

Protecting the public purse 2012

Fighting fraud against local government

November 2012



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

We appoint auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversee their work.

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

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Summary and recommendations

Summary

Protecting the Public Purse 2012 (PPP 2012) focuses on the continuing progress by local government to protect taxpayers by fighting fraud. We have written it for the benefit of elected members, non-executives and senior officers who are responsible for governance. In addition, government departments, other national organisations and counter-fraud specialists, will find this report relevant.

Fraud is a significant problem. It affects everyone in the UK. In 2012, the National Fraud Authority (NFA) estimated that:

- each year public, private and third sector organisations, as well as individuals, lose over £73 billion to fraud;
- fraud costs every adult in the country about £1,460 a year; and
- fraud against public sector organisations costs £20.3 billion, with fraud against local government costing more than £2.2 billion a year.

Local government bodies are targeting their investigative resources more efficiently and effectively. Our latest survey of fraud against local government bodies shows that in 2011/12:

- they detected more than 124,000 cases of fraud, with a value of £179 million;
- the number and value of detected fraud cases are broadly similar to the figures we reported last year, with only a 2 to 3 per cent variation;
- housing and council tax benefit frauds accounted for more than half of the total fraud losses detected, to a value of £117 million;
- they detected nearly £21 million of false claims for council tax discounts; and
- they detected 187 cases of procurement fraud amounting to more than £8 million.

124,000
fraud cases,
valued at
£179 million

Tenancy fraud accounts for the largest losses from fraud in local government. Our research shows that:

- an estimated 98,000 social housing homes in England are subject to housing tenancy fraud;
- councils recovered nearly 1,800 homes from tenancy fraudsters last year, with a total replacement value of nearly £264 million;
- most detected tenancy fraud (69 per cent) is in London, even though the capital accounts for only 27 per cent of all council housing in England; but
- councils outside London increased tenancy fraud detection by more than a quarter, reflecting their increasing commitment to tackle this fraud.

98,000
homes subject
to housing
tenancy fraud

Councils' counter-fraud professionals recognise that more needs to be done to tackle emerging fraud risks, including those relating to:

- business rates;
- Social Fund payments and Local Welfare Assistance;
- Right to Buy discounts;
- Local Council Tax Support;
- schools; and
- grants.

Recommendations

Local government bodies should:

- use our checklist for those charged with governance (Appendix 2) to review their counter-fraud arrangements;
- review their counter-fraud strategies in the context of *Fighting Fraud Locally*, the first national strategy for local government fraud, produced by the NFA;
- apply the NFA's good practice guidance and tools, and the examples of good practice highlighted in *PPP 2012*, to match the success of the best in the sector in tackling fraud;
- actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI);
- refresh local strategies to tackle tenancy fraud, to reflect the findings of our research into the nature of such fraud;
- engage effectively with the Tenancy Fraud Forum to access good practice in tackling tenancy fraud;
- use the tool produced by the London Public Sector Counter Fraud Partnership to help prevent and detect procurement fraud;
- maintain robust staff recruitment and internal controls to guard against internal fraud; and
- remain vigilant to mandate fraud (formerly known as change of bank details fraud).

Councils in particular should:

- maintain a capability to investigate non-housing benefit related fraud, proportionate to the risk;
- ensure they have effective and proportionate defences against emerging fraud risks, including business rates, Social Fund and Local Welfare Assistance, Right to Buy discounts, Local Council Tax Support, schools and grants;
- explore partnership and funding arrangements in two-tier areas to incentivise district councils to investigate council tax discount fraud;
- share investigative resources with other social housing providers to tackle tenancy fraud; and
- assess the potential benefits and cost savings of greater joint working with other councils.

The Department for Communities and Local Government should:

- consider incentivising social housing providers to tackle tenancy fraud;
- collect and publish information on properties recovered by housing associations from tenancy fraudsters;
- ensure the new business rate regulations from April 2013 support councils seeking to tackle fraud, including evasion of business rates;
- extend existing investigatory powers relating to benefit fraud to all other frauds in local government; and
- consider what arrangements will need to be put in place to collect and publish data on detected fraud against local public bodies, after the closure of the Audit Commission.

Chapter 1: Introduction

This chapter provides an overview of the focus and purpose of *PPP 2012*. It also summarises recent national counter-fraud initiatives.

1 Fraud is a crime that affects all citizens, as taxpayers and service users.ⁱ The NFA estimates that fraud costs the UK £73 billion each year (Ref. 1), or £1,460 for every adult living in the UK.

2 The NFA estimates that fraud in local government amounts to at least £2.2 billion. Every pound lost through fraud cannot be spent on providing valuable frontline services or reducing the tax burden on the honest majority. Local government bodiesⁱⁱ need strong counter-fraud cultures and effective counter-fraud policies and procedures. They should also compare their arrangements against current best practice to ensure their counter-fraud work continues to be effective, including working in partnership to maximise savings.

3 The Audit Commission plays an important role in protecting the public purse against fraud. Our appointed auditors consider the fraud prevention and detection arrangements put in place by audited bodies such as councils, NHS trusts, police bodies, and fire and rescue authorities, as part of their current audit arrangements. Each year we publish the results of our annual survey of detected fraud in local government in this series of reports called *Protecting the Public Purse (PPP)*.

4 The Commission's annual fraud survey is the only comprehensive source of evidence about the levels of detected fraud against local government bodies. These organisations can use the survey results published in *PPP* to benchmark their own performance in detecting fraud, and to identify strengths, trends and areas for improvement.

i 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.

ii The organisations described as 'local government bodies' in this report are organisations covered by Schedule 2 of the Audit Commission Act 1998 and include, among others, local councils, national parks, police and fire and rescue authorities.

£1,460
a year is lost by
every adult
living in the UK
due to fraud

5 The Audit Commission remains committed to working with local government bodies and other key stakeholders to maximise the benefits that they can get from this unique data source, to help strengthen the counter-fraud defences of local government.

6 The Audit Commission also runs the NFI data matching exercise. This compares a variety of data sources, for example, registered deaths and benefit payments, and identifies inconsistencies or circumstances that might suggest fraud or error. Since 1996, we have run the NFI data matching exercise every two years to help detect and prevent fraud. Since then, the NFI has identified a total of £812 million of fraud, error and overpayment in England, including £229 million in the latest data matching exercise (Ref. 2).

National developments in counter-fraud

7 In April 2012, the NFA published *Fighting Fraud Locally* (Ref. 3), the first strategy developed by local government to tackle fraud against local government. The report focused on non-benefit fraud areas – in particular, housing tenancy, council tax discounts, procurement, grants, employees, schools and personal budgets. *PPP 2012* highlights councils' performance in tackling each of these fraud risks.

8 *Fighting Fraud Locally* contains practical recommendations to encourage public bodies to adopt successful counter-fraud measures. The strategy highlights good practice examples that have been developed by some councils, against which others can test their own arrangements. In particular, *Fighting Fraud Locally* calls on local government to adopt a strategic response to fraud that:

- acknowledges the threat of fraud and the potential for savings that exists;
- prevents fraud by improving fraud controls and developing a counter-fraud culture; and
- pursues fraudsters with robust enforcement, to deter others.

9 The NFA has developed a number of supporting tools to help councils deliver their counter-fraud strategies. These include a checklist for councils and a toolkit that estimates the likely loss to fraud in individual councils. Local government bodies should review their counter-fraud arrangements in the context of the strategy, complete the checklist and use the toolkit.

10 Councils face significant changes in the services they provide. They include:

- the ability to retain half of the local business rates they collect, from April 2013;ⁱ
- an increase in the discount available under Right to Buy legislation, from April 2012;
- the responsibility for administering Social Fund payments in the form of Local Welfare Assistance, from April 2013;
- the function of administering Local Council Tax Support, from April 2013;
- the creation of a Single Fraud Investigation Service (SFIS), from April 2013; and
- greater autonomy for schools.

11 These changes represent the most significant policy developments affecting counter-fraud in recent years, including new organisations, staff roles and funding arrangements. They present potential significant challenges to, but also opportunities for, local government bodies in the way they tackle fraud.

12 This report addresses these issues. The next chapter describes the scale and value of detected fraud against local government bodies.

ⁱ Currently, councils collected business rates on behalf of central government. This income is centrally pooled.

Chapter 2: Detected fraud against councils and related bodies

The results of our survey of detected fraud committed against local government bodies.

13 The Audit Commission has collected information on detected fraud in local government for over 20 years. We have tracked how improvements in local government bodies' capacity and capability to investigate fraud have led to increased detection.

14 More than 480 public sector organisations responded to our 2011/12 survey, which is a 100 per cent response rate. The survey results, therefore, provide a comprehensive picture of detected fraud across local government over the last year. These results:

- map the extent of different types of detected frauds against local government;
- provide information about emerging and changing fraud risks; and
- help identify good practice.

100%
of councils
responded to
our survey



With a response rate of 100%, our Audit Commission survey provides an unrivalled overview of fraud in local government

15 Table 1 shows that the number of cases of detected fraud continues to rise across most fraud types. This reflects the increasing commitment of local government bodies to tackle fraud.

16 It also shows that the value of total fraud detected in 2011/12 was £179 million, which is slightly down on the previous year. This may reflect the impact of improved fraud detection arrangements, as the earlier a fraud is detected, the smaller the financial loss.

Table 1: **Main findings of our survey of detected fraud in local government**

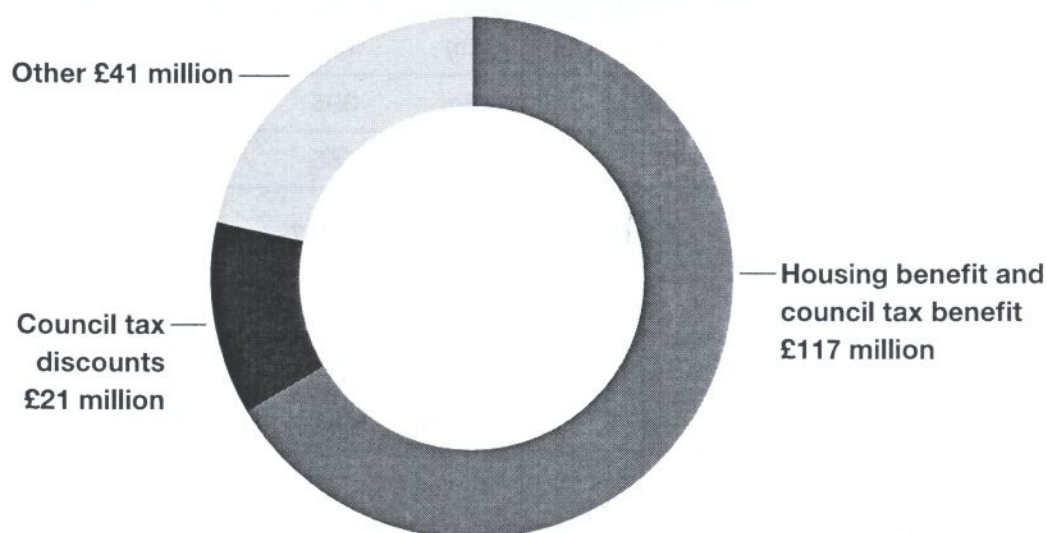
A comparison of 2011/12 and 2010/11 survey results

	2011/12	2010/11	Change %
Total fraud			
Value	£179,000,000	£185,000,000	-3
Cases	124,000	121,000	+2
Average	£1,444	£1,529	-6
Housing benefit/council tax benefit			
Value	£117,000,000	£110,000,000	+6
Cases	54,000	59,000	-8
Average	£2,167	£1,864	+16
Council tax discounts			
Value	£21,000,000	£22,000,000	-5
Cases	61,000	56,000	+9
Average	£344	£393	-12
Other frauds			
Value	£41,000,000	£53,000,000	-23
Cases	9,000	5,600	+61
Average	£4,556	£9,464	-52

Source: Audit Commission

17 Figure 1 shows the breakdown of detected fraud by category, excluding housing tenancy fraud. More than half of the £179 million value of detected fraud related to housing and council tax benefits.

Figure 1: **Detected fraud in 2011/12 by category**



Source: Audit Commission

18 Figure 1 excludes detected housing tenancy fraud.ⁱ When the losses from this fraud are added, non-benefit fraud accounts for nearly half the total value of frauds detected by local government bodies in 2011/12.ⁱⁱ

19 Councils also recovered nearly 1,800 homes with a total replacement value of nearly £264 million. This remains broadly unchanged from 2010/11.

**Nearly 1,800
homes worth
£264 million
recovered**

20 Table 2 highlights the six largest frauds in the 'Other' group in Figure 1, which between them account for nearly £24 million of the £41 million in this category.

- i The value of this type of fraud cannot be measured directly, but estimated in different ways. Chapter 3 gives more information about housing tenancy fraud.
- ii Using NFA fraud loss measurement approach, housing tenancy fraud detection totalled nearly £32 million in 2011/12.

Table 2: **Other frauds against councils**

The six largest fraud types within the other frauds category for 2011/12 and 2010/11

Fraud type	Cases 2011/12	Value 2011/12	Cases 2010/11	Value 2010/11	% change in value
Procurement	187	£8.1m	145	£14.6m	-45
Abuse of position ⁱ	297	£5.6m	395	£4.3m	+30
Payroll, pensions, expenses	640	£3.5m	556	£5.6m	-38
Disabled parking concessions (blue badges)	4,809	£2.4m	3,007	£1.5m	+60
False insurance claims	132	£2.1m	149	£3.7m	-43
Social care	122	£2.2m	102	£2.2m	0
TOTAL	6,187	£23.9m	4354	£31.9m	-25

Source: Audit Commission

21 In 2011/12, the value of procurement fraud shows the largest decrease over the previous year, but it still totalled £8.1 million.ⁱⁱ The notable increase in the number of detected blue badge frauds may reflect the greater priority afforded to this issue by some councils.

22 Research by the Local Authority Investigating Officers Group found that, on average, the number of counter-fraud specialist in councils has reduced by over 18 per cent in 2011/12 (Ref. 4). Against this background, the overall increase in fraud detection cases we report this year is even more commendable. This suggests that councils are targeting their investigative resources more efficiently and effectively.

**Councils
have targeted
resources more
effectively
with greater
efficiency**

23 The value of detected fraud reflects a combination of factors. These include:

- the level of fraud locally;
- the resources applied to identify and investigate such fraud;
- the successful detection by local government bodies; and
- improved methods of recording fraud.

ⁱ This fraud includes the misappropriation or distribution of funds by someone taking advantage of their position for financial gain, either for themselves or someone else. This type of fraud could involve, for example, diverting funds for personal use, or fraudulently securing a job for a friend or relative.

ⁱⁱ The value of these frauds is likely to fluctuate over time, as individual procurement frauds can produce very high losses.



Despite decreasing the most since last year, procurement fraud still cost £8.1 million

24 Most local government bodies have improved fraud detection since 2008/09, when this series of *PPP* began. They are also classifying more incidents correctly as fraud rather than error. This explains why detected fraud cases continue to rise. Appendix 1 contains more detail about detected fraud by region.

Chapter 3: Housing tenancy fraud

Housing tenancy is the single largest category of fraud loss in local government, by value. Some councils have made good progress in recovering properties lost to such fraud, to the benefit of honest tenants and taxpayers. But many have yet to take action.

25 Housing tenancy fraud arises when people occupy social housing unlawfully,ⁱ and can include:

- subletting a property for profit to people not allowed to live there under the conditions of the tenancy;
- providing false information in a housing application to gain a tenancy;
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant; and
- failing to use a property as the principal home, abandoning the property, or selling the key to a third party.

26 There are nearly four million social housing properties in England, with an asset value of more than £180 billion (Ref. 5). Housing associations manage over half of this stock. In 2012, there were about two million families waiting for a council house (Ref. 6).

The scale of housing tenancy fraud

27 Housing is an essential commodity and demand far exceeds supply. In 2012, the NFA estimated that housing tenancy fraud costs the public purse at least £900 million a year – more than three times the level of housing benefit fraud (Ref. 1).

28 In *PPP 2009*, we conservatively estimated that at least 50,000 social homes were subject to some form of tenancy fraud (Ref. 7). This was based on an assumed 2.5 per cent fraud level in London, and 1 per cent in the rest of England. This cautiously reflected the views of many housing experts who considered tenancy fraud levels could be in excess of 5 per cent in London, but lower elsewhere in

More than three times as much money a year is lost from the public purse through housing tenancy fraud rather than housing benefit fraud

ⁱ This chapter has a separate section on frauds arising from tenants' right to buy social housing.

the country. In *PPP 2009*, we noted that further research was needed to quantify more precisely the level of such fraud.

29 For *PPP 2012*, we have undertaken additional research in London and updated our previous cautious estimate of the scale of tenancy fraud. We analysed the counter-fraud activities carried out by a sample of social housing providers in London (councils, arms length management organisations (ALMOs) and housing associations) – the first such analysis in England.

30 This found a typical level of tenancy fraud of between 4 and 6 per cent in London. Housing experts have suggested that non-London tenancy fraud levels are likely to be at least half that found in the capital. Taking the lower 4 per cent figure, we estimate that nearly 98,000 social homes in England could be subject to some form of tenancy fraud. In Appendix 3, we outline the basis on which we draw those conclusions. We also provide an analysis of the impact that different percentage levels of tenancy fraud would have nationally. Further research to quantify more precisely the extent of tenancy fraud outside London would be beneficial to the sector.

The cost of tenancy fraud

31 There are many different ways of calculating the cost of tenancy fraud. The main direct cost comes from the need to house homeless families in temporary accommodation. In *PPP 2010*, we estimated that this costs an average of £18,000 for each familyⁱ (Ref. 8).

32 This figure was used by the NFA to estimate that the annual cost of such fraud in March 2012 was £900 million, based on 50,000 properties subject to tenancy fraud.

33 Although this represents a cost to the public purse, it does not accurately reflect the savings available to individual councils who tackle such fraud. Central government benefit payments will offset much (though not all) of these temporary accommodation costs.

34 In addition to temporary accommodation costs, the value of tenancy fraud should also reflect:

- annual safety, repair, adaptation and maintenance costs;
- social housing administration and housing management costs, and
- any long-term borrowing costs incurred to provide social housing.

ⁱ We recognise that not all those families, for various reasons, would qualify for permanent social housing.

35 Another way of calculating the value of unlawfully occupied properties is to calculate their replacement building cost. We have previously estimated the cost of one new unit of social housing at around £150,000 (Ref. 8).

Case study 1

Housing tenancy fraud

An individual failed to disclose a change of circumstances to her application for social housing to a rural council. The applicant initially declared that she and her two children were living with her mother. As a result, she was awarded additional housing points. These extra points moved her up the waiting list and she was allocated a home with a housing association. However, the council subsequently discovered she had stopped living with her mother and had taken up a privately rented property under her maiden name. Had she disclosed this, the council would have removed the additional points and not awarded her a property at that time. She was found guilty under the Fraud Act 2006 and fined £450 and costs of £250. She also gave up her tenancy.

36 The social value to communities of tackling tenancy fraud should not be overlooked. Families in temporary accommodation can often lead more transient lives, unable to put down permanent roots in their communities. They can struggle to create a stable educational environment for their children. In addition, tenancy fraud has the potential to limit mobility within the current housing stock. All this has implications for the social cohesion of communities and for the health and wellbeing of those most directly affected.

37 In 2009, the Commission concluded that 'well targeted spending on housing stock can yield financial benefits', including health and crime cost savings (Ref. 9). Any assessment of the financial value of recovering social housing should recognise the long-term social and financial benefits to communities.

38 We have previously reported (Ref. 10) that housing associations, which account for more than half of all social housing stock, believe they have no financial incentives to tackle tenancy fraud. They recognise the moral argument for taking action against tenancy fraudsters, but many have indicated that the costs involved in tackling such fraud are a barrier to action. The government should consider incentivising social housing providers to tackle tenancy fraud.

**Tenancy fraud
can damage
community
members'
health and
wellbeing**

39 Independent of which method is used to estimate the cost to the public purse, tackling housing tenancy fraud represents one of the most cost-effective means of making social housing properties available for those who have the greatest need and most legitimate entitlement.

Nature of tenancy fraud

40 In *PPP 2009*, we noted that relatively little is known about the nature of tenancy fraud. A number of myths and misconceptions exist about it, and these have been used by some to justify taking little or no action to tackle it. To help address this, we undertook a detailed analysis of detected tenancy frauds. Two London and three non-London social housing providers took part in the research, providing between them evidence of 215 detected tenancy frauds.

41 This exploratory and small-scale study suggests that the following myths about tenancy fraud can be challenged.

- **Myth 1 – tenancy fraudsters have to be rehoused.** Our research found that, in more than 87 per cent of cases, the social housing provider did not have to rehouse the fraudster.
- **Myth 2 – court action is required to regain control of the property.** In 85 per cent of cases, the fraudster handed back the property keys without court action.
- **Myth 3 – tenancy frauds are quickly identified and last only a few months.** Only 29 per cent of tenancy frauds were detected within the first six months of the fraud, while about the same proportion (28 per cent) took between six and 12 months to be detected. In 43 per cent of cases, the properties were unlawfully occupied for over a year,
- **Myth 4 – tenancy frauds are isolated incidents unconnected with other frauds.** There is evidence of other types of fraud in nearly half (45 per cent) of cases of detected tenancy fraud. Housing benefit fraud was the most common.
- **Myth 5 – specialist fraud investigators are not needed to tackle tenancy fraud.** The social housing providers in this project had used a specialist fraud investigator in 88 per cent of the cases of detected tenancy fraud.

In over 87% of cases, no court action was necessary to reclaim properties affected by tenancy fraud

42 This research also suggests that there may be some differences in the type and frequency of tenancy frauds encountered between London and from outside the capital. In the London organisations we looked at, around two-thirds of tenancy frauds related to subletting for profit. Elsewhere, this was the case in fewer than one in five cases. Outside London, most tenancy frauds related to abandonment and non-occupation of the home as the primary residence. The results from the 2011/12 detected fraud survey support these findings.

43 Further research would be helpful to confirm the full extent of geographical differences in the type of tenancy fraud. If this research confirms our initial findings, it would have significant implications for both the governments' national strategy to tackle tenancy fraud and for the approach that should be adopted locally by social housing providers.

44 In about half of all cases analysed, detection followed a referral from a housing officer. In a quarter of cases, it was the result of contact from the public. This suggests all social housing providers should do more to increase fraud awareness among staff and the public, and make it easier to report suspected frauds.



A quarter of all detected tenancy frauds arise from an initial public referral

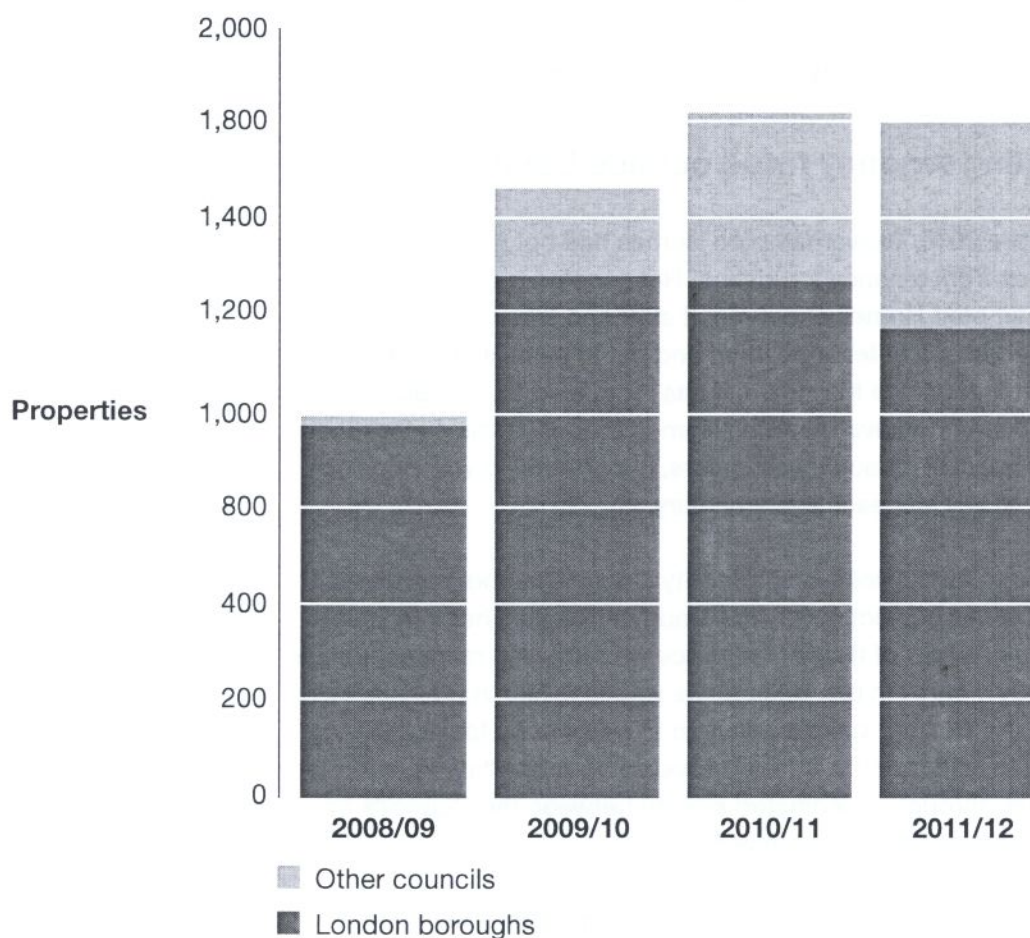
Detected tenancy frauds

45 Since 2008/09, the number of properties recovered from tenancy fraudsters has risen by 82 per cent.ⁱ This reflects the greater attention given to the issue by some councils in recent years. It also demonstrates the impact that qualified fraud investigators, adopting good practice, can have on identification, detection and recovery rates.

46 London boroughs continue to account for a disproportionate number of detected tenancy frauds (Figure 2). In 2011/12, London accounted for more than two-thirds (69 per cent) of all properties recovered, although the capital has only just over a quarter (27 per cent) of all council housing in England.

ⁱ Data are only available for councils and ALMOs. There are no data on the extent of detected tenancy fraud in housing associations.

Figure 2: **Properties recovered from tenancy fraudsters between 2008/09 and 2011/12**



Source: Audit Commission

47 London's greater share of detected tenancy fraud partly reflects the fact that many of its councils have for some time had a dedicated investigative capacity. They have used this increasingly to work in partnership with housing associations to help these bodies better tackle tenancy fraud in their areas.

48 Figure 2 shows that councils outside of London account for an increasing share of total detected fraud. They have increased the number of properties recovered by more than 26 per cent since 2010/11. This provides the first indication of the positive impact on tenancy fraud detection rates made by the Making Best Use of Stock (MBUS) team, created in April 2011 by the Department for Communities and Local Government.

49 But over half of non-London councils with housing stock did not recover a single property in 2011/12, indicating clear room for improvement. A full regional breakdown of detected tenancy fraud is in Table 6 in Appendix 1. This shows significant regional variation in the number of tenancy frauds detected by councils.

In 2011/12, not one property was recovered in over half of non-London councils with housing stock

Detecting tenancy fraud outside London

50 Before 2010, Wolverhampton Homes had not recovered any properties from tenancy fraudsters. Responding to *PPP* reports, Wolverhampton Homes encouraged staff and the public to report suspected cases of tenancy fraud and put in place investigative arrangements. Since May 2010, it has recovered 93 properties from fraudsters. Wolverhampton Homes attributes this success to using specialist fraud investigators, in partnership with housing officers, at key stages in every enquiry.

51 Prior to 2011, Stoke-on-Trent City Council had not recovered any properties subject to tenancy fraud, although it had recovered properties as part of the normal process of housing management. In March 2011, partly in response to the issues raised in previous *PPP* reports, the Council started a project to specifically tackle tenancy fraud. Within 12 months, it had recovered 54 properties from tenancy fraudsters, through coordinated activity between the Council's fraud investigators and housing officers.

52 District councils can also do more to tackle tenancy fraud. In 2011/12, they accounted for 26 per cent of the total council housing stock in England, but for less than 6 per cent of the total number of properties recovered. Of 92 district councils with housing stock, 66 did not recover a single property. Table 7 in Appendix 1 shows the properties recovered by council type as a percentage of their total housing stock.

53 However, some district councils have demonstrated what can be done, even with limited investigative resources. Before 2011, Crawley Borough Council had never reported recovering a home from tenancy fraudsters. It was a widely held view in the Council that tenancy fraud was not a problem. But the housing department supported an initiative by the benefits fraud investigation team to tackle it.

54 In 2011/12, Crawley recovered 23 properties. The Council attributes much of this success to close working between specialist benefit fraud investigators and housing officers. The Council found that enquiries into alleged benefit frauds also uncovered tenancy fraud.

55 District councils should consider how to work better in partnership, sharing investigative resources, to enhance their response to tenancy fraud.

False identities enabling tenancy fraud

56 Tenancy fraudsters are increasingly using false identities to obtain properties. The London Borough of Southwark, acting on NFI data matches involving Operation Amberhillⁱ intelligence, has recovered 14 properties from tenancy fraudsters in less than a year. As well as recovering the properties, the Council has taken successful court action against a number of the perpetrators. A further 18 properties are currently under investigation, where there is evidence that fraudulent documents have been used to gain tenancies.

57 Fraudulent documentation is recognised as one of the principal enablers of fraud. In 2012, the Home Office issued guidance to help staff identify false documentation (Ref. 11).

Case study 2

Housing tenancy fraud

Using a false driving licence and immigration status, a fraudster claimed that she was homeless, and the council provided her with a home. However, a subsequent council investigation established the use of the fraudulent documentation to obtain the property. In addition, the tenant had fraudulently claimed eight years of housing benefit. The total cost to the public purse was £144,000. The fraudster was found guilty of various offences and sentenced to 12 months imprisonment, suspended for 18 months, with a three-month curfew order. The council regained the property.

Building an effective response to tenancy fraud

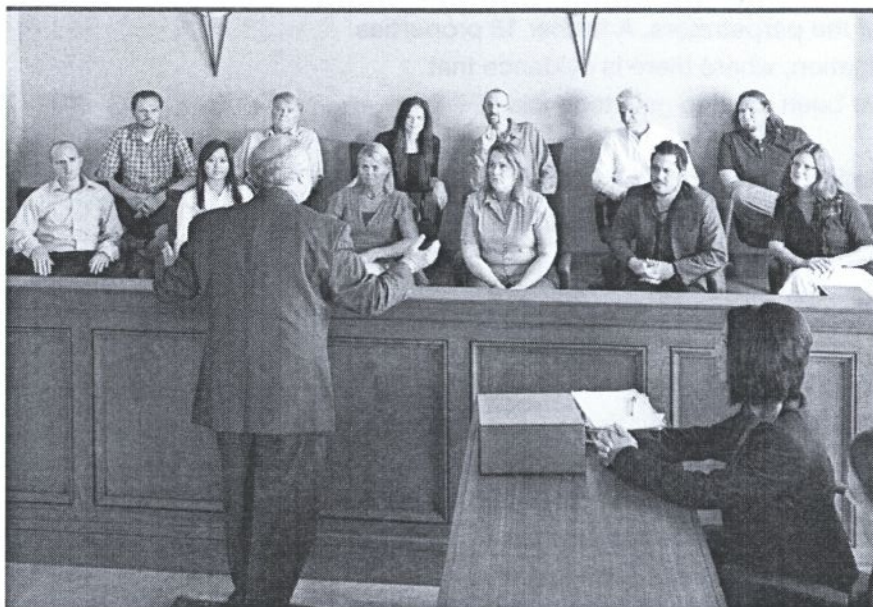
58 In 2011/12, there were a number of national and regional initiatives to tackle tenancy fraud.

59 In April 2012, for example, the Tenancy Fraud Forum (TFF) was established (Ref. 12). The TFF is a free-to-join independent group of housing providers committed to tackling tenancy fraud, supported

ⁱ Operation Amberhill is a Metropolitan Police-led initiative to tackle organised groups that are mass producing false identity data.

by stakeholders including MBUS, NFA and the Audit Commission. All social housing providers should engage effectively with the TFF to access good practice in tackling tenancy fraud.

60 Other initiatives reflected the government's aim to improve national and local effectiveness in fighting fraud. The Government issued a consultation on the criminalisation of tenancy fraud and later indicated its support for a private member's bill, Prevention of Social Housing Fraud. This legislation would, if enacted, create offences and make other provisions relating to housing tenancy fraud.ⁱ



The Prevention of Social Housing Fraud Bill 2012/13 will make the subletting of social homes a criminal offence

61 In *PPP 2011*, we reported that the government funded the establishment of the MBUS team within the Chartered Institute of Housing. MBUS offers free specialist advice to help registered providers of social housing tackle tenancy fraud. In 2011, it collated and disseminated good practice among social housing providers, encouraging and supporting local and national counter-fraud initiatives. We have already noted the positive impact MBUS is having on non-London councils' tenancy fraud detection rates.

ⁱ In July 2012, the government published its response to that consultation, noting that the private member's bill 'takes forward key elements of our consultation proposals'.

Good practice

62 Despite recent progress in, and growing commitment to, fighting tenancy fraud, many providers have yet to take action. Financial barriers remain. Recurring themes common to those social housing providers who have been successful in tackling tenancy fraud include:

- a willingness to acknowledge the problem;
- senior management and political support;
- using specialist fraud investigators;
- a multidisciplinary approach, in particular collaboration between investigators and housing officers;
- use of legal support at appropriate stages of the process, including civil and criminal court action;
- encouraging public referrals of suspected tenancy fraud;
- cleansing tenancy data prior to data matching;
- strengthened fraud awareness training for housing officers; and
- partnership working with other housing providers.

63 *Fighting Fraud Locally* (Ref. 3) has established that the first step in effectively tackling fraud is to acknowledge both the scale of the problem and the impact of the response. Publishing information on the number of council properties recovered from tenancy fraudsters helps in the fight against tenancy fraud. But the picture is not complete.

64 Good data is vital to fighting fraud. The Commission is currently the principal source of authoritative evidence on the extent of fraud in local government, but there are no data on the extent of detected tenancy fraud against housing associations. The government should consider what arrangements will need to be put in place to collect and publish data on detected fraud against local public bodies, after the Audit Commission closes. The government should also collect and publish information on properties recovered by housing associations from tenancy fraudsters.

Chapter 4: Current fraud risks

This chapter highlights trends in the main fraud risks in local government.

65 Previous *PPP* reports have commented in detail on the frauds that pose significant risks to local government bodies. This chapter provides the latest information about these risks, relating to council tax discounts, personal budgets, procurement, housing and council tax benefits, internal (staff) fraud and mandate fraud.

Council tax discount fraud

66 In 2012/13, councils in England will raise about £26 billion from council tax. The NFA estimates that councils lose £131 million every year to council tax fraud, mainly by people who fraudulently claim available discounts and exemptions. These include the single person discount (SPD) of 25 per cent for sole occupiers, which can rise to 100 per cent when the occupier is a full-time student.ⁱ

67 Since we first raised this issue in 2009, our annual fraud surveys have shown that councils increased the number of cases detected every year. Not only are councils addressing our original concerns about SPD fraud, they are now starting to tackle other related issues such as student awards and empty property exemptions.

68 In 2011/12, 70 per cent of metropolitan authorities, unitary councils and London boroughs detected council tax discount fraud. However, fewer than half of district councils reported detecting such fraud. This suggests that two-tier areas have a particular problem in tackling fraudulently claimed council tax discounts.

69 In *PPP 2010*, we reported that many district councils had little financial incentive to take action. They administer and collect council tax, but the bulk of the money collected goes to county councils and other precepting bodies, such as police authorities. As a result, district councils incur all the preventative and investigative costs, but receive only a fraction of the financial savings from recovered council tax.

i To qualify for a single person discount, residents must be 18 or over and be the only member of a household. However, they can also apply for this discount if anyone else living at this address falls into certain categories that allow them not to be counted as 'other occupiers'.

70 However, some district and county councils have entered partnership arrangements that incentivise district councils to take action. In one county, for example, three of the 10 district councils undertook a joint initiative to tackle council tax discount fraud. This initiative also included the the precepting police authority. For a relatively small cost of £35,000, nearly 1,500 frauds were identified with a value of over £0.5 million.

71 District and county councils in two-tier areas should explore partnership and funding arrangements to incentivise district councils to investigate council tax discount fraud.

Case study 3

Council tax discount fraud

Following recommendations made in the Audit Commission's *PPP* reports, a council undertook a data matching exercise specifically to tackle SPD fraud. It provided a credit reference agency with 25,661 records of people claiming SPD. Of these, 3,711 matches had strong evidence of dual or multiple-occupancy.

Adopting a phased approach, the council initially sent letters to the council tax payers concerned. Most then voluntarily confirmed they were not eligible. This allowed counter-fraud specialists to focus on high risk cases. Overall, the council estimated that at least 4 per cent of all its SPD claims were fraudulent.

In total, the exercise produced additional income of over £300,000 for the council.

Personal budgets (direct payments) fraud

72 In 2011/12, the average value of each case of detected social care fraud, including personal budgets, was £18,000. This is more than eight times the average value of each detected benefit fraud (see Table 1) and compares to £11,000 in 2009/10 and £21,500 in 2010/11.

73 Personal budgets aim to increase the independence and quality of life of people who need social care. Councils can assign personal budgets to adults in need of social care and their carers in various ways, including by direct payments. Social care clients may manage the budget, as can independent care providers, a family member, a friend, the council, or a mixture of these.

74 In 2012, one estimate placed the number of people receiving personal budgets in 2011/12 at over 430,000 – a rise of 38 per cent since the previous year. The number of personal budgets paid to carers rose by 15 per cent to nearly 52,000. The total spend on personal budgets rose by 57 per cent since 2010/11 to over £17.5 billion (Ref. 13).

75 The sums involved in individual personal budgets can be significant. Fraudsters are becoming increasingly aware that, by exploiting personal budgets, there are opportunities for criminal financial gain. Fraud risks include:

- a person falsely claiming that they need care – the risk of this type of fraud is not new, but the access to funds through direct payments, rather than a traditional care package, is likely to be more attractive to potential fraudsters;
- carers using the direct payments they manage on behalf of people receiving care for personal gain;
- failing to notify councils when someone dies and continuing to receive direct payments on their behalf; and
- submitting duplicate applications to multiple councils.

76 As we have previously reported, social care fraud arising from personal budgets is not easy to detect or prove. But it is a growing risk. Councils must balance the need to protect public funds with proportionate measures that do not reduce the choice and control that personal budgets aim to bring.

Case study 4

Direct payments fraud

A couple supplied false records to show how direct payments had been spent. The couple declared they paid wages to a care worker after she left their employment, and to another care worker who had never worked for them. The fraud was uncovered when information supplied to HM Revenues and Customs by the council did not reconcile with the tax information supplied by one of the two care workers. Over a seven-year period, the fraud cost the council almost £40,000. The husband, who made the claim, was found guilty of 26 false accounting offences and sentenced to 12 months imprisonment suspended for 18 months and a six-month curfew order. His wife received a 12-month conditional discharge.

Procurement fraud

77 The NFA estimates that councils lose about £890 million each year through procurement fraud (Ref. 1). This is the second highest loss to fraud in local government.

78 Individually and in total, procurement fraud can involve significant financial loss. In 2011/12, local government bodies reported to us that they detected frauds worth £8.1 million (Table 2) – an average of £43,300 per case.ⁱ

£43,300 is the average value per case of procurement fraud

79 Fraud can occur at any point in procurement and contracting. The key areas of external fraudulent activity during the procurement stage include:

- collusion between staff and bidders to award contracts and specify favourable terms and conditions;
- collusion between bidders to agree that they will not bid competitively for a particular contract; and
- bidders failing to tender in accordance with contract specifications, and then submitting false claims for extra costs under the contract.

80 Once a local government body has awarded a contract, fraud can occur when contractors:

- provide inferior goods and services;
- intentionally override minimum statutory pay and health and safety regulations for financial gain;
- present false invoices; and/or
- provide inflated performance information to attract greater payments than are due.

81 The London Public Sector Counter Fraud Partnership, a pan-London group that shares good practice in counter-fraud, has produced a guide on mitigating procurement fraud risks (Ref. 14). Local government bodies should use this tool to help prevent and detect procurement fraud.

Housing and council tax benefit fraud

82 Over the past 20 years, councils have developed tried and tested measures to counter housing benefit and council tax benefit fraud. The increasing expertise of counter-fraud investigators in councils has resulted in higher levels of detected fraud.

ⁱ Large annual variations in levels of detected procurement fraud can be caused by one or two large value cases.

83 In 2011/12, housing benefit and council tax benefit fraud totalled £117 million. This is the single largest amount of detected fraud in local government. It has received most investigative resources and investment. The average value of detected housing benefit and council tax benefit fraud is just over £2,000. This area of fraud detection is currently subject to proposed major restructuring, considered in more detail later in this report.

£117m
was detected in
housing benefit
and council tax
benefits fraud
in 2011/12

Case study 5

Housing benefit and council tax benefit fraud

Two pensioners, aged 82 and 74, pleaded guilty to a housing benefit and council tax benefit fraud that lasted for over seven years. They defrauded taxpayers of £38,866. Council investigators, following a data matching exercise, discovered the pair had been working as school cleaners while claiming benefits. At court, both pensioners pleaded guilty to fraud and were each fined £150. The council is recovering the money.

Internal fraud

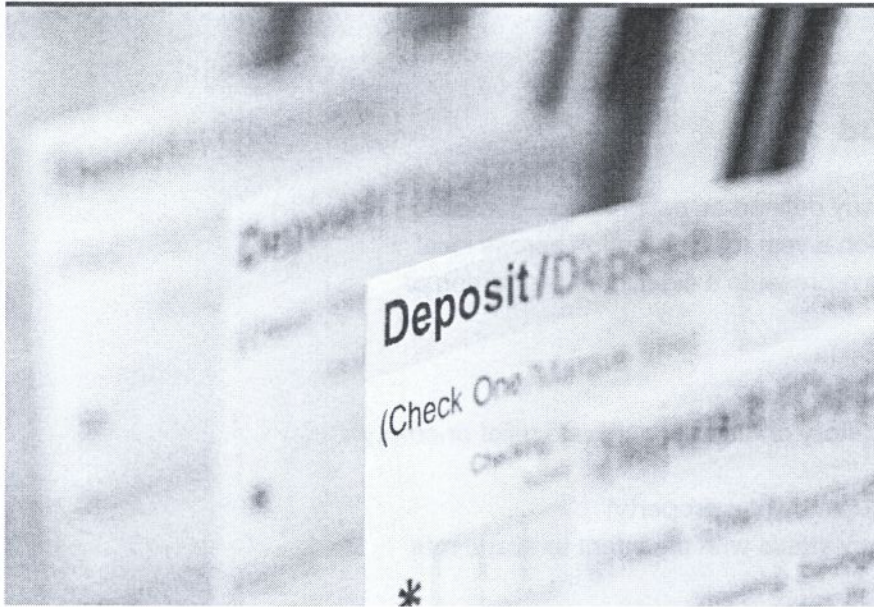
84 In all organisations, there is a risk that staff may commit fraud. But our detected fraud survey results show that the proportion of all detected frauds committed by local government staff has been consistently low since 2009/10 (Table 3). In 2011/12, there were 1,459 cases (1.2 per cent of the total cases) with a value of £15.5 million. This represents 8.7 per cent of the total value of detected fraud.

Table 3: **The value and number of internal fraud cases committed by staff in local government bodies from 2009/10 to 2011/12**

Financial year	Internal cases (as a % of total cases)	Value of internal fraud (as a % of total value)
2009/10	1,333 (1.1)	£6.6m (4.9)
2010/11	1,581 (1.3)	£19.5m (10)
2011/12	1,459 (1.2)	£15.5m (8.7)

Source: Audit Commission

85 The low number of internal cases reflects the fundamental honesty of the vast majority of local government employees. But the average loss from internal fraud is about eight times higher than from external fraud (£10,619 and £1,315 respectively). As well as financial loss, internal fraud also damages the reputation of local government bodies. They should therefore maintain robust staff recruitment and internal controls to guard against such fraud. *Slipping Through the Net*, a guide, has been developed to support the *Fighting Fraud Locally* agenda, and to assist public bodies to strengthen their staff vetting arrangements (Ref. 15).



Local government bodies should remain vigilant to mandate fraud

Mandate fraud (formerly known as change of bank details)

86 In *PPP 2011*, we reported on fraudsters targeting councils and other public organisations to redirect payments intended for legitimate creditors, such as large construction companies. Fraudsters often gather details about creditors from information that local government bodies publish on their websites. This is a high-value, high-risk fraud, where just one failure to follow prevention procedures can lead to a substantial loss.

Mandate fraud is high-value, high-risk

87 In our 2011/12 survey, ten organisations detected mandate fraud with a total value of more than £4.6 million. Regular warnings from the NAFN Data and Intelligence Serviceⁱ continue to raise awareness among local government bodies, which are increasingly successful at preventing such fraud. In 2012, the Metropolitan Police issued a similar warning (Ref. 16). Local government bodies should remain vigilant to mandate fraud.

ⁱ Formerly known as the National Anti-Fraud Network. NAFN is a UK-wide body established by local authorities to help all member organisations share investigative information.

Chapter 5: Emerging fraud risks

This chapter covers new and emerging fraud risks that local government bodies are facing, and the steps they need to take to address these risks.

Business rates fraud

88 Business rates (formerly defined as national non-domestic rates) raise about £21 billion a year for distribution across local government (Ref. 17). This represents a significant proportion of total council income.

89 Business rates fraud includes:

- falsely claiming mandatory or discretionary rate relief or empty property exemption;
- failure to declare occupancy of a property;
- falsely using insolvency status with the intent to evade rate payment; and
- not disclosing relevant information – for example, about the size of the company, to gain rate relief.

90 In recent years, councils have reported significant increases in applications for relief and incentive schemes for business rates – in particular charitable relief. Such arrangements may be legal, but fraudsters can exploit them. The Charity Commission has issued guidance to prevent abuse of charitable status (Ref. 18).ⁱ Councils can improve their corporate capability to fight fraud by using this guidance.

91 There is also emerging evidence that fraudsters are starting to exploit business rates collection arrangements. For example, some businesses declare bankruptcy when councils attempt to recover business rates.

ⁱ Business rates are due on properties that remain unoccupied after three months. However, charities occupying such commercial properties qualify for 80 per cent mandatory tax relief and a further 20 per cent discretionary relief, provided they use the property wholly or mainly for charitable purposes.

92 There is currently no credible estimate of the level of business rates fraud. The number of business rates frauds currently detected is low. In 2011/12, only 13 councils reported both the number of cases and values of detected business rates fraud. The average business rates fraud in these councils was nearly £7,300.

93 Councils collect business rates, but the revenue currently goes to central government. Any losses due to business rates fraud do not directly affect councils and so they have little financial incentive to investigate it. As a result, they have paid little attention to this type of fraud, and so few cases have been detected.

94 This will change from April 2013, when councils will keep half of what they collect. But this also means that any losses to business rates fraud – for example, from unlawfully obtained charitable relief – will directly reduce their tax income and the funding available for local services.

95 Councils should ensure that their defence against business rates fraud is proportionate to the risks involved. The government should ensure that the new business rate regulations from April 2013 support councils seeking to tackle fraud, including evasion of business rates.

Councils should defend against the risk of business rate fraud in a proportionate manner

Right to Buy fraud

96 The Right to Buy discount introduced in the 1980 Housing Act has enabled some two million households to purchase their council home. As the value of the discount declined in real terms, the number of Right to Buy purchases has reduced from over 160,000 per year in the early 1980s to fewer than 4,000 in 2011 (Ref. 19).

97 Right to Buy fraud occurs when someone provides false information on application – fake documentation, for example. It can also occur when someone occupying a property unlawfully applies for a discount.

98 The number of detected Right to Buy frauds, though relatively small, has risen in recent years. In 2011/12, there were 38 cases with a value of £1.2 million, a rise of 52 per cent since 2008/09. This reflects the greater attention given by councils to all forms of property fraud.

99 In April 2012, the government increased the Right to Buy discount in England up to maximum of £75,000. Housing providers tell us they have received a significant increase in applications to buy council homes since then.

100 Although the vast majority of such applications are genuine, the increased discount is likely to make the Right to Buy scheme more attractive to fraudsters. Social housing providers should ensure their Right to Buy fraud defences can respond to this increased risk.

Case study 6

Right to Buy fraud

A husband and wife bought a council property worth £125,000 under Right to Buy legislation, with a discount of £38,000. The council was later alerted to a potential breach of the Right to Buy agreement. The subsequent investigation established that the couple had both used fake identities to buy the property. At court, the couple were found guilty of obtaining property by deception and other related offences. The wife received a sentence of two years' imprisonment and the husband 20 months. The council is using the Proceeds of Crime Act to recover the loss incurred and regain possession of the property.

Social Fund and Local Welfare Assistance

101 The Social Fund provides grants and loans to help people who find themselves in immediate financial difficulty. In 2010/11, over 257,000 awards were made worth £130.1 million (Ref. 20).

102 Jobcentre Plus currently manages the Social Fund, but from April 2013, councils will provide parts of this service through Local Welfare Assistance. The government intends that this change should provide councils with the ability to better meet the specific needs of local communities. However, councils need to ensure they:

- fully assess the risks of providing Local Welfare Assistance ;
- put in place balanced counter-fraud controls; and
- have capacity to investigate suspected frauds and recover debts.

Local Council Tax Support

103 Councils raise and collect council tax to help pay for the services they provide. Currently council tax benefit, which helps lower income families pay council tax, is regulated by central government. From April 2013, the government will replace council tax benefit with Local Council Tax Support. Councils will devise their own Local Council Tax Support schemes, including how much support they give to particular

groups.ⁱ These schemes will affect over 3 million claimants of working age, whose current council tax benefit totals about £2.6 billion per year (Ref. 21). Councils should pay particular attention to minimising the risk of fraud in devising their new Local Council Tax Support arrangements.

Fraud against schools

104 Schools have been the victims of many different types of internal and external fraud in recent years. These can include: fraudulently transferring money out of school accounts; expenses fraud; altering cheques; mandate fraud; procurement fraud; and finance lease fraud.

105 Public Concern at Work, the national charity that supports whistle-blowers reports that 14 per cent of its whistle-blowing cases relate to the education sector (Ref. 22).

106 Alongside PPP 2011 (Ref. 10), we published *Fraud Risks in Schools – Advice for School Governors*. As a result, we have been approached by school governors, head teachers, teachers, bursars and parents, who have raised a significant numbers of suspected fraud concerns with us. These have exceeded the total of all other suspicions of fraud raised with us in the last year. This may in part reflect increased attention as a result of this publication.

107 Academies, foundations and free schools are likely to increase in number in future years. They have more autonomous governance arrangements than schools maintained by local education authorities. Experience shows that fraud risks increase during periods of change. Regardless of the funding arrangements of individual schools, when fraud occurs it is taxpayers' money that is lost. Should a school fail as a result of fraud, the local council still has a duty to provide education.

108 The Audit Commission does not have a role in relation to academies and free schools. However, we encourage all schools to review their whistle-blowing arrangements in accordance with British Standards Institute's Code of Practice (Ref. 23). We also encourage all schools to put in place fraud prevention and detection arrangements proportionate to the risk.

ⁱ The exception to this is those receiving a state pension, who will continue to receive the same level of support they received under Council Tax Benefit.



Frauds committed in or against our education system hit at the heart of the community

Case study 7

Schools fraud

For several years, a school administrator paid herself overtime fraudulently to the value of about £55,000. Sometimes she claimed 200 extra hours worked each month. She also paid her credit card bills through the school accounts and gave money to her partner. The total amount of the fraud was £142,000. In an attempt to conceal the fraud, the fraudster altered records of financial transactions by using vague descriptions and false supporting documents. She even inflated pupil numbers to gain more school income.

The administrator pleaded guilty to fraud and was sentenced to two years imprisonment. The council aims to recover the money through a compensation order, pension claw-back and insurance. The council sacked the headteacher for failing to supervise the school administrator. The headteacher was disqualified by their professional body from holding a school financial management post.

Grants

109 A grant provides non-repayable funds to eligible recipients for a specified purpose. Local government bodies pay out different types of grants to individuals, community groups, voluntary and arm's length organisations. These include grants for housing renovation, adult social care, and arts and sports activities.

110 Grant frauds most commonly include false applications and failure to use the grant for its intended purpose. The NFA estimates that grant fraud in local government costs the public purse £41 million every year (Ref. 1).

111 The risk of grant fraud depends on several factors including the:

- type of grant recipient;
- nature of the grant scheme; and
- purpose of the grant award.

112 In 2011/12, there were 45 grant frauds with a value of £1.8 million, down from 51 cases worth £1.3 million in 2010/11. It is important that local government bodies remain vigilant to this risk.

Case study 8

Grant fraud

A council provided grant funding for a local charity. However, over a four-year period, the two people who ran the charity defrauded taxpayers of almost £48,000, by diverting charity money to personal use. They used false invoices and accounts to cover their tracks. The council provided evidence which led the pair to be charged with conspiracy to defraud. They both pleaded guilty and received a 12-month prison sentence suspended for two years, and a 150-day curfew order. They were also each ordered to pay £1,000 costs, and £6,000 compensation for investigation costs. The amount they stole has been paid back to the council.

Chapter 6: Current developments in the fight against fraud

This chapter outlines changes that will affect counter-fraud work in local government and the importance of a corporate response.

113 Counter-fraud work in local government bodies faces a period of significant change. This presents both risks and opportunities. All local government bodies will need to consider these as they seek to refocus their investigative capacity and prevention arrangements to protect the public purse.

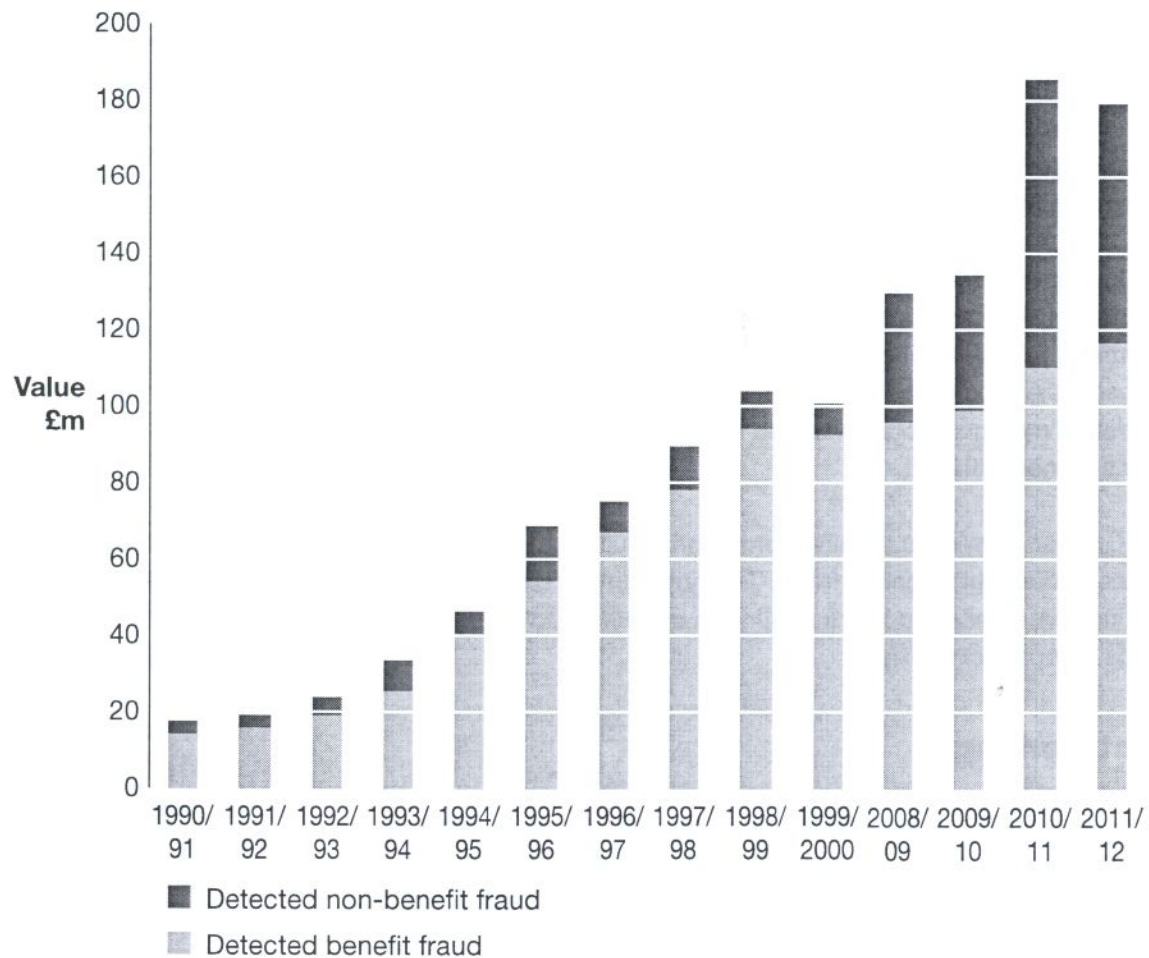
Single Fraud Investigation Service

114 In April 2013, the government will establish a Single Fraud Investigation Service (SFIS) to tackle benefit fraud. This will bring together benefit fraud investigators from across central and local government. Under SFIS, council investigators will still be employed by their local authority, but they will work to SFIS policies and procedures.

115 The government recognises that the transition to SFIS could generate conflicting priorities and have resource implications for councils as they tackle non-benefit fraud in the future. For example, some councils also use housing benefit investigators to investigate other frauds. There is a risk that the introduction of SFIS may affect the ability of these staff to investigate non-housing benefit fraud in their local area.

116 From the mid-1990s, central government invested in enhancing the professional skills of council benefit fraud investigators. This also helped to increase councils' overall capacity to investigate non-benefit related frauds (Figure 3). In 1990/91, when the Audit Commission first started collecting data on detected fraud, around 10 per cent of all detected fraud in local government was non-benefit related. By 2011/12, this had risen to nearly 50 per cent.

Figure 3: **Detected benefit and non-benefit fraud by value (excludes tenancy fraud)**



Source: Audit Commission

117 When the switch to the SFIS is made, it is important that councils maintain their capability to investigate non-housing benefit related fraud, proportionate to the level of risk.

Investigatory powers

118 When investigating benefit fraud, investigators have significant powers to obtain evidence. For example, when suspicion of benefit fraud arises, the law requires banks and utility companies to supply customer details to the investigating officer. The same power does not extend to other types of fraud. In such cases, investigators rely on voluntary disclosure, which is often not forthcoming.

119 For example, one council identified four potential frauds from data matches supplied by the Audit Commission's NFI. These involved potential fraudsters continuing to accept pension payments after the pensioner had died, with an aggregate loss to the taxpayer of over £40,000. The council asked for further information from the banks to support its enquiries. The banks refused. This prevented the council from completing its investigation, prosecuting potential fraudsters and recovering funds.

120 In a time of financial constraint, local government bodies increasingly lack the resources to obtain court orders for this sort of information. Smaller bodies often do not have access to legal advice or the necessary expertise to take this course of action. As a result, some fraudsters may go unpunished and recovering scarce public funds and assets is more difficult.

121 Greater powers to obtain information would help local government bodies in their fight against fraud. The government should extend existing investigatory powers relating to benefit fraud to all other frauds in local government.

Extending existing benefit fraud investigatory powers to other frauds, could significantly help local government fight fraud.

Joint working

122 Joint working potentially offers a way for councils to share resources to tackle fraud. By pooling the professional skills and local knowledge of staff, councils are able to address fraud risks more cost-effectively.

123 One example of joint working involves Tonbridge and Malling Council and Gravesham Council. By combining their investigation teams, both councils saved money on management and administrative costs. They believe this arrangement increases their flexibility to respond to current and emerging fraud risks.

124 The same councils collaborated with Kent County Council to tackle council tax fraud. Using a data matching exercise, the three councils were able to share the costs, which delivered an extra net income of over £300,000.

125 Councils should review the potential benefits and cost savings of greater joint working with other councils.

The importance of a corporate counter-fraud response

126 The risks of fraud and its damaging financial, reputational and operational consequences require a corporate response. Increasingly, councils have established corporate counter-fraud teams, which have had a significant impact.

127 The London Borough of Hillingdon (LBH) maintains a corporate fraud team of 17.5 staff (full-time equivalent). In recent years, the areas of responsibility of the team have broadened from housing benefit/council tax benefit fraud investigations to include other areas of council responsibility such as housing tenancy fraud and disabled parking fraud.

128 The combined impact is significant with LBH reporting over £2.1 million of detected fraud in 2011/12. In addition, a further 28 council properties were recovered from tenancy fraudsters. LBH credit much of this successful action to collaboration between housing officers, investigators and the Council's legal team. LBH also works in partnership with other registered providers of social housing.

129 In 2011/12, the team, in partnership with parking enforcement officers, investigated disabled parking fraud. This resulted in 46 'blue badges' being seized and several cases referred for prosecution.

130 The team also undertakes proactive revenue protection measures. Using its specialist investigative skills and local knowledge, and working in partnership with other departments of LBH, over 10,000 property visits were undertaken to check the status of business rates and council tax properties in relation to empty periods or any changes as a result of building work. Proactive visits are also undertaken to follow up on fraud hotline referrals. Since 2010, LBH has identified and stopped £568,000 of SPD fraudulently claimed, using credit reference data to verify the validity of claims.

131 The Better Governance Forum of the Chartered Institute of Public Finance and Accountancy provides information on the benefits to the public sector of developing a corporate counter-fraud capability (Ref. 24).

Next steps

In August 2010, the government announced its plan to abolish the Audit Commission. Until its closure, the Commission will continue to promote good governance and financial management in the public sector.

132 The Audit Commission believes publishing detected fraud data helps improve public knowledge and understanding of local government bodies' performance in the fight against fraud. Such information also supports the government's transparency and localism agenda. Local government bodies should improve their use of data, information and intelligence to focus their counter-fraud work where it will have most impact.

133 Our *PPP* reports and publication of our survey results have encouraged local government bodies to focus their counter-fraud activities on the areas of greatest risk. The Audit Commission's annual fraud survey is, currently, the only national source of information on the performance of local public bodies in the fight against fraud.

134 In addition to the annual fraud survey, we gather intelligence on fraud and corruption from our appointed auditors. Auditors of local public bodies must report to the Audit Commission all frauds over £10,000 and all incidents of corruption in the bodies they audit. This means we can track, analyse and spread information on emerging areas of fraud risk and alert counter-fraud professionals.

135 There is a similar 'early warning system' for central government departments. The Department for Communities and Local Government should consider how it will obtain such intelligence about fraud against local government when the Commission closes. One option, for example, would be to transfer this responsibility to one of the bodies that will take over the Commission's functions.

Appendix 1: Detected frauds and losses by region

This appendix contains more detail about detected fraud in regions.

Table 4: **Detected frauds and losses 2011/12 by region compared to regional spend by councils**

Region	Council spending by region 2010/11 (% of total)	Detected frauds value in 2011/12 (% of total)	Detected frauds number of cases in 2011/12 (% of total)
East Midlands	7.5	9.9	8.9
East of England	9.8	12.9	10.1
London	21.6	17.6	25.7
North East	5.1	6.0	4.8
North West	13.7	13.6	10.8
South East	14.1	11.6	14.9
South West	8.6	8.6	8.6
West Midlands	10.2	11.3	9.6
Yorkshire and Humber	9.3	8.5	6.6
TOTAL	100.0ⁱ	100.0	100.0

Source: Audit Commission

ⁱ 2010/11 data were the most recent at the time of publication. Data for the first quarter in 2011/12 indicates no substantial variation from figures returned in 2010/11.

Table 5: Comparison of detected frauds and losses by region in 2011/12 compared to 2010/11

Region	2011/12 reported losses (£m)	2010/11 reported losses (£m)	Change %	2011/12 reported cases '000	2010/11 reported cases '000	Change %
East Midlands	16.9	15.6	+ 8	12.7	12.6	+ 1
East of England	17.8	21.5	- 17	15.5	15.9	- 3
London	45.4	54.2	- 16	21.8	23.6	- 8
North-East	8.5	8.7	- 2	7.5	8.9	- 16
North-West	19.3	21.2	- 9	17.2	15.8	+ 9
South East	26.9	22.3	+ 21	14.4	13.9	+ 4
South-West	15.5	15.2	+ 2	10.7	11.1	+ 4
West Midlands	17.2	15.1	+ 14	13.9	8.7	+ 18
Yorkshire and Humber	11.5	11.2	+ 3	10.3	10.3	0
TOTAL	179	185	- 3	124	120.8	+ 3

Source: Audit Commission

Table 6: **Regional analysis of detected tenancy fraud**

Region	2011/12 No. of properties recovered	2010/11 No. of properties recovered	Councils with housing stock recovering at least one property in 2011/12 (%)	Total housing stock 2011/12	Recovered properties as a proportion of total council housing stock (%)
East Midlands	21	54	34.6	190,100	0.02
East of England	82	82	40.0	164,015	0.05
London	1,209	1,337	100	470,717	0.26
North East	32	3	44.4	127,535	0.02
North West	39	57	50.0	99,508	0.04
South East	74	56	25.0	181,878	0.04
South West	31	35	33.3	101,798	0.03
West Midlands	211	101	61.5	205,790	0.10
Yorkshire and Humber	49	53	41.7	237,143	0.02
TOTAL	1,748	1,778	50.0	1,778,484	0.10

Source: Audit Commission

Table 7: **Detected housing tenancy frauds by local authority type 2011/12**

Council type	Total social housing stock	Tenancy frauds detected	Properties recovered as a % of housing stock
London boroughs	471,000	1,209	0.26
Unitaries	349,000	214	0.06
Metropolitan districts	504,000	223	0.04
Districts	454,000	102	0.02

Source: Audit Commission

Appendix 2: Checklist for those responsible for governance

Checklist

General	Yes	No
1 Do we have a zero tolerance policy towards fraud?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
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> ?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
3 Do we have dedicated counter-fraud staff?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
4 Do counter-fraud staff review all the work of our organisation?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
5 Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
6 Have we assessed our management of counter-fraud work against good practice?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		

General	Yes	No
7 Do we raise awareness of fraud risks with:		
■ new staff (including agency staff);	<input type="radio"/>	<input type="radio"/>
■ existing staff;	<input type="radio"/>	<input type="radio"/>
■ elected members; and	<input type="radio"/>	<input type="radio"/>
■ our contractors?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
8 Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
9 Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
10 Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
11 Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
12 Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
13 Do we have effective arrangements for:		
■ reporting fraud;	<input type="radio"/>	<input type="radio"/>
■ recording fraud; and	<input type="radio"/>	<input type="radio"/>
■ whistle-blowing?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		

General		Yes	No
14	Do we have effective fidelity insurance arrangements?	<input type="radio"/>	<input type="radio"/>
Previous action:			
2012 update:			
Fighting fraud with reduced resources		Yes	No
15	Have we reassessed our fraud risks since the change in the financial climate?	<input type="radio"/>	<input type="radio"/>
Previous action:			
2012 update:			
16	Have we amended our counter-fraud action plan as a result?	<input type="radio"/>	<input type="radio"/>
Previous action:			
2012 update:			
17	Have we reallocated staff as a result?	<input type="radio"/>	<input type="radio"/>
Previous action:			
2012 update:			
Current risks and issues		Yes	No
Housing tenancy			
18	Do we take proper action to ensure that we only allocate social housing to those who are eligible?	<input type="radio"/>	<input type="radio"/>
Previous action:			
2012 update:			
19	Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?	<input type="radio"/>	<input type="radio"/>
Previous action:			
2012 update:			
Procurement			
20	Are we satisfied our procurement controls are working as intended?	<input type="radio"/>	<input type="radio"/>
Previous action:			
2012 update:			
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?	<input type="radio"/>	<input type="radio"/>
Previous action:			
2012 update:			

Current risks and issues	Yes	No
Recruitment		
22 Are we satisfied our recruitment procedures:		
■ prevent us employing people working under false identities;	<input type="radio"/>	<input type="radio"/>
■ confirm employment references effectively;	<input type="radio"/>	<input type="radio"/>
■ ensure applicants are eligible to work in the UK; and	<input type="radio"/>	<input type="radio"/>
■ require agencies supplying us with staff to undertake the checks that we require?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
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?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
24 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?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
Council tax discount		
25 Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		
Housing and council tax benefits		
26 When we tackle housing and council tax benefit fraud do we make full use of:		
■ National Fraud Initiative;	<input type="radio"/>	<input type="radio"/>
■ Department for Work and Pensions	<input type="radio"/>	<input type="radio"/>
■ housing benefit matching service;	<input type="radio"/>	<input type="radio"/>
■ internal data matching; and	<input type="radio"/>	<input type="radio"/>
■ private sector data matching?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		

Emerging fraud risks	Yes	No
27 Do we have appropriate and proportionate defences against emerging fraud risks:		
■ business rates;	<input type="radio"/>	<input type="radio"/>
■ Right to Buy;	<input type="radio"/>	<input type="radio"/>
■ Social Fund and Local Welfare Assistance;	<input type="radio"/>	<input type="radio"/>
■ Local Council Tax Support;	<input type="radio"/>	<input type="radio"/>
■ schools; and	<input type="radio"/>	<input type="radio"/>
■ grants?	<input type="radio"/>	<input type="radio"/>
Previous action:		
2012 update:		

Source: Audit Commission

Appendix 3: Method for estimating the extent of housing tenancy fraud

To estimate the scale of tenancy fraud, we undertook a survey of proactive tenancy fraud detection activities undertaken by English social housing providers (councils, ALMOs and housing associations).

Any social housing provider could submit data. However, strict inclusion criteria were set for any data submitted to be included in the final analysis, as follows:

- all such proactive exercises had to have been undertaken by either fraud investigators or housing officers with enhanced fraud awareness training;
- no advance notice had been given for the proactive exercise;
- all suspicions of tenancy fraud had been followed up robustly; and
- the selection of the properties checked was random.

A total of 23 small scale proactive detection exercises in London met the inclusion criteria, totalling 1,488 properties. The findings of this analysis of the 23 proactive exercises were then triangulated with the total annual detected fraud results of three London social housing providers. These three providers were able to submit only the total annual data for tenancy fraud detection exercises for their organisation, rather than the constituent small scale proactive detection exercises analysed earlier. These annual exercises did however meet the other inclusion criteria. These three providers submitted data on 4,505 properties checked for tenancy fraud.

Our analysis of the results of the 23 small scale proactive exercises, triangulated to the larger scale annual results for three other social housing providers indicates that the tenancy fraud level in London is typically between 4 and 6 per cent. This constitutes the first professional or academic attempt to collate and analyse such activities, from which to better derive an estimate for the scale of housing tenancy fraud.

We recognise that the results are based on a small sample that is neither random in selection nor representative of the total population. Thus, the results are indicative rather than statistically significant.

By taking the lower 4 per cent tenancy fraud level for London, we prudently estimate that approximately 32,000 social homes in London are subject to some form of tenancy fraud.

After discussing these results with a group of social housing and fraud experts, we have concluded it is likely that the level of non-London tenancy fraud is at least half of that indicated for London. On this basis, we contend, therefore, that it is prudent to assume that non-London tenancy fraud is typically 2 per cent. Combined with the London analysis, this indicates that approximately 98,000 social homes in England could be subject to some form of tenancy fraud.

In addition, Table 8 below shows the impact that varying levels of non-London housing tenancy fraud would have nationally. The London figure is based on the prudent 4 per cent tenancy fraud level that our research indicates.

Table 8: **Potential scale of housing tenancy fraud**

Social homes subject to housing tenancy fraud (assumes 4% fraud level in all cases)		
London	Non-London	Total properties subject to housing tenancy fraud
32,000	33,000 (1)	65,000
32,000	50,000 (1.5)	82,000
32,000	66,000 (2)	98,000
32,000	83,000 (2.5)	115,000
32,000	99,000 (3)	131,000
32,000	116,000 (3.5)	148,000
32,000	132,000 (4)	164,000

Source: Audit Commission

Appendix 4: Case studies

Case study 9

Housing tenancy fraud

A council in northern England used the Fraud Act to prosecute a tenancy fraudster for unlawful subletting. Since November 2009, the fraudster had charged a private tenant £450 monthly rent, while the fraudster paid the council £350 rent for the same property. Pleading guilty at court, the fraudster received a 12-month conditional discharge and was ordered to pay costs. Following a notice to quit, the council retook control of the property.

Case study 10

Housing benefit and tenancy fraud

A fraudster who had no right to stay in the UK used false identification to gain Jobseeker's Allowance, social housing and housing and council tax benefit. The Department for Work and Pensions discovered the fraud and investigated the case, assisted by the local council, UK Border Agency and police. The housing and council tax benefits amounted to £3,500. The fraudster was found guilty of benefit fraud offences and sent to prison for 14 months. The council also recovered the property. Following his term of imprisonment, the fraudster was deported.

Case study 11

NFI matches – housing tenancy and housing benefit fraud

An Audit Commission NFI data match identified that an individual was a tenant and claiming housing benefit at two councils – one in the north and one in the east of the country. The resulting investigation showed the tenant remained resident at the property in the north of the country, but had another tenancy and claimed benefits in the east of the country. The council there prosecuted the fraudster for benefit fraud valued at almost £5,000 and recovered the property. The fraudster received a 12-month conditional discharge and was ordered to pay £100 costs.

Case study 12

Housing tenancy fraud

In 2012, a council tenant in the Midlands was found guilty of housing tenancy fraud and claiming more than £10,000 in housing and council tax benefit, despite not living in her council home for 18 months. The fraudster failed to inform the council that she was no longer resident at that property, thereby committing tenancy fraud. As a result of enquiries by the council's fraud investigation team, the tenant was charged under the Fraud Act with failure to disclose information in relation to the tenancy. The tenant was fined £100 and ordered to pay £360 costs and a £15 victim surcharge.

There are currently 3,000 families on that council's housing waiting list, with an average waiting time for a property of 18 months. The council property has now been relet.

Case study 13

Right to Buy fraud

A tenant unlawfully obtained a council home for eight years using false identification on his application. He later purchased the property under Right to Buy, receiving a discount of over £33,000. The original tenancy fraud was later discovered. The fraudster, therefore, unlawfully obtained social housing and subsequently illegally gained ownership of the property. The fraudster pleaded guilty at court and was sentenced to 21 months in prison.

Case study 14

Right to Buy fraud

A couple had a joint tenancy with Affinity Sutton, a national affordable housing provider, for several years. On the death of the husband, the wife subsequently claimed succession to that property and gained sole tenancy rights. After several months, the tenant applied for a Right to Buy discount to purchase the property. The discount was £75,000. The four-bedroom property had a value of £470,000.

An allegation was made to Affinity Sutton's fraud hotline that a group of people were occupying the property and that the lawful tenant was not resident. The investigation discovered the tenant had divorced her husband and moved out of the property ten years before he died. When confronted with the evidence, the fraudster stated she had applied to become the sole tenant and for the Right to Buy discount at the instigation of a family member. She was instead living with a new partner in a retirement unit in a neighbouring council. The Right to Buy purchase was refused and the tenant gave up the tenancy.

Insurance fraud

A council seeking to reduce costs reviewed its insurance claims procedures. This raised concerns around the use of certain local solicitors by claimants, and specific types of claim. This led the council to fundamentally change its approach to claim handling, bringing the function back in-house. This included using counter-fraud specialists.

The council has now developed significant local knowledge and an intelligence database about this fraud type. It subjects claims to detailed investigation when a suspicion of fraud arises. The council attributes its success to using staff knowledge of the local area and maximising the expertise of other staff, such as highway engineers. The council also works with other stakeholders, such as neighbouring councils, the police, and the Insurance Fraud Bureau.

This approach has resulted in the council:

- saving over £800,000 in a 20-month period;
- reducing the insurance budget by 25 per cent;
- settling claims quicker;
- helping break an organised fraud ring; and
- prosecuting fraudsters.

The Association of Local Authority Risk Managers highly commended this work.

Case study 16

Social care fraud

Councils fund residential care to people in need, where they do not have capital over £23,250. Above this threshold, people have to self-fund.

A council funded residential care to an older person based on financial details supplied by his son, who held Power of Attorney. The council later discovered that the older person's savings exceeded the threshold. A resulting multi-agency investigation involving the council's benefit fraud investigators and Adult Health and Wellbeing directorate, and the Department for Work and Pensions, found the father and son had a joint savings account in excess of £170,000. This had not been declared.

In addition, the council's accredited financial investigator discovered an extra £116,000 held in a foreign bank account. The cost of the fraud relating to the father's residential care came to over £89,000. There were also other benefit-related offences. The son was sentenced to 13 months in prison. Under the Proceeds of Crime Act, the court directed that the £116,000 should be used to cover the loss to the public purse and trial costs.

Case study 17

Abuse of position

Certain council staff have access to the Department for Work and Pensions computer records. This access enables quick and efficient checks on a person's benefit claim. At one council, an experienced housing benefit officer accessed the Department for Work and Pensions computer on seven separate occasions to check her daughter's benefit claim. When confronted, the benefit officer denied accessing the information inappropriately. However, working with the Department for Work and Pensions, the council was able to confirm she had abused her position. The council dismissed the officer, recognising the reputational damage the case had brought and the risk that losing computer access would have to their service delivery.

Joint working

An initial investigation into a tenancy subletting fraud led to a multi-agency investigation, involving a council, the Department for Work and Pensions, NHS Protect and the UK Borders Agency. The investigation found that the fraudster had obtained two unlawful tenancies using false French and UK passports. In addition, by using fake birth certificates, she claimed for children she did not have, gaining benefit totalling £7,000, and was allocated a larger property.

She also fraudulently gained student nursing bursaries and tuition fees worth £67,000. She secured a student exemption from council tax, using letters from bogus colleges. She received a prison sentence of four years.

Investigators continue to track down those who colluded with her and supplied the false documentation that facilitated the crime.

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: nationalstudies@audit-commission.gov.uk

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