

Protecting the public purse 2010

Fighting fraud against local government and
local taxpayers

October 2010



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.

Contents

Summary and recommendations	4
Summary	5
Recommendations	6
Chapter 1: Background	8
Chapter 2: Detected fraud against councils and related bodies	11
Chapter 3: Protecting the public purse 2009 – update	15
Housing tenancy fraud	16
Council tax – single person discount	20
Recruitment fraud	22
Chapter 4: Significant fraud risks	25
Personal budgets (direct payments)	26
Procurement	29
Housing and council tax benefit	33
Chapter 5: Increasing impact – learning from others	35
Top-level commitment to fighting fraud	36
Managing the counter-fraud team	37
Managing specialist resources	38
Conclusion	40
References and appendices	42
Appendix 1: Checklist for those responsible for governance	43
Appendix 2: References	46

Summary and recommendations

Summary	5
Recommendations	6

Summary

Fraud continues to be a significant problem affecting the whole economy.

- Fraud causes annual losses of over £30 billion according to the National Fraud Authority (NFA). That means £620 is lost to fraud for each adult in the country. This is more than double previous estimates.
- In the public sector, fraud diverts resources away from those who need them.

For local government, our surveys show that, although detected fraud losses are low compared with total council spending of around £160 billion (Ref. 1), significant amounts of money are involved with:

- detected fraud in 2009/10 amounting to £135 million; and
- 119,000 individual fraud cases.

In *Protecting the Public Purse 2009*, we commented on specific fraud risks. In this report, we cover the progress that councils and others have made in tackling:

- housing tenancy fraud. Sixty councils reported that, in 2009/10, nearly 1,600 properties with a replacement value of around £240 million were recovered from unlawful tenants; and
- fraudulent claims for council tax discounts. More councils are taking this seriously and 48,000 fraudulent claims were stopped in 2009/10, increasing the local tax base by almost £15 million.

This report also shows how tackling fraud can help councils to get more value from taxpayers' money. Councils need to address fraud risks in significant areas of expenditure.

- One area of major change is the expansion of personal budgets for adult social care. If the full benefits of the new approach are to be realised safeguards will be needed to protect vulnerable people and to prevent financial loss.
- Councils should maintain their focus on housing and council tax benefit payments where they uncovered around 63,000 frauds and £99 million of fraudulent payments in 2009/10.
- Procurement is the single largest area of councils' expenditure, worth around £80 billion each year. More needs to be done to prevent and detect fraud and other illegal procurement activity that waste large sums of money.

As councils make significant cuts in budgets, it is essential they continue to maintain strong defences against fraud. In this report we include tools councils can use and examples of good practice including:

- adopting a zero-tolerance policy towards fraud and doing more to deter it;
- working with partners in the public and private sectors to overcome barriers to effective fraud fighting;
- making best use of information and intelligence; and
- taking legal action to recover fraud losses.

Fraud continues to be a significant problem affecting the whole economy

Safeguards will be needed to protect vulnerable people with the expansion of personal budgets.



Recommendations

We recommend councils:

- continue to focus on benefit fraud risks and use the National Fraud Initiative (NFI) and other data-matching schemes to maintain and improve their good performance in detecting benefit fraud;
- work together in county areas to share the costs and benefits of tackling council tax single person discount (SPD) fraud;
- use our comparator tool to decide whether to take more action to tackle SPD fraud;
- check claims for other council tax discounts are not fraudulent;
- make sure recruitment processes for permanent and temporary staff are secure, follow good practice and are working effectively;
- for personal budgets in adult social care:
 - establish a clear policy, which is communicated to budgetholders, on the appropriate use and unacceptable misuse of personal budgets; and
 - promote whistleblowing arrangements for staff, care providers and the public to encourage early identification of potential abuse;
- use recent advice from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office of Fair Trading (OFT) on procurement to ensure they are doing enough to prevent and detect procurement fraud and other illegal activities such as cartels;
- keep a comprehensive record of any frauds perpetrated against them; and
- use the checklist provided in this report to assess whether their counter-fraud plans and actions are effective in the light of the risks highlighted.

We recommend that registered housing providers (including councils):

- undertake tenancy audits to ensure only properly authorised tenants occupy their properties;
- treat unlawful tenancy cases as fraud, record them as such and take immediate action when they identify them;
- work with other housing providers to develop joint incentives to tackle housing tenancy fraud, such as sharing specialist investigative staff;
- where appropriate, consider taking legal action to target fraudulent profits; and
- use the Department of Communities and Local Government (CLG) guidance to check arrangements are effective for raising awareness and encouraging people to report their suspicions about housing tenancy fraud.

CLG may wish:

- to discuss with the NFA how best to continue the detected fraud survey for local government and related bodies.

Background

This chapter describes action taken since we published *Protecting the Public Purse 2009* to help local public bodies to counter fraud.

1 *Protecting the Public Purse 2009* (PPP) identified the steps councils had taken to improve their fraud defences but noted these improvements were not universal. In particular, it highlighted some high-risk fraud areas needing attention. These included housing tenancy, council tax SPD and staff recruitment. We estimated it may be possible to recover at least 50,000 social houses and SPD fraud could be costing local council taxpayers almost £2 million a week.

2 We produced a checklist to help councils review their performance and carried out more research into high-risk areas. In addition, we announced the launch of an annual survey to record the levels of detected fraud in local government.



The PPP checklist has helped councils review their performance.

3 Councils responded well to PPP 2009 and took positive action as a result. In this report we describe what has happened since 2009 and set out the findings from our fraud surveys for 2009 and 2010. We identify more fraud risks and urge local councils and related bodies to focus on them. The resulting savings could help bridge the gap in local budgets and ensure better use of taxpayers' money.

4 We also describe the action taken by some councils to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud.

5 In the current economic climate, when large spending cuts are necessary to rebalance public finances, councils face difficult decisions over priorities. Significant staff reductions may weaken controls. It is, therefore, essential councils continue to do all they can to ensure any loss of public money as a result of fraud is kept to a minimum.

6 We have written this report for those responsible for governance including councillors, non-executives and senior officers in councils and related bodies, particularly members of audit committees. Government departments, other national organisations and counter-fraud specialists may also find it relevant. You can find the checklist in Appendix 1 and our SPD tool developed as part of our 2010 work at <http://spd.audit-commission.gov.uk>

7 The Commission's PPP reports focus on local government, consider the key fraud risks facing councils and related bodies and identify good practice. In addition, the Commission has run the NFI data-matching exercise every two years since 1996. NFI compares data sets and identifies inconsistencies or circumstances that might suggest fraud or error. Participating bodies investigate the results from NFI.

Detected fraud
against councils
and related
bodies

In this chapter we report the results from our surveys of detected fraudⁱ committed against councils.

8 The latest estimate, produced by the NFA, says that fraud costs the national economy more than £30 billion a year. This represents over £620 a year for every man and woman in the UK (Ref. 2) and is more than twice the level of previous estimates. The NFA acknowledges this figure is a conservative estimate. Over half this fraud is against the public sector.

9 In PPP 2009, we undertook to conduct an annual survey of frauds detected by local councils and related bodies including police and fire authorities and probation boards.

10 The 2008/09 survey was voluntary and about 300 bodies took part, giving a return rate of 61 per cent. We made the submission of 2009/10 survey data mandatory and more than 450 public sector organisations responded, giving a return rate of 94 per cent. The survey results:

- provide information about emerging and changing fraud risks;
- help to identify good and poor practice; and
- enable us to estimate the total amount of detected frauds in local government.

119,000
frauds valued at
£135 million have
been detected by
councils and
related bodies

11 Our 2009/10 fraud survey shows:

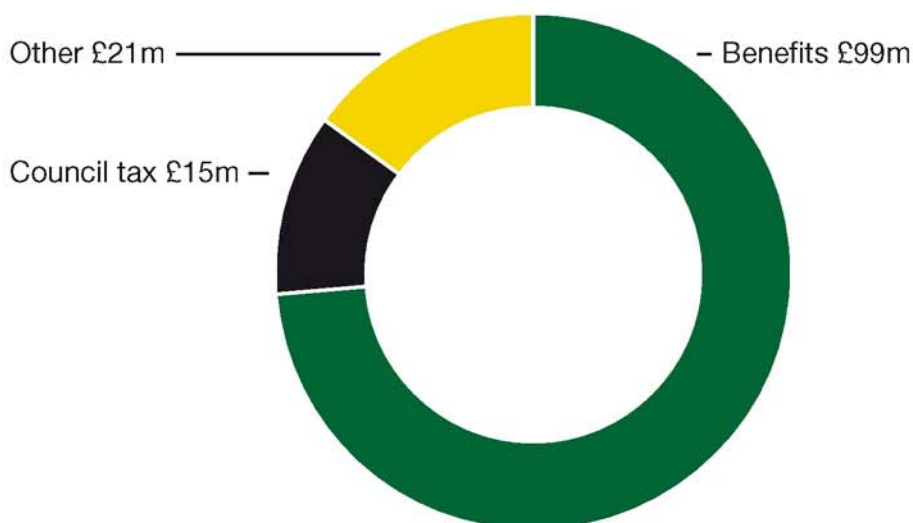
- councils and related bodies detected around 119,000 frauds valued at £135 million;
- there were 63,000 housing and council tax benefit cases amounting to a loss of £99 million. They represent almost three-quarters of the total detected frauds;
- councils also detected around 48,000 council tax frauds costing £15 million; and
- 7,000 other frauds were identified worth almost £21 million (see Table 1 for the six largest fraud types within this category).

12 In addition to the figures reported above, councils recovered almost 1,600 houses with a replacement cost of around £240 million, from unlawful tenants.

i For the purpose of this report, we define fraud as any intentional false representation, including failure to declare information or abuse of position which 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.

Figure 1: **Detected fraud 2009/10**

Most fraud related to housing benefit and council tax



Source: Audit Commission Survey

Table 1: **Other frauds**

The six largest fraud types within this category

Fraud type	No. of detected cases	Value £ million
Payroll, pensions & expenses	873	£3.3
False insurance claims	72	£2.8
Procurement	165	£2.7
Abuse of position	252	£2.0
Blue badge (disabled parking concessions)	4,097	£2.0
Social care	131	£1.4

Source: Audit Commission

13 Some councils do not record all types of fraud, or do not always classify all fraudulent activity as fraud. However, councils were able to provide information for the more traditional fraud risk areas such as housing benefits. For other types of fraud such as tenancy, SPD and recruitment, information was not comprehensive.

14 The increased participation of audited bodies in the 2009/10 survey enabled us to produce a regional breakdown of detected frauds (see Table 2). The figures reflect a combination of factors including the level of fraud, the resources applied to identify and investigate such fraud and the successful detection by councils within a region.

Table 2: Detected fraud by region

A regional analysis of detected frauds and losses

	Local government spending by region (per cent of total)	Detected frauds value £m (per cent of total)	Detected frauds number of cases (per cent of total)
East Midlands	7.3%	10.1 (7.5%)	9,000 (7.6%)
East of England	10.0%	8.8 (6.5%)	9,500 (8.0%)
London	21.4%	34.6 (25.7%)	22,300 (18.8%)
North East	5.5%	5.0 (3.7%)	7,700 (6.5%)
North West	12.9%	17.6 (13.1%)	23,300 (19.6%)
South East	15.0%	24.0 (17.8%)	15,000 (12.6%)
South West	8.1%	8.2 (6.1%)	7,700 (6.5%)
West Midlands	10.2%	12.9 (9.6%)	8,300 (7.0%)
Yorkshire and Humber	9.6%	13.4 (10.0%)	15,900 (13.4%)
TOTAL	100%	134.6 (100%)	118,700 (100%)

Source: Audit Commission Survey

Protecting the public purse 2009 – update

Housing tenancy fraud	16
Council tax – single person discount	20
Recruitment fraud	22

This chapter sets out the progress made in tackling the three significant fraud risks identified in PPP 2009.

15 In PPP 2009 we highlighted the growing risks associated with unauthorised housing tenancies, false SPD claims and recruitment frauds. We estimated the amounts lost through housing tenancy and SPD fraud while recognising the need to establish a more accurate loss assessment. We also pointed to the lack of published good practice in tackling these types of fraud. This section of the report provides an update of progress made since the publication of PPP 2009.

Housing tenancy fraud

16 There are nearly four million social housing properties in England, with an asset value of more than £180 billion (Ref. 3). Registered housing providers such as councils and housing associations are the guardians of these valuable assets. They should ensure only eligible and lawful tenants occupy their properties. The number of households on councils' housing waiting lists in 2009 was about 1.8 million (Ref. 4).

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

- the unauthorised sub-letting of a property for profit to individuals not allowed to live there by the conditions of the tenancy;
- submitting false information in a housing application to gain a tenancy; and
- wrongful tenancy succession where the property is no longer occupied by the original tenant.

18 Where there is a lack of social housing for homeless families, councils must house them in temporary accommodation. This costs nearly £1 billion each year, an average of £18,000 for each family in temporary accommodation (Ref. 5). In addition, the cost of building just one new unit of social housing is typically around £150,000.ⁱ Housing tenancy fraud is, therefore, one of the most significant types of fraud affecting the economy and the lives of those most in need.

19 In PPP 2009 we estimated control over the allocation of about 50,000 social housing properties in England with an asset value of more than £2 billion had been lost to housing tenancy fraud. This assumed a 2.5 per cent level of tenancy fraud in London and 1 per cent in other parts of the country. It reflects the views of many housing professionals that

i The replacement cost of £150,000 for each property is based on the January - March 2010 investment statistics from the Homes and Communities Agency. These show an average grant of over £69,000 for each property, which represents 46 per cent of the total scheme cost. This equates to a total cost of over £150,000 for each property.

the greatest opportunity for unlawful sub-letting is in metropolitan areas where the difference between social and private rentals is greatest. Our report recognised the need for more research to get a clearer picture of the prevalence and cost of housing tenancy fraud, particularly for the three-quarters of social housing outside London.

20 Since July 2009 there have been several initiatives including:

- CLG support and funding for councils and registered housing providers to tackle housing tenancy fraud, including taking part in the NFI;
- CLG best practice guidance on tackling unlawful sub-letting and occupancy, prepared with the Chartered Institute of Housing (CIH) (Ref. 6);
- schemes to encourage whistleblowing by those who suspect housing tenancy fraud; and
- independent reports on tackling housing tenancy fraud (Refs. 7 and 8).

21 The Audit Commission extended NFI to match housing tenancy records for participating councils and other housing providers. Data matches of tenancies that needed to be investigated were returned to 184 councils and 92 housing associations, and are currently being reviewed. Examples of action taken in 2010, including data matching, are provided in the following paragraphs.

22 In Hackney, it was recognised that most housing associations did not have suitably skilled and experienced investigators to tackle tenancy fraud. The Council used the CLG funding to employ a dedicated investigator to work in partnership with major registered housing providers to investigate individual referrals as well as undertake enquiries into the housing associations' NFI data matches. In the first three weeks of the exercise, the investigator examined more than 60 referrals of suspected fraud and 13 properties were recovered or a notice to leave was issued. In some cases, concerns about the tenancies had existed for several years.

23 The main benefit of this arrangement to the Council is that, under the terms of the local initiative, it receives the right to nominate someone from the Council's waiting list for a housing association property equivalent to the one repossessed as a result of a successful investigation. The benefit to the housing association is the specialist investigator manages the case up to the point where the evidence is of a high enough standard to present in court. Mostly, the standard is so high and the evidence so overwhelming that housing associations have had little trouble in recovering the keys to the property. This is a good example of the use of joint incentives in counter-fraud work others should consider. The approach resulted in a 'highly commended' award for Hackney Council from ALARM (Association of Local Authority Risk Managers).

24 In our 2009 report we said Camden Council increased the number of skilled tenancy investigators from two to five and recovered twice as many properties (86) as a result. In 2009/10, the Council again increased

the size of the team by a further two investigators and recovered 101 properties. This equates to an annual saving to the Council on temporary accommodation costs of almost £2 million. It would also have cost over £15 million to build an equivalent number of new properties. The cost of the investigations team in 2009/10 was around £250,000 inclusive of additional temporary staff recruited to deal with related special projects (for example, failure to gain access for annual gas safety checks).

1,600
social housing
properties were
recovered by 60
councils last
year

25 Our 2009/10 survey identified 60 councils that had recovered almost 1,600 social housing properties last year. Although most of these recoveries were in London, councils outside London, often working in partnership with local housing associations, have now begun to address housing tenancy fraud successfully.

26 Leeds City Council, in addition to a rolling programme of tenancy audits, encouraged whistleblowing by the public as a means of identifying suspected tenancy frauds. In total, this resulted in the Council recovering 20 properties in one year.

27 Birmingham City Council has developed a social housing counter-fraud strategy that includes data matching and the use of intelligence from its data warehouse. Matching the Council's data with Midland Heart Housing Association in May 2010 resulted in investigations into multiple tenancies and unlawful sub-letting, some of which are likely to result in the recovery of properties. This early success led to the development of partnership and data-sharing agreements to encourage more effective working practices between the Council and other housing associations. Since April 2010, the provision of such intelligence has supported the recovery of a further 13 council properties.

'As a large provider of social housing within the Midlands, we have a duty to tackle fraud and protect tenants' money as well as public funds. By identifying every fraudulent sub-let, Midland Heart will continue to house those in real need. A key element of the counter-fraud strategy is to undertake data-matching exercises with local authorities, an initiative that began in May 2010 and has had immediate results.'

Ruth Cooke, Finance Director, Midland Heart

**Councils outside
London have
now begun to
address housing
tenancy fraud**

28 Fraudsters sometimes gain significant extra income from unlawful tenancies. Although rarely used, civil recovery can target unlawful profits. Viridian Housing provides social housing in London, the South East and the Midlands and typically recovers one property each week from tenancy fraud. In addition, Viridian has been successful in tackling the issue of unlawful profit from tenancy frauds. Although it may not be suitable in all circumstances, registered housing providers should consider and seek legal advice on using civil law to recover fraudulent profits. Publicity regarding the successful recovery of such profits could also act as a deterrent to potential fraudsters.

Case study 1

A housing association charged a tenant £53 a week for a property in West London. The tenant fraudulently sub-let the property to a pensioner for £225 a week for nearly two and a half years. In addition, the pensioner paid a £2,000 deposit and, under duress, a penalty of £1,000 for a late payment of rent.

As a result of a tenancy audit, the housing association identified the unlawful sub-letting. As well as undertaking court action to recover possession of the property, the housing association claimed costs and damages for the profit made by the fraudster. The court made a possession order and awarded costs of £1,415 and £25,754 for the unlawful profit to the housing association, who also re-housed the pensioner.

Source: Audit Commission

‘In a world where there is a desperate shortage of affordable housing, we think it is just plain wrong to exploit the welfare state by unlawfully sub-letting. It undermines the sense of a fair society and what it means to be a good citizen. That is why we are not satisfied just with recovering our property but we also pursue fraudsters for civil recovery of the money stolen from us all. We, and almost all of our residents, want to send a strong message that we will not tolerate such behaviour.’

Matthew Fox, Chief Executive, Viridian Housing

29 Progress, however, is not universal. We found significant regional differences in the priority given to tackling housing tenancy fraud. Some providers still claim housing tenancy fraud is less significant outside London. Recent work shows it is an issue although the size of the problem is less clear.

30 Although detection is important, many councils have started to improve their prevention arrangements including:

- adopting a common housing tenancy counter-fraud strategy with other registered housing providers in their area;
- using photo-identification of tenants at application and allocation stages;
- clarifying tenants’ responsibilities in relation to sub-letting;
- using data matching to confirm applications; and
- gaining the support of senior management for tackling tenancy fraud.

There are regional differences in tackling housing tenancy fraud

All registered housing providers should treat unlawful tenancy cases as fraud and take action

31 All registered housing providers should treat unlawful tenancy cases as fraud and take action when they identify it. The nature of the action will be determined by the facts of individual cases. They should include requiring sub-tenants to return the unlawfully occupied property and profits made by unlawful landlords. Taking this action may help deter others from committing tenancy fraud.

32 The public has an important role in identifying fraud. Almost half of all currently identified incidents of unlawful sub-letting or occupancy originate from information received from the public. CLG guidance suggests activities and mechanisms to raise public awareness of the issues and to encourage the public to report suspected incidents. Registered housing providers should use the guidance to check their arrangements reflect good practice for raising awareness and encouraging people to report their suspicions about housing tenancy fraud.

Council tax – single person discount

33 In 2010/11, £26.3 billion will be raised from council tax in England (Ref. 9). The tax is collected locally and is a significant part (almost one-quarter) of the funding for council services. Householders may claim SPD where there are no other residents aged 18 or over living at that address. This is a 25 per cent discount on the individual's council tax bill.

SPD fraud is estimated to cost at least £90 million each year

34 Councils have noted a sharp increase in the number of people claiming SPD in recent years and an increasing number of fraudulent applications. In 2010, we analysed the results of action taken by 26 councils to tackle SPD fraud. We found fraudulent levels of claims were commonly between 4 and 6 per cent of SPD claims. This confirms our previous estimate that SPD fraud is costing at least £90 million each year.

35 Although nationally the number of SPD claimants represents about one-third of council taxpayers, the level at individual authorities varies between one-quarter and a half. A greater than average number of SPD claimants is not, in itself, proof of SPD fraud and there are usually good reasons for local variances. For example, a council with a large population of older people is more likely to have higher levels of SPD claimants. To help councils, we have developed a tool that allows them to compare their level of SPD with their predicted levels. This is calculated by using core census data. Local authorities can access the tool at <http://spd.audit-commission.gov.uk>

36 Some councils have been addressing SPD fraud for years, but still benefit from annual counter-fraud exercises. Harrow Council has actively tackled SPD fraud for the last five years using data matching and other financial checks. Although the Council now has the third-lowest percentage of SPD claimants in England it continues to take action against this type of fraud and is still saving taxpayers' money. In the five years since the Council

started this work, it has identified 2,386 claimants who were not entitled to claim the discount. The Council estimates, in total, it has recovered over £3 million of additional income and the council tax base for the current financial year has increased by approximately £1 million as a result.



A number of councils have worked together to prevent, investigate and detect council tax fraud.

37 Brent Council, with the help of NFI data matching, identified 1,200 people who were fraudulently claiming SPD on council tax. The Council recovered £800,000 from claimants and increased the tax base of the authority by £350,000 for subsequent years. The Council intends to prosecute a number of the fraudsters as a deterrent.

38 In PPP 2009 we noted some district councils had drawn attention to financial disincentives to tackling SPD fraud. In county areas, district councils bear the cost of council tax collection and the cost of prevention, investigation and detection of council tax fraud. Because of pooling arrangements, the county council may receive a larger share of any additional council tax collected. A county council could, therefore, benefit more from a fall in SPD fraud but not bear the costs of tackling the fraud.

39 In some county areas, district and county councils have worked together to address SPD fraud. The arrangements include sharing costs and extra revenue raised on a more equitable basis. Where partnerships have been created, there has been considerable impact. Councils across Leicestershire received an extra £1.3 million from council tax as a result of working together. In Warwickshire, significant benefits of around £1 million are predicted arising from joint action by districts and the county council. Nationally, these arrangements are not widespread and councils should do more to improve joint incentives.

£1.3m
of extra council tax was raised in one county by tackling SPD fraud in partnership

‘The last PPP report highlighted the potential size of council tax SPD fraud in Warwickshire. It reinforced the need to undertake a data-matching review and has provided us with a business case to agree an “invest to save” approach. All five district councils in Warwickshire working with the county council and police authority will undertake a full review of SPD during 2010/11. We predict that this will net a potential £1 million county-wide if the average error rate of 4 per cent is identified.’

Bob Trahern, Assistant Chief Executive (Community Engagement), North Warwickshire Borough Council

40 Our work in 2010 noted many examples of good practice all councils should consider when assessing their arrangements for preventing and detecting SPD fraud, including:

- innovative use of technology and effective partnership working with the private and public sectors. This includes enhanced data matching and full use of the information provided by NFI;
- granting amnesties to encourage claimants to inform councils of their fraudulent claims;
- adopting a risk-based approach to identifying potential SPD fraud because reviewing all SPD cases yearly may not represent the best use of scarce resources;
- considering, where appropriate, the use of prosecution or council tax financial administration penalties; and
- employing suitable verification checks at the first point of claim.

41 As well as SPD, other council tax allowances are available which, if claimed fraudulently, can have a significant financial impact on councils’ finances; for example, properties that are solely occupied by students are entitled to 100 per cent exemption from council tax. Councils should check these allowances are properly claimed.

42 Croydon Council identified more than 500 properties receiving student discounts amounting to more than £1.5 million each year. By undertaking a targeted review of these discounts, the Council found a significant number of students allegedly studying in about 30 fake colleges or false addresses in various parts of North and East London. Inquiries revealed some of the alleged colleges were actually local high street shops and restaurants. The Council made estimated annual savings of £104,000 by cancelling the fraudulently claimed discounts. The total cost of the investigation was around £5,000.

Recruitment fraud

43 Councils employ more than two million permanent staff (Ref. 10) and many thousands of temporary and agency staff. In PPP 2009 we underlined the importance of verifying the identity, qualifications and past employment records and, where appropriate, the criminal history of those already employed and those applying for posts with councils.

44 As a result, some councils have strengthened their recruitment and vetting procedures. Ealing Council adopted an enhanced vetting approach and found:

- in 2009/10, 6 per cent (3 per cent in 2008/09) of all successful candidates for a permanent position failed the vetting checks; and
- in 2009/10, almost 13 per cent (32 per cent in 2008/09) of all successful candidates for a temporary position failed the vetting checks.



Recruitment fraud is still a significant risk that councils need to address.

45 The main reasons for vetting failures included: job applicants had no right to work in the UK; false identification; false references; false work histories; false qualifications or they had committed benefit fraud.

46 Recruitment fraud is still a significant risk councils should address. The use of skilled vetting teams should be an important part of recruitment and a key measure in preventing employment fraud. All councils should satisfy themselves they are doing enough to ensure their recruitment processes for permanent and temporary staff are secure, meet good practice benchmarks and are working effectively.

Case study 2

A council applied vetting procedures before employing a temporary management accountant, who was a member of a recognised accounting institute, in a financially sensitive post. The applicant produced excellent references and reported being previously employed in similar roles by seven other councils. No employment concerns had ever been raised about the individual by any of her previous employers. However, checks by the council's specialist recruitment vetting officer found significant discrepancies with the applicant's identification documents. Further enquiries established she held passports for at least three different identities. The applicant was sentenced to 300 hours community service.

Source: Audit Commission

Significant fraud risks

Personal budgets (direct payments)	26
Procurement	29
Housing and council tax benefit	33

This chapter identifies some major fraud risks and what councils should do to tackle them.

47 Councils are facing a period of significant change. Cuts in funding and reduced staffing levels are occurring as demand for some services increases and the delivery of other services is transformed. Fewer staff may mean internal controls are undermined and fraud risks change. In this report we focus on risks to council activities where there is major change, evidence of continuing fraud and activities involving large annual spending, namely:

- personal budgets, in particular the use of direct payments for adult social care;
- procurement; and
- housing and council tax benefits.

Personal budgets (direct payments)

Councils increasingly use personal budgets to manage and deliver care

48 The provision of adult social care in England, currently costing over £16 billion each year, is undergoing significant change (Ref. 11). Councils increasingly use personal budgets to manage and deliver care. A personal budget is a direct allocation by a council of funding for an individual to spend on a support plan to meet an agreed set of needs. These budgets provide social care users with more choice and control over the support they receive by giving them the power to spend the money in the way most suitable for them. In March 2010, there were about 170,000 care users with personal budgets receiving about £900 million of care funding (Ref. 12). Further expansion is planned for the next few years.

49 Personal budgets are provided in various ways, including direct payments, to the care user. However, budgets may also be managed by the council, an independent care provider, family member, friend or by a mixture of these. Direct payments have been a feature of adult social care for over a decade and may soon account for between one-half and three-quarters of all personal budget spending. This represents a large increase in direct payments spending.

50 Fraud risks include:

- a person falsely claiming they require care. Although the potential for such fraud has always been present in the provision of adult social care, the direct access to funds afforded by direct payments is likely to be more attractive to potential fraudsters than traditional care packages;
- fraud by the person managing the personal budget of the person in need; and
- fraud by an organisation or person providing care to the person in need.

Case study 3

A registered social worker who was a former council employee received £25,000 in direct payments from that council to meet her care needs over a two-year period. When the care package was originally commissioned no medical evidence was provided to confirm the illness – supposedly a rare form of arthritis that would not have been easily detected through blood tests.

As a social worker and former employee of the council, the fraudster was well placed to exploit weaknesses in the direct payments system. To perpetrate the fraud, the fraudster interviewed a care provider with a view to having that person meet her care needs. Instead the fraudster used the interview to obtain personal information to steal the carer's identity that was then used to submit false claims to support the direct payments package.

The fraud was brought to the attention of the council by police as part of a separate enquiry. The fraudster was found guilty of two charges of fraud and received a 15-month custodial sentence and a confiscation order for £25,000 under the Proceeds of Crime Act.

Source: Audit Commission

51 It is too early to estimate how much fraud may be taking place with personal budgets. Experience to date of proven fraud with direct payments has been low. Where fraud cases have been reported, it is important to note social workers have played an important part in identifying them.

52 A care user may be totally dependent on others to manage their care and finances and could be confused or too embarrassed to report any abuse. The challenge facing councils in this changing environment is to encourage and support the innovative use of personal budgets and safeguard people adequately, while reducing the risk of fraud and financial abuse. Abuse of a personal budget is easier to perpetrate, harder to detect and more difficult to prove because individuals do not have to account for every pound they spend. Councils must ensure they have suitable safeguards within their personal budget processes.

Case study 4

A person was jailed for four and a half years for fraudulently claiming around £200,000 from a council, including £58,000 in direct care payments over several years. The person claimed to be paraplegic, bed-bound and requiring 24-hour care. No formal medical examination was undertaken by the council to verify the seriousness of the disability. Instead, the council relied on the Disability Living Allowance awarded by the Department for Work and Pensions as evidence of the disability. The fraudster also had several forged medical reports that she used to support her claim.

Using a different identity, she also ran a cafe in a property leased from the council on a low rent. The council intended to charge a market rent once the cafe was running at a profit. She misled the council by stating the cafe operated at a loss.

The funds gained from the public purse allowed the fraudster to lead an extravagant lifestyle. Subsequently, the council obtained evidence her disabilities were not as severe as she had claimed and the cafe was profitable. The council's investigation identified weaknesses in the direct payments system including a lack of expert medical evidence and insufficient rigour in the review process.

Source: Audit Commission

53 Our research has identified good practice by councils in tackling personal budget fraud, including:

- fraud awareness training for social workers;
- early involvement of counter-fraud specialists in identifying risks in the personal budget process and procedures;
- risk-based internal audit reviews of personal budget arrangements;
- establishing a clear council policy, which is communicated to budgetholders, on the appropriate use and unacceptable misuse of personal budgets, especially direct payments;
- use of payment cards; and
- good working relationships between counter-fraud and safeguarding teams.

The risk of fraud is reduced when social workers receive appropriate fraud awareness training

54 Social workers can play a key role in the personal budget process by ensuring the scope for financial abuse is kept to a minimum at the care plan assessment stage and in the monitoring and safeguarding process thereafter. We believe the risk of fraud is reduced when social workers receive appropriate fraud awareness training. This should include being made aware of the signs and consequences of fraud and of the need to work closely with audit and counter-fraud specialists should suspicions

arise. Councils should also seek to strengthen and promote whistleblowing arrangements among staff, care providers and the public to encourage early identification and reporting of fraud or financial abuse.

55 Key stakeholders and professionals recognise the risk that fraud and financial abuse can represent to the successful use of personal budgets, particularly direct payments. Councils should ensure that monitoring and safeguarding arrangements give due regard to the potentially damaging impact of fraud.

'A council performs its duty of care to provide social services when an individual agrees to take a direct payment. However, the duty of care continues with the requirement to monitor the success of the care plan to meet the needs of the vulnerable person. Fraud can have a direct and damaging impact on the outcomes of the care plan.'
Association of Directors of Adult Social Services. *Personalisation and the law: Implementing Putting People First in the Current Legal Framework*, October 2009.



Any fraud in the procurement process diverts funds away from public service provision.

56 Cases of financial abuse are difficult to detect and prove. A new working partnership between internal auditors, finance staff and care staff in councils is critical. The good practice we highlight in our report seeks to encourage councils to develop this.

Procurement

57 Councils spend around £80 billion each year buying goods and services from suppliers and funding major construction projects (Ref. 13). There is currently no credible estimate of the level of procurement fraud in local government. If only a small percentage of the total spending on procurement was lost through fraud, the potential cost to the public purse would be very significant.

58 A number of professional bodies and associations in the public and private sectors have recognised that more needs to be done to prevent and detect procurement fraud. Although the number of reported cases of procurement fraud is currently low compared to other types of fraud, this is likely to be a reflection of the lack of work in this area.

59 Any fraud in the procurement process diverts funds away from public service provision and reduces value for money for the taxpayer through substandard or unnecessary purchases. Councils may also pay more than necessary for the goods and services they buy. Losses can be large and the impact of the fraud damaging. Councils should also be aware that failure to undertake appropriate checks may negate any fidelity insurance policy.ⁱ This can result in failure to recover a loss.

Case study 5

A council used a worker provided by an employment agency to manage a project. The council placed the agency worker in charge of a large budget and he gave the project work to several contractors.

The budget was rapidly overspent and the council diverted money from other council budgets to continue the project. Following information from one of the contractors, the council discovered the agency worker had set up his own fictitious company and was making false claims for work done. The fraud itself amounted to over £110,000. Legal and investigation costs were of a similar scale.

The insurance company that issued the council's fidelity insurance policy refused to pay compensation because the council had not undertaken sufficient checks when recruiting the fraudster. The agency had undertaken what it considered to be reasonable employment checks but they did not meet the requirements of the fidelity insurance policy.

The agency worker was sentenced to two years' imprisonment. Further inquiries showed the fraudster had provided a false CV and had a previous conviction for a similar offence.

Source: Audit Commission

ⁱ Most frauds against councils are perpetrated by outsiders. Occasionally, a fraud may be carried out by a member of staff – an internal fraud. When other ways of recovering money lost because of an internal fraud have failed, councils may rely on external arrangements – that is, they buy insurance, normally called a fidelity guarantee policy.

60 Procurement fraud may involve external contractors, subcontractors or employees, or a combination of these colluding to perpetrate a fraud. The risks include bribery, failure to comply with contract criteria, unlawfully fixing bids for a contract, money laundering and submitting false claims. There are many points and stages within the procurement process where fraud risks exist. Timely and effective action can reduce the risks and provide significant savings to the public purse.

61 As a consequence of recent legislative changes, councils may be exposed to the risk of additional costs where procurement fraud leads to a contract not being issued in accordance with European Procurement Directives. This could mean unsuccessful bidders challenge the process and the council could face direct financial loss or possible claims from unsuccessful bidders for financial compensation. In such cases, the Courts may also set aside a signed contract thus involving the council in more cost in undertaking the procurement process again.

62 The work of the OFT on cartels provides an example of how widespread, costly and damaging procurement fraud and illegal activities can be. A cartel is an agreement between businesses not to compete with each other. The agreement is usually secret, oral and informal. Cartels are a form of anti-competitive behaviour costing the public purse hundreds of millions of pounds in poor value for money and losses. In 2009, the OFT finalised an investigation into alleged bid-rigging in major public and private sector building and construction contracts. It imposed fines totalling £129 million on 103 construction firms found guilty of unlawful collusion with competitors. During its investigations, the OFT uncovered evidence of cover pricingⁱ by 1,000 companies in over 4,000 contract tenders. The OFT described this illegal practice as widespread and endemic within the construction industry. The evidence to support this view is strong and could mean public contracts worth millions of pounds are affected.

63 The OFT has produced guidance for public bodies to reduce the risk of illegal practices affecting the way they award and allocate contracts. Disappointingly, despite their warning, action to prevent cartels has not been widespread. CIPFA can also help councils to improve their procurement arrangements (Ref. 14). Those responsible for governance should ensure their organisation has:

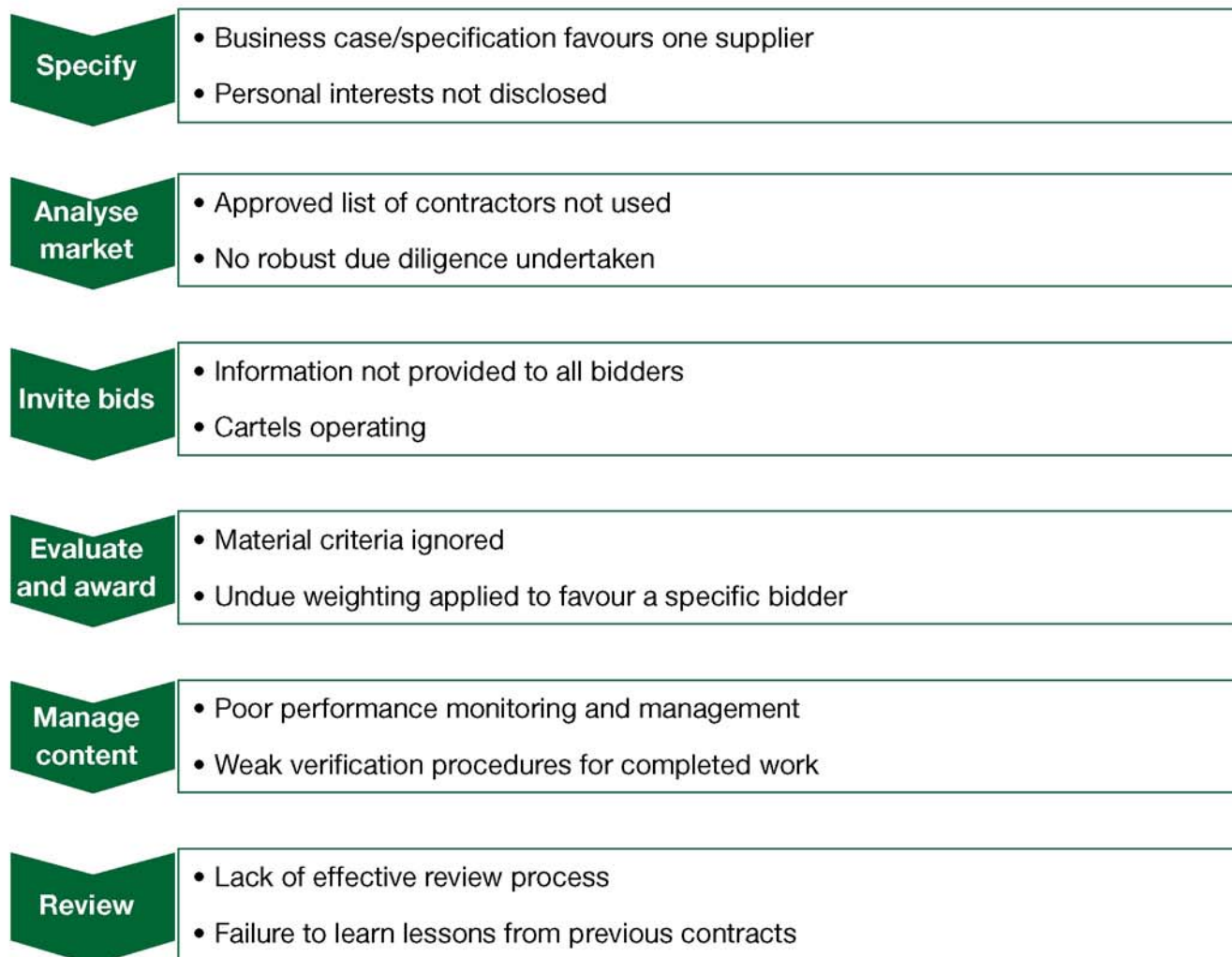
- effective corporate procurement arrangements, by comparing their arrangements with good practice;
- proper arrangements for reporting suspected fraudulent or unethical behaviour;
- included procurement in the annual internal audit programme; and
- ensured frauds detected and lessons learned are shared effectively throughout the council.

ⁱ Cover pricing is the practice where bidders for a contract secretly agree the prices they will submit. A bidder that does not wish to win the contract submits a price that is much too high and in some cases is then rewarded with a secret payment from the successful bidder.

64 Procurement fraud is not always easy to detect but should be a priority for councils and their counter-fraud staff. Figure 2 includes some of the key risks councils face.

Figure 2: **Procurement – the stages and some examples of risks**

Fraud may occur at any stage in the procurement process.



Source: Audit Commission

65 In 2008/09, Lambeth Council spent £531 million on purchases and contracts. A Corporate Procurement Team advises officers across the Council on contracting, commissioning and procurement. Strategic and departmental boards oversee procurement. The Council developed a four-stage procurement process, which includes counter-fraud and loss prevention measures. The Council has satisfied itself the requirements and limits within these processes, such as delegation levels, are robust and include checks on procurement requirements.

66 The Council's electronic contracts register contains key information for all contracts valued at £25,000 or more. The register, which is linked to the Council's finance system, enables departmental boards and staff to oversee procurement throughout each stage and across the Council as a whole. This helps to strengthen the authorisation and purchase order processes.

67 The Council undertakes post-implementation reviews that help to ensure promised outcomes have been achieved.

Housing and council tax benefit

68 In 2009/10, almost £22 billion of housing and council tax benefit was paid by councils in England (Ref. 15). Between April 2008 and March 2010, according to the results of our surveys, councils detected over 150,000 fraudulent claims for benefits with losses of nearly £200 million.



National and local data-matching tools have helped councils detect fraud.

69 Councils use various tools such as national and local data-matching exercises that can be provided by public or private sector organisations to help them detect fraud. Outcomes are significant and show preventing and detecting housing and council tax benefit fraud are still important areas for councils.

70 Islington Council's Housing Benefit Service was the target of a sophisticated and organised fraud based on the use of false identity documents. By June 2010, 70 false claims had been identified and cancelled. This has resulted in a yearly saving to the council of more than £700,000. Information about the fraud was passed to Camden Council to ascertain whether the fraud had crossed Council boundaries. By June 2010, Camden discovered 20 claims where fake passports were used as identification. All of these claims have been cancelled with overpayments totalling more than £250,000. Details of the fraud have now been circulated to all councils in London.

**£5.8m
of overpayments
were uncovered
by Birmingham
City Council**

71 As part of the Council's Internal Audit Section, Birmingham City Council has two teams to tackle benefit fraud. One is responsible for processing all potential fraud cases. It decides whether each case is to be investigated fully using a risk-based scoring system that assesses the quality of an allegation or referral. Once it has decided a case is suitable for further investigation, it passes it to the second team. An investigator is assigned to each case. The investigator makes enquiries, interviews the benefit recipient and third parties and conducts an interview under caution.

72 Over the last three years, the Council has:

- identified almost 18,000 cases of suspected fraud or error;
- prosecuted, cautioned or given an administrative penalty (a fine equivalent to 30 per cent of the overpayment) to about 1,400 people;
- uncovered £5.8 million in overpayments; and
- prevented overpayments of around £3 million.

73 The two fraud teams work closely with other council departments such as Benefits, Council Tax, Licensing, Leisure, Trading Standards and the Blue Badge Parking Concessions Team. These services refer large numbers of fraud cases. The teams also provide advice and fraud awareness to council staff through DVDs, leaflets and training sessions.

74 Councils should continue to focus on benefit fraud risks and use such examples of good practice to maintain and, where appropriate, improve on previous performance in detecting benefit fraud.

Increasing impact – learning from others

Top-level commitment to fighting fraud	36
Managing the counter-fraud team	37
Managing specialist resources	38

This chapter describes some of the impressive work councils have undertaken in their fight against fraud and recommends others learn from them.

75 Learning from others is a cost-effective means of maintaining or improving performance. With the agreement of those councils named, we report just a small part of the good practice in counter-fraud work we have seen over the last year.

‘One of the first steps in dealing with fraud is admitting it exists.’

Mike Suarez, Executive Director of Finance and Resources, Lambeth Council

Top-level commitment to fighting fraud

76 For counter-fraud work to be effective, top management must be committed to fighting fraud.

77 Lambeth Council adopts a zero-tolerance approach to tackling fraud. Senior officers and councillors – from the Council’s Leader through to the Audit Committee – fully support the approach. Successes in tackling fraud are made public to act as a deterrent. Establishing and working in partnership with internal and external groups is also a large part of the Council’s way of working. Partnership working, including councillors and staff, brings together all the expertise across Council departments. Good communications mean key messages are given internally and externally – for example, the successful recovery of housing properties from tenancy fraudsters.

78 The effective management of fraud risks requires a corporate response and senior officer commitment. Portsmouth City Council has achieved this, in part, by creating an Investigation Steering Panel. The Panel oversees the City’s counter-fraud policy and response plan as well as forensic or financial investigations. It ensures preventive measures address any identified weaknesses.

79 The Panel meets fortnightly. Some of the Council’s most senior officers including the Strategic Director (Section 151 officer)ⁱ, the Monitoring Officer, Head of Human Resources and Chief Internal Auditor are members. This high-level commitment provides a clear message from the top of the organisation that fraud will not be tolerated at the Council. It also helps the organisation to take a strategic view of fraud and provide Council-wide solutions.

ⁱ Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

80 In PPP 2009 we recommended councils check the management of their counter-fraud resources against the good practice identified by CIPFA in *Managing the Risk of Fraud* (commonly referred to as the Red Book) (Ref. 16). Some authorities have subsequently done this and agreed actions to address weaknesses identified.

81 Some councils have also used the checklist provided in PPP 2009. As a result, a number have established a more coordinated approach to tackling fraud, increased the dedicated resources available and refocused their counter-fraud activities. Fraud is identified as a corporate risk in an increasing number of councils. Partnership links with other public sector organisations are being forged and some councils have established a central point for recording and monitoring fraud risks and trends.

82 Ealing Council has sought to ensure current fraud risk management practices continue to keep pace with recognised good practice. To facilitate this, the Council compared its arrangements against CIPFA guidance, the PPP 2009 checklist and results of work by the London Boroughs' Fraud Investigators Group. Although it confirmed many areas of good practice, the Council recognised it needed to align some activities more closely with recognised good practice. This included:

- identifying potential new fraud risks, including voluntary sector grant, foster parent payments and personal budget fraud. The Council is currently reviewing them; and
- refocusing counter-fraud activity on housing tenancy fraud, resulting in a 43 per cent increase in the number of referrals for further investigation.

83 Wirral Council, although identifying many areas of good practice in its counter-fraud activities, decided to set up a Corporate Counter-fraud Team. It has updated its counter-fraud policies, improved the specialist skills of Team members and included fraud, for the first time, in the Council's corporate risk register.

Managing the counter-fraud team

84 Counter-fraud teams should ensure they can demonstrate their effectiveness and the contribution they make to preventing and detecting fraud perpetrated against their councils. Teams should set clear targets, expected outcomes, undertake fraud risk assessments and report regularly to those charged with governance.

85 As part of the Finance Service, Oxford City Council's Investigation Team conducts all fraud investigations. The Head of Finance approves the Team's annual service plan and targets. The outcomes of benefit investigations are reported twice each year to the Audit and Governance Committee and the results of all other investigations to every meeting.

Fraud prevention requires a concerted response

86 The Team is responsible for coordinating the Council's action on NFI data matching and matches are examined using an enhanced risk-based approach. Savings have amounted to more than £318,000.

87 Working in partnership with the Jobcentre Plus Investigation Service, the Team has also helped save more than £280,000 in other welfare benefits overpayments.

88 The Council's fraud management system, which is used to assess the risk of all fraud referrals, enables weighted risk assessments according to identified risk factors such as location or referral source. The risk assessment is also weighted to ensure a referral is fully investigated where specific details have been provided as part of the allegation, for example, the name of an employer. The higher the score, the more likely the investigation will have a successful outcome. In this way, the Team focuses on risk, working smarter and achieving better results.

89 The Institute of Revenues Rating and Valuation (IRRV) is the professional body specialising in administering all aspects of housing and council tax benefit. Each year it presents an award for excellence in counter-fraud work alongside its awards for other aspects of revenues and benefits administration. In 2009, the winner was Coventry City Council in partnership with North Warwickshire Borough Council and Rugby Council.

90 The IRRV was impressed by the performance of the three councils and other partners in tackling fraud together. Joined-up working resulted in the delivery of a pilot project with the Department for Work and Pensions that targeted benefit fraud across the three councils, examined all available information sources and tested the prosecution process in the various organisations. The project resulted in 14 prosecutions, 3 cautions and 3 withdrawals of benefit. The total fraudulent overpayments identified exceeded £200,000 including one case of over £40,000.

Managing specialist resources

91 Lambeth Council employs a full-time insurance investigator whose work involves speeding up legitimate claims and challenging exaggerated ones. In doing so, the investigator has uncovered significant frauds.

92 As a result of the investigator's work, the Council introduced more focused checks at an early stage of claim processing so false claims could be identified sooner. While the number of insurance claims has remained constant, the Council has detected more frauds since the investigator was appointed. The Council estimates it has saved around £1.4 million in claim settlements and associated costs, such as legal and loss adjusters' fees. The learning gained from the claims investigated is used to improve future working practices. For example, front-line staff receive a checklist of things to look out for when conducting home visits and this has raised fraud awareness and improved detection.

93 The police also seconded an officer to the Council's Internal Audit Team to help with handling fraud cases and improve the detection and prosecution of offenders. The officer can arrest suspected fraudsters and interview them under caution. This reinforces the Council's zero tolerance of fraud. The Council pays half the costs of this officer but the savings achieved more than cover the costs. The officer was involved in over 40 cases during 2009/10, where the Council recovered at least £285,000. A further £236,000 is still under investigation. The Council believes the officer's secondment has had a major impact on fraud deterrence and prevention, and has successfully linked police powers with the expertise and local knowledge of Council officers.

94 The Proceeds of Crime Act 2002 allows councils to use powers previously only available to police and Her Majesty's Revenue and Customs to confiscate assets gained through criminal activities. A council first undertakes a financial investigation that must be carried out by specialist staff – an accredited Financial Investigator (FI). Once someone has been convicted of an offence in a criminal court, the council can apply for confiscation of assets identified as proceeds of crime. This can include money, houses, goods, cars, shares or any other assets the FI identifies.

95 The employment and training of FIs is expensive. Accreditation is undertaken by the National Policing Improvement Agency and can take two years. Sharing specialist staff is, however, a cost-effective alternative. Kirklees Council has created a shared Financial Investigation Service. The Service is available to the Council's law enforcement departments as well as external agencies throughout the public sector. Customers include Bradford, Calderdale, Leeds and Wakefield Councils and West Yorkshire Trading Standards. All customers who use the shared service sign a customer agreement that enables the Service to conduct investigations under the Proceeds of Crime Act on their behalf. The Service is still developing, but is already proving successful, by identifying and recovering assets gained from criminal activity.

Sharing specialist staff is cost-effective for councils

Conclusion

This chapter sums up what public organisations need to do to maximise the effectiveness of their counter-fraud resources.

96 Fraud prevention and detection requires a concerted response. PPP reports have helped by encouraging organisations to work together to share information and benefit from specialist expertise. By joining forces, councils and related bodies can take effective action to stay one step ahead in the fight against fraud.

97 With the recently announced abolition of the Audit Commission, our detected fraud survey for local government and the publication of the results will cease. The survey provides valuable information about the performance of local government in tackling fraud. It also helps to identify emerging fraud risks and provides an early warning system for counter-fraud staff. The 2011 survey will be the last one we carry out. CLG may wish to discuss with the NFA how best to continue this important work.

References and appendices

Appendix 1: Checklist for those responsible for governance	43
Appendix 2: References	46

Appendix 1: Checklist for those responsible for governance

General	Yes	No	2009 Action	2010 Update
1. Do we have a zero-tolerance policy towards fraud?				
2. Do we have an appropriate approach, counter-fraud strategies, policies and plans?				
3. Do we have dedicated counter-fraud resources?				
4. Do the resources cover all 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; ■ elected members; and ■ our contractors? 				
8. Do we work appropriately with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?				
9. Have we agreed to work with relevant organisations to ensure effective sharing of knowledge and data about fraud?				
10. Do we identify areas where our internal controls may not be performing as well as intended?				
11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports from it on outcomes?				

General	Yes	No	2009 Action	2010 Update
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?				
13. Do we have effective whistleblowing arrangements?				
14. Do we have effective fidelity insurance arrangements?				
Fighting fraud in the post-recession environment	Yes	No	2009 Action	2010 Update
15. Have we reassessed our fraud risks in the light of the current financial climate?				
16. Have we amended our counter-fraud action plan as a result?				
17. Have we reallocated staff as a result?				
Current risks and issues	Yes	No	2009 Action	2010 Update
Housing tenancy				
18. Do we take effective action to ensure that social housing is allocated only to those who are eligible?				
19. Do we ensure that social housing is occupied by those to whom it is allocated?				
Procurement				
20. Are we satisfied procurement controls are working as intended?				
21. Have we reviewed our contract letting procedures since the investigations by the OFT into cartels and compared them with best practice?				

Current risks and issues	Yes	No	2009 Action	2010 Update
Recruitment				
<p>22. Are we satisfied our recruitment procedures:</p> <ul style="list-style-type: none"> ■ prevent the employment of people working under false identities; ■ validate employment references effectively; ■ ensure applicants are eligible to work in the UK; and ■ ensure agencies supplying us with staff to undertake the checks that we require? 				
Personal budgets				
<p>23. Where we are expanding the use of personal budgets for social care, in particular direct payments, have we introduced appropriate safeguarding arrangements proportionate to risk and in line with recommended good practice?</p>				
Council tax				
<p>24. Are we effectively controlling the discounts and allowances we give to council taxpayers?</p>				
Housing and council tax benefits				
<p>25. In tackling housing and council tax benefit fraud do we make full use of:</p> <ul style="list-style-type: none"> ■ the NFI; ■ Department for Work and Pensions Housing Benefit Matching Service; ■ internal data matching; and ■ private sector data matching? 				

Appendix 2: References

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