

Fraud Briefing 2012

London Borough of Tower Hamlets

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

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

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

Contents

Introduction	2
The national picture	3
How does your Council compare?	4
Housing and council tax benefits (HB/CTB) fraud	4
Council tax fraud	6
Housing tenancy fraud	6
Social services fraud	8
Procurement fraud	8
Blue badge fraud	8
Internal fraud	9
Summary	12
Audit Commission Counter Fraud Checklist for you to complete	13
For more information and guidance please contact:	15

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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 2011, to complete the Audit Commission's survey of detected fraud for 2010/11. Almost 100 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 for the 2010/11 financial year. This is the last year for which comparable information is currently available.
- 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 2011/12 detected fraud results for all councils in England will be published later this year. Although we are unable at this time to compare your 2011/12 performance with your cluster group, we are able to note your level of detected fraud in 2011/12.
- 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 2011*' (*PPP 2011*). This is intended to help audit committees, and others responsible for governance, to assess the effectiveness of their counter-fraud arrangements.
- 8** In September last year, we presented the 2011 Fraud Briefing to the Audit Committee. Although action points were agreed at that time we recognise that the 2011/12 detected fraud data is unlikely to yet reflect the impact of actions agreed at that meeting. The impact of those actions should be reflected in the 2012/13 detected fraud figures.
- 9** We recommend you use this checklist annually to assess your counter-fraud performance and arrangements.

The national picture

10 Our 2010/11 fraud survey results show councils and related bodies detected around 121,000 cases of fraud valued at £185 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.

11 These cases included:

- 59,000 housing benefit and council tax benefit frauds amounting to a loss of £110 million to the public purse. These frauds represented almost three quarters of the total detected fraud by councils;
- 56,000 council tax single person and student discount frauds amounting to £22 million;
- 145 cases of council procurement fraud involving losses of £14.6 million, a 400 per cent increase on 2009/10; and
- 102 cases of proven social care budget fraud worth over £2.2 million; and

12 In addition to the above figures, councils recovered almost 1,800 homes in 2010/11 from unlawful tenants with an estimated replacement value of over £266 million.

13 In 2010/11 councils kept better records than in 2009/10. However, 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 remains less robust.

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

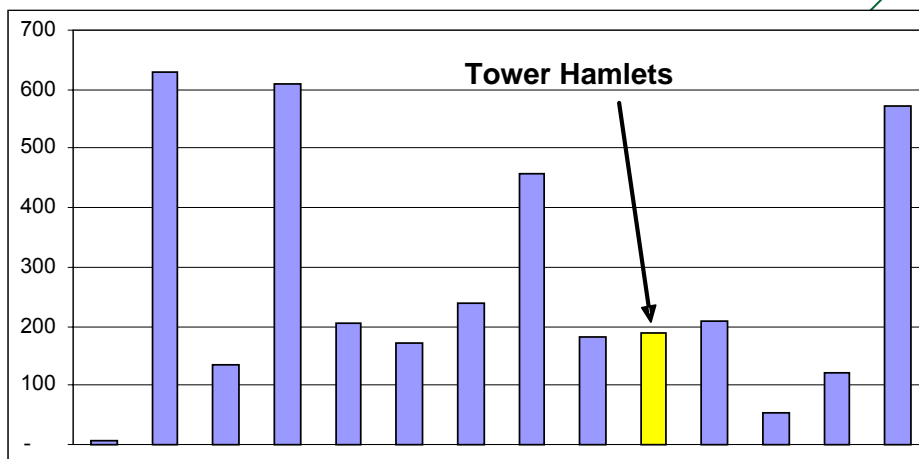
15 All London councils completed the fraud survey.

How does your Council compare?

Housing and council tax benefits (HB/CTB) fraud

16 The number of your reported HB/CTB fraud cases dropped from 832 in 2009/10 to 187 in 2010/11. But the value of your detected fraud increased from £607,392 to £646,250 in the same period.

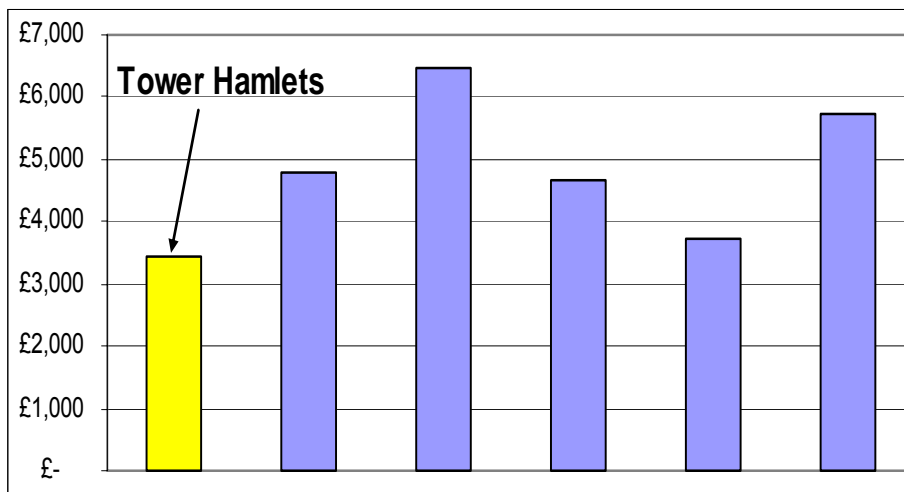
Figure 1: The number of HB/CTB detected fraud cases compared to other inner London councils in 2010/11



17 In 2011/12 you reported 177 cases with a value of £861,873. This may indicate you are focusing on higher value cases than previously.

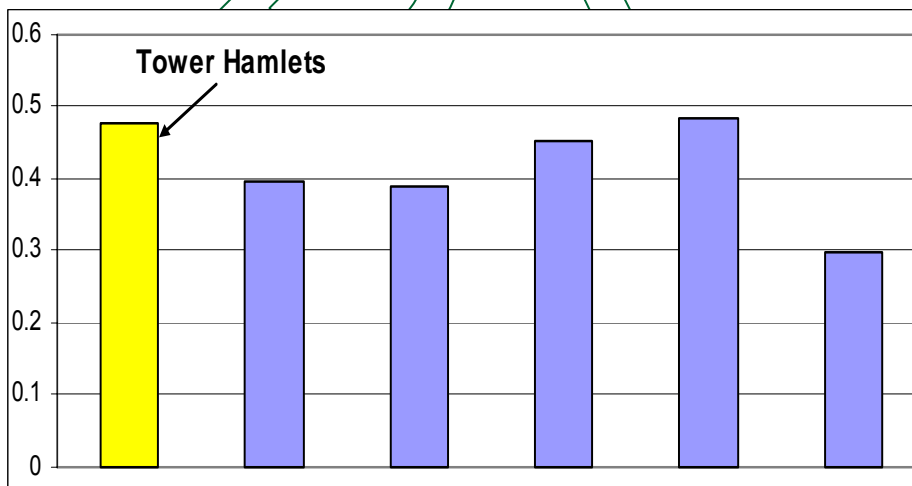
18 However, compared to your neighbours you have the lowest average value per detected HB/CTB case. Nevertheless, it is worth noting that the levels of rent in your borough are lower than other councils and this may be the cause of the lower average per detected case value.

Figure 2: Average value of HB/CTB detected fraud cases compared to neighbouring councils in 2010/11



19 This perception of rent levels affecting average detected case values is given greater strength because your HB/CTB detected fraud cases as a percentage of your claimant caseload is the second highest compared to your neighbours. Although this percentage is the same as last year it demonstrates a good level of efficiency in detecting HB/CTB fraud compared to your neighbours.

Figure 3: Detected HB/CTB fraud cases as a percentage of HB/CTB claimant caseload compared to neighbouring councils in 2010/11



How you can improve

20 You have maintained your performance in fighting HB/CTB fraud that we noted last year.

21 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 discount fraud

22 In 2010/11 you reported no cases of council tax discount fraud. This compares with 1,500 detected cases of single person discount (SPD) fraud with a value of £400,000 for 2009/10. In 2009/10 this was the highest number of detected cases for inner London councils and second highest for London as a whole.

23 In 2011/12 you have again reported no cases of council tax fraud. However, in 2011/12 you undertook a comprehensive review of all single person discount awards in partnership with an external data analysis company. For the first time you included benefit claimants within the review. Resulting from the review, you removed 849 discounts (383 admissions / 466 non-responses). You estimate the total saving to the Council of this exercise at about £200k.

24 In your 2011 Fraud Briefing our recommendation was "*You should review the cost and benefits achievable by further targeting of SPD fraudsters*". You have reviewed your SPD claims and made significant savings. However, given you have reported for two years that you have no SPD fraud cases you are either not labelling fraud as fraud or there is a breakdown in internal reporting and fraud classification.

25 The first step to tackling any fraud is acknowledging the risk. Our calculations show that the national average level of council tax fraud is likely to be about 4 per cent.

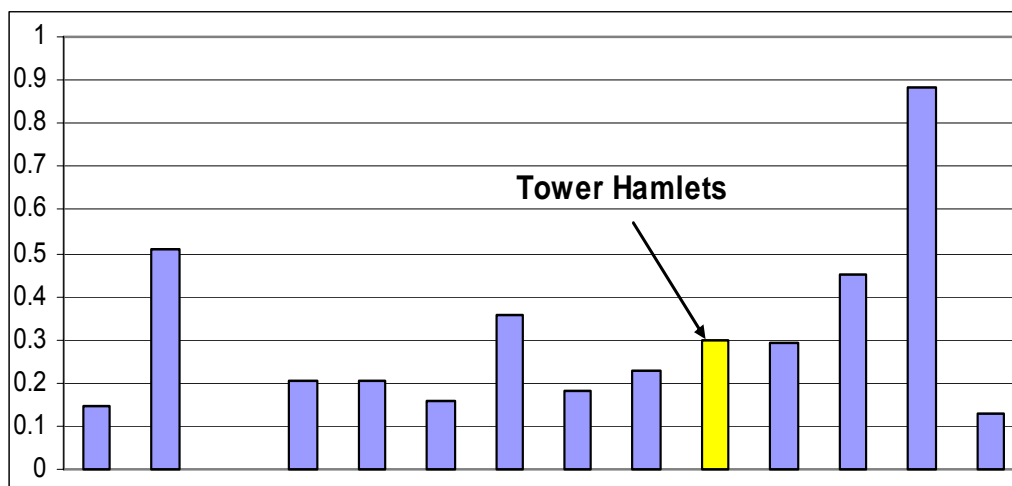
How you can improve

26 You should give serious consideration to reviewing your council tax fraud risk. Assess what counter fraud controls are currently in place and what measures need to be put in place to ensure much needed income is not lost to fraudsters.

Housing tenancy fraud

27 Tower Hamlets, along with 13 other inner London councils, manage their own housing stock. In 2009/10 you reported 12 detected cases of tenancy fraud, with a replacement value of about £1.8 million. In 2010/11 you reported 37 cases of tenancy fraud, with a replacement value of over £5.5 million – over three times as many cases. This is commendable, reflecting the greater national priority to tackle tenancy fraud.

Figure 4: Detected housing tenancy fraud as a percentage of housing stock - inner London councils 2010/11



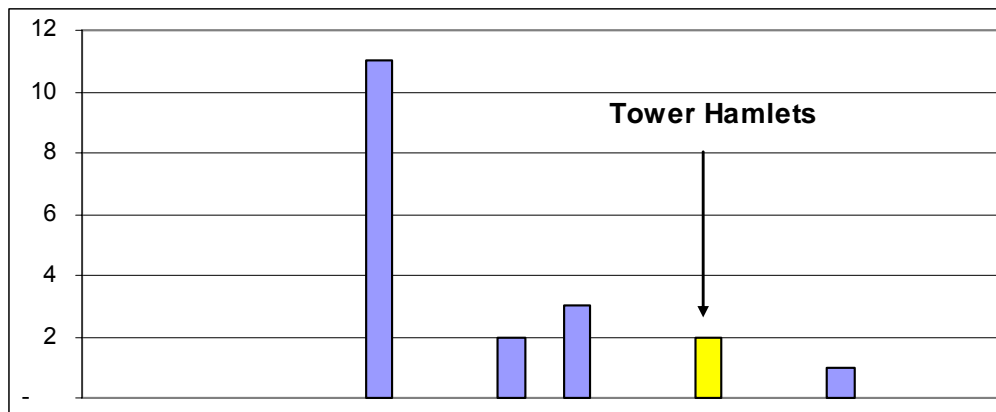
28 In the 2010/11 financial year you recruited three specialist investigators, they became fully operational in September 2010. In 2009/10 you had the fifth lowest level of detected housing tenancy fraud. In 2010/11 you had the fifth highest level of detected housing tenancy fraud amongst inner London councils.

29 For 2011/12 you have reported 40 detected cases. It would have cost £6 million to build an equivalent number of new homes.

30 In 2010/11, and again in 2011/12, you reported that you are joint working with 16 Registered Social Landlords (RSLs).

31 In 2010/11 you were one of only five inner London councils which reported 'Right to Buy' frauds. You reported two detected cases of fraud valued at £32,000. You also said you intended to give greater attention to 'Right to Buy' cases. One of your neighbours reported 11 detected cases valued at £176,000. For 2011/12 you have reported one case valued at £16,000. Changes in the 'Right to Buy' incentive scheme from April 2012 may make 'Right to Buy' discounts more attractive to potential fraudsters.

Figure 5: Detected 'Right to Buy' fraud cases for inner London councils 2010/11. A neighbouring council to Tower Hamlets reported 11 detected cases with a value of £176,000



How you can improve

- 32** The increasing number of properties recovered reflects positively on the greater attention you have given in recent years to tackling tenancy fraud. Continue to support your housing tenancy fraud response.
- 33** Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit.
- 34** Review 'Right to Buy' fraud prevention and detection arrangements to ensure they are proportionate to the changing fraud risk environment.

Social services fraud

35 In 2010/11 you reported two cases of detected social services fraud valued at £165,000. This compares to your one reported case valued at £1,000 in 2009/10. In 2010/11 you were one of only three inner London councils to report social services fraud and one of only seven for London as a whole. The total value of your social services fraud and your average value for each case was the highest in London.

36 For 2011/12 you have reported 2 social services fraud cases valued at £101,202. Your average value per social services detected fraud case is £50,601; whereas, your average value per HB/CTB detected fraud case is £4,869. This demonstrated the significant fraud loss risk that can occur when fraudster target social services.

How you can improve

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

Procurement fraud

38 In 2009/10 you reported 15 cases of detected procurement fraud valued at £12,000. In 2010/11 you reported no cases and no cases for 2011/12.

39 In 2009/10 inner London councils reported 31 cases of procurement fraud, but reported only 10 in 2010/11. Nationally reported cases of procurement fraud fell from 165 in 2009/10 to 145 in 2010/11. However, the value of reported procurement fraud rose from £2.7 million to £14.6 million in the same period – an increase of over 400 per cent

40 Of the seven London councils which reported procurement fraud only one provided a value for the cases. It is best practice that all fraud is given a financial value in order to establish the full loss taxpayers suffer.

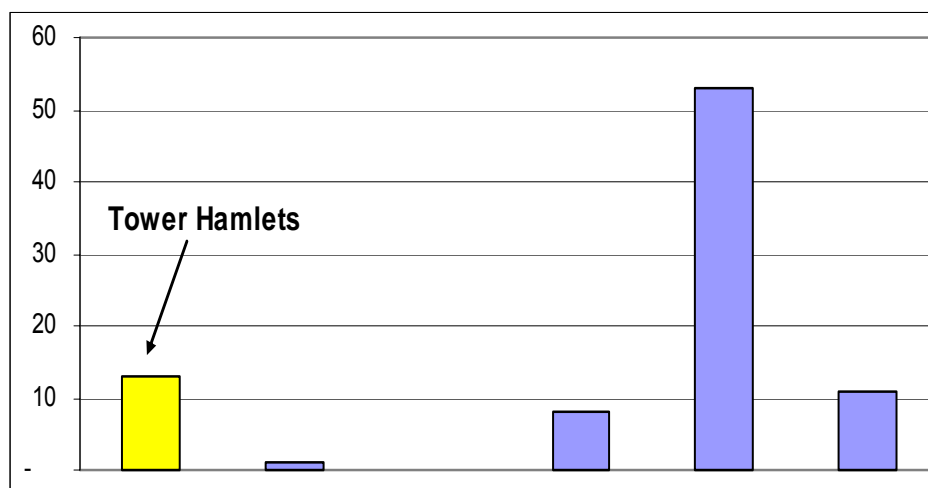
How you can improve

41 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

42 In 2009/10 you reported 16 cases of detected blue badge fraud, in 2010/11 it was 13 cases, and in 2011/12 you have reported 12 cases. Although the number of your detected blue badge fraud cases is declining, your 2010/11 performance remains better than most of your neighbours.

Figure 6: Blue badge fraud compared to your neighbours 2010/11



How you can improve

- 43** Continue to tackle blue badge fraud in your area and your response.

Internal fraud

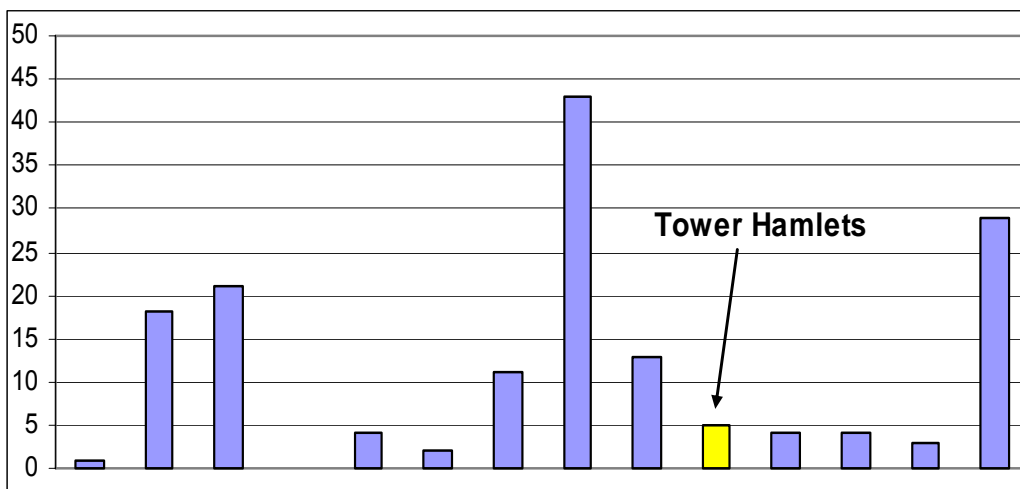
44 In 2010/11 you reported 5 cases of internal fraud, including 1 benefit fraud, 1 tenancy fraud, 2 social services fraud, and 1 payroll and contract fulfilment fraud. The inner London average for detected internal fraud cases was 11.

45 In 2009/10 you reported over 40 cases, including 27 cases of payroll and employee contract fulfilment fraud, eight cases of recruitment fraud, and five cases of abuse of position fraud. In 2011/12 you have reported 2 cases valued at £6,100, both were HB/CTB cases.

46 Although there has been a decline in the number of detected internal fraud cases your 2010/11 figures remain above the national average. In 2010/11 nationally 1.3 per cent of cases and 10.5 per cent of value of detected fraud is committed internally. In 2010/11 2.2 per cent of cases and 21.8 per cent of the value of detected fraud is committed internally at Tower Hamlets - this includes 2 internal social services fraud valued at £165,000.

47 In difficult economic times and employee uncertainty about the future internal fraud risks increase.

**Figure 7: Internal fraud cases compared to inner London councils
2010/11**



How you can improve

48 You should ensure that you have in place appropriate safeguards to prevent and detect internal fraudsters.

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Summary

49 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	You have maintained your performance in fighting HB/CTB fraud that we noted last year. 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	You should give serious consideration to reviewing your council tax fraud risk. Assess what counter fraud controls are currently in place and what measures need to be put in place to ensure much needed income is not lost to fraudsters.	
Housing tenancy	<p>The increasing number of properties recovered reflects positively on the greater attention you have given in recent years to tackling tenancy fraud. Continue to support your housing tenancy fraud response.</p> <p>Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit.</p> <p>Review 'Right to Buy' fraud prevention and detection arrangements to ensure they are proportionate to the changing fraud risk environment.</p>	
Social services	You should consider the risk of social service fraud in your area and your response.	
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 should consider the risk of blue badge fraud in your area and your response.	

Your fraud risks	Action we recommend	Tower Hamlets response
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Internal fraud	You should ensure that you have in place appropriate safeguards to prevent and detect internal fraudsters.	
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Audit Commission Counter Fraud Checklist for you to complete

General	Y/N	Action to be taken
1. Do we have a zero tolerance approach against fraud?		
2 Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with Fighting Fraud Locally?		
3. Do we have dedicated counter-fraud staff?		
4. Do counter-fraud staff review all the work of our organisation?		
5. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?		
6. Have we assessed our management of counter-fraud work against good practice?		
7. Do we raise awareness of fraud risks? a. With new staff (including agency staff)? b. With existing staff? c. With elected members? d. With our contractors?		
8. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?		
9. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?		
10. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?		
11. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on the matches investigated?		
12. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?		
13. Do we have effective whistleblowing arrangements?		
14. Do we have effective fidelity insurance arrangements?		

Fighting fraud with reduced resources		
15. Have we reassessed our fraud risks since the change in the financial climate?		
16. Have we amended our counter-fraud action plan as a result?		
17. Have we reallocated staff as a result?		
Housing tenancy		
18. Do we take proper action to ensure that we only allocate social housing to those who are eligible?		
19. Do we ensure that social housing is occupied by those to whom it is allocated?		
Procurement		
20. Are we satisfied our 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		
22. Are we satisfied our recruitment procedures achieve the following? a. Do they prevent us employing people working under false identities? b. Do they confirm employment references effectively? c. Do they ensure applicants are eligible to work in the UK? d. Do they require agencies supplying us with staff to undertake the checks that we require?		
Personal budgets		
23. 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?		
24. Have we updated our whistleblowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?		
Council tax		
25. Are we effectively controlling the discounts and allowances we give to council taxpayers?		

Housing and council tax benefits		
<p>26. When we tackle housing and council tax benefit fraud do we make full use of the following?</p> <p>a. National Fraud Initiative?</p> <p>b. Department for Work and Pensions Housing Benefit matching service?</p> <p>c. Internal data matching?</p> <p>d. Private sector data matching?</p>		
Audit Commission, 2011.		

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