

**Report to the Audit and Governance  
Committee**



**Report reference:** **AGC-026-2013/14**  
**Date of meeting:** **6 February 2014**

**Epping Forest  
District Council**

**Portfolio:** Finance and Technology  
**Subject:** Protecting the Public Purse 2013, Audit Commission Publication  
**Responsible Officer:** Brian Bassington (01992 564446).  
**Democratic Services Officer:** Gary Woodhall (01992 564470).

---

**Recommendations/Decisions Required:**

(1) The Committee is requested to note the following summary of the Audit Commission publication, Protecting the Public Purse.

**Executive Summary:**

Summary of the most significant issues raised in the publication including recommendations concerning an action plan for any matters which this Council needs to address.

**Reasons for Proposed Decision:**

Information report as required by the Audit and Governance Committee Terms of Reference.

**Other Options for Action:**

No other options.

**Report:**

Introduction

1. The latest Audit Commission Publication "Protecting the Public Purse 2013" published in November 2013 builds upon the previous two publications of "Protecting the Public Purse, 2011 and 2012". 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 1 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.
2. The Audit Commission has made a commitment to publish its final report in the series in 2014.
3. 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; and

- every pound lost through fraud cannot be spent on providing public services.

4. 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 per cent and £1 per cent 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 per cent of the total cases detected;
- The average value of all detected non-tenancy frauds increased by 15 per cent 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.

5. London boroughs detected more fraud than in 2011/12. London boroughs increased both the number and value of frauds detected by 36 per cent in 2012/13, but most non-London regions showed a decline in the number of detected fraud cases in 2012/13, ranging from 6 per cent to 46 per cent.

6. 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 per cent increase since 2011/12;
- London councils detected over half (58 per cent) of all tenancy fraud, although the capital accounts for only a quarter of all council housing in England; and
- 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.

### Key Fraud Risks

#### (a) Housing and council tax benefit fraud

7. 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.

#### (b) Non Benefit Frauds

8. 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.

9. 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 67per cent of the value and 44 per cent by cases of all detected fraud reported by local government bodies.

10. 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.

11. 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.

### Is Fraud Declining?

12. 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.

13. There has been a 14 per cent 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:

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

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

19. 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.

20. The average number of cases detected in the top quartile of district councils was 234. (EFDC recorded non-benefit fraud cases = 664 single person discount award removals generating £255,270 additional revenue and 17 successful housing fraud cases leading to the recovery of 10 properties).

### Current Developments

21. 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.

22. 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.

23. 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.

24. 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.

25. 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.

26. The need to make savings combined with national changes to counter fraud arrangements make it even more important that councils have effective fraud risk management.

#### Checklist for those Responsible for Governance

27. As with the previous two surveys, a checklist is included as an appendix to the document which has been reviewed against relevant council strategies, existing fraud prevention and detection controls and Internal Audit findings during 2013/14. Of the 29 questions, the Council meets the requirements of 21, partially meet 6 and 2 are not relevant to this Council as they relate to social care.

28. Of the six questions the Council partially meet, the checklist requirements are currently under review to ensure that our policies and procedures are up to date with current thinking, particularly that EFDC policies are aligned with the national Fighting Fraud Locally (FFL) strategy and that resources are sufficient to cover all areas of fraud. As part of the Directorate Restructuring approved by Full Council on 17 December 2013, a Corporate Fraud Investigation Team will be brought together under the Chief Internal Auditor consisting of benefits fraud and housing fraud officers along with the fraud auditor. The corporate team will enable the weaknesses identified to be targeted, and enable the Council to plan for the introduction of SFIS and its effects on the Council when they are known.

#### Recommendations

29. All local government bodies should:

- (a) use our checklist for councillors and others responsible for governance to review their counter-fraud arrangements; and

(b) actively pursue potential frauds identified through their participation in the National Fraud Initiative (NFI).

30. Councils in particular should:

(a) actively promote a vigorous counter-fraud culture by:

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

(ii) encouraging councillors to play an enhanced role in managing the risk of fraud effectively; and

(iii) 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.

(b) develop a clear strategy to tackle fraud by:

(i) reviewing their own counter-fraud strategies in the context of the national Fighting Fraud Locally (FFL) strategy to tackle local authority fraud; and

(ii) 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.

(c) work in partnership to reduce fraud by:

(i) considering how best to maximise the benefit of the Prevention of Social Housing Fraud Act, including closer partnership working with local housing associations;

(ii) exploring joint working with other councils, particularly smaller councils with limited investigative capacity; and

(iii) realising the benefits of county councils and district councils working together to tackle blue badge fraud (disability parking) in two-tier areas.

(d) prepare effectively for the introduction of the Single Fraud Investigation Service by:

(i) considering the impact that SFIS will have on their capacity to tackle non-benefit frauds;

(ii) maintaining a capability to investigate non-benefit related fraud, proportionate to the risk; and

(iii) working with SFIS to ensure the approach taken to tackling benefit fraud continues to reflect local priorities and risks.

(e) allocate sufficient resources to tackling fraud by:

(i) focusing more on detecting and recording non-benefit fraud, particularly district councils; and

(ii) targeting their counter-fraud resources where they will produce the

most benefit, assessing the risk of harm against the measures needed to reduce it.

- (f) improve their use of data to measure their performance in tackling fraud by:
  - (i) challenging their performance in tackling non-benefit frauds, in particular against the results achieved by the top performing councils;
  - (ii) 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;
  - (iii) maximising the benefits of reporting frauds through the Action Fraud website; and
  - (iv) requesting an individual fraud briefing from their external auditor.

### Conclusions

31. The Council currently has effective benefits fraud and housing fraud teams providing prevention and detection services relating to housing and council tax benefit fraud and Housing tenancy and right to buy fraud. Within Internal audit there is a part time member of staff specifically recruited to work on fraud prevention and detection, who has been concentrating on procurement and contracts and is now developing audit's use of analytical audit software (IDEA) which will enable internal data analysis and matching and automated data monitoring in the future.

32. With the government proposal to set up a Single Fraud Investigation Service (SFIS) to combat benefit fraud, resulting in the probable loss of the Council's benefit fraud investigation team to that service, it is important that the capability to investigate fraud unrelated to housing benefit is retained by the Council. A recent news release from the Department of Work and Pensions (DWP) has stated that SFIS will be launched within the DWP as a single organisation. The release also indicated that SFIS will be implemented on a phased basis from October 2014 to March 2016. They are also currently considering a small number of test sites before that point. The DWP have said that at this point they are unable to say whether TUPE will or will not apply to the transfer of any staff. While at the present time the actual impact the implementation of SFIS will have on the authority's existing benefit fraud staff is not known, the increased risk to the Council by the probable loss of trained fraud staff to SFIS should be considered and an action plan drawn up to mitigate the risk.

33. The Council has continued to use an organisation call Datatank for data matching council tax single persons discounts to credit bureau financial data, which in the last 12 months has resulted in the removal of 664 discount awards, resulting in the generation of £255,270 in additional revenue. The use of Datatank provides a greater level of matching than the National Fraud Initiative (NFI) and provides a full service, saving the Council the cost of administration.

34. Over the last twelve months the two housing fraud investigators have been successful in 17 housing fraud cases leading to the recovery of 10 properties for re-letting. The National Fraud Authority estimates that housing tenancy fraud represents the second largest financial loss to fraud in local government costing £845 million in 2013, with 98,000 social homes in England being subject to some form of tenancy fraud. It is not possible to estimate the extent of housing fraud at EFDC but it is fair to say that the more the fraud officers investigate, the more they uncover.

35. The report once again highlights the importance of a corporate counter-fraud response and the significant impact seen where corporate counter-fraud teams have been

established. The corporate fraud investigation team included in the Directorate restructuring will enable the council's already robust fraud response to be further developed and directed as best needed to protect public finances.

**Resource Implications:**

Within the report.

**Legal and Governance Implications:**

Within the report.

**Safer, Cleaner and Greener Implications:**

No specific implications.

**Consultation Undertaken:**

Corporate Governance Group.

**Background Papers:**

Protecting the Public Purse 2013 published by the Audit Commission and audit files and working papers.

**Impact Assessments:**

Risk Management

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. A key element to this objective is the prevention and detection of fraud and the safeguarding of the public purse on which guidance is provided within this publication.

Equality and Diversity

*Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?* No

*Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?* No

*What equality implications were identified through the Equality Impact Assessment process?*  
There are no specific equalities impacts.

*How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?*  
There are no specific equalities impacts.