils across the country experiencing significant growth in applications. Increasing the supply of social housing is a necessary response to this growth in demand. In the London area alone, there are approximately 746,000 social housing properties – almost 20 per cent of England’s total social housing stock. Assuming a conservative estimate for tenancy fraud levels of 2.5 per cent in London and 1 per cent elsewhere and assuming that unlawful occupation of social housing is comprehensively tackled, this would mean that almost 50,000 properties (with an asset value of more than £2 billion) could potentially be brought back into social use. More research is needed but this is undoubtedly a problem that affects those in need of social housing and the taxpayer.



On average it costs £11,000 a year to temporarily house a family. There are currently 64,000 families housed in this way

19 An additional cost associated with housing tenancy fraud is the temporary accommodation of those families on the waiting list. This can be provided in many different forms, such as private sector leasing (the most common), bed and breakfast or hostel accommodation. Nationally, the cost of these different forms of temporary accommodation can vary significantly according to type and location but are typically in the range of £5,000 to £15,000 annually for each family. Using official statistics, the national average annual cost of temporary accommodation is around £11,000 for each family. In recent years the number of families in temporary accommodation has reduced but there are currently 64,000 families housed in this way. We recognise that not all of these families, for various reasons, would qualify for permanent social housing. However, recovering properties for social housing could help to reduce the number of families in temporary accommodation further.

20 All those providing social housing have a part to play in combating tenancy fraud, regardless of whether they directly meet the financial loss caused by such frauds or not. The London examples demonstrate what is possible when councils work in partnership with arm's length management organisations and housing associations.

21 The need for effective partnership working of this kind is important because of the changing nature of social housing provision. For example, the financial incentives for arm's length management organisations or housing associations to identify tenancy fraud are weaker than for councils. This is because homeless families are the responsibility of councils which bear the costs of providing temporary accommodation.

22 Organisations should make sure that their approach to performance management encourages housing officers to play an appropriate part in identifying and preventing housing tenancy fraud by the inclusion of an appropriate target. The identification of housing tenancy frauds can result in a temporary decline in rent collection, an important performance target for many housing officers.

23 Housing associations control about half of the social housing properties in England. They are regulated by the Tenant Services Authority. There are about 1,700 housing associations in England. Involvement of housing associations in the Commission's NFI is voluntary and despite encouragement from the Housing Corporation in 2007 to participate, to date relatively few have taken part.

24 On 31 July 2009, the Minister for Local Government announced a new national initiative to crack down on the unlawful sub-letting of properties in the social housing sector. The initiative involves:

- making available to every social landlord best practice guidance that will show the most effective and practical ways of tackling sub-letting, including examples of the most successful work from around the country;
- paying for every registered social landlord with more than 1,000 properties to participate in a new run of the Audit Commission's NFI that will help highlight potential cases of housing fraud; and
- providing a special grant to each council that commits to this initiative to increase their efforts to tackle unlawful sub-letting.

25 Our research has shown that housing tenancy fraud represents a loss of control over public assets and involves significant financial and social costs. There is very little published good practice in this area. The Commission will work with key regulators and professional bodies to undertake research into the levels of tenancy fraud across the country and develop guidance that will help organisations prevent and detect this type of fraud.

Single person discount fraud – council tax

26 The total annual amount to be raised from council tax in England in 2009/10 is £25.6 billion. This tax is collected locally and is a significant proportion (on average 24 per cent) of the funding that councils use to provide services.

27 A SPD can be claimed by householders where there are no other residents aged 18 or over living at an address. The discount amounts to a 25 per cent reduction in their council tax bill. Nationally 35 per cent of households receive this discount. Local council taxpayers meet the cost of these discounts.

28 In recent years, some councils have noticed a sharp increase in the number of people claiming SPD and have identified increasing numbers of fraudulent applications. Although the level and extent of SPD fraud is currently unclear, the Audit Commission reviewed the action taken by 11 councils across England to provide an initial assessment of the likely scale and cost of SPD fraud. These were councils that we had identified or had been brought to our attention as taking a proactive approach to detecting SPD fraud. We recognise that other councils may have taken similar actions. We identified examples of good practice that other councils should consider when assessing the effectiveness of their actions to prevent and detect SPD fraud.

35%
of households
receive the council
tax single person
discount

Undetected SPD fraud could be costing taxpayers £90 million each year.



29 In those councils examined, the level of confirmed SPD fraud varied between 1 per cent and 11 per cent, with most clustered between 4 and 6 per cent of SPD claims. Assuming an estimate from this limited sample of SPD fraud levels of 4 per cent nationally, undetected SPD fraud could be costing honest taxpayers £90 million each year.

Case study 3: Single person discount

A council, using data matching and other IT checks identified 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 incorrectly claiming the discount since 2003 and has had to repay £2,460.

30 There are significant financial benefits to councils in using targeted resources to prevent and detect SPD fraud. Some authorities are already using or considering cost-effective and innovative means of reducing this type of fraud including:

- use of data matching, such as NFI;
- annual reviews focused on high risk SPD fraud cases;
- partnership working between county and district councils in two-tier areas;
- the effective use of publicity to raise public awareness; and
- verification checks when the first application for SPD is made.

31 Not all councils seek to recover previous years' discounts where they find that the claimant is not entitled to SPD. In just one case, a council found that by seeking to recover all the years for which one person had been fraudulently claiming the discount, the amount recovered from the individual increased from £369 to £2,589. Councils should consider both the financial benefit and the deterrent effect of recovering previous years' discounts where SPD fraud is identified.

32 One result of SPD fraud is that council tax levels are higher than they would otherwise need to be. Some councils in two-tier (county) areas of England point to disproportionate financial incentives as a barrier to tackling SPD fraud. In two-tier areas, the cost of council tax collection and fraud investigation is borne by the district council. As a result of pooling arrangements, the county council generally receives a larger share of the council tax collected and could, therefore, benefit more from any reduction in SPD fraud. This issue needs to be considered by those councils in two-tier areas.

33 In one county area all district councils, in partnership with the county council, have jointly committed to tackle SPD fraud and to impose financial penalties for a failure by claimants to notify changes in circumstances. The costs and additional income recovered are shared.

One result of SPD fraud is that council tax levels are higher than they need to be.

'It is important that the issue of addressing SPD fraud is a responsibility that is shared. The main priority must be to protect the public purse and the cost of resourcing any exercise should be an obligation on all organisations that benefit within a two-tier system, based on clear invest-to-save principles.'

Bob Trahern, Assistant Director (Revenues, Benefits and Customer Services), North Warwickshire Borough Council

34 All councils, particularly across county areas, should consider developing financial arrangements that provide better incentives to tackle SPD fraud. It is vital that councils do their utmost to restrict the levels of SPD fraud and important that they take proper steps to recover losses as well as prevent future fraud. The Audit Commission will work with key stakeholders and professional bodies to undertake further research into the levels of SPD fraud across the country and develop good practice guidance to help councils to prevent and detect such frauds.

Recruitment fraud

35 Councils employ more than two million permanent staff and many thousands of temporary and agency workers at any one time. The vast majority of these employees are honest. However, the importance of verifying the identity, qualifications, employment and, where appropriate, criminal history of those already employed or applying for posts has been shown to be a key defence against fraud. There are also clear risks associated with allowing someone with false or overstated references to carry out tasks for which they are not qualified.

36 People wishing to gain employment in order to exploit opportunities for criminal purposes have used weaknesses in recruitment processes to gain access to an organisation and have then gone on to perpetrate other frauds (See Figure 1 and Case studies 4 and 5).

Figure 1 **The potential consequences of recruitment fraud**



Source: London Borough of Waltham Forest

Case study 4: **False identity**

A council offered a permanent post to an individual following a short period of employment as a contractor. There were some concerns over project finances and suspicion fell on the individual. Investigators found that when the council had appointed him, he had used a false identity and was in fact a convicted fraudster. Within weeks of his permanent employment, he had set up a fake company and paid himself over £2 million for work, much of which was never carried out. When the fraud was discovered, the fraudster went into hiding. The council successfully pursued recovery of the stolen money and costs through the civil courts.

Case study 5: **False identity**

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.

37 In recent years, councils such as the London Borough of Waltham Forest that have improved the effectiveness of their employee vetting arrangements have been surprised at the scale of what they have discovered. This has convinced them to make further improvements.

38 The employee vetting team at Waltham Forest undertakes pre-employment checks using specially trained staff to verify that successful job applicants are who they claim to be and that their employment histories and experiences match their application forms. The borough has gained considerable recognition for this work.

39 The vetting team reports on the outcome of its work each year and has maintained performance figures for more than a decade. Since the start of the programme, vetting failures had steadily declined year on year. However, in 2007/08 when the team completed over 1,000 vetting checks, more than 6 per cent of applicants failed the checking process – almost double the previous year’s rate.

40 In 2007/08, applications from people with no right to work in the UK were a major issue for the council (see Case study 6). The vetting process covers agency staff and most of the failures were in this category of employment. Vetting failures uncovered in that year included people who had:

■ no right to work in the UK	52
■ benefit issues	6
■ fictitious work history and/or references	5
■ false qualifications	1
■ criminal convictions	1

9 per cent of successful candidates at one council withdrew when told that their application would be vetted.



Case study 6: **False identity**

In 2007, the council's vetting team undertook checks on 85 staff who had been transferred to the council from the private sector several years before and who were due to be transferred back to a private company. Some workers had supplied French passports to support their identity and right to work in the UK. The vetting team consulted the French consulate. In eight cases, the passports were forged and had not been issued by the French authorities. Further checks also identified a false Danish passport. The workers were arrested and subsequently convicted of fraud and submitting false documentation. All received custodial sentences of between 10 and 12 months.

41 Another area of concern identified by the vetting team is that, in one year, 9 per cent of successful applicants for jobs withdrew when the council told them that it would be vetting applications.

42 Not all councils are as rigorous in vetting potential employees. When competition for employment is rising, jobseekers may be tempted to ensure their qualifications and references look as good as possible. It is fraudulent if applicants deliberately fail to declare a criminal record or make false statements about their qualifications, experience or their entitlement to work in the UK. At Waltham Forest, the borough informs those applicants identified as having submitted false documents or making false statements that their actions are fraudulent and that they could be prosecuted. Treating fraudulent applications in this way can help to dissuade jobseekers from committing similar offences in the future.

43 All councils should satisfy themselves that their processes and procedures for recruiting permanent and temporary staff accord with good practice and are operating as intended. They should also consider whether they have properly vetted staff already in post and take appropriate and risk-based action. In June 2009, the Fraud Advisory Panel issued guidance on pre-employment screening (See Appendix 3).

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

Staying focused

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‘The question we all have to answer is not whether we are doing something, but whether we are doing enough. And when the day of reckoning comes – that multi-million pound, headline-grabbing fraud you thought could never happen – how will you be judged?’

**Ian O’Donnell, Director of Corporate Resources,
London Borough of Ealing**

44 The Audit Commission gathers information on the incidence and risk of fraud from various sources including:

- the work of auditors and inspectors;
- NFI and the follow-up work by councils;
- fraud reports from appointed auditors;
- involvement in local, regional and national forums;
- research and intelligence gathering; and
- networking with counter-fraud professionals.

45 Information received from these sources has helped to identify areas that councils, for various reasons, will need to focus on in the coming years:

- housing and council tax benefit;
- procurement;
- direct payments;
- disabled parking concessions (blue badges);
- insurance claims; and
- abuse of position.

46 Some of the areas can have significant financial consequences. Others can have a major social impact. In the paragraphs below we explain why we are drawing these to the attention of councils and in Appendix 2 we provide examples of the frauds reported to us.

Housing and council tax benefit

More than £700 million housing and council tax benefit is overpaid as a result of fraud or error

47 In 2008/09, more than £18.5 billion housing and council tax benefit was paid by councils in England. Latest official figures indicate that more than £700 million was overpaid as a result of fraud or error of which over £200 million was considered to be because of fraud (Ref. 2). Consequently, the Audit Commission continues to make the detection of inconsistencies in data that may indicate housing benefit fraud and error a core role of NFI. Fraudulent housing benefit claims take many forms including the non-declaration of income sources (see Case study 7 in Appendix 2).

48 Since our first *Protecting the Public Purse* report in 1993, central and local government have achieved considerable success in improving the prevention and detection of housing benefit fraud. Following that report, the then Department of Health and Social Security introduced fraud detection targets for councils combined with financial incentives for those that met them. The years that followed saw the creation of dedicated housing benefit fraud fighting teams in many councils and increased the recognition of fraud fighting as a profession.

49 However, the incentive scheme ceased in 2005/06 and was combined with an administration grant. The change has meant that fraud teams no longer have the potential to be fully or partially self funding through incentive payments. After a period of decline, housing benefit fraud levels started to increase in 2007/08.

50 In April 2008, the Commission became responsible for inspecting councils' housing and council tax benefit services. The inspections include an assessment of the arrangements that councils have in place for preventing and detecting benefit fraud. Our early findings suggest that although most councils have adequate arrangements in place, there are grounds for concern. These include some councils:

- not taking a proactive approach to fraud investigation;
- having weak track records of prosecuting fraudsters;
- not fully investigating cases, thus limiting the numbers of prosecutions;
- taking too long to calculate fraudulent overpayments, which can also impact on the number of prosecutions;
- not following up fraud referrals;
- leaving counter-fraud posts unfilled; and
- having poor approaches to fraud awareness training for staff.

51 There is a risk to public funds where benefit fraud is not tackled comprehensively. The economic downturn means that councils are dealing with many more claims, often by people claiming for the first time. Cost pressures, combined with declining financial incentives to tackle fraud, are significant factors that may impact adversely on previous good performance in this area.

52 Councils will need to focus on the risks covered in this report to ensure that fraudsters are unable to take advantage of opportunities that may arise as the impact of the downturn is felt in future years. Councils need, therefore, to remain vigilant while under increased pressure. They will need to assure themselves that their internal controls are suitable and working as intended and that counter-fraud staff focus clearly on risks, costs and outcomes.

Procurement

53 Councils spend around £80 billion each year on capital projects and buying goods and services (Ref. 3). Fraud can occur at any stage in the procurement cycle, from the initial business case to the award and management of the contract. Procurement fraud may take various forms and be perpetrated by external providers or internal parties.

54 The key areas of external fraudulent activity include:

- cartels that involve collusion among some bidders to agree that they will not bid competitively for a particular contract;
- applicants deliberately failing to tender in accordance with contract specifications and then submitting false claims for extra costs under the contract;
- contractors providing inferior goods or services;
- contractors failing to meet obligations such as minimum statutory pay and health and safety regulations;
- contractors submitting false invoices; and
- contractors providing inflated performance information to attract greater payments than are due.

55 The existence of cartels can have a major impact on procurement costs and value for money. In a well reported case some years ago, nine roofing contractors were found by the Office of Fair Trading to have agreed to fix the prices of repair, maintenance and improvement services in the West Midlands through collusive tendering. They were involved in a series of illegal practices in tendering for roofing contracts at schools, a community library, a shopping centre and a car park. The fines levied by the Office of Fair Trading, which can be as much as 10 per cent of turnover, amounted to almost £300,000.

Cartels can have a major impact on procurement costs

56 The Office of Fair Trading is currently investigating alleged cartel practices in major public and private sector building and construction contracts. It has produced guidance that public bodies should follow to lessen the risk of such illegal practices affecting the way they award and allocate contracts (see Appendix 3).

57 Corrupt practices internally include the awarding of contracts where the evaluation process is manipulated to favour a particular provider, decision makers not fully disclosing personal interests or agreeing that invoices should be paid when they know contractors have not provided goods or services to the required standards (see Case study 8 in Appendix 2).

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



58 Councils need to ensure that their arrangements reduce the risk of procurement fraud and are operating as intended. They should follow the Office of Fair Trading's guidance to minimise the risk of unlawful practices when they award and allocate contracts.

Social care direct payments

59 In 2007/08, the total public cost of adult social care in England was £13.3 billion (Ref. 4). Councils have traditionally determined and delivered social care. The move towards personalising social care, and councils making direct payments to enable people to choose how and where to purchase their care services, involves important cultural and operational changes. There are significant benefits associated with improved choice that should not be overlooked but it may also provide fraudsters with an opportunity to misuse public funds (see Case study 9 in Appendix 2).

60 Councils should compare their procedures against the guidance issued by CIPFA about social care direct payments entitled *Direct Payments and Individual Budgets: Managing the Finance* and ensure that those procedures and processes are proportionate and secure.

Disabled parking concessions (blue badges)

61 People with severe mobility problems receive parking concessions if they have a blue badge. There are about 2.3 million blue badges in use in England. Criminals forge badges and steal genuine ones from cars. Badges can change hands for as much as £500 on the black market. Fraudsters use these badges to avoid parking charges in all areas and the congestion charge in London. This means that genuine badge holders cannot park in the places provided for them and councils lose income.



2.3 million blue badges are in use in England

62 The Commission's NFI identified significant numbers of people renewing blue badges after the death of the badge holder. Some councils are using information from NFI to recover large numbers of blue badges from people not entitled to them while others have benefited by using NFI data matches in further investigations (see Case study 10 in Appendix 2).

63 Councils should use the NFI information to the full to help focus their fight against blue badge fraud.

Insurance claims

64 Each year, many people who may have been injured – for example, by tripping on faulty pavements maintained by the council – make insurance claims against those councils. Some claims are justified, but bogus or inflated claims are a major problem (see Case study 11 in Appendix 2). The UK insurance industry estimates that it loses more than £1.9 billion each year to this type of fraud. This means insurance premiums are much higher for businesses, public bodies and citizens.

Bogus insurance claims cost the insurance industry more than £1.9 billion each year.



65 In 2006/07, NFI offered public liability insurance data matching as an optional risk based module. Ninety councils provided data directly or it was provided on their behalf by their insurer. Where councils followed up data matches, they identified a number of potentially fraudulent and speculative claims.

66 The provision of insurance data is now a core, compulsory NFI dataset for 2008/09. This should greatly improve the identification of serial claimants and those submitting duplicate public liability claims to neighbouring councils.

67 Councils should use the NFI information to the full to help focus their fight against this type of fraud.

Abuse of position

68 Abuse of position frauds are those involving employees. Local government officers are overwhelmingly honest, and the cases reported to us involve a tiny fraction of staff. The private sector considers the risk of financial misrepresentation and false accounting frauds to be greatest during a recession. Although the risks may not be as great in the public sector, some serious frauds have been reported to us where weak internal controls allowed individuals to abuse the trust placed in them.

69 Councils handle large sums of money because of the taxation, grants and income they receive and the money that they have to invest. If treasury managers misuse these funds, it can result in actual loss or an unnecessary risk of loss. The sums involved may include pension fund money and may be invested for short, medium or longer term periods (Case study 12 in Appendix 2).

70 By manipulating the payments system, a fraudster may divert payments to a bogus bank account or create false customer records and invoices to generate false payments (see Case study 13 in Appendix 2). This type of fraud happens mainly where individuals with key responsibilities work with little supervision.

71 Those committing false accounting frauds, or seriously abusing their position of trust, often embark on elaborate courses of action to cover up their crimes. They may falsify or change financial records or reports to present results in a better light or to cover up another type of fraud such as stolen cash. Small local councils or schools are at particular risk. With small staff numbers it can be difficult to separate duties (see Case studies 14, 15 and 16 in Appendix 2).

72 Councils should identify areas where internal controls may not be effective or working as intended and take action to reduce any risks. The next chapter considers the effect the recession may have on the fraud risks that councils face.

Squeezed from all sides

73 In preparing this report, the Commission consulted representatives of professional associations, leading councils, recognised counter-fraud experts in the public and private sectors and other regulators. We asked for their views on the fraud risks that organisations currently face and the likely impact of the current recession on these risks. Although it is clearly difficult to attribute individual frauds to the effects of the recession, all agreed the risk of fraud is likely to increase because of the current pressures on the economy. Organisations should, therefore, reassess their counter-fraud plans in the light of this changing risk.

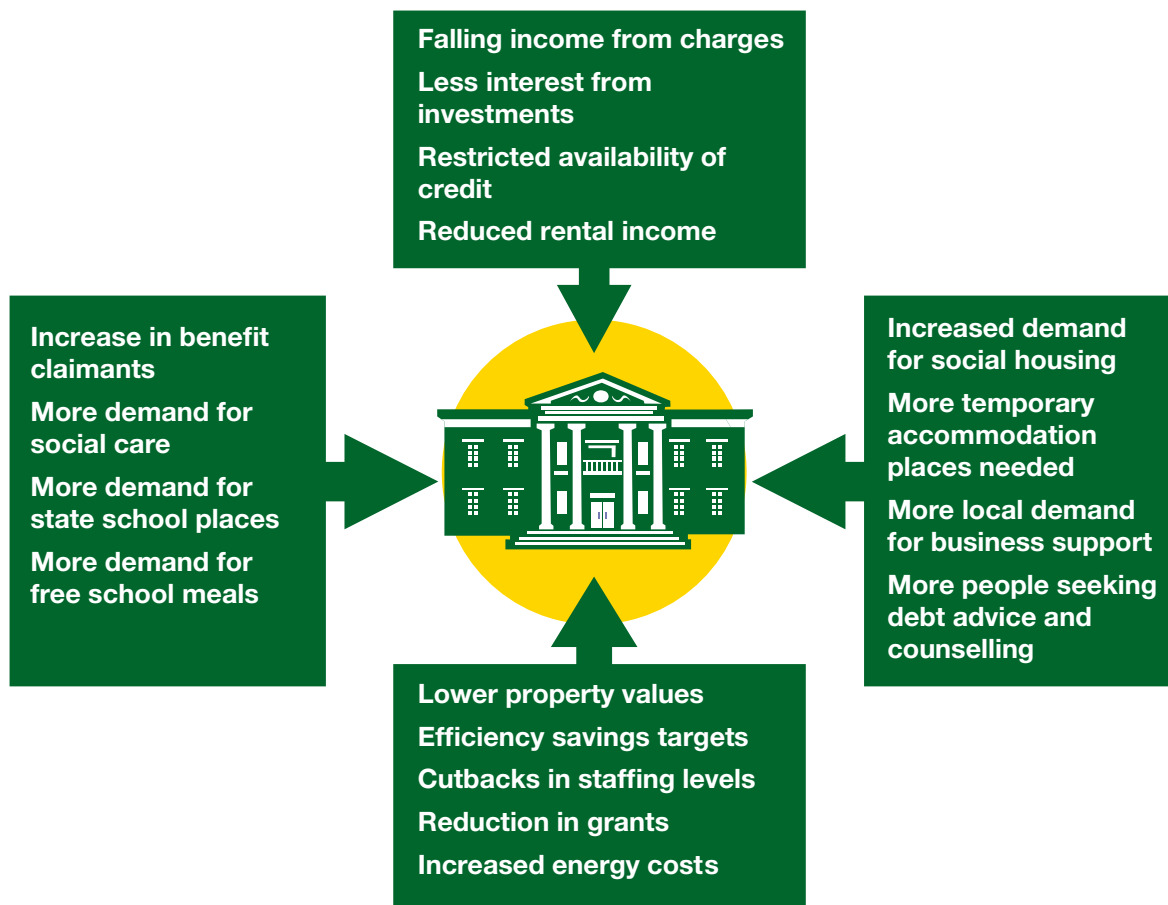
74 As local economies are squeezed, the pressure on public services (see Figure 2) is increasing with:

- a rise in applications for housing and council tax benefit;
- more people seeking debt counselling services;
- more demand to help local businesses and contractors;
- a higher demand for social housing;
- greater numbers of children entitled to free school meals;
- greater demand for children's services and social care;
- increased demand for state education places; and
- higher expectations that councils will help stimulate recovery.



Organisations should reassess their counter-fraud plans in the light of changing risks

Figure 2 Resources are shrinking as demand increases



Source: Audit Commission

The risk of fraud is likely to increase because of current pressures on the economy

75 Alongside this increase in demand, many councils have already experienced a fall in their income, particularly from fees and charges such as planning and parking and lower returns on investments. Council tax increases have been at their lowest level for some time, as councillors seek to minimise extra costs on their residents. The outlook for central government funding for local government is for significantly lower increases than in recent years, with the possibility of real cuts after 2011.

76 The distress caused by the economic downturn may increase the incentive for some people to attempt to commit fraud. The opportunity to perpetrate fraud may be increased if reduced staff numbers lead to weakened internal controls such as separation of duties or reduced supervision.

77 Councils are being squeezed from all sides and will face a severe challenge in coping with increased demand for their services when they have constrained resources. In this environment, it is vital that councils maintain strong and efficient defences against fraud, to address the increased risk.

78 More than £1 billion of fraud cases affecting all sectors of the economy came to the UK courts during 2008 (Ref. 5), the second highest level over the last 21 years. The increase in fraudulent activities by organised groups of criminals was high. There was also a marked increase in fraud by individuals.

79 Some parts of the country could experience a greater increase in certain types of fraud. For example, the illegal sub-letting of social housing for profit is a particular issue in London (see Chapter 2). Councils will, therefore, need a risk-based and locally tailored response.

80 In improving efficiency and making difficult choices about spending priorities, councils must take care not to lose focus on fraud prevention and detection. For example, if a key supplier suffers financial collapse, the need for the council to find a replacement quickly must not lead to effective procurement procedures being bypassed.

81 Some councils are developing innovative and impressive responses to the recession, such as the provision of debt advice, benefits take-up initiatives, support for credit unions and local businesses as well as schemes to support training and apprenticeships. Well-managed risk-taking is becoming an increasingly important feature of modern local government. New undertakings will require councils to put in place sound governance structures and appropriate fraud prevention and detection processes.

82 Staff awareness of fraud risks may also need to be updated. The organisations that are more at risk of fraud are those where awareness is low. Councils will need to find efficient ways of maintaining staff awareness at a time when training and internal communication budgets may come under increased pressure.

83 Councils face difficult decisions on how and where to reduce costs while continuing to give proper consideration to the risk of fraud. Counter-fraud teams will need to demonstrate that they are efficient and effective and are making a valuable contribution to the protection of the public purse.

£1bn
of fraud cases came to court in 2008 the second highest level over the last 21 years.

84 This report has, so far, highlighted significant and continuing fraud risks and the potential impact of the recession on those risks. The next chapter suggests some key actions that would help central government, councils, the Audit Commission and citizens to lessen the risk and play their part in the local, regional and national fight against fraud.

Managing the risks

Adopting the right strategy	38
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85 One of the most authoritative sources of guidance on countering fraud in the public sector is the CIPFA Better Governance Forum’s 2006 publication – *Managing the Risk of Fraud: Actions to Counter Fraud and Corruption*. The Red Book, as it is often called, addresses good practice in five key action areas that public bodies should follow when fighting fraud, namely:

- adopting the right strategy;
- accurately identifying the risks;
- creating and maintaining a strong structure;
- taking action to tackle the problem; and
- defining success.

86 In the rest of this chapter we consider the action that all organisations should take in each of these five key action areas to reduce fraud risks and improve prevention and detection of fraud.

87 Councils should review their counter-fraud arrangements against the good practice identified in the Red Book. We have provided links to this and other good practice material in Appendix 3.

Adopting the right strategy

88 In March 2009, the National Fraud Authority published the first National Fraud Strategy for the UK. This sets out a framework and activity programme through which the public, private and voluntary sectors can work together in partnership to reduce the harm caused by fraud. In addition, the Strategy:

- suggests a programme to measure fraud losses and therefore help to focus activity in future years;
- recommends improved sharing of data and good practice among organisations committed to fighting fraud; and
- suggests how to raise public awareness of risks and responsibilities.

89 Councils should align their counter-fraud strategies with the National Fraud Strategy and consider the contribution that they can make to ensure its success.

Identifying the risks

90 The Audit Commission collects reports on individual frauds over £10,000 and any acts of corruption in local government in England. It uses these reports to identify and assess the nature and scale of current and emerging fraud risks and to brief auditors accordingly. The Audit Commission is committed to working to provide a single definitive source of information on reported fraud in local government. This will help the National Fraud Authority by ensuring that the UK's National Fraud Strategy gives appropriate consideration to the harm caused by fraud targeted against councils. The Audit Commission is:

- re-introducing an annual survey of existing and emerging fraud risks and levels of identified frauds and associated costs. The first survey will cover the financial year ended 31 March 2009. It will provide a base against which we can measure future levels of fraud; and
- reviewing and updating its arrangements for collecting detailed reports of significant individual frauds in local government.

Creating and maintaining a strong structure

Audit committees

91 Audit committees are a key source of assurance about an organisation's arrangements for managing risk, maintaining an effective control environment and reporting on financial and non-financial performance. An audit committee has an important role to play in considering the effectiveness of a council's counter-fraud and corruption arrangements. Committee members should:

- satisfy themselves that the council's counter-fraud arrangements are adequate;
- ensure that the council focuses its counter-fraud resources and activities on high-risk fraud areas to the maximum benefit of the organisation;
- compare local arrangements with good practice; and
- support their counter-fraud teams, whether combined as a corporate team or located within different areas of the council, and require them to show the benefit that they bring to the organisation.

92 The Commission believes that an effective audit committee is an essential element in the corporate governance of all public bodies, including councils. When we published our first *Protecting the Public Purse* report in the 1990s, there were few audit committees in local government. Now they are in place in most councils. We strongly recommend that government requires all councils to appoint an audit committee. We also recommend that audit committees use the checklist at Appendix 1 to assess the effectiveness of their council's current counter-fraud arrangements.

An effective audit committee is an essential element in the corporate governance of all public bodies

Working together

93 Tackling fraud effectively requires a concerted and collaborative response. When public, private and voluntary sector bodies work in partnership they benefit from sharing work programmes and specialist expertise as well as improving knowledge and information about fraud and its causes.

Table 1 **Partnership working**

Examples of national, regional, and local partnerships

	Examples	Purpose
National	CIPFA Better Governance Forum Fraud Advisory Panel National Anti-Fraud Network	Identifying new and emerging risks Promoting good practice Training and support Lobbying for change
Regional	London Public Sector Counter Fraud Partnership Regional Fraud Forums The Local Authority Partnership (London)	Identifying and sharing good practice Training and support Raising awareness Surveys Sharing fraud investigation expertise
Local	Croydon Fraud and Enforcement Forum	Action at a local level Training Support for other organisations Sharing fraud investigation expertise Liaison

Organisations can tackle fraud more effectively in partnership

94 Partnerships work at national, regional and local levels. Councils can be actively involved at every level. Table 1 shows the contribution that some councils make to these groups.

95 Over 200 public sector organisations are members of CIPFA's Better Governance Forum which provides expertise and support to those involved in counter-fraud activities through regular training events, access to practical documentation and guidance. Its website contains up-to-date news and information on governance related issues. The Better Governance Forum is one of the largest public sector networks of practitioners in the country dedicated to countering fraud and promoting better governance.

96 The Fraud Advisory Panel is a registered charity. Its principal goals are to raise awareness of the human, social and economic damage caused by fraud and to help individuals and organisations to develop effective strategies to prevent it. Members include representatives from the legal and accountancy professions, industry, financial institutions, government agencies, regulatory authorities and academics. The panel offers advice and assistance to government, business and the public to lessen the damage caused by fraud. It runs regular education and training events and undertakes research into different fraud risk areas.

97 The National Anti-Fraud Network is a national partnership providing support, data and intelligence that assists member organisations in their counter-fraud activities. The Network obtains, collates and disseminates intelligence on fraud to member organisations.

98 The London Public Sector Counter Fraud Partnership is an example of a successful regional partnership. It has members from over 150 different public organisations based in the London region, including London boroughs, NHS primary care trusts, the BBC, the Metropolitan police, some central government departments, charities and housing associations. The partnership aims to reduce the harm caused by fraud. It identifies and shares good practice, produces publications and provides training. It undertakes an annual survey of detected frauds and counter-fraud arrangements in London in order to identify trends and raise awareness of fraud risks.

‘In my role as chair of both a national and regional partnership, I am convinced that there are many benefits that an effective partnership can bring. Success is more achievable when all relevant public bodies participate appropriately.’

Rachael Tiffen, Chair of London Public Sector Counter Fraud Partnership and CIPFA Better Governance Forum Fraud Panel

99 Other successful regional initiatives across the UK include the North East Fraud Forum. One of nine regional forums, the North East Fraud Forum was launched in March 2003. It aims to provide an opportunity for public and private agencies to work together to alert consumers and businesses to the risk of fraud and help them deal with it. The forum has organised training events on effective prevention and detection of fraud.

100 The Local Authority Partnership in London is an initiative that enables the police to second experienced officers to work alongside public sector counter-fraud teams on a partial cost recovery basis. There are currently seconded police officers in six London boroughs and one officer at Transport for London. The initiative has had considerable success.

‘During 2007/08 the Local Authority Partnership resulted in over 50 arrests and led to significant savings. The Partnership saved the borough of Lambeth £250,000 and enquiries in Waltham Forest led to a potential recovery of over £400,000.’

**Metropolitan Police Stirling
An Economic Crime Strategy for London Report 2005-08**

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

102 As well as the council, this partnership now includes representatives from government departments located within the borough such as the Department for Work and Pensions, UK Border Agency, NHS bodies, housing associations and the local police. It is an example of effective local partnership working that other public sector organisations could consider when they review their own arrangements (see Case study 17 in Appendix 2).

‘The key thing about the enhanced cooperation between the various agencies is that it enables investigations to be carried out that might not otherwise be possible, by increasing overall the resources, skills and tools available to each of the participating partners.’

Simon Maddocks, Head of Governance, London Borough of Croydon

103 Councils can maximise the impact of their counter-fraud activities and ensure that they make a valuable contribution to preventing and detecting fraud when they work with other public, private and voluntary sector organisations. Councils should review their involvement in counter-fraud partnerships to ensure that they are gaining the maximum benefit possible from their participation.

Taking action

Culture

104 A strong counter-fraud culture is fundamental to reducing the harm caused by fraud and in ensuring that public confidence is not undermined. The right tone from the top in an organisation is vital, as is the adoption of a zero-tolerance approach towards fraud. Councils should be seen by their staff to have made a clear commitment to the fight against fraud.

105 The Audit Commission has developed tools to help public organisations improve their counter-fraud culture. The Commission's toolkit, *Changing Organisational Cultures*, helps organisations to undertake a practical assessment of their counter-fraud culture and what staff believe and understand about their arrangements for combating fraud. It also helps organisations to compare themselves with others and to chart their progress over time. The Committee on Standards in Public Life's 10th report (Ref. 6) recommended that all public sector bodies should use the toolkit.

106 Our analysis of the information from the use of the toolkit at public bodies over the last few years shows that although many organisations have made a strong commitment to fight fraud, they still need to do more to ensure that:

- the council's 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.

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

Data matching and whistleblowing are the key sources leading to the discovery of fraud.

Detection

107 The London Public Sector Counter Fraud Partnership *Annual Survey 2007/08* published in 2009 (Ref. 7) showed that, across London, the key sources of information leading to the discovery of frauds were data matching and whistleblowing with data matching becoming the main source for the first time. Data matching included exercises such as the NFI, the Department for Work and Pensions' Housing Benefits Matching Service and other local initiatives.

108 The Commission has run the NFI data matching exercise once every two years since 1996. It compares sets of data to identify inconsistencies or other circumstances that might suggest fraud or error. Participating bodies investigate the results from NFI. In the last exercise covering 2006/07, fraud and overpayments amounting to £140 million were detected. Since the Audit Commission launched the NFI, it has led to the identification of an estimated £500 million of fraud and overpayments. New powers given to the Audit Commission under the Serious Crime Act 2007 mean that the NFI has an enhanced role in safeguarding the public purse.

109 Many bodies investigate NFI matches effectively. However, others do not exploit to the full the information that NFI provides. All councils should aim to follow the lead of the best by using the information to help focus their fight against fraud.



Whistleblowing

110 Fraud surveys 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 established protection for employees victimised or dismissed after raising a concern about wrongdoing or malpractice. The adoption of good practice by many organisations means arrangements have advanced significantly since the Act came into force. Organisations are increasingly viewing the Act as the starting point to developing a transparent culture that supports and encourages whistleblowing.

111 The charity Public Concern at Work has taken a leading role in putting whistleblowing on the governance agenda. It was instrumental in developing the 2008 British Standards Institute's *Whistleblowing Arrangements Code of Practice* (Ref. 8). This Code brings together good practice from across the UK in one easy-to-use document that councils should consider when reviewing their arrangements.

112 Results from the Commission's *Changing Organisational Cultures* survey database show that most employees are aware of the whistleblowing arrangements within their own organisation. However, staff often state that although overall awareness of arrangements is high, there is often limited trust among many staff that any such disclosures would be treated properly. Councils should, therefore, compare their arrangements with the good practice guidance within the Code of Practice and ensure that staff feel confident in their ability to make disclosures safely.

113 Whistleblowing is also an area where members of the public can help. Several organisations, including individual councils, have set up hotlines where citizens can report suspicions of fraud. Proactive councils make local people aware of the arrangements in place for them to raise suspicions of fraud and corruption through, for example, posters promoting disclosure hotline numbers displayed in prominent areas such as bus and train stations and at local medical centres.

114 Councils should ensure that their whistleblowing arrangements are sound, embedded in their everyday procedures and have been communicated to and understood by staff. They should also ensure that they engage local citizens appropriately in the fight against fraud.

Over £500 million has been seized from criminals since the Proceeds of Crime Act 2002 came into force

Reporting suspicions

115 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 activities.ⁱ

116 To support the collection of information on known or suspected money laundering, the Serious and Organised Crime Agency operates a national reporting system, with approximately 220,000 suspicious activity reports received in 2008. The vast majority of these reports originate in the private sector from organisations such as banks, estate agents or casinos. This is not surprising, as there is a mandatory requirement for these organisations to report all such suspicions.

117 For much of the public sector, including local government, there is no statutory requirement to comply with these reporting arrangements. However, the Audit Commission believes that councils should comply with the spirit and principles of the legislation. In 2008, only 55 suspicious activity reports were submitted by councils and more needs to be done to ensure councils play an appropriate part in the UK's anti-money laundering activities. CIPFA guidance supports this view.

118 More can be done by councils to improve staff awareness of the money laundering regulations and how staff should report any suspicions of money laundering and criminal activities. A clear commitment from senior officers and elected members is fundamental to ensuring that local government plays an appropriate part in making sure crime doesn't pay.

Recovering losses

119 The Proceeds of Crime Act 2002 incorporates an incentive scheme that allows police and recovery agencies to keep half of the money seized. HM Treasury keeps the other half. Over £500 million has been seized from criminals since the Act came into force. Some councils are now considering the most appropriate and effective way of using these powers to recover funds from convicted fraudsters, particularly as the employment of specially qualified fraud investigators is necessary when preparing documentation and files for prosecution purposes (see Case study 18 in Appendix 2).

ⁱ The definition of money laundering in this context is wide and includes not just money but other criminal proceeds. The reporting of terrorist financing also falls within this legislation.



120 Trafford Metropolitan Borough Council has an investigation services team of ten people. The team comprises benefits fraud, financial investigation and prosecution file units. Some staff have trained as financial investigators. The National Policing Improvement Agency provides the training for the unit's staff and periodically inspects the work of the council's fraud investigators to ensure they maintain the right skills. The financial investigations unit operates not only on cases highlighted by the council's benefit fraud team, but also works for a number of other councils to identify assets gained by defendants as a result of criminal activity. The investigations they have undertaken have also assisted the criminal investigations on a number of occasions.

Defining success

121 The assessments of council governance and counter-fraud arrangements, undertaken by external auditors as part of their work on use of resources, demonstrate improvement in recent years although it is clear that there is more that could be done. Increasingly, counter-fraud teams will need to demonstrate their operational effectiveness and the contribution they make to preventing and detecting fraud in their councils.

122 Councils should set clear targets and expected outcomes for the work of counter-fraud teams and the teams should report regularly to management on their performance. The best councils have:

- counter-fraud plans based on a robust fraud risk assessment, which can include fraud measurement where appropriate, focused on areas where there is a high risk of fraud;
- regular or, at least, annual reporting to those charged with governance; and
- qualified fraud investigators focused on both proactive and reactive work in the fraud risk areas that cause the greatest financial, social and reputational harm.

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Appendix 1 – Checklist for those responsible for governance

	Yes	No	Action
General			
1. Have we committed ourselves to zero tolerance against fraud?			
2. Do we have appropriate strategies, policies and plans?			
3. Do we have dedicated counter-fraud resources?			
4. Do the resources cover all of the activities of our organisation?			
5. Do we receive regular reports on fraud risks, plans and outcomes?			
6. Have we assessed our management of counter-fraud resources against good practice?			
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> ■ new staff (including agency staff)? ■ existing staff? ■ members? 			
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?			
9. Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?			
10. Do we identify areas where internal controls may not be performing as intended?			
11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on outcomes?			

	Yes	No	Action
Fighting fraud in the recession			
12. Have we reassessed our fraud risks because of the recession?			
13. Have we amended our counter-fraud action plan as a result?			
14. Have we reallocated staffing as a result?			
Some current risks and issues			
15. Do we take effective action to ensure that social housing is allocated only to those in need?			
16. Do we take effective action to ensure that social housing is occupied by those to whom it is allocated?			
17. Are we satisfied that payment controls are working as intended?			
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?			
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? 			
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?			
21. Are we effectively controlling the discounts and allowances we give to council taxpayers?			
22. Are we satisfied that we are doing all that we can to tackle housing and council tax benefit fraud?			
23. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?			

Appendix 2 – Case studies

Case study 7: **Fraudulent housing benefits claim**

A housing benefit claimant used two different National Insurance numbers and claimed to be an unemployed single parent living in a rented house. Following up data matches from the NFI, investigators discovered that, while claiming housing benefit, she had two jobs and

ran her own catering business from home. She was also a full-time student and in receipt of a grant of £2,000. The claimant pleaded guilty to 15 charges of benefit fraud, having received around £35,000 in benefits between 2000 and 2008, which she used to fund her daughter's private-school education. She was sentenced to 12 months in prison, suspended for one year.

Case study 8: **Procurement fraud**

A surveyor had worked on a contract basis for a council for six years. He was responsible for managing and letting the authority's minor works contract, where smaller civil engineering works were allocated to one of four preferred contractors including the authority's own workforce. The surveyor was allowed to manage the contract unsupervised. Over a period of approximately four years, one particular company (A) was awarded almost 90 per cent of the work.

The surveyor was also a director of another company (B) that supplied signs and undertook environmental works. This company was frequently sub-contracted to work on contracts that the surveyor himself had allocated. Later enquiries with other main contracting companies on the authority's preferred list

revealed that they felt that they would get little work unless they agreed to sub-contract work to company B.

In view of the clear conflict of interest and the suspicion of corruption and fraud, the surveyor was dismissed from his employment with the council. Financial records, recovered from his desk which contained details of the business dealings of company B and another company he owned, showed a volume of business exceeding £600,000 over an 18-month period.

An investigation of the contracts awarded showed that company A was allowed by the surveyor routinely to overrun thus making substantial sums on contract variations. There were also numerous examples of work paid for but not undertaken and the quality of some work was not up to standard.

Case study 9: **Direct payments**

For approximately two years, direct payments totalling £42,000 were advanced to one fraudster who claimed that he was disabled, wheelchair bound and required significant assistance at home. The money was paid directly into his bank account from which he was then expected to pay his wife as his principal carer and for external carers to attend him at home on a daily basis. No such care was provided and the fraudster pocketed the money for himself and his wife. Suspicions were raised when the fraudster was observed undertaking

DIY tasks, mowing the lawn, lifting heavy objects and walking with no difficulty. When visited by council officers the fraudster always presented himself in a wheelchair although subsequent medical evidence confirmed that he was not disabled. During the two-year period, payments in respect of disability living allowance and housing adaptations were also received. In total, £122,000 was fraudulently claimed. The fraudster and his wife pleaded guilty in 2009 to all offences and the council implemented a series of changes to its controls over direct payments.

Case study 10: **Disabled parking concessions (blue badges)**

NFI data matches provided information to one council on some 800 badges where there was potential for abuse to occur, that is, the continued use of the badge following the death of the registered owner. Some 300 badges were identified as needing to be cancelled.

Further to this, it was noted that on market days a significant number of blue badges appeared on vehicles parked around the market. The NFI data was used in a proactive exercise comprising council officers, the parking contractor and the Metropolitan Police and the permits manager was able to recover 40 blue badges that were being used fraudulently.

Case study 11: **False insurance claim**

In 2009, a man's claim for an insurance payment totalling £4,632 was rejected by a court. The judge stated that he was being misled by the claimant who said that he had fallen and suffered injury, as the result of losing his footing in a depression in the pavement. The council had investigated the claim and found significant inconsistencies between witness statements and corroborating evidence.

The claim was turned down by the court and the claimant was ordered to repay the council's costs of £3,500. A council representative said, 'It sends a message that if you make such allegations and they are not true, you are very likely to be caught out. Compensation claims cost real money. They hit council services and they hit the people that pay for those services through their council tax'.

Case study 12: **Abuse of position**

A treasury management accountant's dealings over a seven month period led to a council's debts rising from £23 million to £67 million. The accountant took out loans in the council's name and invested them in the normal way through a money broker used by the council. The accountant had authority to make loans and investment deals provided they complied with legal limits and those set by the council's treasury management strategy. He chose

to ignore these instructions. He was found not to have benefited financially himself from his dealings but had exposed the council to unnecessary financial risk and to have exceeded statutory limits. He was dismissed by the council and expelled from membership by his accountancy institute for deliberately disregarding his professional responsibilities and committing a very considerable breach of trust.

Case study 13: **Abuse of position**

A payments clerk submitted a bogus, internal request to change the bank details of a major creditor. The bank details were amended as requested without being verified with the creditor. As a result payments totalling £2.3 million were diverted into a third party bank

account. A further payment of £1.1 million was ready to be paid but was stopped when the fraud was discovered. The fraudster was dismissed and was prosecuted. All monies were recovered and internal procedures were strengthened.

Case study 14: **Abuse of position**

A head teacher contacted the council's internal audit team when the school's bank account became unaccountably overdrawn. A subsequent investigation revealed a number of irregularities including cheque fraud and false accounting. These were perpetrated by the school's business manager who made manually drawn cheques payable to himself and entered the payments in the financial accounting system as payments to suppliers used by the school. He was also responsible for the bank reconciliation and reclaimed VAT created through fictitious expenditure to cover the theft.

This generated a cash income stream which was offset against expenditure overspends elsewhere at the school. Investigations revealed that this activity was in excess of £500,000. The business manager made admissions to the sum of £67,551. He was prosecuted and sentenced to 14 months imprisonment after admitting the theft of £17,250. He asked for a further 12 offences to be taken into consideration relating to the false VAT claims. Recovery of the money was enacted under the Proceeds of Crime Act following prosecution.

Case study 15: **Abuse of position**

A senior finance officer stole more than £600,000 from vulnerable residents that were unable to deal with their own affairs. The officer worked for a council that had been appointed to act for the residents as a receiver by the Court of Protection. His victims included mentally ill and elderly residents. He stole large sums from them over a six-year period. Some of those affected are thought to have

died without them or their families knowing of the thefts from their accounts. The fraud was uncovered when an overdue internal audit of accounts revealed a series of irregular transactions. The officer was suspended by the council and after a police enquiry, was arrested and charged. At the time of his court appearance, he owned a second home in the Caribbean. A confiscation order was granted to the value of £360,000.

Case study 16: **Abuse of position**

The clerk of a parish council arranged to have all parish councillors (ten in total) included as co-signatories with him for council cheques. The clerk approached councillors to countersign his monthly salary cheque. Once councillors had become accustomed

to countersigning the cheques presented to them, the clerk approached a number of them separately each month with different cheques but for the same salary period. By the time the fraud was discovered, the clerk had stolen £80,000 – almost 70 per cent of the total annual spending by the council.

Case study 17: **Effective partnership working**

Following a tip-off from an alert social worker, a London borough'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 established that the fraudster was also at this time working at a care home and in receipt of a £17,650 bursary from the NHS while studying to be a nurse. The investigation further established that the alternative identity was also being used by the

fraudster's sister to work illegally in a hospital. A police raid on the fraudster's home found prescription drugs worth approximately £12,000 and forged documents. The fraudster was sentenced to three years imprisonment and her sister to 21 months. The husband of the fraudster pleaded guilty to possessing false documents, was jailed for eight months and then deported. The fraudster's brother-in-law was also found guilty of entering into a marriage in order to facilitate the sister's indefinite leave to remain in the UK and was sentenced to nine months imprisonment.

Case study 18: Proceeds of crime recovery

A fraudster used housing and council tax benefits that she had falsely claimed for over nine years to establish a large property portfolio. The fraud was first brought to the attention of the council through the NFI. Subsequent investigations established that £64,000 of benefits was fraudulently claimed and had been used to finance the purchase

of 11 properties. The fraudster pleaded guilty to 13 offences, was given a one-year sentence, suspended for two years and repaid all of the fraudulently claimed benefits. Following further court action in 2008, the council used the Proceeds of Crime Act to recover £159,000 in respect of assets gained through criminal activities.

Appendix 3 – Useful links

CIPFA

Better Governance Forum

<http://www.cipfanetworks.net/governance/>

CIPFA Red Book

http://www.cipfanetworks.net/fileupload/upload/Actions%20to%20Counter%20Fraud%20and%20Corruption%20Jan%202008.qxp_Layout%2011412008141147.pdf

Office of Fair Trading

OGC/OFT guidance

<http://www.ogc.gov.uk/documents/CP0144MakingCompetitionWorkForYou.pdf>

OECD Guidelines for fighting bid rigging in public procurement

<http://www.oecd.org/dataoecd/27/19/42851044.pdf>

<http://www.oecd.org/dataoecd/36/40/42594504.pdf>

<http://www.oecd.org/dataoecd/36/38/42594486.pdf>

Fraud Advisory Panel

http://www.fraudadvisorypanel.org/newsite/pdf_show.php?id=108

Appendix 4 – References

- 1 *Local Government Financial Statistics 19 2009*, Communities and Local Government, May 2009.
- 2 *Fraud and Error in the Benefit System*, Department for Work and Pensions, May 2009.
- 3 *Local Government Procurement Review*, Issue 12, 2008.
- 4 *Funding Adult Social Care in England: Briefing*, The King's Fund, March 2009.
- 5 *Fraud Barometer*, KPMG, January 2009.
- 6 *Getting the Balance Right*, Committee on Standards in Public Life, January 2005.
- 7 *Annual Survey 2007/08*, London Public Sector Counter Fraud Partnership, February 2009.
- 8 *Whistleblowing Arrangements Code of Practice 2008 (PAS 1998:2008)*, British Standards Institute, 2008.



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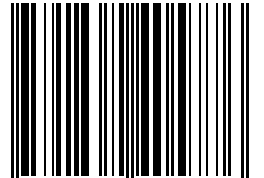
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