

# Fraud briefing

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# 2011

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London Borough of Tower Hamlets

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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## Introduction

- 1 This briefing is intended to help you to understand how well your Council appears to be tackling fraud.
- 2 All councils in England were asked, in summer 2010, to complete the Audit Commission's survey of detected fraud for 2009/10. More than 96 per cent of councils completed the survey and told us how well they consider they are doing in the fight against fraud.
- 3 In this briefing we use the results of the survey to compare your reported performance in preventing and detecting fraud with the reported performance of other councils.
- 4 We recognise stand alone figures do not provide definitive answers about your performance. We therefore compare your fraud data with figures from other councils, including fraud risks where you have provided us with no information. Finally, we suggest issues where you may wish to take action.
- 5 In your case, our analysis compares your results with the national picture, other inner London councils and a cluster of neighbouring councils. Included in your cluster are: Greenwich, Hackney, Lewisham, Newham, and Southwark councils.
- 6 The 2010/11 detected fraud results for all councils in England will be published later this year. Although we are unable to compare your 2010/11 performance with your cluster group, we are able to note your level of detected fraud in 2010/11.
- 7 At the end of this briefing we have included a checklist based on the one published in our national report '*Protecting the Public Purse 2010*' (*PPP 2010*). This is intended to help audit committees, and others responsible for governance, to assess the effectiveness of their counter-fraud arrangements.
- 8 We recommend you use this checklist annually to assess your counter-fraud performance and arrangements.

## The national picture

- 9 Our 2009/10 fraud survey results show councils and related bodies detected around 119,000 cases of fraud valued at £135 million. It should be noted the survey results relate only to detected fraud which normally represents only a small proportion of the total amount of fraud committed against councils.
- 10 These cases included:
  - 63,000 housing benefit and council tax benefit frauds amounting to a loss of £99 million to the public purse. These frauds represented almost three quarters of the total detected fraud by councils;
  - 48,000 council tax discount frauds amounting to £15 million; and
  - 7,000 other frauds worth £21 million.

11 In addition to the above figures, councils recovered almost 1,600 homes in 2009/10 from unlawful tenants with an estimated replacement value of nearly £240 million.

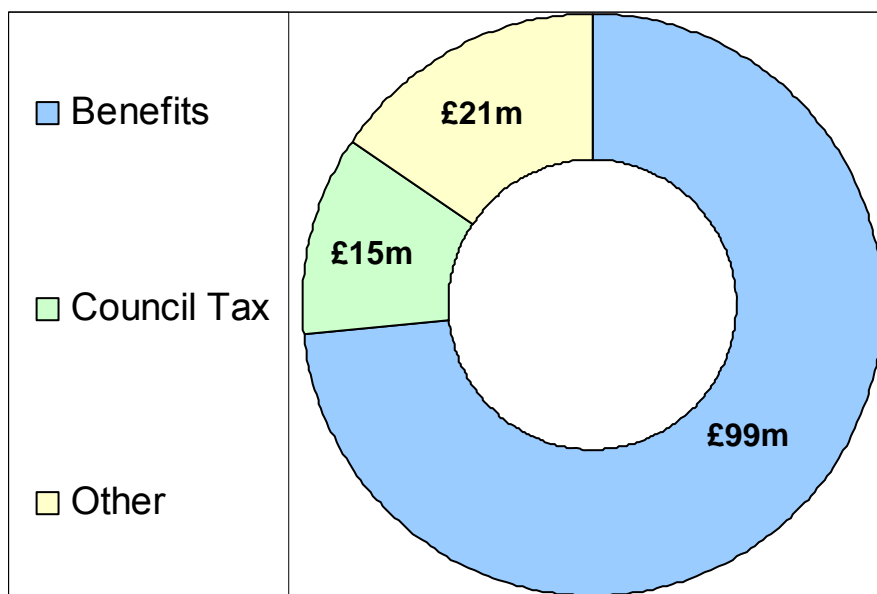
12 In 2009/10 some councils did not keep complete records of all types of fraud and did not always classify fraudulent activity as fraud. Most councils were able to provide us with information for more traditional fraud risks, such as housing benefits. But information about some types of fraud, such as tenancy, council tax and recruitment fraud, was less robust.

13 We recommend all councils treat fraud as fraud and keep complete records in the future.

14 All London councils completed the fraud survey.

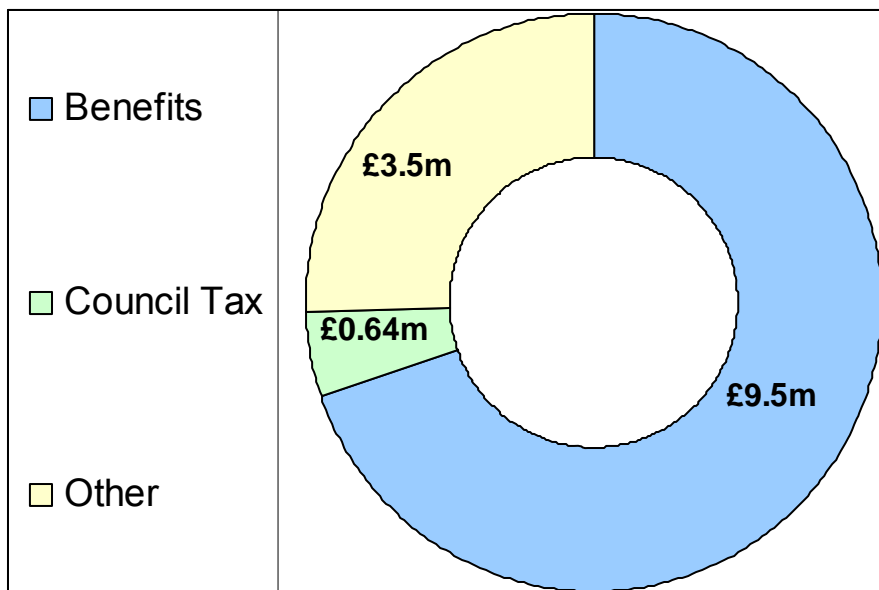
## Fraud against councils in England - the big picture

Figure 1: National picture - total value of fraud detected by councils in England (£135 million)



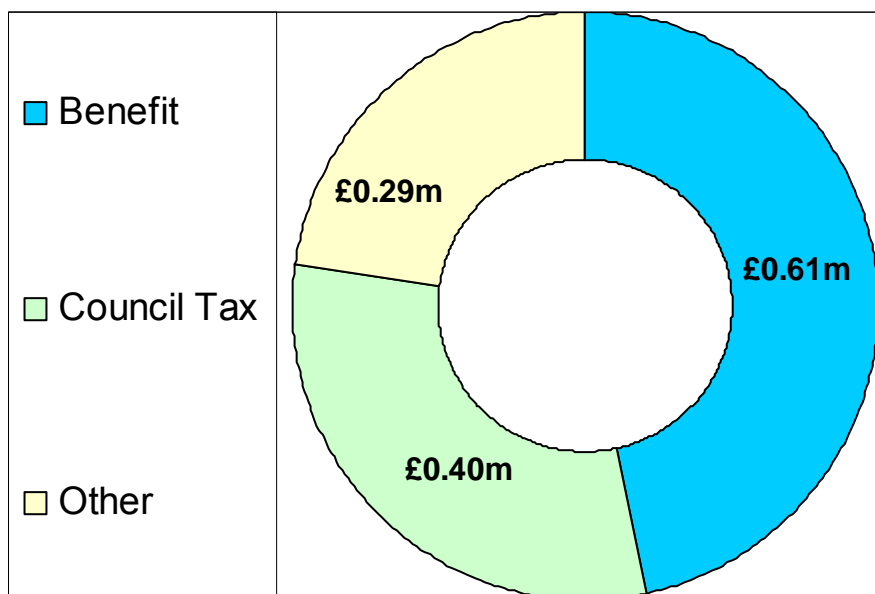
15 Figure 1 shows the amount of detected fraud by councils in England excluding tenancy and recruitment fraud which are covered later in this briefing. Almost three-quarters of fraud detected by councils is benefit fraud.

Figure 2: Inner London<sup>i</sup> - total value of fraud detected by inner London councils (£13.64 million)



16 Figure 2 shows the value of detected fraud by inner London councils. In inner London the detected level of council tax fraud is lower than the national average while benefit fraud is higher.

Figure 3: Tower Hamlets - total value of fraud detected by your council (£1.3 million)



17 Figure 3 shows the total value of fraud detected by your Council. 'Others frauds' includes an estimated value for 27 'payroll and employee contract fulfilment' fraud cases.

<sup>i</sup> We have used the Office of National Statistics definition of inner London, as used by Department of Work and Pensions, rather than the Local Government Act 1963 definition. Note Newham and Haringey are counter as inner London boroughs for this purpose.

## How does your Council compare?

### Housing and council tax benefits (HB/CTB) fraud

#### The national picture

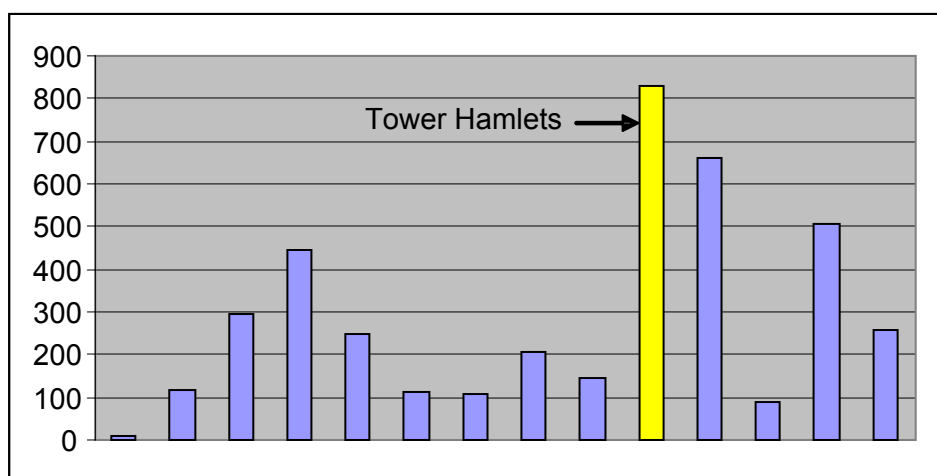
**18** In 2009/10, almost £22 billion of HB/CTB was paid to individuals by councils in England. According to the results of our fraud survey councils detected over 63,000 fraudulent claims for benefit with losses of nearly £99 million in 2009/10.

**19** Councils used a range of techniques to detect HB/CTB fraud, including our National Fraud Initiative (NFI) data-matching exercise. Outcomes are significant and show preventing and detecting HB/CTB fraud are still important tasks for councils.

#### Your performance

**20** Your HB/CTB caseload for 2009/10 was around 39,000 claims. You reported to us 832 cases of detected HB/CTB fraud for 2009/10, worth £607,392. This was the highest number of cases of detected fraud compared to all other inner London Boroughs.

Figure 4: **You reported the highest number of HB/CTB cases of detected fraud in inner London**



**21** You reported the highest number of HB/CTB cases of detected fraud in inner London. When we compared you with your neighbouring authorities, your detected number of HB/CTB cases expressed as a percentage of your total HB/CTB caseload, you had the second highest percentage in London.

**22** You reported 26 convictions for HB/CTB fraud in the same period. This is above the inner London average (16) and the average for your neighbours (19). You have the third highest level of convictions of inner London councils.

**23** In 2010/11, you maintained this performance, reporting 187 cases with a total value of £646,250.

## How you can improve

- 24 You have a strong performance in fighting HB/CTB fraud,
- 25 This is a time of great change within welfare benefits. We suggest you make every effort to ensure your performance is not allowed to slip.

## Council tax - single person discount (SPD) fraud

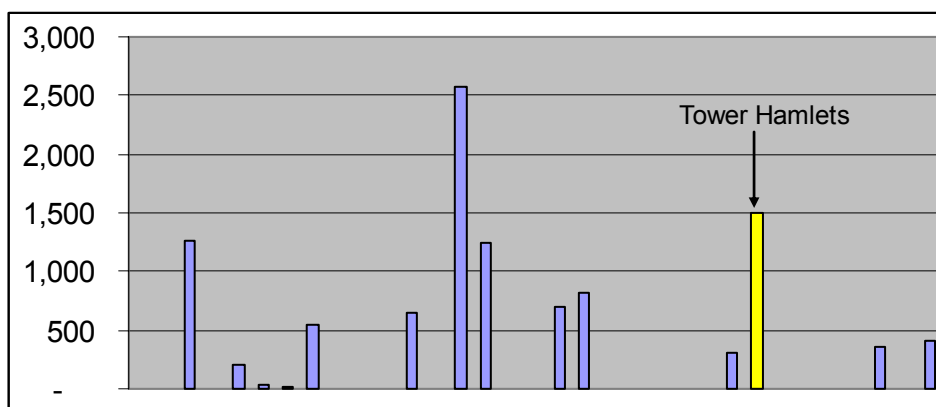
### The national picture

- 26 In 2010/11, it is estimated £26.3 billion was raised from council tax in England. Householders may claim single person's discount (SPD) where there are no other residents aged 18 or over living at that address. SPD gives individuals a 25 per cent discount on their council tax bill.
- 27 Nationally, councils have noted a sharp increase in the number of people claiming SPD in recent years and an increased number of fraudulent applications. In 2010, we analysed the results of action taken by 26 councils to tackle this type of fraud.
- 28 We found fraudulent levels of claims were commonly between four and six per cent of SPD claims. This confirms our previous estimate that SPD fraud is costing councils in England at least £90 million each year.

### Your performance

- 29 You reported 1,500 detected cases of SPD fraud for 2009/10. This was the highest number for inner London councils and second highest for London as a whole. The value of your detected cases of SPD was £400,000, again the highest for inner London councils.

Figure 5: **You had the second highest number of SPD cases in all London**



- 30 We recognise that some councils may have taken action on SPD fraud but may not have recorded it as fraud and therefore not reported any cases to us in our 2010 survey.

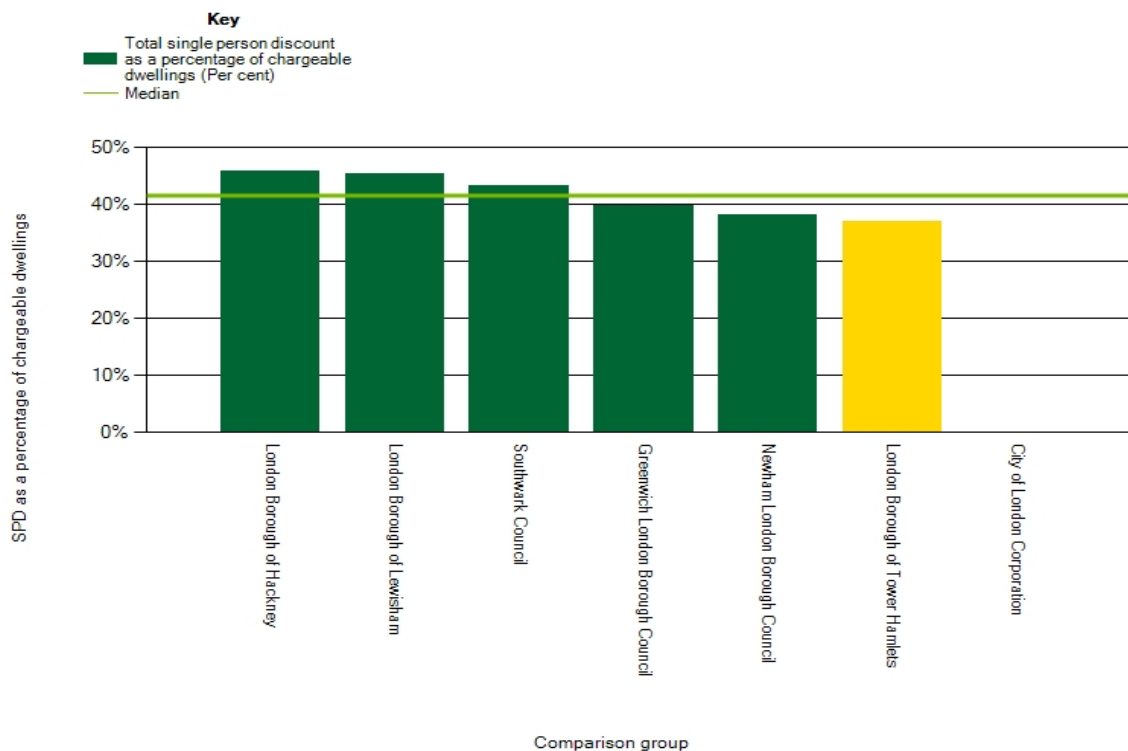


31 Our SPD predictor toolkit [<http://spd.audit-commission.gov.uk>] shows you have a level of SPD claims broadly comparable with your neighbours.

32 Our toolkit predicts that 42.05 per cent of your council tax payers will claim SPD discounts. Your actual level of SPD claimants in 2009/10 was 37 per cent<sup>i</sup>. This drops to 36.8 per cent in 2010/11.

33 In 2010/11, you reported no cases of detected SPD fraud.

Figure 6: **This bar chart shows your level of SPD claims is comparable with your neighbours**



### How you can improve

34 You should review the cost and benefits achievable by further targeting of SPD fraudsters.

## Housing tenancy fraud

### The national picture

35 There are nearly four million social housing properties in England. 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.

<sup>i</sup> The actual SPD level shown in the toolkit is derived from data published by the Department for Communities and Local Government, and thus includes fraudulent cases yet to be addressed. As a result, if a council is close to the predicted level then typically it can expect to have a fraudulent discount level of about 4 per cent.

**36** Nationally about 1.8 million households are on councils' housing waiting lists. In *PPP 2010* we estimated there may be at least 50,000 social homes in the hands of tenancy fraudsters, with a replacement cost of over £7 billion.

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

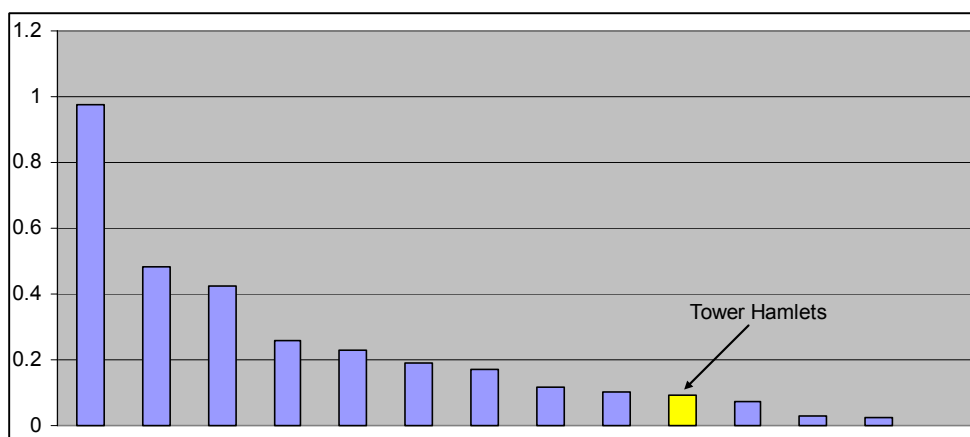
- the unauthorised sub-letting of a property for profit to individuals not allowed to live there by the conditions of the tenancy;
- submitting false information in a housing application to gain a tenancy; and
- wrongful tenancy succession where the property is no longer occupied by the original tenant.

### Your performance

**38** Tower Hamlets, along with 13 other inner London councils, manage their own housing stock. Your Council detected 12 cases of tenancy fraud in 2009/10. The replacement value of these properties is about £1.8 million.

**39** Comparing your detected tenancy fraud cases against the number of properties you manage, you had the fifth lowest level of detected cases as a proportion of your total housing stock in 2009/10.

Figure 7: **This bar chart shows the number of your detected tenancy fraud cases as a percentage of the number of properties you manage**



**40** In 2010/11 you recruited three specialist investigators who became fully operational in September 2010. To date this team has recovered 43 properties, with many more potential successes in the pipeline. The team is working closely with Tower Hamlet Homes and your Housing Benefit team. In line with your Anti Fraud Plan for 2011/12, guidance is being provided on 'Right to Buy' irregularities and tenancy succession.

**41** In your feedback to our survey you said you work with other registered social landlords (RSLs) and with other councils through, East London Solutions to tackle tenancy fraud. This has included the provision of counter fraud specific training for RSL staff.

**42** Increasingly, London councils are working more actively in partnership with RSLs to counter tenancy fraud and this is producing mutual benefits to both councils and RSLs.

**43** Some councils provide skilled and experienced investigators to investigate alleged tenancy frauds at RSL properties. In such cases, when a property is recovered by council investigators on behalf of the RSL, the council concerned receives nomination rights for an RSL property equivalent in size to that recovered. This has benefited both councils and RSLs

### **How you can improve**

**44** Assess your current response to housing tenancy fraud and determine if you are deploying sufficient resources to both prevent and detect such fraud. Review how effectively and efficiently any existing resources are used.

**45** Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit.

## **Social services fraud**

### **The national picture**

**46** A significant number of respondents to our survey identified social services fraud as an emerging issue. In *PPP 2010* we also recognise the provision of adult social care in England is undergoing significant change. Councils are increasingly using personal budgets, in particular direct payments, to manage and deliver care.

**47** A personal budget is a direct allocation by a council of funding for an individual to spend to meet their agreed needs. These budgets provide users with more choice and control to spend money in the way most suitable for them.

**48** In March 2010, there were about 170,000 care users with personal budgets receiving about £900 million of public funding. This represents a large increase in the amount of public funds channelled through direct payments.

**49** The change in the way care is being provided and the need to safeguard vulnerable people as well as the concerns expressed by councils make this an important area of fraud risk for councils to consider.

### **Your performance**

**50** In 2009/10 you reported only one case of social services fraud to us. This is similar to the picture for most inner London councils. However, one inner London council detected 13 cases of social service fraud that amounted to over £400,000. In *PPP 2010*, we acknowledge that cases of financial abuse in social services, particularly in relation to personal budgets, can be difficult to detect and prove.

**51** In 2010/11 you reported two cases of social services fraud, with a total value of £165,000.

### **How you can improve**

**52** You should consider the risk of social service fraud in your area and your response.

## **Procurement fraud**

### **The national picture**

**53** In *PPP 2010*, we noted that councils spend around £80 billion each year buying goods and services. There is, currently, no credible estimate of the level of procurement fraud in local government. The National Fraud Authority has highlighted that, in the private sector, procurement fraud is typically between two per cent and five per cent of expenditure. If that were to be reflected throughout local government, the potential cost to the public purse would be very significant.

**54** 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. They have concluded that, 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.

### **Your performance**

**55** Your Council reported 15 cases of detected procurement fraud in 2009/10, with a value of £12,000. Inner London councils in total reported 31 cases of procurement fraud amounting to £135,616. Only two of your neighbours reported procurement fraud cases: two cases valued at £15,000 and one case valued at £3,000.

**56** In 2010/11 you reported no cases of procurement fraud.

### **How you can improve**

**57** You should consider the risk of procurement fraud and, in the light of any counter-fraud work you have undertaken, reflect on whether you need to do more.

## **Blue badge fraud**

### **The national picture**

**58** People with severe mobility problems receive parking concessions if they have a blue badge. There are about 2.3 million blue badges in use in England. Criminals forge badges and steal genuine ones from cars. Badges can change hands for as much as £500 in the illicit market. Fraudsters use these badges to avoid parking charges in all areas and the congestion charge in London.

**59** This means genuine badge holders cannot park in the places provided for them and councils lose income.

### **Your performance**

**60** Your Council reported it had 16 cases of detected blue badge frauds in 2009/10. One of your neighbours reported 172 cases valued at around £86,000.

**61** In 2010/11 you reported 13 cases of blue badge fraud.

### **How you can improve**

**62** You should consider the risk of blue badge fraud in your area and your response.

## **Recruitment fraud, payroll and employee contract fulfilment fraud and abuse of position fraud**

### **The national picture**

**63** Councils employ more than two million permanent staff 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 a council.

**64** As a result, some councils have strengthened their recruitment and vetting procedures. For example, one council adopted an enhanced vetting approach and found in 2009/10:

- 6 per cent of all successful candidates for a permanent position failed the vetting checks; and
- almost 13 per cent of all successful candidates for a temporary position failed the vetting checks.

### **Your performance**

**65** Your Council reported eight cases of recruitment fraud to us relating to 2009/10. Your neighbours reported 11, eight, seven, five and no cases respectively.

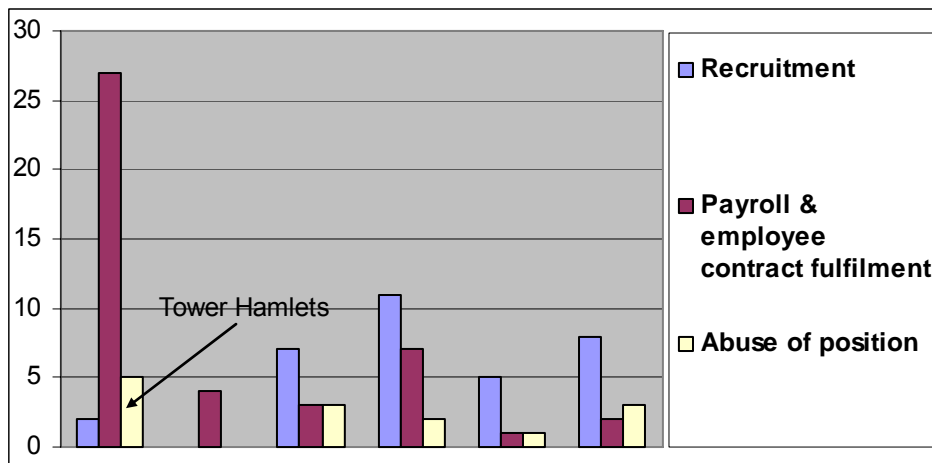
**66** In 2010/11 you reported no cases of recruitment fraud.

**67** Evidence from councils which employ enhanced vetting procedures indicates your previous detected fraud cases could be just the tip of the iceberg in terms of the total amount of recruitment fraud targeted against your Council.

**68** You report 27 cases of payroll and employee contract fulfilment fraud. This was by far the highest number in London. You did not place a value on these cases, but using the average for other London councils this could amount to over £199,000 of potential fraud against your council.

69 You reported five cases of abuse of position fraud. This was the highest amongst your neighbours.

Figure 8: **This chart shows the number of your detected recruitment fraud, payroll and employee contract fulfilment, and abuse of position cases compared with your neighbours.**



### How you can improve

70 As jobs, particularly in the public sector, become harder to find, ever more people could be tempted into recruitment fraud. Also, the risk of internal fraud, such as payroll and abuse of power, are likely to increase.

71 You should ensure, in difficult economic times, that you have in place appropriate safeguards to prevent fraudsters getting work in your Council and that internal controls remain robust.

## Whistleblowing and anti-money laundering

### The national picture

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

73 The adoption of good practice by many organisations means whistleblowing arrangements have improved significantly since the Act came into force. Organisations increasingly view the Act as the starting point to developing a transparent culture which supports and encourages whistleblowing.

74 In relation to anti-money laundering, many of the provisions of the Money Laundering Regulations, 2007 do not apply to local government organisations. However, the size and scope of local authority activities are such that few, if any, are likely to be immune from the risks surrounding money laundering. As a result most councils have adopted a voluntary anti-money laundering policy.

## Your performance

**75** You reported to us you have policies and arrangements to manage whistleblowing and anti-money laundering. You take active steps to raise awareness of both policies every year.

**76** In 2009/10 you reported 60 whistleblowing disclosures by staff. This was the highest number for inner London and the second highest for all London.

## How you can improve

**77** Continue to promote your whistleblowing and anti-money laundering arrangements.

## Governance arrangements

### The national picture

**78** The audit committee of a public organisation exists to provide independent assurance that the organisation has adequate controls to mitigate key risks and to ensure the organisation is operating effectively. Audit committees hold organisations to account and should make sure their organisation is taking effective action to counter fraud.

**79** Some councils do not record all types of fraud, or do not always classify all fraudulent activity as fraud. All 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.

## Your performance

**80** Your Council has an audit committee with a remit covering governance and counter-fraud issues.

**81** You also reported to us that your Council has:

- a dedicated counter-fraud resource;
- a counter-fraud plan approved by your councillors;
- an annual performance report of your counter-fraud work sent to councillors and made available to the public; and
- that you undertake an annual assessment of your exposure to the risk of fraud.

**82** Your governance and counter-fraud arrangements comply with recommended good practice.

## How you can improve

**83** Continue to collect information about all types of fraud perpetrated against your Council so that your annual risk assessment is comprehensive. And then take action, where necessary.

## Summary

84 We suggest you take the following action to improve your fight against fraud.

Your fraud risks	Action we recommend	Tower Hamlets response
Housing benefit and council tax benefit - HB/CTB	This is a time of great change within welfare benefits and we suggest you make every effort to maintain your performance.	
Council tax - SPD	You should review the cost and benefits achievable through further targeting of SPD fraudsters.	
Housing tenancy	Assess your response to housing tenancy fraud and determine if you deploy sufficient resources to both prevent and detect such fraud. Review how effectively and efficiently any existing resources are used. Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit.	
Social services	You may wish to consider the risk of social service fraud in your area and what responses may be required.	
Procurement	You should consider the risk of procurement fraud. In the light of any counter-fraud work you have undertaken reflect on whether you need to do more.	
Blue badge	You could consider the risk of blue badge fraud in your area and what response may be required.	
Recruitment, payroll and employee contract fulfilment, and abuse of position	You should ensure that you have appropriate safeguards to prevent fraudsters getting work in your Council and internal controls are robust.	
Whistleblowing and anti-money laundering	Continue to promote your whistleblowing and anti-money laundering arrangements.	



Your fraud risks	Action we recommend	Tower Hamlets response
Governance arrangements	Ensure that you continue to collect information about all types of fraud perpetrated against your Council.	

## Audit Commission counter fraud checklist for you to complete

Governance	Y/N	Action to be taken
1. Do we have a zero tolerance approach against fraud?		
2. Do we have appropriate counter-fraud strategies, policies and plans?		
3. Do we have dedicated counter-fraud resources?		
4. Do the resources cover all of the activities of our organisation?		
5. Do we receive regular reports on fraud risks, plans and outcomes?		
6. Have we assessed our management of counter-fraud resources against good practice?		
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> <li>■ new staff (including agency staff)?</li> <li>■ existing staff?</li> <li>■ elected members?</li> <li>■ our contractors?</li> </ul>		
8. Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?		
9. Do we have effective working arrangements with relevant organisations to ensure appropriate sharing of knowledge and data about fraud?		
10. Do we identify areas where our internal controls may not be performing as intended?		
11. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive and act on reports on outcomes?		
12. Do we have effective fidelity insurance arrangements?		

Governance	Y/N	Action to be taken
Anti-money laundering		
13. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?		
Whistleblowing		
14. Do we have effective whistleblowing arrangements?		
Fighting fraud in the post recessionary environment		
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 staffing as a result?		
Housing tenancy		
18. Do we take effective action to ensure social housing is allocated only to those in need?		
19. Do we ensure social housing is occupied by those to whom it is allocated?		
Procurement		
20. Are we satisfied that procurement controls are working as intended?		
21. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels and compared them with best practice?		
Recruitment		
<p>22. Are we satisfied our recruitment procedures:</p> <ul style="list-style-type: none"> <li>■ prevent the employment of people working under false identities?</li> <li>■ validate employment references effectively?</li> <li>■ ensure applicants are eligible to work in the UK?</li> <li>■ require agencies supplying us with staff to undertake the checks we require?</li> </ul>		

Governance	Y/N	Action to be taken
Social services		
23. Where we are expanding the use of personal budgets for social care, in particular direct payments, have we introduced appropriate arrangements proportionate to risk and in line with recommended practice?		
Council tax		
24. Are we effectively controlling the discounts and allowances we give to council taxpayers?		
Housing and council tax benefits		
25. In tackling housing and council tax benefit fraud do we make full use of: <ul style="list-style-type: none"> <li>■ National Fraud Initiative?</li> <li>■ Department for Work &amp; Pensions Housing Benefit matching service?</li> <li>■ Internal data matching?</li> <li>■ Private sector data matching?</li> </ul>		

Source: Audit Commission 2010

**For more information and guidance please contact:**

Alan Bryce  
Head of Counter Fraud  
Advisory Services, Audit Practice  
Audit Commission, Millbank Tower  
London SW1P 4HQ

[a-bryce@audit-commission.gov.uk](mailto:a-bryce@audit-commission.gov.uk)

T: 0844 798 2343

Duncan Warmington  
Governance and Counter Fraud Practice  
Advisory Services, Audit Practice  
Audit Commission, Millbank Tower  
London SW1P 4HQ

[d-warmington@audit-commission.gov.uk](mailto:d-warmington@audit-commission.gov.uk)

T: 0844 798 2271

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Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946