

**Protecting the Public Purse, November 2013 –
Summary of the most Significant Issues**

1. Introduction

The latest “Protecting the Public Purse” was published in November 2013. “Protecting the Public Purse” is an annual report from the Audit Commission based on the data received as a result of the annual detected fraud and corruption survey and was first published in this format in 2009. The Local Audit and Accountability Bill contains provision for the closedown of the Audit Commission in March 2015. While the government has announced the transfer of the National Fraud Initiative to the Cabinet Office on 1st April 2015, no decision has been made yet as to whether, or if, any organisation will assume responsibility for carrying out the detected fraud and corruption survey on which the “Protecting the Public Purse” publications are based.

The Audit Commission has made a commitment to publish its final report in the series in 2014.

1.1. This report shows those responsible for governance in local government bodies how they can fight fraud more effectively.

- Fraud costs the UK public sector more than £20 billion a year and local government more than £2 billion.
- In a time of austerity, preventing fraud is even more important to protect the public purse.
- Every pound lost through fraud cannot be spent on providing public services.

1.2. Local government bodies detected fewer frauds in 2012/13, excluding housing tenancy frauds, compared with the previous year. For those frauds:

- Local government bodies detected 107,000 cases, with a value of £178 million, down by 14% and 1% respectively compared with 2011/12;
- Housing benefit (HB) and council tax benefit (CTB) fraud accounted for over two thirds of the total fraud loss value in 2012/13, at £120 million, but only 44% of the total cases detected;
- The average value of all detected non-tenancy frauds increased by 15% in 2012/13 ; and
- Had local government bodies detected the same number of cases as in 2011/12, the reported loss would have been far greater.

1.3. London boroughs detected more fraud than in 2011/12.

- London boroughs increased both the number and value of frauds detected by 36% in 2012/13.
- But most non-London regions showed a decline in the number of detected fraud cases in 2012/13, ranging from 6% to 46%.

1.4. The pace of local authority activity to tackle housing tenancy fraud is accelerating.

- Local authorities recovered over 2,600 homes from tenancy fraudsters, a 51% increase since 2011/12.
- London councils detected over half (58%) of all tenancy fraud, although the capital accounts for only a quarter of all council housing in England.
- Councils outside London more than doubled the number of tenancy fraud cases they detected, reflecting their increasing commitment to, and success in, tackling this fraud.

2. Key Fraud Risks

2.1. Housing and council tax benefit fraud

In 2012/13, there were 47,000 detected benefit fraud cases with a total value of £120 million. This is the single largest amount of detected fraud in local government.

2.2. Non Benefit Frauds

Non-benefit frauds, such as those in council tax discounts, housing tenancies and social care, directly cause a financial loss to councils. Benefit fraud, on the other hand, principally represents a loss to the national exchequer. Action to tackle benefit fraud is mainly funded by central government. Non-benefit frauds warrant particular attention by councils, since they bear the main loss.

2.3. Local authorities are encouraged to adopt a response to fraud that is proportionate to the level of financial loss. This may not currently be the case across all local government bodies. For example, according to the National Fraud Authority (NFA) housing benefit fraud accounts for just 15% of the total annual loss to all fraud in local government, but the 2012/13 survey shows that detected benefit fraud accounts for 67% of the value and 44% by cases of all detected fraud reported by local government bodies.

2.4. The survey showed that the number of reported detected non-benefit frauds varies widely across and within council types but it is striking that 79 district councils did not detect a single non-benefit fraud. In contrast, only nine councils among all London boroughs, metropolitan districts and unitary authorities combined did not detect any non-benefit fraud.

2.5. Some variation in reported fraud between councils in the same group is inevitable which may result partly in the differences in the scale of services they provide. It must to some extent be due to the way they record fraud, but particularly the different priorities that councils in each group place on detecting fraud.

3. Is Fraud Declining?

3.1 It is not possible to say whether the decline in detected fraud represents lower levels of fraud committed, or less detection by councils. In some councils it may signal the effect of reduced investigatory resources.

3.2 There has been a 14% decline in the number of detected fraud cases in 2012/13, compared with the previous year. The amount of fraud an

organisation detects will reflect the range of services it provides, the size of the population it serves, and how well it prevents and deters fraudsters. But the Audit Commission believe that fraud is endemic and that the level of detected fraud is significantly affected by:

- the level of resources councils devote to identifying and investigating fraud;
- how effectively they use those resources; and
- how effectively they record fraud.

- 3.3** Organisations that do not look for fraud, or do not look in the correct way, will not detect it. Organisations and individuals are often embarrassed to admit they have been defrauded. This attitude continues to hinder effective action against fraud.
- 3.4** The different priority councils place on detecting fraud leads to substantial variation within and between council types. But variation may also be caused by changes in capacity, as councils restructure to make savings, or to prepare for national changes in counter-fraud arrangements.
- 3.5** One view held by many counter-fraud professionals is that "there is no such thing as a small fraud, just a fraud that has been caught early". In other words, older frauds will generally be of higher value than newer frauds because they have been running for longer.
- 3.6** Thus, where there has been effective action to tackle specific fraud types, their average value should reduce over time, other things being equal. For example, if the number of frauds detected remains broadly unchanged over time, but councils detect them earlier, councils will lose less money.
- 3.7** The Audit Commission have no evidence that councils have substantially improved their fraud prevention arrangements. Although most councils say they have maintained their levels of investigative capacity in 2012/13, others have reduced it. Councils should always seek to maintain a capacity to detect fraud, proportionate to risk.
- 3.8** All local authorities should compare their own non-benefit fraud figures against the average number of cases detected by councils in the top quartile. In particular, councils who report little or no non-benefit fraud detection should consider whether they have enough investigative capacity, and are using it as effectively as possible. The average number of cases detected in the top quartile of district councils was 234.

4. Current developments

- 4.1** Benefit fraud is a substantial loss to the national public purse, but has less impact on council budgets. The introduction of the Single Fraud Investigation Service (SFIS) will affect councils' priorities in tackling fraud. Because SFIS will investigate benefit fraud, councils have an opportunity to focus more resources on other frauds, such as housing tenancy fraud that have a local impact.

- 4.2** Councils that have prepared for the introduction of SFIS will be better placed to deal with non-benefit fraud risks. To a large extent London boroughs have done this. Unless councils follow their example, they will lose much of their capability to investigate non-benefit fraud once SFIS starts. This would be a mistake, as non-benefit frauds cause much greater financial loss and harm. Effective local engagement with SFIS will also be required to ensure action taken to tackle benefit fraud continues to reflect local priorities and risks.
- 4.3** Councils should consider whether they have the skills they need to investigate different frauds. For example, tackling procurement fraud can sometimes be more complex than investigating other types of fraud. It often requires knowledge of company accounts and contracts, as well as risks of possible corruption.
- 4.4** As well as the right skills, counter-fraud specialists in local government need sufficient powers to detect fraud. In April 2013, Council tax benefit (CTB) was replaced by the council tax reduction (CTR) scheme. However, unlike CTB, CTR does not fall under benefit legislation.
- 4.5** In May 2013, the government provided councils with CTR specific investigative powers, including requiring employers, banks and utilities to provide financial details to aid investigations. In October 2013, councils were given similar powers to tackle tenancy fraud. This leaves a gap in terms of other frauds. Councils need equivalent powers for all fraud types to protect the public purse effectively.
- 4.6** The need to make savings combined with national changes to counter fraud arrangements makes it even more important that councils have effective fraud risk management.

5. Checklist for those responsible for governance

A checklist is included as an appendix to the document which should be reviewed against relevant council strategies, existing fraud prevention and detection controls.

6. Recommendations

6.1 All local government bodies should:

- Use our checklist for councillors and others responsible for governance to review their counter-fraud arrangements; and
- Actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI).

6.2. Councils in particular should:

6.2.1 Actively promote a vigorous counter-fraud culture by:

- enforcing robust sanctions for fraud and publicise the action taken, to enhance local deterrence;

- encouraging councillors to play an enhanced role in managing the risk of fraud effectively; and
- reviewing their own whistle-blowing arrangements in line with current best practice and applying the lessons learned from the findings of the 2013 Public Concern at Work research on whistle-blowing.

6.2.2 Develop a clear strategy to tackle fraud by:

- reviewing their own counter-fraud strategies in the context of the national Fighting Fraud Locally (FFL) strategy to tackle local authority fraud; and
- reviewing their own arrangements against FFL good practice guidance to be issued in 2013 and 2014 about frauds in schools, business rates and personal budgets, where applicable.

6.2.3 Work in partnership to reduce fraud by:

- considering how best to maximise the benefit of the Prevention of Social Housing Fraud Act, including closer partnership working with local housing associations;
- exploring joint working with other councils, particularly smaller councils with limited investigative capacity; and
- realising the benefits of county councils and district councils working together to tackle blue badge fraud (disability parking) in two-tier areas.

6.2.4 Prepare effectively for the introduction of the Single Fraud Investigation Service by:

- considering the impact that SFIS will have on their capacity to tackle non-benefit frauds;
- maintaining a capability to investigate non-benefit related fraud, proportionate to the risk;
- working with SFIS to ensure the approach taken to tackling benefit fraud continues to reflect local priorities and risks.

6.2.5 Allocate sufficient resources to tackling fraud by:

- focusing more on detecting and recording non-benefit fraud, particularly district councils; and
- targeting their counter-fraud resources where they will produce the most benefit, assessing the risk of harm against the measures needed to reduce it.

6.2.6 Improve their use of data to measure their performance in tackling fraud by:

- challenging their performance in tackling non-benefit frauds, in particular against the results achieved by the top performing councils;
- considering whether to apply the National Fraud Authority's (NFA's) Annual Fraud Indicator methodology to assess the local impact of the most financially significant frauds;
- maximising the benefits of reporting frauds through the Action Fraud website; and
- requesting an individual fraud briefing from their external auditor.