

TRANSPORT FOR LONDON

AUDIT COMMITTEE

**SUBJECT: PROTECTING THE PUBLIC PURSE**

**DATE: 29 SEPTEMBER 2009**

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**1 PURPOSE AND DECISION REQUIRED**

1.1 The purpose of this paper is to bring a recent Audit Commission publication to the Audit Committee's attention. The Committee is requested to note the paper.

**2 BACKGROUND**

2.1 The Audit Commission published 'Protecting the public purse' on 15 September 2009. It considers the key fraud risks and pressures facing councils and related bodies and identifies good practice in fighting fraud. The published summary is attached. A copy of the full report is available if required.

2.2 The summary includes a self assessment checklist which will be completed where relevant to TfL and presented to the Audit Committee at its next meeting.

**3 RECOMMENDATION**

3.1 The Audit Committee is asked to NOTE the content of this paper.

**4 CONTACT**

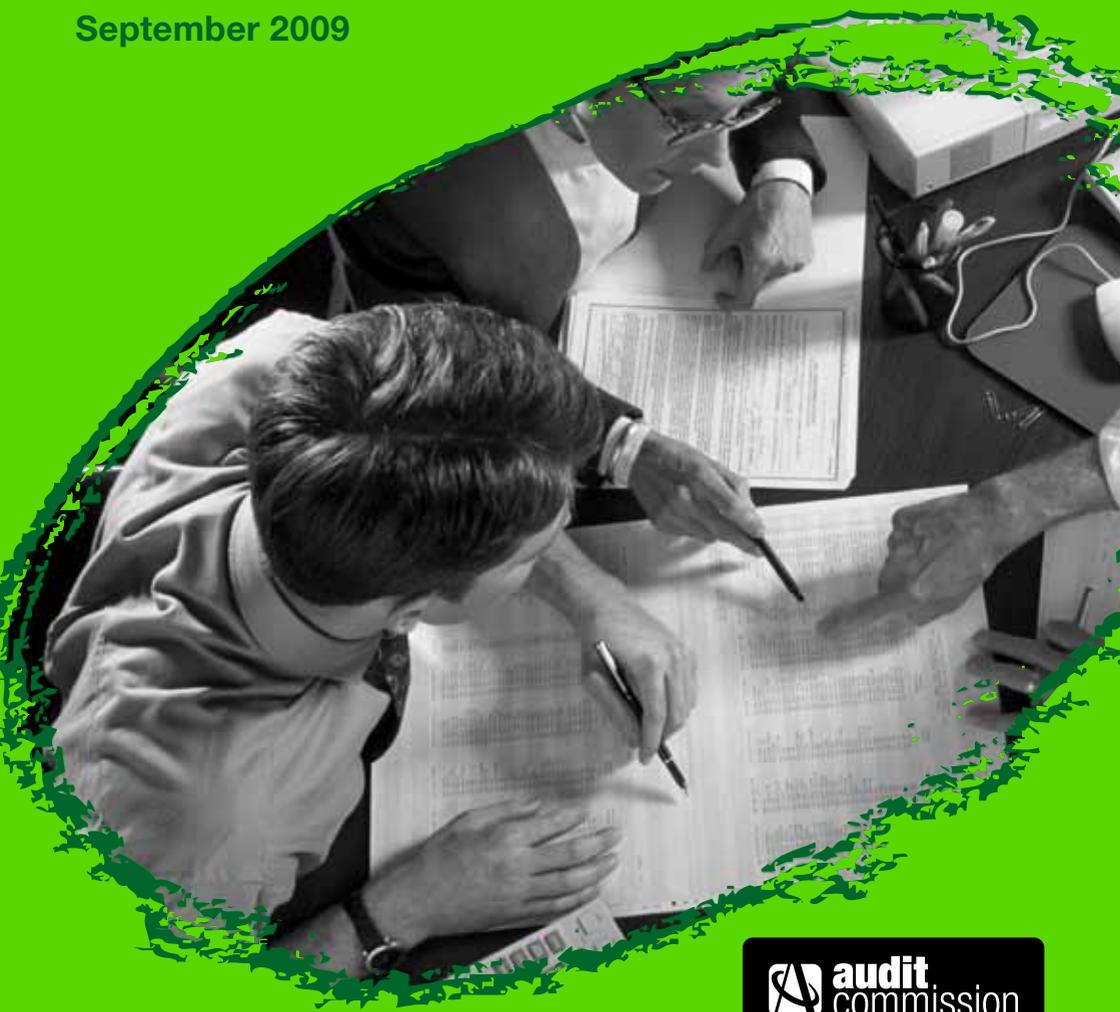
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# Protecting the public purse

Local government fighting fraud

Summary

September 2009



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

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

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

## Summary

### **Fraud is bad news for the economy, councils and taxpayers because:**

- the honest majority pay for it; and
- it can adversely affect the provision of public services.

### **Councils have done much over the last few years to combat fraud and many are managing the risks well by:**

- developing a zero-tolerance approach towards fraud;
- improving governance arrangements including establishing audit committees;
- adopting good practice in managing the risk of fraud;
- creating a strong counter-fraud culture and implementing counter-fraud policies and procedures; and
- training and supporting specialist staff to prevent and detect fraud.

### **The Commission has identified some significant areas where the risk of fraud has not been adequately addressed at a local level:**

- housing tenancy fraud, which can be conservatively estimated to have reduced available social housing for allocation in England by nearly 50,000 properties;
- false claims for single person discount (SPD) on council tax, estimated at £90 million each year; and
- recruitment fraud, which can have severe consequences and which fraudsters often exploit to commit other types of fraud.

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### **Other fraud risks still need to be tackled as:**

- the amount lost through housing and council tax benefit fraud, after a period of decline, has recently increased;
- procurement frauds have involved large sums; and
- there is evidence of some misuse of social care direct payments.

### **Fraud is likely to increase because of the recession as:**

- economic distress can increase the incentive to commit fraud; and
- controls to prevent and detect fraud can come under pressure as councils reduce their costs.

### **And so there is more that councils could do to minimise fraud opportunities by:**

- assessing the effectiveness of their current arrangements and taking action where appropriate;
- focusing on high-risk areas;
- setting clear targets and monitoring the return from their investment in counter-fraud resources; and
- working with other organisations to reduce fraud and the harm it causes.

## Recommendations

### **Councils should:**

- consider the possible impact of the recession on the risk of fraud and amend their counter-fraud plans if necessary;
- use the checklist provided by the Audit Commission to ensure that they have sound governance and counter-fraud arrangements that are working as intended;
- ensure they are doing all they can to address housing tenancy, SPD and recruitment fraud;
- work together in two-tier areas to share the costs and benefits of tackling SPD fraud;
- satisfy themselves that their vetting procedures for recruiting permanent and temporary staff accord with good practice;
- consider whether they have properly vetted staff already in post and take appropriate and risk-based action;
- ensure their arrangements for tackling housing and council tax benefit fraud are up-to-date, effective and address increased service demands;<sup>i</sup>
- ensure current arrangements are sufficiently robust to reduce the risk of procurement fraud and follow the latest Office of Fair Trading guidance to lessen the risk of unlawful practices affecting their awarding and allocation of contracts;
- consider social care direct payments guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and ensure that their procedures and processes are proportionate and secure;

<sup>i</sup> This recommendation does not apply to county councils in two-tier county areas.

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- use information from the Audit Commission's National Fraud Initiative to the full to help focus their fight against fraud;
  - test their whistleblowing arrangements against good practice guidance and ensure staff understand and trust them;
  - improve staff awareness of money laundering regulations and how they can report suspicions of money laundering and criminal activities;
  - identify areas where internal controls may not be effective or operating as intended;
  - review their involvement in counter-fraud partnerships; and
  - set clear targets and expected outcomes for the work of counter-fraud teams.

**Government should:**

- work with the Audit Commission and other stakeholders to ascertain the extent of and tackle the incidence of housing tenancy fraud and false SPD claims; and
- put the appointment of audit committees in local government on a statutory footing.

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# Recommendations

## **The Audit Commission will:**

- provide a single definitive source of information on reported fraud in local government for the National Fraud Authority and make that information available to inform the National Fraud Strategy by:
  - reviewing and updating arrangements for collecting reports of frauds in local government to ensure they are suitable for the emerging national fraud agenda; and
  - undertaking annual surveys that collect information on fraud in local government in England, starting with the year ending 31 March 2009; and
- work with government, other key stakeholders and professional bodies to undertake research into the levels of housing tenancy and SPD fraud across the country and develop guidance to help prevent and detect such frauds.

# Checklist for those responsible for governance

	Yes	No	Action
<b>General</b>			
1. Have we committed ourselves to zero tolerance against fraud?			
2. Do we have appropriate strategies, policies and plans?			
3. Do we have dedicated counter-fraud resources?			
4. Do the resources cover all of the activities of our organisation?			
5. Do we receive regular reports on fraud risks, plans and outcomes?			
6. Have we assessed our management of counter-fraud resources against good practice?			
7. Do we raise awareness of fraud risks with: <ul style="list-style-type: none"> <li>■ new staff (including agency staff)?</li> <li>■ existing staff?</li> <li>■ members?</li> </ul>			
8. Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?			
9. Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?			

	Yes	No	Action
10. Do we identify areas where internal controls may not be performing as intended?			
11. Do we maximise the benefit of our participation in the Audit Commission NFI and receive reports on outcomes?			

### Fighting fraud in the recession

12. Have we reassessed our fraud risks because of the recession?			
13. Have we amended our counter-fraud action plan as a result?			
14. Have we reallocated staffing as a result?			

### Some current risks and issues

15. Do we take effective action to ensure that social housing is allocated only to those in need?			
16. Do we take effective action to ensure that social housing is occupied by those to whom it is allocated?			
17. Are we satisfied that payment controls are working as intended?			
18. Have we reviewed our contract letting procedures against the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?			

	Yes	No	Action
<p>19. Are we satisfied that our recruitment procedures are:</p> <ul style="list-style-type: none"> <li>■ preventing employment of people working under false identities?</li> <li>■ validating employment references effectively?</li> <li>■ ensuring applicants are eligible to work in the UK?</li> </ul>			
<p>20. Where we are moving to direct payments (for example, social care) have we introduced suitable and proportionate control arrangements in line with recommended practice?</p>			
<p>21. Are we effectively controlling the discounts and allowances we give to council taxpayers?</p>			
<p>22. Are we satisfied that we are doing all that we can to tackle housing and council tax benefit fraud?</p>			
<p>23. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?</p>			

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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](mailto:nationalstudies@audit-commission.gov.uk)



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