

# Protecting the public purse 2014

Fighting fraud against local government

October 2014



**The Audit Commission's role is to protect the public purse.**

**We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.**

**We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.**

**We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.**

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## Summary and recommendations

**This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before we close in March 2015. It draws on the learning from the Commission's 25-year experience in counter-fraud in local government.**

- The Commission published *PPP* reports from 1991 to 2000 and again from 2009 to 2014. *PPP* reports have:
  - raised awareness of the importance of fighting fraud;
  - promoted transparency and accountability about counter-fraud in local government bodies;
  - improved data on fraud detection, including benchmarking; and
  - promoted good practice in fighting fraud.

**The scale of fraud against local government is large, but difficult to quantify with precision.**

- In 2013, the National Fraud Authority estimated that fraud cost local government £2.1 billion, but this is probably an underestimate.
- Each pound lost to fraud reduces the ability of local authorities to provide public services.
- The more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may be a positive sign that councils take fraud seriously rather than a sign of weakening of controls.

**In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, their value increased by 6 per cent.**

- The number of detected cases fell by 3 per cent to just over 104,000, while their value increased by 6 per cent to over £188 million.
- The number of detected cases of **housing benefit and council tax benefit fraud** fell by 1 per cent to nearly 47,000, while their value rose by 7 per cent to nearly £129 million.
- The number of detected cases of **non-benefit fraud** fell by 4 per cent to just over 57,400, while their value rose by 2 per cent to £59 million.

**In the past 5 years, councils have shifted their focus from benefit fraud to non-benefit fraud. From 2016, they will no longer deal with benefit fraud.**

- Between 1991 and 2000, nearly all fraud detected by councils was for housing benefit and later council tax benefit. During this time, councils had financial incentives to look for those frauds.
- These incentives ended in 2006, and councils have increasingly focused on non-benefit fraud in the past five years. Benefit frauds still comprise 45 per cent of all cases of detected fraud, and 69 per cent of their value.
- By 2016, all benefit fraud investigation will have transferred from councils to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions. The government's funding of £16 million from 2014, awarded under competitive bidding, to help councils refocus their efforts on non-benefit fraud during the transition will end at the same time.

**Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies.**

- Between 2009/10 and 2013/14, councils consistently detected more **council tax discount fraud** than any other type of non-benefit fraud. In the most recent year, nearly 50,000 cases were found, worth £16.9 million.
- Detected **Right to Buy** fraud cases have increased nearly five-fold since 2009/10 to 193 per year. In 2013/14 these were worth £12.3 million. The rise in the number of these frauds followed large increases in the discount threshold over this period.
- The number of detected cases of **social care** fraud has more than trebled since 2009/10 to 438. In 2013/14, they were worth £6.2 million.
- Detected cases of **insurance** fraud rose from 72 in 2009/10 to 226 in 2013/14 and were worth £4.8 million.

**Overall, councils are detecting more non-benefit frauds, but detection rates for some types of frauds have fallen.**

- In 2010/11, councils detected 319 cases of **business rates** fraud worth £5.7 million. In 2013/14, they detected 84 cases worth £1.2 million.
- In 2010/11, councils detected 145 cases of **procurement** fraud worth nearly £14.6 million. In 2013/14, they detected 127 cases worth less than £4.5 million.

- A small minority of 39 councils **failed to detect any non-benefit frauds** in 2013/14. This number is down by more than half since 2012/13, which is encouraging. Our experience suggests it is extremely unlikely that no non-benefit fraud occurred at these councils.
- Councils believe that organised criminals present a low risk of fraud, but there is concern that organised crime is more prevalent in procurement fraud.

### **Councils are detecting more housing tenancy fraud**

- The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year to 3,030.
- In 2013/14, councils outside London recovered more than two in five (40 per cent) of these homes. This represents a marked improvement in their performance. In 2009, when the Audit Commission's *PPP* reports first highlighted this issue, councils outside London accounted for less than 5 per cent of all social homes recovered.
- These figures do not include fraud against housing associations, which provide the majority of social homes.

### **... and more fraud in schools.**

- Detected cases of fraud in maintained schools have risen by 6 per cent to 206, worth £2.3 million. We have no data on fraud in non-maintained schools.
- Most of these frauds were committed by staff, suggesting that some schools may have weak governance arrangements that mean they are more vulnerable to fraud.

### **Local government bodies have a duty to protect the public purse. A corporate approach to tackling fraud helps them to be effective stewards of scarce public resources and involves a number of core components.**

- **Prevention and deterrence:** it is not currently possible to quantify accurately the financial benefit from deterring fraud, but professionals in the field believe the prospect of detection is the most powerful deterrent. Councils should widely publicise what fraud is, the likelihood of detection, and the penalties fraudsters face.
- **Investigation and detection:** between 2009/10 and 2013/14, the mean average number of full time equivalent (FTE) fraud investigators employed by councils declined steadily from 5.2 to 4.7, a fall of 10 per cent over the period. Our analysis suggests that a fall in FTE numbers is associated with lower fraud detection levels (see Chapter 4).

- **Recovery and redress:** after 2016, when central government no longer contributes funds for counter-fraud activity, councils will need to recover more losses than they have in the past. They can use legislation such as the Proceeds of Crime Act to do so.
- **Openness and transparency:** councils should look for fraud and record how many frauds they detect. Doing so would show leadership, allow them to compare their performance with other organisations, and alert them to emerging fraud risks more effectively.
- In 2013, only three in five (62 per cent) councils took up the offer of receiving one of the Commission's new **fraud briefings**, which contain comparative information on their detection levels.

**From April 2015, the Commission's counter-fraud activities will transfer to new organisations.**

- When the Commission closes, the National Fraud Initiative's (NFI) data matching service will transfer to the Cabinet Office.
- The remainder of our counter-fraud staff and functions, including the *PPP* series and fraud briefings, will transfer to the Counter Fraud Centre, run by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Recommendations

### All local government bodies should:

- a) use our checklist for councillors and others responsible for audit and governance (Appendix 2) to review their counter-fraud arrangements (Para. 120);
- b) adopt a corporate approach to fighting fraud, to ensure they fulfil their stewardship role and protect the public purse from fraud (Para. 78);
- c) actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI) (Para. 6);
- d) assess themselves against the framework in CIPFA's new Code of Practice on Managing the Risk of Fraud and Corruption (Para. 115); and
- e) engage fully with the new CIPFA Counter Fraud Centre (Para. 132).

### Councils in particular should:

- f) protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud (Para. 100);
- g) be alert to the risk of organised crime, notably in procurement (Para. 31);
- h) be alert to the risks of fraud, particularly in growing risk areas such as Right to Buy (Para. 51) and social care (Para. 54);
- i) apply the lessons from the approach encouraged by *PPP* to tackle housing tenancy fraud, to other types of fraud (Para. 57);
- j) focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources (Para. 80);
- k) focus more on recovering losses from fraud, using legislation such as the Proceeds of Crime Act (Para. 114); and
- l) take up the Commission's offer of receiving a fraud briefing to help them benchmark their performance and promote greater transparency and accountability (Para. 129).



**The government should consider:**

- m) mandating local government bodies to complete the annual survey of detected fraud and corruption, to ensure it remains a comprehensive and robust source of data on fraud in the local public sector (Para. 125);
- n) extending the requirement to report information on detected cases of fraud to academies and free schools (Para. 48);
- o) commissioning research into the extent of the annual loss to local authority fraud and the costs and benefits of fraud prevention activities (Para. 83);
- p) encouraging CIPFA to use the detected fraud and corruption survey in the future to investigate the extent to which fraudsters use digital and on-line technology to defraud local government (Para. 85);
- q) extending powers for councils to investigate all frauds, to protect the public purse (Para. 91); and
- r) working with councils to anticipate and mitigate any unintended risks of fraud created by new policies (Para. 42).

# Chapter 1: Introduction

**This is the last report in the *Protecting the public purse (PPP)* series from the Audit Commission before it closes at the end of March 2015.**

**1** The first series of *PPP* reports ran from 1991 to 2000. After a gap of nine years, we relaunched the series following requests from local government bodies. Since then, we have reported figures on fraud detected by those organisations each year.

**2** As in earlier reports, *PPP 2014* describes year-on-year changes in cases and values of detected fraud, based on the Commission's annual survey of local government bodies. As it is the last report in this series, it also describes trends in the past five years, and draws on the learning from the Commission's 25-year experience in counter-fraud in local government.

**3** *PPP 2014* aims to inform the development of effective counter-fraud in local government after the Commission closes. It is designed for those responsible for governance in local government, particularly councillors, and describes:

- the amount of detected fraud reported by local government bodies<sup>i</sup> in 2013/14, compared with 2012/13 (Chapter 2);
- longer term trends (up to 25 years) in levels of detected fraud, and the lessons local government bodies can draw from this information (Chapter 3);
- the effective stewardship of the public purse, including taking measures to recover losses from fraud (Chapter 4); and
- measures to build on *PPP*'s legacy, so that local government bodies can continue to protect the public purse (Chapter 5).

**i** For the purposes of this survey we define fraud as an 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 management authorised action has been taken including, but not limited to, disciplinary action, civil action or criminal prosecution.

4 Appendices to this report contain:

- data tables of detected frauds and losses by region (Appendix 1);
- an updated counter-fraud checklist for those responsible for governance (Appendix 2); and
- case studies highlighting use of legislation, in particular the Proceeds of Crime Act, to recover monies from fraudsters (Appendix 3).

5 Each *PPP* report has identified the scale of detected fraud and the damage it causes<sup>i</sup>.

### **The scale and impact of fraud**

- Local government fraud involves substantial loss to the public purse. The most recent estimate of the annual loss to local government was £2.1 billion, excluding benefit fraud (Ref.1).
- This almost certainly underestimates the true cost of fraud. For example, it does not include fraud in major services such as education and social care.
- Each pound lost to fraud represents a loss to the public purse and reduces the ability of local government bodies to provide services to people who need them. Fraud is never a victimless crime.

*Source: Audit Commission*

### **The changing counter-fraud landscape**

6 When the Commission closes, its National Fraud Initiative (NFI) data matching service will transfer to the Cabinet Office. The remaining counter-fraud functions of the Commission will transfer to the new Counter Fraud Centre, launched in July 2014 by the Chartered Institute of Public Finance and Accountancy (CIPFA).

7 The CIPFA Counter Fraud Centre will also publish the next *Fighting Fraud Locally* strategy for local government, following the closure of the National Fraud Authority (NFA) in March 2014. However, there are no arrangements to continue the NFA's *Annual Fraud Indicator*, in particular, which is the annual estimate of the level of fraud committed against local authorities.

i Audit Commission reports can be obtained through this link: <http://www.audit-commission.gov.uk/information-and-analysis/national-studies/>

8 Other changes include the creation of the National Crime Agency, established in 2014, which has taken over some of the activities previously carried out by the Serious and Organised Crime Agency (SOCA).

9 For councils, the most important change in their counter-fraud arrangements is the transfer of most of their benefit fraud investigators to the Single Fraud Investigation Service (SFIS), which is managed by the Department for Work and Pensions (DWP). The transition to the SFIS began in July 2014 and will be complete by March 2016.

10 The Department for Communities and Local Government (DCLG) has awarded £16 million through a challenge fund for two years from 2014. Councils whose bids were successful will receive a share of this fund to support their efforts to refocus their counter-fraud activities on non-benefit fraud during the implementation of the SFIS. Similar funding may not be available to councils in the future.

### The main issues councils face in tackling fraud

11 Because of these changes, the 2014 survey asked councils to identify the top three issues they face in tackling fraud. Councils report that the single most important issue is the need to ensure they have enough counter-fraud capacity (Figure 1).

Figure 1: Main issues faced by councils in tackling fraud



**Top 3**  
issues for councils:  
capacity, data-sharing and corporate recognition of the financial benefits of tackling fraud

Source: Audit Commission (2014)

12 In the survey, councils identified other concerns that indicate a need for a more effective corporate approach to fighting fraud. These include:

- collecting and using data effectively;
- understanding the importance of the financial benefits of fighting fraud;
- the need for effective risk management;
- improving counter-fraud staff skills; and
- partnership working.

13 *PPP 2014* addresses all these issues. Chapter 2 sets out the scale of the fraud they relate to, and how this has changed since 2012/13.

## Chapter 2: The latest figures on detected fraud in councils

**Local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in *PPP 2013*. However, the value of losses from detected fraud increased.**

**14** Each *PPP* report draws on data collected by the Commission's annual survey of detected fraud in local government bodies. *PPP 2014* uses data from the 2014 survey, which covered the 2013/14 financial year.

**15** The latest survey achieved a 100 per cent response rate, with responses from 494 local government bodies<sup>i</sup>. These results:

- map the volume and value of different types of detected fraud;
- provide information about emerging and changing fraud risks; and
- help to identify good practice in tackling fraud.

**16** Local government bodies detected fewer frauds in 2013/14 (just over 104,000) compared to the previous year (just under 107,000) (Table 1). The value of fraud detected in 2013/14 increased over the previous year, rising from £178 million to £188 million.

**100%** of local government bodies surveyed for *PPP 2014* responded

**£188 million**, of local government fraud detected in 2013/14, the highest value on record

<sup>i</sup> All English principal councils, local authorities for parks, waste, transport, fire and rescue, and Police and Crime Commissioners are required to complete the survey.

**Table 1: Cases and value of detected fraud, excluding tenancy fraud<sup>i</sup> - Change between 2012/13 and 2013/14**

Type of fraud	For detected fraud in 2013/14 (excludes tenancy fraud)	For detected fraud in 2012/13 (excludes tenancy fraud)	Change in detected fraud 2012/13 to 2013/14 (%)
<b>Total fraud</b>			
Total value	£188,249,422	£177,966,950	+6
Number of detected cases	104,132	106,898	-3
Average value per case	£1,808	£1,665	+9
<b>Housing and council tax benefit<sup>ii</sup></b>			
Total value	£128,973,530	£120,100,854	+7
Number of detected cases	46,690	46,964	-1
Average value per case	£2,762	£2,557	+8
<b>Council tax discounts</b>			
Total value	£16,895,230	£19,567,665	-14
Number of detected cases	49,428	54,094	-9
Average value per case	£342	£362	-6
<b>Other frauds</b>			
Total value	£42,380,662	£38,298,431	+11
Number of detected cases	8,014	5,840	+37
Average value per case	£5,288	£6,558	-19

Source: Audit Commission

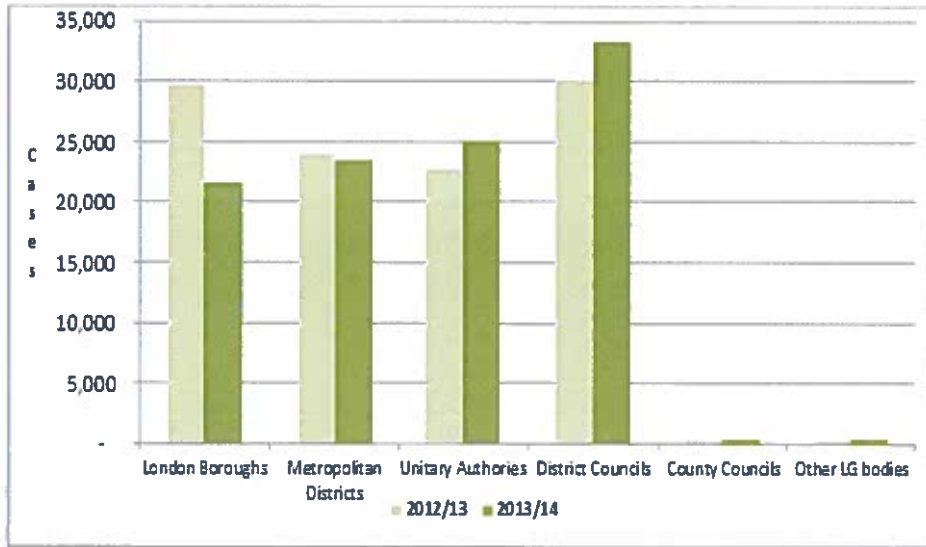
i We report housing tenancy fraud in Table 3.

ii In April 2013, the government introduced Council Tax Reduction, to replace Council Tax Benefit (CTB). Council Tax Reduction is not a benefit, but to aid year-on-year comparisons, it is included in housing benefit and council tax benefit fraud figures for 2013/14.

17 The 3 per cent reduction in the total number of cases of detected fraud over the previous year was not uniform across councils. It is largely due to falls in London boroughs and metropolitan districts. Unitary authorities and district councils detected more fraud in 2013/14 than the previous year (Figure 2).

Figure 2: Detected fraud cases

Comparison by local government organisation 2012/13 and 2013/14

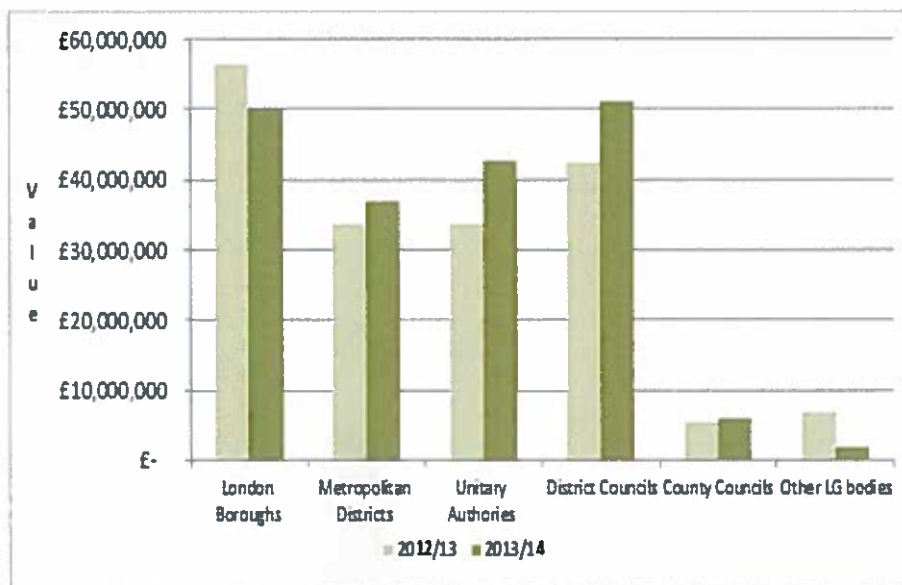


Source: Audit Commission (2014)



**18** A similar picture emerges for changes in the value of detected frauds. This has increased by 6 per cent overall, from £178 million to £188 million, but varies across council types (Figure 3).

**Figure 3: Detected fraud by value**  
Comparison by local government organisation in 2012/13 and 2013/14



Source: Audit Commission (2014)

**19** The value of detected fraud rose in metropolitan district councils, unitary authorities, district councils and county councils compared with the previous year. It fell in London boroughs by 11 per cent.

## Benefit fraud

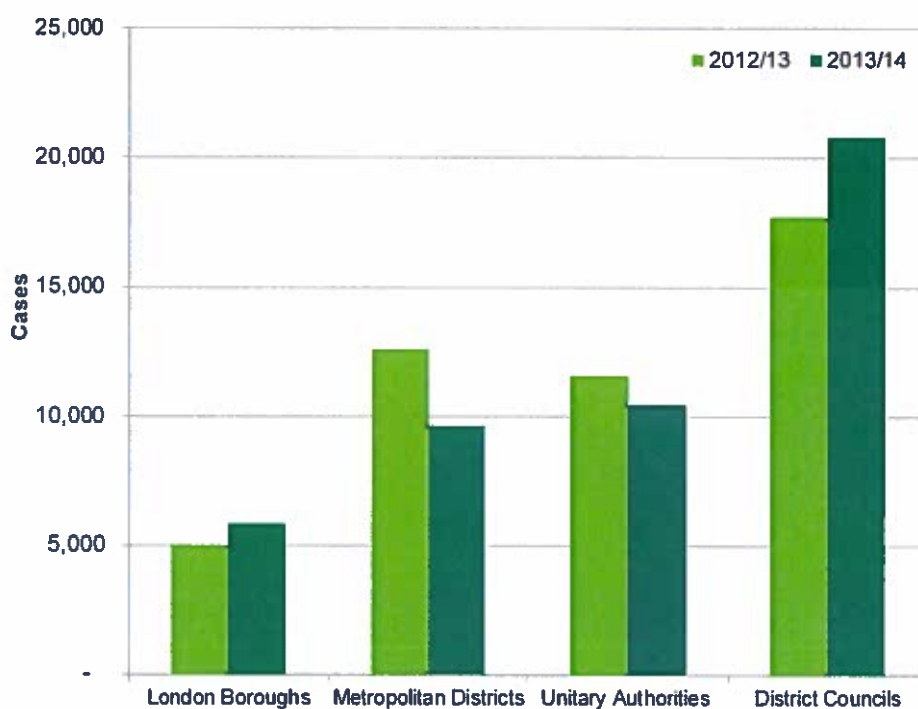
**20** In 2013/14, housing benefit and council tax benefit frauds comprised 45 per cent of all fraud cases, but accounted for 69 per cent of the value of all detected frauds.

**21** In 2013/14, district councils detected 20,798 benefit fraud cases; an increase of 17 per cent compared to the previous year (Figure 4). They detected not just the highest total overall compared with other councils, but also the highest as a proportion of their benefit caseloads (1.6 per cent). In contrast, London boroughs recorded both the lowest overall number of detected cases of benefit fraud (despite a rise of 16 per cent over the previous year) and the lowest as a proportion of their caseload, at 0.7 per cent.

**17% rise**  
in the number  
of cases of  
benefit fraud  
detected by  
district  
councils

**Figure 4: Detected benefit fraud cases**

Comparison of council types in 2012/13 and 2013/14



Source: Audit Commission (2014)

**22** Both metropolitan district councils and unitary authorities reported substantially fewer cases of benefit fraud than the previous year; down 24 per cent and 10 per cent respectively. Each detected around the same proportion of their overall caseload, at 0.9 per cent and 1.0 per cent respectively.

## Non-benefit fraud

23 Table 2 highlights the largest frauds in the 'other' group in Table 1, which between them account for £36.5 million of the £188.2 million detected by councils in 2013/14.

Table 2: Other frauds against councils in 2012/13 and 2013/14

Fraud type	Number of cases 2013/14	Value 2013/14 (£ million)	Number of cases 2012/13	Value 2012/13 (£ million)	Change in case number 2012/13 to 2013/14 (%)	Change in case value 2012/13 to 2013/14 (%)
Right to Buy	193	12.4	102	5.9	+89	+110
Social care	438	6.3	200	4.0	+119	+58
Insurance	226	4.8	74	3.0	+205	+60
Procurement	127	4.4	203	1.9	-37	+132
Abuse of position	341	4.0	283	4.5	+20	-11
Disabled parking concessions (Blue Badge)	4,055	2.0	2,901	1.5	+40	+33
Business rates	84	1.2	149	7.2	-44	-83
Payroll	432	1.4	319	2.4	+35	-42

Source: Audit Commission (2014)

24 Care is needed in interpreting these results, as annual percentage changes in value can be affected by a few very costly frauds in either year. For example, the value of business rates fraud fell by 83 per cent, largely because there was an unusually high value (£5 million) single fraud in one council in 2012/13. Procurement fraud is another example of a few costly frauds; cases have fallen by over a third (37 per cent), but their value has more than doubled (132 per cent).

25 Taken together, the number of cases of non-benefit fraud in Table 2 has risen by 39 per cent between the two years, while their overall value has risen by 20 per cent.

**26** In 2013/14, the largest non-benefit frauds by value were for:

- Right to Buy – this fraud has seen a marked increase in cases (up 89 per cent) and a more than doubling in value to £12.4 million (up 110 per cent);
- social care – cases have more than doubled to 438 (up 119 per cent) and their value has increased by more than half (58 per cent) to £6.3 million;
- insurance<sup>i</sup> – cases have more than tripled (up 205 per cent) and their value has risen by more than half (60 per cent) to £4.8 million; and
- disabled parking (also known as ‘Blue Badge’ fraud) – as in 2012/13, this produces the largest number of “other” cases, and in 2013/14, cases increased by 40 per cent to 4,055 with a value of £2 million.

**205%**  
increase in the  
number of  
cases of  
insurance  
fraud for  
2013/14 worth  
£4.8 million

<sup>i</sup> This fraud arises most commonly from members of the public who make false claims for compensation for accidents (known as ‘trips and slips’).

## Housing tenancy fraud

27 The number of social homes recovered from tenancy fraudsters increased by 15 per cent in the last year (Table 3).

Table 3: Detected tenancy fraud by region  
2012/13 to 2013/14

Region	Number of properties in housing stock (% of national housing stock)	Number of properties recovered in 2013/14	Number of properties recovered in 2012/13	Percentage change in the number of properties recovered 2012/13 to 2013/14
London	419,238 (25)	1,807	1,535	+18
West Midlands	208,740 (12)	425	416	+2
South East	174,313 (10)	129	132	-2
East of England	159,216 (9)	187	133	+41
East Midlands	182,950 (11)	136	102	+33
Yorkshire & the Humber	234,335 (14)	140	108	+30
South West	100,867 (6)	111	56	+98
North East	112,444 (7)	59	34	+74
North West	109,045 (6)	36	126	-71
<b>Total</b>	<b>1,701,148 (100)</b>	<b>3,030</b>	<b>2,642</b>	<b>+15</b>

Source: Audit Commission (2014)

28 All but two regions detected more tenancy frauds in 2013/14 than in the previous year. The exceptions were the North West, where councils detected 71 per cent fewer cases, and the South East, where councils detected slightly fewer cases (down 2 per cent).

## Organised and opportunistic fraud

**29** The 2013/14 survey asked councils to indicate the extent to which they believed fraud was due to organised criminal activity, rather than to individuals acting alone. The survey used the National Crime Agency definition of organised crime as 'crime planned, coordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain' (Ref. 2).

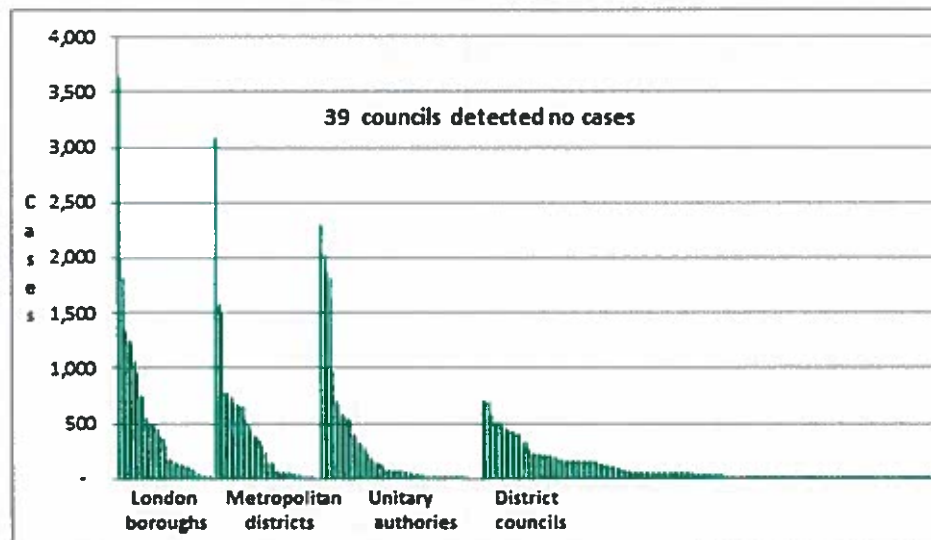
**30** Only 32 of 353 councils reported frauds they believed were linked to organised crime. They were most likely to detect the involvement of organised crime in housing benefit (11 councils), which probably reflects the greater number of detected frauds in this category.

**31** These results suggest that organised criminals do not commit much fraud against councils. Most local authority fraud investigators believe that opportunistic fraudsters pose the greatest risk. However, there is growing concern about organised criminals tendering for public service contracts, for example, to launder money (Ref. 3, p 55). Councils should be alert to the risk of organised crime and ensure their defences remain appropriate for the task.

## Failing to detect fraud

32 In *PPP 2013* (Ref. 4), we reported that 79 district councils had not detected a single non-benefit fraud, compared with only 9 councils among London boroughs, metropolitan districts and unitary authorities combined. In 2013/14, the equivalent figures were 35 district councils 3 unitary authorities and 1 metropolitan district (Figure 5)<sup>i</sup>.

Figure 5: Number of detected non-benefit cases by council type (excluding county councils) in 2013/14



Source: Audit Commission (2014)

33 While it is encouraging that the number of councils that did not detect any non-benefit fraud has fallen by half, it remains disappointing that 39 councils failed to detect any non-benefit fraud. 21 district councils and one unitary authority reported no detected non-benefit frauds in both years. Our experience suggests it is extremely unlikely that no non-benefit fraud was committed against them.

34 Year-on-year trends help local government bodies manage current fraud risks. Longer term trends better enable them to understand whether they are matching their resources to risks effectively. Chapter 3 covers fraud detection over the medium to long terms.

**39** councils did not report any detected cases of non-benefit fraud in 2013/14, less than half the number of the previous year

i Figure 5 excludes county councils as they do not provide high-volume services such as council tax.

## Chapter 3: Longer term trends in frauds detected by councils

**Trends in detected fraud since 1991 show how councils have changed the way they tackle fraud in response to changing national policies and incentives. This chapter draws on the learning from the Commission's 25 years' experience in counter-fraud.**

**35** This chapter considers trends in detected fraud over the last 25 years, with more detailed information about the last five years from 2009/10 to 2013/14. It also highlights how the Commission's approach to tackling tenancy fraud could be applied in other areas, where risks are growing.

### **The shift in focus from benefit fraud to non-benefit fraud**

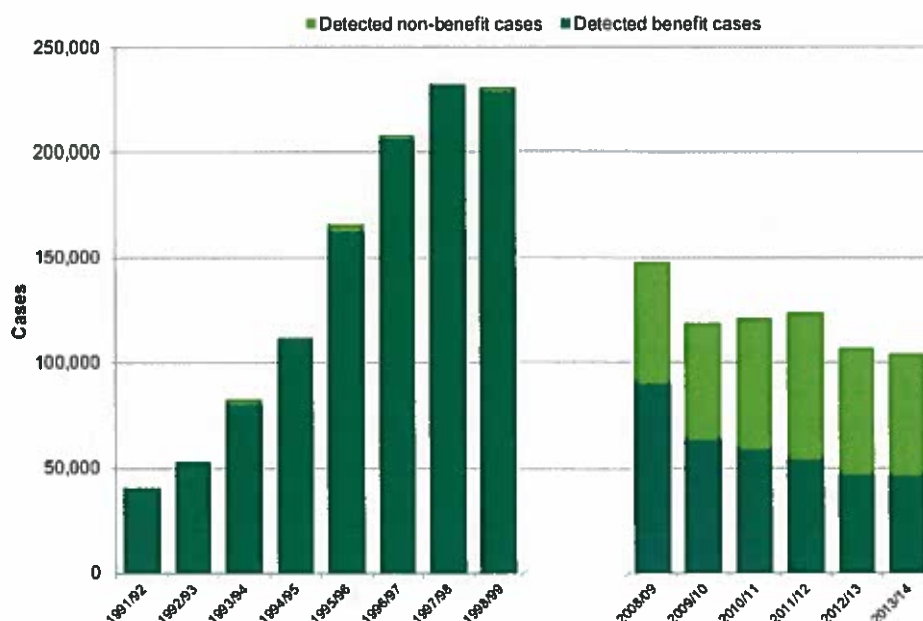
**36** Between 1991 and 2000, councils prioritised detecting benefit fraud. In 1991, only 2 per cent of cases of detected fraud related to non-benefits. When the *PPP* series restarted in 2009, nearly two in five (39 per cent) of all cases detected were of non-benefit fraud. By 2013/14, this had risen to over half (56 per cent) of all frauds detected (Figure 6)

**In the last  
5 years, the  
focus has  
shifted from  
benefit to non-  
benefit fraud**



**Figure 6: The shift from benefit to non-benefit fraud<sup>i</sup>**

Detected cases 1991/92 to 2013/14



Source: Audit Commission (2014)

**37** In 1993, the government introduced Weekly Benefit Savings (WBS), which created an incentive for councils to focus on benefit fraud. WBS ceased in 2002 and its replacement – Security Against Fraud and Error (SAFE) – ended in 2006<sup>ii</sup>. This removed a direct financial incentive for councils to focus on benefit fraud.

**38** The transition to the SFIS in 2016 means, from that year, councils will focus solely on non-benefit fraud. Some councils, particularly small and medium-sized organisations, have traditionally relied on benefit fraud investigators to tackle non-benefit frauds. It is unclear if these councils, and some others, will be able to refocus their efforts and resources on non-benefit frauds once the SFIS is in place.

**39** From 2009, *PPP* reports contained information about a wider range of non-benefit frauds than the earlier series, such as fraud detected within procurement or social care. This was to help local government bodies better understand the extent of the risks they face.

<sup>i</sup> Data are not available from 1999/2000 to 2007/08 because *PPP* did not operate in this period.

<sup>ii</sup> Under WBS, councils received funding, or were penalised, depending upon their achieving baseline levels of detected benefit fraud set by the government. Under SAFE, councils received additional funding based on the number of prosecutions and sanctions.

**40** Table 4 provides further information about the more recent history of the detected cases and values of these non-benefit frauds. Between 2009/10 and 2013/14, the main findings are that:

- councils have consistently detected more council tax discount fraud than any other type of non-benefit fraud (nearly 50,000 cases in 2013/14);
- council tax discount frauds have the lowest average value of all non-benefit frauds (£342 in 2013/14), but the scale of fraud in this area means they generate the biggest losses – £16.9 million in 2013/14;
- detected Right to Buy fraud cases have substantially increased in the last two years to 193 in 2013/14. Because their average value is over £64,000, they generate substantial losses of £12.4 million in that year;
- the number of detected cases of social care fraud more than trebled over the period to 438. With an average value in 2013/14 of £14,297, they account for £6.3 million in losses;
- the number of detected business rates frauds has fluctuated, rising from only 29 in 2009/10 to 319 in 2011/12 and then declining to 84 in 2013/14<sup>i</sup>; and
- the number of detected cases of insurance fraud similarly fluctuated over the last five years, but in 2013/14 councils detected three times as many of these frauds as in 2009/10.

**Right to Buy  
fraud cases  
increased in  
number by  
over 400%  
between April  
2012 and  
March 2014**

<sup>i</sup> This recent decline is unexpected, especially given the impact of the change in financial incentives from April 2013 for councils to tackle this fraud.

**Table 4: Cases and value (adjusted for inflation) of detected non-benefit fraud between 2009/10 and 2013/14**

	Council tax discount	Business rates	Right to Buy	Procurement	Insurance	Social care	Economic/ third sector	Blue badge
<b>2013/14</b>								
Cases	49,428	84	193	127	226	438	36	4,055
Value	£16,895,230	£1,220,802	£12,361,858	£4,437,965	£4,776,300	£6,261,930	£741,867	£2,027,500
Average	£342	£14,533	£64,051	£34,945	£21,134	£14,297	£20,607	£500
<b>2012/13</b>								
Cases	54,094	149	102	203	74	200	36	2,901
Value	£19,905,056	£7,348,809	£5,959,424	£1,910,317	£3,026,996	£4,040,356	£1,299,707	£1,475,510
Average	£368	£49,321	£58,426	£9,410	£40,905	£20,202	£36,103	£509
<b>2011/12</b>								
Cases	60,891	319	38	187	132	122	45	4,809
Value	£21,338,364	£2,651,726	£1,219,439	£8,297,496	£2,107,680	£2,216,681	£1,808,287	£2,472,366
Average	£350	£8,313	£32,090	£44,372	£15,967	£18,170	£40,184	£514
<b>2010/11</b>								
Cases	56,198	319	49	145	149	102	51	3,007
Value	£23,599,729	£6,010,804	£1,090,538	£15,314,712	£3,905,680	£2,333,326	£1,361,079	£1,580,820
Average	£420	£18,843	£22,256	£105,619	£26,213	£22,876	£26,688	£526
<b>2009/10</b>								
Cases	48,253	29	34	165	72	131	47	4,097
Value	£16,412,858	£660,891	£739,881	£2,962,701	£3,077,562	£1,534,013	£968,077	£2,210,152
Average	£340	£22,789	£21,761	£17,956	£42,744	£11,710	£20,597	£539

**41** Councils have to be alert to both the intended and unintended consequences of government policies. Some are directly intended to change local practice, such as the introduction of the SFIS. Others create new services or means of delivery that may produce unintended incentives and opportunities for fraudsters, such as raising the discount threshold for Right to Buy.

**42** Central and local government can work together to anticipate and mitigate the risks of fraud created by new policies. This helps councils to adapt their counter-fraud approach to meet both intended and unintended consequences of government policies.

**43** Frauds committed in schools and those committed by staff are included in all fraud categories. For this reason, we do not identify them separately in Table 4, but give more information in the following sections.

## Internal fraud

44 Since 2009/10, councils have detected broadly similar numbers of internal fraud, although their values have fluctuated. In 2013/14, councils detected nearly 1,500 cases of this type of fraud, generating £8.4 million in losses (Table 5).

**£8.4**  
**million** of  
internal fraud  
detected by  
councils

Table 5: Detected cases and values of internal (staff) fraud<sup>i</sup>  
2009/10 to 2013/14

Financial year		Cases and values (and as a % of total for each)
2013/14	Cases	1,474 (1.4%)
	Value	£8.4m (4.5%)
	Average	£5,750
2012/13	Cases	1,315 (1.2%)
	Value	£16.8m (9.3%)
	Average	£12,751
2011/12	Cases	1,459 (1.2%)
	Value	£15.9m (8.8%)
	Average	£10,917
2010/11	Cases	1,581 (1.3%)
	Value	£20.5m (10.5%)
	Average	£12,969
2009/10	Cases	1,659 (1.4%)
	Value	£8.6m (5.9%)
	Average	£5,207

Source: Audit Commission (2014)

i Total and average fraud values for years between 2009/10 and 2012/13 are adjusted for inflation using HM Treasury's GDP Deflator. These values will thus differ from those in previous *PPP* reports.

## Fraud in maintained schools

45 Schools<sup>i</sup> can be defrauded by those working in them, for example, staff who embezzle school funds, commit payroll fraud, or who claim false expenses. Externally, schools may be victims of procurement fraud and mandate fraud<sup>ii</sup>, among other types.

46 In 2013/14, we report a total of 206 cases of schools fraud worth £2.3 million. This is an 8 per cent increase in cases over the previous year, and a less than 1 per cent increase in value (Table 6).

**Councils report a rise of 8% in the value of fraud detected at maintained schools**

Table 6: Detected fraud in maintained schools

Change from 2012/13 to 2103/14

Fraud in maintained schools	2013/14	2012/13	Percentage change 2012/13 to 2013/14
Total value	£2,330,416	£2,323,856	+1
Number of detected cases	206	191	+8
Average value per case	£11,313	£12,167	-7

Source: Audit Commission (2014)

47 Of these frauds, over half (54 per cent) of cases and nearly two-thirds (62 per cent) of the value involved fraud by staff. These are substantially higher proportions than in other local government services. These findings are similar to those in *PPP 2013*, which suggests that schools may have weaker governance arrangements and less effective controls than larger organisations to detect and prevent fraud.

48 It is important for maintained schools to continue to report the number and value of detected fraud to keep focus on this issue. The Commission would like to see similar transparency across all non-maintained schools to protect the public purse. The risk of fraud in non-maintained schools is becoming more apparent (Ref. 5).

49 The CIPFA Centre for Counter Fraud has recently published good practice guidance on tackling schools fraud (Ref. 6).

i In our annual fraud survey, we only collect data from maintained schools. Free schools, foundations and academies are outside the Commission's remit.

ii Mandate fraud is where fraudsters divert payments, by deception, from the bank account of legitimate companies into the fraudster's own bank account.

## Councils' response to national policies

50 The unintended consequence of some changes in government policy is to make some frauds more attractive to fraudsters. In *PPP 2012*, for example, we suggested that significant increases in the Right to Buy discount implemented in that year is likely to increase the financial incentive to commit fraud in this area.

51 Table 4 shows that councils detected nearly six times as many Right to Buy frauds in 2013/14 as in 2009/10. From April 2012, the government brought in measures to encourage tenants to use the Right to Buy scheme. These included relaxing the qualifying rules and raising the discount threshold, which will rise in line with inflation.

52 These changes encouraged substantially more Right to Buy applications. They also led to more detected frauds. Between April 2012 and March 2014, councils detected 295 cases, a 144 per cent increase over the three years before.

53 Social care provides another example of the effect of national policies. Since 2007, the government has consistently aimed to give people more choice and control over the social care they receive, and to enable them to live independently at home for as long as possible (Ref. 7).

54 The policy of more choice and local control has, however, changed the scale of the fraud risks councils face. Cases of detected social care fraud increased from 131 in 2009/10 to 438 in 2013/14. In 2013/14, however, a majority of all councils except London boroughs did not detect a single social care fraud (Table 7).

**Changes in government policy can have unintended consequences**

Table 7: Councils reporting no detected social care fraud in 2013/14

Council type	Proportion not reporting any detected social care fraud
Unitary authorities	62%
Metropolitan districts	53%
County councils	52%
London boroughs	39%

Source: *Audit Commission (2014)*

55 Councils are detecting more cases of detected fraud in social care (see Table 4). This suggests that the risks of fraud in this service are growing, and also that some councils are taking this risk seriously. If all councils did so, the number of detected cases might rise further.

**56** More research is needed to identify the nature and quantify the extent of frauds in education and social care, which together account for 62 per cent of all councils spending in 2012/13 (excluding benefit payments) (Ref. 8, Figure 1, page 2). Similarly, more research would also help councils to quantify the extent of fraud in business rates, for which they collected £21.9 billion in 2012/13 (Ref. 9, Para.1).

**57** The increased detection of housing tenancy fraud provides a good example of the benefits greater information and attention brings. Since 2009, tenancy fraud has been a regular focus of *PPP* reports. We believe that councils can apply the learning from our approach to tenancy fraud to new and emerging fraud threats.

### Housing tenancy fraud

**58** Tenancy fraud is now recognised as the second largest area of annual fraud loss in English local government, valued at £845 million. There is a further £919 million of annual loss to housing associations (Ref. 1).

**59** *PPP*'s focus on tenancy fraud shows the benefit of regular reporting on rates of detected fraud, combined with supporting research. This approach has produced more reliable estimates of the extent and value of this type of fraud. It has also challenged myths and misconceptions about tenancy fraud and encouraged organisations to work together to share innovative approaches to tackling it. Similar action would help councils to tackle other types of fraud.

**60** Prior to 2009, there was no national estimate of the scale of tenancy fraud, or of the value of a social home recovered from a fraudster, and no regional information on detection. Some social housing providers were reluctant to recognise this type of fraud, on the grounds that as long as the fraudster occupying the property was paying rent, they suffered no financial loss.

**61** This encouraged many myths to build up, for example, that tenancy fraud was only a problem in London. This led some councils outside the capital to conclude they did not need to take any action to prevent or detect it.

**62** The Commission published the first robust research in the UK that challenged such myths. *PPP* reports contained good practice examples of social housing providers within and outside the capital that had increased cases of detected tenancy fraud.

**63** We published a cautious estimate of the extent of tenancy fraud in *PPP 2009* (updated in *PPP 2012*), which is widely accepted across England. Our research was used as the principal evidence base for a new offence specific to tenancy fraud, contained in the Prevention of Social Housing Fraud Act 2013.

**At £845 million, tenancy fraud represents the second largest yearly loss to councils from fraud**



64 Above all, we worked in partnership with key stakeholders, such as the Chartered Institute of Housing (CIH), the National Fraud Authority and the national Tenancy Fraud Forum, to identify and promote good practice and to encourage councils and housing associations to work together to fight fraud.

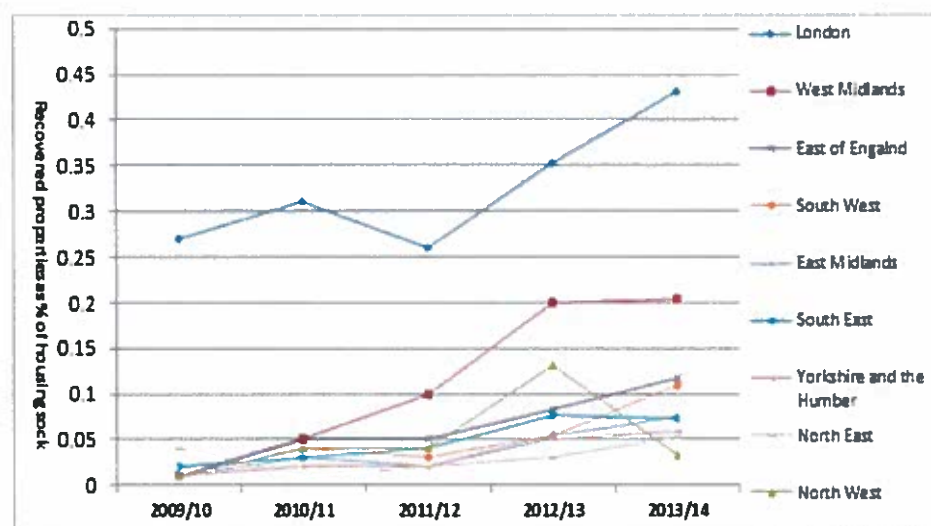
65 We believe that this approach helped to publicise the issues and encouraged social housing providers to combat tenancy fraud more effectively. Between 2009/10 and 2013/14, the total number of detected cases of housing tenancy fraud increased by 92 per cent.

66 The rate of improvement outside London has been substantial: in 2009/10, these councils only recovered 228 properties, but in 2013/14, this had risen to 1,223, an increase of 436 per cent.

67 Between 2009/10 and 2013/14, while the overall trend of recovery increased, the rate of recovery was uneven across regions (Figure 7).

**436%**  
increase in properties recovered, from housing tenancy fraudsters, outside of London in the last five years

Figure 7: Recovered properties as a proportion of council housing stock in each region 2009/10 to 2013/14



Source: Audit Commission (2014)

68 London has consistently detected the most tenancy frauds, measured as a proportion of total housing stock. The North West now detects proportionately the fewest tenancy frauds, which is the result of a decline in the last year. Had councils in this region maintained the same rate of detection as a proportion of their housing stock as in 2012/13, around 90 additional homes would have been available for families on the waiting list.

69 If all councils assigned resources to tackle tenancy fraud proportionate to their total stock, and adopted recognised good practice, then regional detection rates should be broadly similar. The fact they are not suggests that some councils can raise their performance.

**70** In 2014, the Chartered Institute of Housing published updated good practice on tackling tenancy fraud (Ref. 10).

**71** The Commission reports detection rates by councils and Arm's Length Management Organisations only. Information from housing associations is not universally available. However, as previous *PPP* reports have shown, some housing association partnerships have made good progress.

### Case study 1

#### Tenancy Fraud Forum – partnership working

- The Gloucestershire Tenancy Fraud Forum (GTFF) was formed in 2012 by seven social housing providers in the local area (Cheltenham Borough Homes, Gloucester City Homes, Severn Vale Housing Society, Two Rivers, Rooftop Housing Group, Stroud District Council and Guinness Hermitage). Prior to forming GTFF, individual member organisations detected few tenancy frauds.
- From 2012, GTFF members started sharing good practice, carrying out joint staff training and in particular undertook a local media-based awareness raising campaign. This resulted in a large increase in reports of suspected tenancy fraud.
- Following the campaign, GTFF recovered 107 homes from tenancy fraudsters in 2013/14. To build an equivalent number of homes from new would have cost the public purse over £16 million<sup>i</sup>.

*Source: Audit Commission (2014)*

**72** Some innovative housing providers used the launch of the 2013 Prevention of Social Housing Fraud Act as an opportunity to publicise their own tenancy fraud amnesties.

<sup>i</sup> In PPP 2011, we calculated the replacement cost of an average social housing unit to be £150,000.

## Tenancy fraud amnesties

**73** Amnesty can be a useful option for social housing providers to recover properties from tenancy fraudsters. When implemented properly, they can have considerable impact at low cost.

**74** In 2013, the London Borough of Camden offered an amnesty lasting two months. In this time, tenancy fraudsters could hand back the keys to properties they had unlawfully occupied or sub-let, without further action taken on cases that were not being prosecuted for other offences.

Fraudsters returned seven properties (with a replacement value of over £1 million) to the Council. This represented a good return on the £25,000 spent on publicising the amnesty. LB Camden recovered 103 properties subject to tenancy fraud in total during 2013/14.

**75** The publicity had wider benefits. Prior to the campaign, the Council had received just six referrals from the public to its tenancy fraud hotline. In the two months during the campaign, it received 50 calls, with many more in the months that followed. The Council launched a number of investigations as a direct result of the increased hotline referrals and has so far recovered four more properties from these referrals with a further four pending prosecution.

**76** The Peabody Housing Association saw similar benefits from an amnesty. In 2012, 40 properties were handed back to the Association. In 2013, it held a two-month amnesty, during which 42 properties with a replacement value of £6.3 million were returned. In the whole year, tenants handed back 130 properties, suggesting the amnesty possibly had a longer term effect.

**77** The approach to housing tenancy fraud in *PPP* reports since 2009 illustrates how social housing providers can change their approach to fighting one type of fraud, based on robust information and greater transparency. Adopting a similar approach to other frauds would help them fulfil their duty to protect the public purse, which Chapter 4 explores in more detail.

**Tenancy fraud amnesties may have longer term benefits**

## Chapter 4: Effective stewardship of public funds

**A corporate approach to tackling fraud in all areas supports councils to carry out the core functions of effective counter-fraud. This helps them fulfil their role as stewards of public resources, to the benefit of local and national taxpayers.**

**78** Councils are stewards of public funds and have a duty to protect the public purse from fraud. Better performing councils acknowledge this responsibility and put in place the core components of an effective corporate counter-fraud approach. These are contained in CIPFA guidance (Ref. 11) and the government Fraud Review (Ref. 12) and are:

- prevention and deterrence;
- investigation and detection; and
- sanction and redress (recovery of funds or assets).

**79** Councils face a challenge in carrying out these functions as their funding declines. This chapter considers each component in more detail and highlights examples of good practice showing how councils can develop a long-term and sustainable approach to tackling fraud.

### Prevention and deterrence

**80** Investigating fraud can be expensive for councils. They also incur costs in prosecuting fraudsters and in attempting to recover money, which is not always successful. It is usually more cost-effective to prevent fraud than to take action afterwards.

**81** In 2014, we asked over 200 fraud investigators and auditors from English local government how well their councils, or the councils they audit, prevent fraud. They believed that the strongest fraud prevention arrangements were found in housing benefits and council tax discounts, and the weakest in social care and schools.

**82** Better performing councils learn from fraud investigations, and address the weaknesses that enabled the fraud to occur. Such councils strengthen fraud prevention arrangements as a result, including deterrence.

**83** Some councils may be sceptical about the value of fraud prevention; for this reason, the sector would benefit from an agreed methodology to measure its cost-effectiveness. The government should commission such research.

**84** Even where councils obtain no direct financial benefit from preventing frauds, they should still fulfil their duty to protect the public purse by pursuing fraudsters.

## Case study 2

### Fraud prevention - Right to Buy

- In 2014, Sandwell Metropolitan Borough Council successfully prosecuted two people for a fraudulent Right to Buy application worth nearly £50,000. The fraudsters initially claimed the Right to Buy discount in 2011, making false statements about their eligibility indicating they were sisters and stating they both lived at the address. Their initial claim was refused on the grounds of failing to comply with residency requirement.
- In 2012, the fraudsters again claimed the Right to Buy discount, and again supplied false information about their relationship. The fraud was initially identified through National Fraud Initiative data matches. This enabled the Council to stop the Right to Buy before the sale was processed.
- Subsequent enquiries by the Council established that the fraudulent tenant was falsely claiming benefits, stating that she was resident at other addresses, while still claiming to be a Sandwell resident.
- The fraudsters were found guilty under the Fraud Act and each given a 20 month custodial sentence. This is one of the first successful prosecutions of Right to Buy fraud outside London.

*Source: Audit Commission (2014)*

**85** Councils increasingly use digital technology across services and functions. This reduces costs and can improve service quality, but also brings new fraud risks. Each year we adapt our annual fraud survey to gather new information about emerging fraud risks. The government should encourage the organisation carrying out the survey in the future, CIPFA, to investigate the extent to which fraudsters use digital and on-line technology to defraud local government.

**86** Innovative councils also use technology to prevent and detect fraud:

### Case study 3

#### Using technology to prevent fraud

- The London Borough of Southwark increased vetting checks at the point of application for a number of its services, to help protect valuable resources. The London Borough of Southwark is the third largest social landlord in the UK and has a large transient population.
- In 2013, The London Borough of Southwark implemented passport and identity scanners across the council at key customer contact points, including One Stop Shops, Housing Options and the Registrar's office. A mobile scanning system is also used by The London Borough of Southwark anti-fraud services and by council departments conducting specific projects. In total, 6,690 document scans were conducted in 2013/14, with 4 per cent requiring additional checks and verification as result.
- The London Borough of Southwark implemented additional verification checks on the council's waiting list, including veracity of application form information. This has reduced the number of accepted applications by 20 per cent. Additional verification checks have also been conducted on prospective tenants before they collect the keys to the tenancy. This prevented 12 per cent of all such allocations going to fraudsters.

*Source: Audit Commission (2014)*

**87** Councils can deter people from committing fraud if they set out clearly what fraud is and make clear it is likely fraudsters will be caught and punished. Professional fraud investigators believe the prospect of detection is the most powerful deterrent to committing fraud. This supports the need for councils to maintain adequate investigative capacity in a period of financial restraint.

**88** It is not currently possible to quantify accurately the financial benefit from deterring fraud. Councils can look to other indicators that may show its impact. The number of households claiming single person discount is one example, first highlighted in *PPP 2013* (Ref. 4).

**89** One-third of households in England claim single person discount. Our research (Ref. 13) suggests that typically between 4 per cent and 6 per cent of households claiming single person discount do so fraudulently.

**90** Between 2008 and 2013, the number of councils where 40 per cent or more households claimed single person discount reduced from 23 to 7. The council with the highest proportion of households claiming single person discount experienced a reduction in claims from 48 per cent to 41 per cent. One possible explanation for the decline in single person discount claims is the greater publicity from councils about this fraud in recent years.

**4% to 6%**  
of council tax  
single person  
discount  
claims are  
typically  
fraudulent

## Investigation and detection

**91** Fraud investigators have legal powers to investigate Council Tax Reduction frauds and housing tenancy frauds. The powers do not extend to other fraud types. This restricts their ability to investigate and detect fraud across all services, including social care and procurement. Councils need equivalent powers for all fraud types to protect the public purse effectively.

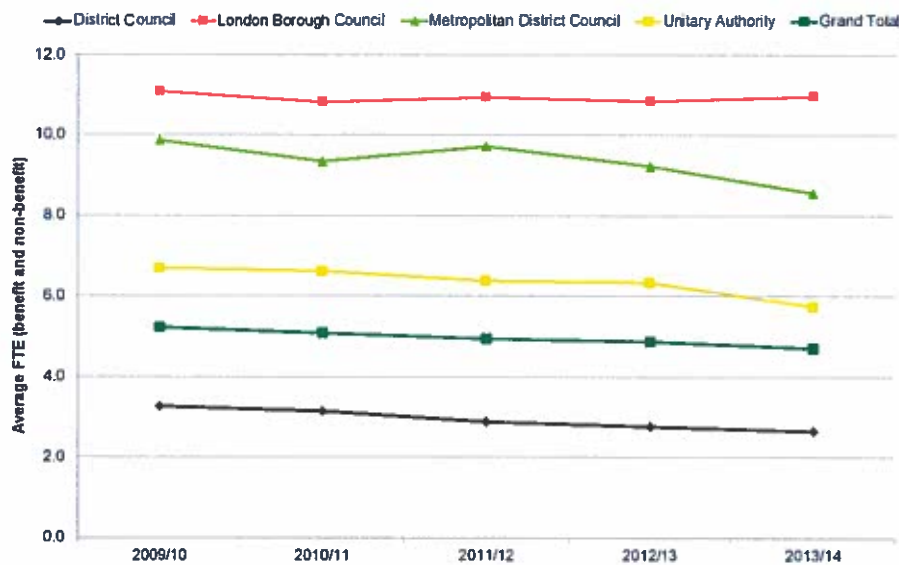
**92** Over the past 25 years, councils have substantially increased the number of benefit fraud investigators they employ. Between 1994 and 1997, staff numbers rose from 200 to over 2,000 (Ref. 14). The government encouraged councils to enhance the skills and training of these new staff. In 1998, the DWP launched the Professionalism in Security (PINS) qualification and associated training for benefit fraud investigators.

**93** *PPP 2013* (Ref. 4) reported a decline in detected fraud over the previous year; the first such fall since 2009. That report suggested further research to see whether falls in detection were linked with changes in councils' investigative capacity. Since 2010, councils have cut total staff numbers in response to reduced income<sup>i</sup> (Ref. 15).

<sup>i</sup> Across the United Kingdom, full-time equivalent staff numbers employed by local government fell from 2,160,000 in 2010 (Quarter 1) to 1,787,000 in 2014 (Quarter 1), a fall of 21 per cent.

94 Between 2009/10 and 2013/14, the mean average number of full-time equivalent (FTE) fraud investigators employed by councils declined steadily from 5.2 to 4.7, a fall of 10 per cent (Figure 8).

Figure 8: Average numbers of FTE fraud investigators, by council type 2009/10 to 2013/14



Source: Audit Commission (2014)

95 London councils employ the most investigators and have seen little change at around 11 FTE staff over the whole five years. District councils have employed the fewest fraud investigators, and have seen their average FTE numbers reduce by 19 per cent, with unitary authorities and metropolitan districts reducing by 14 per cent and 13 per cent respectively.

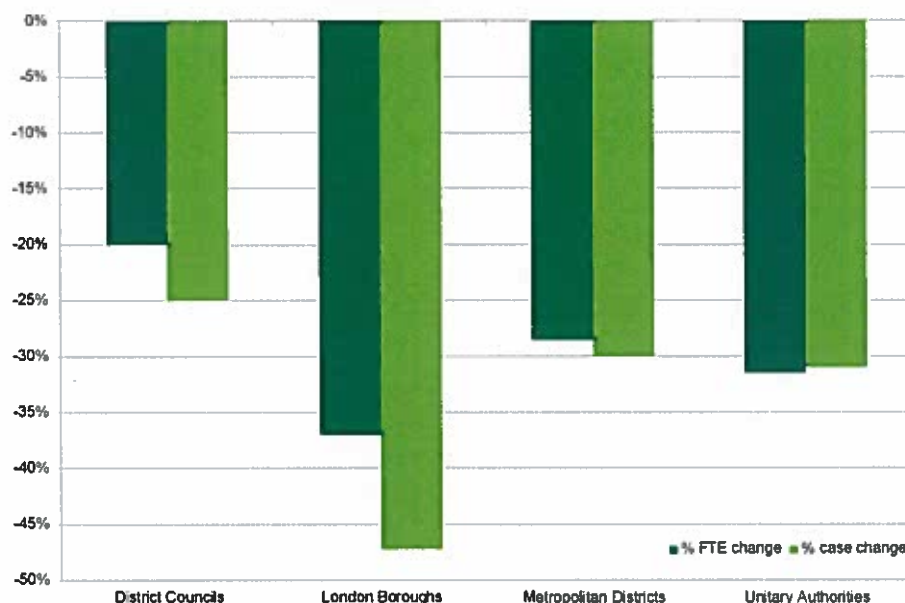
96 We wanted to investigate whether annual changes in staff numbers are associated with changes in the numbers of reported detected benefit and non-benefit fraud in each year within this period.



97 Not enough councils reported separate staff numbers for non-benefit fraud staff to enable analysis of this type of fraud. For benefit fraud, all council types<sup>i</sup> saw a substantial reduction in both FTE staff numbers and detected benefit fraud cases (Figure 9).

**Figure 9: Councils' capacity to detect benefit fraud**

Changes in median benefit fraud FTE numbers and detected benefit fraud cases in 2009/10 and 2013/14



Source: Audit Commission (2014)

98 Taking all councils in the analysis together, the median percentage fall in detected cases of benefit fraud exceeded that for FTE benefit fraud investigators. This was true in all councils except unitary authorities, where the percentage reductions were similar in each category.

99 London boroughs saw the largest reductions, losing nearly two in five (37 per cent) of their benefit fraud investigation staff, and nearly half (45 per cent) of their detected benefit fraud cases over the whole period. It is likely that some of this decline is due to councils in the capital refocusing their fraud investigation resources on non-benefit fraud in preparation for the introduction of the SFIS (Ref. 4, Para. 46).

100 Other councils also saw a substantial decline in their capacity to detect benefit fraud of between 20 and 30 per cent over this period. They also detected between 23 and 31 per cent fewer cases of benefit fraud. These differences are not statistically significant and data are patchy in 2010/11 and 2011/12. However, they indicate a clear decline in both counter-fraud capacity and detection rates between the two years.

**Counter fraud capacity and cases of benefit frauds detected both fell between 2009/10 and 2013/14**

<sup>i</sup> This analysis excludes county councils, which do not administer housing and council tax benefits.

**101** Levels of reported detected fraud can only give an indication of the extent of fraud committed against councils. In our experience, the more councils look for fraud, and follow good practice, the more they will find. Increasing levels of detection may therefore be a positive sign that councils take fraud seriously, rather than evidence of weak counter-fraud controls.

**102** It is becoming increasingly urgent for councils to recover losses to fraud. In 2016, the funding to aid councils refocus their activities on non-benefit frauds during the transition to the SFIS will end. Without this money, councils will need alternative means of financing counter-fraud investigation and prevention. Recovery of losses offers one way to do this.

### **Sanction and redress (recovery of losses)**

**103** Councils can invoke a range of criminal and civil sanctions against fraudsters. They can impose fines (for example, a £70 fine for fraudulently claiming single person discount), and withdraw benefits, contracts or licences. In some cases, stopping the discount or service provided may be the limit of the action taken.

**104** The vast majority of frauds committed against local authorities are never pursued through the criminal courts. There are many frauds against councils (104,132 detected cases in 2013/14). With fewer staff and resources, it is appropriate for councils to follow different courses of action. This is consistent with good stewardship of public funds.

**105** Recovering funds lost to fraud can be difficult. Research suggests that, across all sectors of an economy, more than half of all fraud victims do not recover any monies. Fewer than one in ten achieves full financial restitution (Ref. 16).

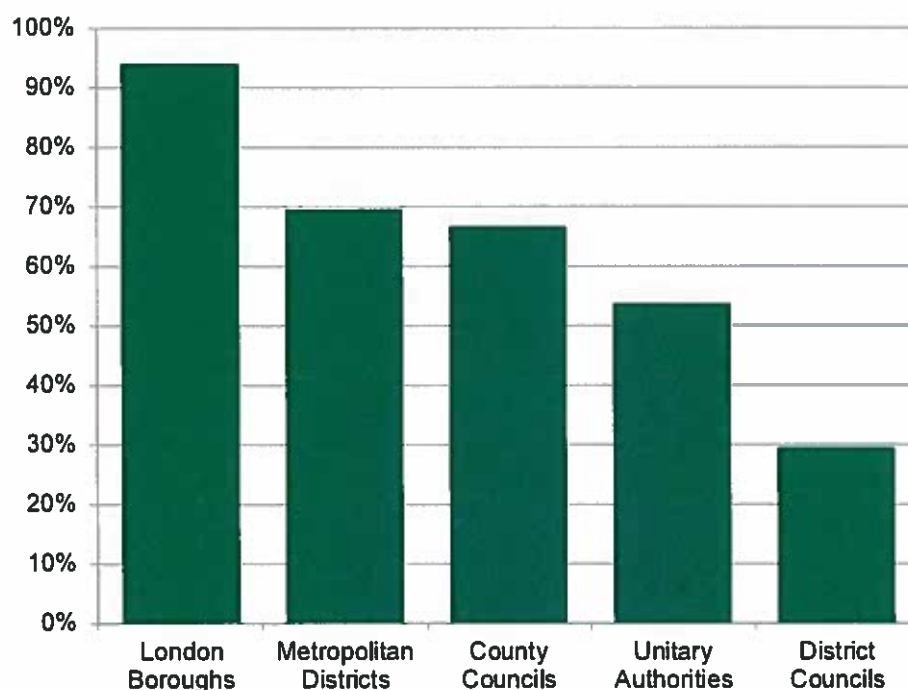
**106** Councils can pursue recovery through the civil or criminal courts, but they can consider alternative means to punish fraudsters, deter potential fraudsters and also generate funds to reinvest in tackling fraud.

**107** In 2014, the Local Authority Investigating Officers Group (LAIOG) published guidance on estimating potential loss to fraud in specific areas of local authority activity. Councils can utilise this guidance to estimate their own local losses (Ref. 17).

**108** Appendix 3 contains case studies that illustrate how councils can use legislation, notably but not solely the Proceeds of Crime Act 2002 (POCA), to recover money from fraudsters.

**109** POCA offers one means of recovering fraud losses through criminal law. Around two in five (43 per cent) of councils employ, or have access to, specialist POCA financial investigators to recover money from fraudsters through the courts (Figure 10).

**Figure 10: Proportion of councils in 2013/14 with access to POCA financial investigators, by council type**



*Source: Audit Commission (2014)*

**110** The proportion of councils in each group with access to financial investigators varies widely. All but two London boroughs use them and most employ their own. In contrast, just over a quarter (28 per cent) of district councils used a financial investigator.

**111** Financial investigators have typically focused on trading standard offences and benefit fraud, but they also enable councils to use POCA to recover funds lost to other frauds.

**112** For example, in 2014, the financial investigator at the London Borough of Lewisham<sup>i</sup> used a POCA confiscation hearing to establish the link between social housing fraud and additional costs the Council had incurred in housing homeless people. We had previously identified this link in *PPP* reports. The court agreed and set a precedent by awarding Lewisham £10,000 per fraudulently sub-let property in this case.

<sup>i</sup> This case was undertaken by the financial investigator on behalf of Lewisham Homes, the Arm's Length Management Organisation (ALMO) that manages the social housing stock for the council.

**113** The court's judgement creates case law that will help social housing providers to punish offenders, recover funds and, equally importantly, deter others from committing such frauds in the future.

**114** Local authorities should give greater consideration as to how best to use POCA financial investigators, especially in cases where councils incur substantial financial loss.

### **CIPFA Code of Practice on Managing the Risk of Fraud and Corruption**

**115** The six key components of effective stewardship of public funds highlighted in this chapter are incorporated within the newly published CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (Ref. 18). The Code will be supported by a self-assessment framework. CIPFA also intend to publish good practice guidance. We encourage all public bodies, including local authorities, to assess themselves against this Code.

## Chapter 5: Building on *PPP*'s legacy

***The Commission's PPP reports have made an important contribution to the fight against public sector fraud. The CIPFA Counter Fraud Centre is well placed to continue this work, and intends to publish future annual PPP reports on the extent of detected fraud in local government.***

116 Throughout its existence, the Commission has played an active part in helping public bodies tackle fraud effectively. For example, early *PPP* reports identified low levels of fraud detection in the NHS, which led in part to the creation of the NHS Counter-Fraud Service in 1998 (now NHS Protect). Our research on the scale of tenancy fraud and council tax single person discount fraud has been widely used to support improvements in the response to such fraud.

117 *PPP* reports use the Commission's statutory powers to collect and publish data on local counter-fraud detection. They have changed the way local government bodies and other organisations think about and approach fighting fraud, and achieved a number of important outcomes.

### ***PPP reports raise awareness of the importance of fighting fraud***

118 When the Commission resumed *PPP* in 2009, there was little research available on the nature and extent of most types of non-benefit fraud affecting local government bodies. We developed robust estimates, now widely used by national and local government, of the scale of both tenancy fraud and council tax single person discount fraud.

119 Many organisations did not acknowledge that fraud is a problem or understand its scale and impact. *PPP* reports attracted publicity and interest, which help officers and councillors to argue for more effective resources to protect the public purse.

120 Each *PPP* report contain a checklist for those charged with governance to help them understand and assess their risks and performance. The latest version is in Appendix 2. Councils should continue to use this checklist, which is updated annually with each new *PPP* report.

### **PPP reports promote transparency and accountability**

**121** The information in *PPP* reports, combined with individual fraud briefings (see paragraphs 126 to 129), help to create greater transparency and accountability in local public services. *PPP* reports have been widely used by audit committees.

### **PPP reports improve data about fraud**

**122** Prior to 2009, there was no sector-wide definition, or sub-categorisation, of fraud affecting local government. The annual fraud survey for *PPP* reports foster a common understanding of fraud across local government, and require local government bodies to record the numbers and values of all the frauds they detected.

### **PPP reports enable local government bodies to benchmark their performance in detecting fraud**

**123** *PPP* reports contain regional and national data on detection rates and values for all types of benefit and non-benefit frauds. This allows English councils to compare their performance against national, regional and local norms. Understanding fraud detection performance helps local government bodies to adopt a proportionate and effective approach to fighting fraud.

### **PPP reports promote good practice in fighting fraud**

**124** Each *PPP* report contains case studies that illustrate the actions local government bodies, often in partnership, take and the outcomes they achieve in fighting fraud. Every year, we work with councils to promote good practice across the sector.

**125** All these benefits were possible because the Commission could mandate councils to complete and return the annual questionnaire for the fraud and corruption survey. Going forward, unless the survey is mandated by DCLG, response rates will probably fall. This would reduce the reliability of the survey results.

## Fraud briefings

**126** In 2013, we published for the first time individually tailored fraud briefings to support external auditors' communication with those responsible for governance at each council, principally locally elected councillors on audit committees. The briefings contained comparative benchmark information on each council's detection results. External auditors could provide these briefings on request and on a confidential basis, to ensure that the information they contained was not available to fraudsters<sup>i</sup>.

**127** All 353 English local authorities were able to receive their fraud briefing, without charge, through a presentation from their external auditor in late 2013 and early 2014. Around three in five councils (62 per cent) received a briefing and presentation, but it is disappointing that many councils did not.

**128** We believe these briefings make an important contribution to improving transparency and accountability in local fraud detection performance. Some councils are reluctant to discuss fraud, or unwilling to accept it occurs, which may help to explain why not all councils opted to receive their fraud briefing.

**129** In November 2014, we will again make fraud briefings available free to all councils, via their external auditor. We encourage all local authorities to use these fraud briefings to inform their local counter-fraud priorities and strategies.

**62% of councils compared their detection levels with their peers, using our tailored fraud briefings**

## CIPFA Centre for Counter Fraud

**130** Fraud risks are constantly changing. New ways of delivering public services, in particular through digital technology, bring new threats. Local government's counter-fraud approach needs to adapt and evolve to meet these new challenges. A key requirement for local bodies is to improve their counter-fraud capability.

<sup>i</sup> In 2012, the Audit Commission cited an exemption under section 31(1)(a) of the Freedom of Information (FOI) Act (that disclosure would be likely to prejudice the prevention or detection of crime) to refuse an FOI request for council-specific annual detected fraud survey results. Our concern was that disclosure of the data could prejudice the ability to prevent or detect fraud if any particular authority's track record in this regard were to become public. The Information Commissioner's Office upheld this exemption. It is for individual organisations to seek their own advice and determine their response to any FOI requests.

**131** Auditors and fraud investigators already have many of the skills required to provide an effective counter-fraud service. Although some councils use such resources effectively, this is far from universal.

**132** From April 2015, the Audit Commission's strategic counter-fraud activities and team will transfer to CIPFA's Counter Fraud Centre. The Centre is a source of expertise and leadership for local government and the wider public sector to help organisations meet challenges in the future.

**133** With the support of the new Counter Fraud Centre, the sector can enhance investigative capability, even with fewer staff. The Centre can support measures to improve in several important areas:

- **Continuing to publish *PPP*.** The Centre intend to publish a similar *PPP* report based on an annual survey of detected fraud and corruption in English local authorities.
- **Benchmarking performance.** Benchmarking is critical to understanding how well an organisation performs. The Centre for Counter Fraud intend to continue to publish individual fraud briefings. It will also draw on CIPFA's expertise in comparing data.
- **Professional training.** The Centre will develop and offer professional accredited training for the public sector with specific bespoke focus for local government investigators.
- **Tools and other services.** The Centre will offer e-learning in anti-corruption and whistleblowing, supported by counter-fraud specialists. Other services will include professional networks, thought leadership and fraud alerts.

**134** CIPFA does not have the same breadth of powers that the Audit Commission has been able to deploy to support local government, including powers to mandate submission of information on fraud detection results. This could weaken the comparative data used in fraud briefings.

**135** We encourage all councils and other public bodies to maximise the potential benefits of participation with the CIPFA Counter Fraud Centre.

**136** The Audit Commission leaves a strong legacy in counter-fraud. CIPFA is well placed to continue this work and help local government in its fight against fraud.



## Appendix 1: Data tables of detected frauds and losses by region

**Table 8: Detected frauds and losses 2013/14 by region compared to regional spend by councils**

Region	Council spending by region as percentage of total council spending in 2012/13 <sup>i</sup>	Regional percentage of the total value of all detected frauds in 2013/14	Regional percentage of the number of all cases of detected frauds in 2013/14
(TOTAL)	(£111.7 billion)	(£188.3 million)	(104,132)
East of England	10.3	9.9	10.3
East Midlands	7.7	6.4	8.6
London	18.2	27.1	20.8
North-East	5.4	4.1	6.5
North-West	13.6	10.9	8.3
South East	15.0	14.5	15.7
South-West	9.1	9.0	9.6
West Midlands	10.8	9.8	12.5
Yorkshire and Humber	10.1	8.3	7.7

*Source: Audit Commission (2014)*

<sup>i</sup> Regional spending data for 2013/14 are not yet available. However, the proportions of spending in each region do not change much from year to year. For this reason, Table 8 includes 2012/13 spend data as a benchmark against fraud losses and detected cases in 2013/14.

## Appendix 2: Checklist for councillors and others responsible for governance

I. General	Yes	No	Previous action	2014 Update
1. Do we have a zero tolerance policy towards fraud?				
2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i> ?				
3. Do we have dedicated counter-fraud staff?				
4. Do counter-fraud staff review all the work of our organisation?				
5. Does a councillor have portfolio responsibility for fighting fraud across the council?				
6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?				
7. Have we received the latest Audit Commission fraud briefing presentation from our external auditor?				
8. Have we assessed our management of counter-fraud work against good practice?				
9. Do we raise awareness of fraud risks with:				
■ new staff (including agency staff);				
■ existing staff;				
■ elected members; and				
■ our contractors?				

I. General	Yes	No	Previous action	2014 Update
10. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?				
11. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?				
12. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?				
13. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?				
14. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?				
15. Do we have effective arrangements for:				
■ reporting fraud?				
■ recording fraud?				
16. Do we have effective whistle-blowing arrangements. In particular are staff:				
■ aware of our whistle-blowing arrangements?				
■ have confidence in the confidentiality of those arrangements?				
■ confident that any concerns raised will be addressed?				
17. Do we have effective fidelity insurance arrangements?				

II. Fighting fraud with reduced resources	Yes	No	Previous action	2014 Update
18. Are we confident that we have sufficient counter-fraud capacity and capability to detect and prevent fraud, once SFIS has been fully implemented?				
19. Did we apply for a share of the £16 million challenge funding from DCLG to support councils in tackling non-benefit frauds after the SFIS is in place?				
20. If successful, are we using the money effectively?				
III. Current risks and issues	Yes	No	Previous action	2014 Update
<b>Housing tenancy</b>				
21. Do we take proper action to ensure that we only allocate social housing to those who are eligible?				
22. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?				
<b>Procurement</b>				
23. Are we satisfied our procurement controls are working as intended?				
24. Have we reviewed our contract letting procedures in line with best practice?				
<b>Recruitment</b>				
25. Are we satisfied our recruitment procedures				
<ul style="list-style-type: none"> <li>■ prevent us employing people working under false identities;</li> </ul>				
<ul style="list-style-type: none"> <li>■ confirm employment references effectively;</li> </ul>				
<ul style="list-style-type: none"> <li>■ ensure applicants are eligible to work in the UK; and</li> </ul>				
<ul style="list-style-type: none"> <li>■ require agencies supplying us with staff to undertake the checks that we require?</li> </ul>				

III. Current risks and issues (continued)	Yes	No	Previous action	2014 Update
<b>Personal budgets</b>				
26. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?				
27. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?				
<b>Council tax discount</b>				
28. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?				
<b>Housing benefit</b>				
29. When we tackle housing benefit fraud do we make full use of:				
■ National Fraud Initiative;				
■ Department for Work and Pensions Housing Benefit matching service;				
■ internal data matching; and				
■ private sector data matching?				
IV. Other fraud risks	Yes	No	Previous action	2014 Update
30. Do we have appropriate and proportionate defences against the following fraud risks:				
■ business rates;				
■ Right to Buy				
■ council tax reduction;				
■ schools; and				
■ grants?				



## Appendix 3: Case studies: targeting fraudsters, financial recovery (in particular use of POCA)

### Case study 4

#### **Recruitment payroll fraud - pension pot recovered (total value £414,415)**

- In July 2012, a council successfully prosecuted the Head of their Youth Offending team and several co-conspirators for payroll fraud. In collusion with employees at a recruitment agency, the employee authorised payments for several non-existent temporary agency staff. The fraud was first brought to the attention of the council by a whistleblower.
- The employee was found guilty of conspiracy to defraud the council and sentenced to five years and six months in prison. The co-conspirators were also found guilty and sentenced to four years, two years, and 18 months respectively.
- In 2014, the council was awarded a total of £414,415 in financial restitution from the fraudsters, in part through successful POCA judgements. This included £286,415 recovered from the fraudsters' pension under provisions within the Local Government Pension Scheme.

*Source: Audit Commission (2014)*

## Case study 5

### **Prevention of Social Housing Fraud Act - unlawful profit order of £31,000**

- In early 2014, a predominantly London-based housing association was one of the first social housing providers to gain an Unlawful Profit Order under the Prevention of Social Housing Fraud Act. This allows social landlords to seek a money judgement against their tenant where illegal sub-letting has occurred.
- On a routine visit, a housing officer became suspicious about illegal sub-letting after seeing an unfamiliar person in a property. The officer discovered that the official tenant had lived and worked in Spain for at least the last two and a half years.
- The court ordered the tenant to pay the housing association £31,000, plus costs. The property was recovered and immediately re-let.

*Source: Audit Commission (2014)*



### Procurement fraud and POCA

- In 2014, a council successfully obtained a confiscation order under the Proceeds of Crime Act for £75,000. This related to the amount an employee had been illegally paid to provide confidential contract information.
- The employee's responsibilities included awarding council contracts for ICT equipment. In this role, the employee introduced two new suppliers to the council's approved tender list, subsequently advising them of tender submissions by competing companies. This enabled the two companies concerned to underbid competitive rivals to secure the contracts.
- The fraud was identified as a result of information provided by an anonymous informant.
- The employee was dismissed, subsequently found guilty under the Fraud Act and sentenced to two years imprisonment.

*Source: Audit Commission (2014)*

## Case study 7

### **Benefit fraud (£43,000), POCA award of nearly £1.2 million**

- Over a four-year period a husband and wife made false statements as to their relationship and stole somebody else's identity (to create a non-existent landlord), to fraudulently claim housing benefit worth £43,000 from a council.
- The money claimed was used to finance an extravagant lifestyle, including purchases of two sports cars, expensive watches and nearly £100,000 of musical equipment. Subsequent enquiries by the council's financial investigator established that the husband owned a property abroad worth in excess of £1 million, had further land holdings and several businesses in the UK and abroad, including two money transfer companies. He also had several business and bank accounts.
- The fraudsters pleaded guilty to 19 Fraud Act, Theft Act, perjury and immigration offences. The fraudsters were sentenced to 30 months in prison and 12 months' suspended sentence respectively.
- Using the findings of the financial investigator's enquiries into the financial history of the fraudsters, a subsequent POCA hearing awarded £1,197,000 in a confiscation order, to be paid by the husband. The council is due £497,000 of this award.
- The fraudster husband subsequently paid £11,849 of the amount awarded. In late 2013, he left the UK and is now resident abroad. An arrest warrant has been issued.

*Source: Audit Commission (2014)*

## Recovery of 23 council houses from fraudsters

- In 2011, a council's fraud team uncovered one of the country's biggest ever tenancy fraud cases. Over a three year period, a council employee dealing with homeless people had operated a scheme to process bogus housing applications to fraudulently obtain council homes. Properties were subsequently allocated to the fraudster's family, close associates and later those willing to pay. The fraudster used fake identities, false personal data and fraudulently adjusted housing application forms to make the co-defendants "high priority" for housing.
- The fraud was first identified through National Fraud Initiative data 'Operation Amberhill' matches. Subsequent investigations found a pattern of false documentation being used to obtain social housing. Enquiries with the UK Borders Agency and HMRC established that seven of the properties were allocated to people not legally allowed to be in the UK.
- Council investigators found a pattern where significant one-off payments would be made to the fraudster's bank account. A few days later a property would be allocated to the individual making the payment.
- In total, 23 properties were fraudulently allocated, most of which have already been recovered by the council.
- The fraudster pleaded guilty to transferring criminal property and in January 2014 he was sentenced to four years in prison. The co-defendants, who included the mother and a former wife of the culprit, received suspended sentences ranging from six to eight months, and other penalties including curfews and community service.

*Source: Audit Commission (2014)*

## Case study 9

### **Benefit fraudster with over 30 bank accounts – POCA confiscation order of £150,000**

- In 2011, a council initially identified through data matching that a benefit claimant had two undeclared bank accounts. Further enquiries established the claimant had over 30 such undeclared bank accounts in operation over a ten year period. During that time the claimant had received over £43,000 in benefits. A restraint order was placed on these bank accounts under the Proceeds of Crime Act, to prevent them being used.
- The individual was subsequently found guilty of two counts of benefit fraud under the Social Security Administration Act and received a six month custodial sentence.
- In 2014, a POCA confiscation order of £150,000 was made against the fraudster, of which over £43,000 related to the council for the fraudulent housing benefit payments. These monies have now been paid back by the fraudster.

Source: Audit Commission (2014)

### Right to Buy fraud and benefit fraud

- In 2010, a couple applied to purchase their council home under Right to Buy for £185,000, with a discount of £38,000. The purchase was not consistent with their financial circumstances, as they were long term benefit claimants on low income. As part of the council's anti-money laundering policy, enquiries were then made to establish how the property purchase would be financed.
- Enquiries revealed the couple had savings in excess of £30,000, which had not been declared in the course of claiming benefits. The mortgage to fund the purchase was to be £147,000. To obtain the mortgage, one defendant inflated his income and a completely false income was declared for the other, who had not worked for over 15 years.
- In March 2012, the defendants pleaded guilty to benefit fraud offences and money laundering totalling over £10,000. They received a 12 month Community Order, 150 hours unpaid work, an evening curfew and electronic tagging.
- At a subsequent confiscation hearing, the council were awarded over £40,000 in relation to both the Right to Buy and benefit frauds, which has been repaid in full.

*Source: Audit Commission (2014)*

### **Housing officer fraudulently sub-letting council house**

- In 2010, a council housing officer created false documents, forged signatures and copied confidential council-held information to create the false impression of a voluntary tenancy exchange for two council homes. Instead, the housing officer used the subsequent control over one property (that had supposedly been transferred to a new tenant), to fraudulently sub-let that property for £700 per month.
- The fraud came to the attention of the local authority as a result of an unrelated enquiry by the tenant of the fraudster to the council.
- The original tenant had returned the keys of the property to the council in 2010 and was now living abroad. He had no knowledge of the tenancy exchange, and his signature had been falsified on transfer documents.
- The housing officer was dismissed for gross misconduct, pleaded guilty to two offences of fraud by abuse of position and making and supplying articles for use in fraud. The fraudster was sentenced to two years and ten months' imprisonment.
- In 2014, a POCA confiscation hearing found the fraudster had obtained a lifestyle benefit of over £88,000. As a result, the council was awarded £16,631, representing half of the equity available on the fraudster's own property, which he jointly owned with his wife.

*Source: Audit Commission (2014)*

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If you wish to write to us, please send all correspondence to:

**Audit Commission**  
1st Floor, Fry Building  
2 Marsham Street  
London, SW1P 4DF



