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

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

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

1 This briefing is intended to help you to understand how well your Council appears to be tackling fraud.

2 All councils in England were asked, in summer 2010, to complete the Audit Commission's survey of detected fraud for 2009/10. More than 96 per cent of councils completed the survey and told us how well they consider they are fighting fraud.

3 In this briefing we use our survey results to compare your reported performance in preventing and detecting fraud with the reported performance of other councils.

4 We recognise stand alone figures do not provide definitive answers about your performance. We therefore compare your fraud data with figures from other councils, including fraud risks where you have provided us with no information. Finally we suggest issues where you may wish to take action.

5 In your case, our analysis compares your results with the national picture, other inner London boroughs and a cluster of neighbouring councils. Included in your cluster are Lambeth, Lewisham and Tower Hamlets councils.

6 At the end of this briefing we have included a checklist based on the one published in our national report ‘Protecting the Public Purse 2010’ (PPP 2010). This is intended to help audit committees, and others responsible for governance, to assess the effectiveness of their counter-fraud arrangements.

7 We note you presented a completed Audit Commission counter fraud checklist to the January 2011 meeting of your Audit and Governance Committee.

The national picture

8 Our 2009/10 fraud survey results show councils and related bodies detected around 119,000 cases of fraud valued at £135 million. It should be noted the survey results relate only to detected fraud which normally represents only a small proportion of the total amount of fraud committed against councils.

9 These cases included:

- 63,000 housing benefit and council tax benefit frauds amounting to a loss of £99 million to the public purse. These frauds represented almost three quarters of the total detected fraud by councils;
- 48,000 council tax discount frauds costing £15 million; and,
- 7,000 other frauds worth £21 million.

10 In addition to the above figures, councils recovered almost 1,600 homes in 2009/10 from unlawful tenants with an estimated replacement value of nearly £240 million.
In 2009/10 some councils did not keep complete records of all types of fraud and did not always classify fraudulent activity as fraud.

Most councils were able to provide us with information for more traditional fraud risks, such as housing benefits. But information about some types of fraud, such as tenancy, council tax and recruitment fraud, was less robust.

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

All London councils completed the fraud survey.

**Fraud against councils in England - the big picture**

Figure 1: National picture - total value of fraud detected by councils in England (£135million)

- Benefits: £21m
- Council Tax: £15m
- Other: £99m

Figure 1 shows the amount of detected fraud by councils in England excluding tenancy and recruitment fraud. They are covered later in this briefing. Almost three-quarters of fraud detected by councils is benefit fraud.
Figure 2: Inner London - total value of fraud detected by inner London councils (£13.64 million)

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Council Tax</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>£3.5m</td>
<td>£0.64m</td>
<td>£9.5m</td>
</tr>
</tbody>
</table>

Figure 2 shows the value of detected fraud by inner London councils. In inner London the detected level of council tax fraud makes up a smaller proportion of the London total than it does of the national total (shown in figure 1).

Figure 3: Southwark - total value of fraud detected by your council (£0.95 million)

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>£0.16m</td>
<td>£0.79m</td>
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</table>

Figure 3 shows the total value of fraud detected by your Council. Your Council did not report any council tax fraud in 2009/10.
How does your Council compare?

Housing and council tax benefits (HB/CTB) fraud

The national picture

18 In 2009/10, almost £22 billion of HB/CTB was paid to individuals by councils in England. According to the results of our fraud survey councils detected over 63,000 fraudulent claims for benefit with losses of nearly £99 million in 2009/10.

19 Councils used a range of techniques to detect HB/CTB fraud, including our National Fraud Initiative (NFI) data-matching exercise. As a result of the last NFI exercise in 2008/09, Southwark saved over £3 million. Your Council is one of the strongest performers in London. Nationally, savings are significant and show preventing and detecting HB/CTB fraud are important tasks for councils.

Your performance

20 Your HB/CTB caseload for 2009/10 was around 40,000 claims. You reported to us 504 cases of detected HB/CTB fraud for 2009/10, worth £785,825. This was the third highest number of cases of detected fraud compared to all other inner London Boroughs.

21 When compared with neighbouring authorities, your detected cases expressed as a percentage of your HB/CTB caseload, is the third highest.

22 You reported 31 convictions for HB/CTB fraud in the same period. This is above the inner London average (16) and higher than your neighbours (25). You have the highest level of convictions of inner London councils.

How you can improve

23 Your results show a strong performance in fighting HB/CTB fraud.
This is a time of great change within welfare benefits and we suggest you continue to make every effort to ensure your good performance is not allowed to slip.

**Council tax - single person discount (SPD) fraud**

**The national picture**

In 2010/11, it is estimated £26.3 billion will be raised from council tax in England. Householders may claim single person's discount (SPD) where there are no other residents aged 18 or over living at that address. SPD gives individuals a 25 per cent discount on their council tax bill.

Nationally, councils have noted a sharp increase in the number of people claiming SPD in recent years and an increased number of fraudulent applications. In 2010, we analysed the results of action taken by 26 councils to tackle this type of fraud.

We found fraudulent levels of claims were commonly between four and six per cent of SPD claims. This confirms our previous estimate that SPD fraud is costing councils at least £90 million each year.

**Your performance**

You reported no detected cases of SPD fraud to us for 2009/10. This is against an average of 136 cases for each inner London council. One of your neighbours also reported no SPD fraud. However, one of your neighbours reported 1,500 cases with a value of £400,000, the sixth highest number of detected cases in London.

We recognise some councils may have taken action on SPD but may not have recorded it as fraud and therefore not reported any cases to us in our 2010 survey.

Our SPD toolkit [http://spd.audit-commission.gov.uk](http://spd.audit-commission.gov.uk) predicts 42.4 per cent of your Council tax payers should claim SPDs - broadly comparable with your neighbours. Your actual level of SPD claimants in 2009/10 was 43.3 per cent. This fell to 41.9 per cent in 2010/11.

In the 2010/11 financial year, we understand approximately £213,000 of SPD council tax fraud has been identified as a result of action taken by Southwark.

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The actual SPD level shown in the toolkit is derived from data published by the Department for Communities and Local Government, and thus includes fraudulent cases yet to be addressed. As a result, if a council is close to the predicted level then typically it can expect to have a fraudulent discount level of about four per cent.
Figure 5: This bar chart shows your level of SPD claims is comparable with your neighbours.

Key
- Total single person discount
- As a percentage of chargeable dwellings (Per cent)
- Median

How you can improve

32 The financial benefit for your Council in tackling SPD fraud could be almost £400,000 in one year. This assumes your Council takes the appropriate action, and the level of fraud detected is around four per cent. This is consistent with the findings of our SPD research nationally.

Housing tenancy fraud

The national picture

33 There are nearly four million social housing properties in England. Registered housing providers, such as councils and housing associations, are the guardians of these valuable assets. They should ensure only eligible and lawful tenants occupy their properties.

34 Nationally the number of households on councils' housing waiting lists is about 1.8 million. In PPP 2010 we estimated there may be at least 50,000 social homes in the hands of tenancy fraudsters, with an estimated replacement cost of over £7 billion.
Housing tenancy fraud is the use of social housing by someone not entitled to occupy that home. It includes:
- the unauthorised sub-letting of a property for profit to individuals not allowed to live there by the conditions of the tenancy;
- submitting false information in a housing application to gain a tenancy; and
- wrongful tenancy succession where the property is no longer occupied by the original tenant.

Your performance

Fifteen inner London councils, including Southwark, manage their own housing stock. Southwark Council has approximately 40,000 properties, and is the single largest provider.

Your Council detected 170 cases of tenancy fraud in 2009/10. The estimated replacement value of these properties is over £25 million.

Comparing your detected tenancy fraud cases against the number of properties you manage, you had the third highest level of detected cases as a proportion of total housing stock.

Figure 6: This bar chart shows the number of your detected tenancy fraud cases as a percentage of the number of properties you manage.

You told us, in our 2009/10 survey, you work with other registered social landlords (RSLs) to tackle tenancy fraud, not just in Southwark but also Bexley, Lewisham and Bromley as part of the South East London Housing Partnership (SELHP).

Increasingly, London councils are working more actively in partnership with RSLs to counter tenancy fraud. This is producing mutual benefits for both councils and RSLs. In the 2010 calendar year, partner RSLs in the SELHP recovered approximately 90 properties from tenancy fraudsters, significantly increasing the available social housing stock in the area.

How you can improve

Your results show a strong performance in fighting tenancy fraud.
This is a time of great change within councils and we suggest you continue to make every effort to ensure your good performance is not allowed to slip. Continue to assess your response to housing tenancy fraud and determine if you deploy sufficient resources to both prevent and detect such fraud. Review how effectively and efficiently any existing resources are used.

Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit.

Social services fraud

The national picture

A significant number of respondents to our survey identified social services fraud as an emerging issue. In PPP 2010 we also recognise the provision of adult social care in England is undergoing significant change. Councils are increasingly using personal budgets, in particular direct payments, to manage and deliver care.

A personal budget is a direct allocation by a council of funding for an individual to spend to meet their agreed needs. These budgets provide users with more choice and control to spend money in the way most suitable for them.

In March 2010, there were about 170,000 care users with personal budgets receiving about £900 million of public funding. This represents a large increase in the amount of public funds channelled through direct payments.

The change in the way care is being provided and the need to safeguard vulnerable people as well as the concerns expressed by councils make this an important area of fraud risk for councils to consider.

Your performance

You reported no cases of social services fraud to us. This is similar to the picture for most inner London councils. However, one inner London council detected 13 cases of social service fraud that amounted to over £400,000. In PPP 2010, we acknowledge that cases of financial abuse in social services, particularly in relation to personal budgets, can be difficult to detect and prove.

How you can improve

Your 2010/11 internal audit and fraud risk plan identified personal budgets as an area of potentially expanding fraud risk. With increasing social care delivery at Southwark achieved through personal budgets, the Council should carefully consider the way in which the system is operated to reduce the risk of fraud.
Procurement fraud

The national picture

50 In PPP 2010, we noted that councils spend around £80 billion each year buying goods and services. There is, currently, no credible estimate of the level of procurement fraud in local government. The National Fraud Authority has highlighted that, in the private sector, procurement fraud is typically between 2 per cent and five per cent of expenditure. If that is reflected throughout local government, the potential cost to the public purse would be very significant.

51 A number of professional bodies and associations in the public and private sectors have recognised that more needs to be done to prevent and detect procurement fraud. They have concluded that, although the number of reported cases of procurement fraud is currently low compared to other types of fraud, this is likely to be a reflection of the lack of work in this area.

Your performance

52 Your Council reported no cases of detected procurement fraud in 2009/10. Inner London councils reported 31 cases of procurement fraud amounting to £135,616 and the three other councils in your cluster reported 21 cases amounting to £45,408.

How you can improve

53 You should consider the risk of procurement fraud. In the light of your counter-fraud work you may wish to reflect on whether you need to do more in this area.

Blue badge fraud

The national picture

54 People with severe mobility problems receive parking concessions if they have a blue badge. There are about 2.3 million blue badges in use in England. Criminals forge badges and steal genuine ones from cars. Badges can change hands for as much as £500 in the illicit market. Fraudsters use these badges to avoid parking charges in all areas and the congestion charge in London.

55 This means genuine badge holders cannot park in the places provided for them and councils lose income.

Your performance

56 Your Council reported it had two cases of detected blue badge frauds in 2009/10. One of your neighbours reported 171 cases valued at around £85,500.
How you can improve

57 You should consider the risk of blue badge fraud in your area and your response.

Recruitment fraud

The national picture

58 Councils employ more than two million permanent staff and many thousands of temporary and agency staff. In *PPP 2009* we underlined the importance of verifying the identity, qualifications and past employment records and, where appropriate, the criminal history of those already employed and those applying for posts with a council.

59 As a result, some councils have strengthened their recruitment and vetting procedures. For example, one council adopted an enhanced vetting approach and found in 2009/10:

- 6 per cent of all successful candidates for a permanent position failed the vetting checks; and
- almost 13 per cent of all successful candidates for a temporary position failed the vetting checks.

Your performance

60 Your Council reported eight cases of recruitment fraud to us during 2009/10. One of your neighbours reported 28 cases, another 11 and another two. The Council has been pro-actively addressing recruitment fraud in recent years. This has included a programme of identity fraud training for staff and a successful programme of enhanced information sharing with the UK Border Agency.

61 Evidence from councils who employ enhanced vetting procedures indicate your detected fraud cases could be just the tip of the iceberg in terms of the total amount of recruitment fraud targeted against your Council.

Figure 7: This chart shows the number of your detected recruitment fraud cases compared with your neighbours.
How you can improve

62 As jobs, particularly in the public sector, become harder to find, ever more people could be tempted into recruitment fraud. However, we recognise that the risk of such fraud to the Council is less in the immediate future as a result of current recruitment restrictions.

63 You should continue to maintain appropriate safeguards to prevent fraudsters getting work in your Council.

Whistleblowing and anti-money laundering

The national picture

64 Our fraud surveys regularly identify whistleblowers as one of the principal sources of information by which public bodies identify and stop frauds. The Public Interest Disclosure Act 1998 established protection for employees victimised or dismissed after raising a concern about wrongdoing or malpractice.

65 The adoption of good practice by many organisations means whistleblowing arrangements have improved significantly since the Act came into force. Organisations increasingly view the Act as the starting point to developing a transparent culture which supports and encourages whistleblowing.

66 In relation to anti-money laundering, many of the provisions of the Money Laundering Regulations 2007 do not apply to local government organisations. However, the size and scope of local authority activities are such that few, if any, are likely to be immune from the risks surrounding money laundering. As a result most councils have adopted a voluntary anti-money laundering policy.

Your performance

67 You reported to us you have policies and arrangements to manage whistleblowing and anti-money laundering. You take active steps to raise awareness of both policies every year.

68 In 2009/10 you did not report to us the number of whistleblowing disclosures by staff. However, we recognise that such disclosures have been made by employees and acted upon by the Council. One of your neighbours reported 50 cases, another 16 and another one.

How you can improve

69 You may wish to ensure that any whistleblowing disclosures are fully recorded and your whistleblowing procedures are working effectively.
Governance arrangements

The national picture

70 The audit committee of a public organisation exists to provide independent assurance that the organisation has adequate controls to mitigate key risks and to ensure the organisation is operating effectively. Audit committees hold organisations to account and should make sure their organisation is taking effective action to counter fraud.

71 Some councils do not record all types of fraud, or do not always classify all fraudulent activity as fraud. All councils were able to provide information for the more traditional fraud risk areas such as housing benefits. For other types of fraud such as tenancy, SPD and recruitment, information was not comprehensive.

Your performance

72 Your Council has an Audit and Governance Committee with a remit covering governance and counter-fraud issues.

73 You also reported to us that your Council has:
  ■ a dedicated counter-fraud resource;
  ■ a counter-fraud plan which is approved by councillors;
  ■ an annual performance report of counter-fraud work which is sent to councillors and made available to the public; and
  ■ that you undertake an annual assessment of your exposure to the risk of fraud.

74 Your governance and counter-fraud arrangements appear to follow recommended practice.

How you can improve

75 Ensure that you collect information about all types of fraud perpetrated against your Council so that your annual risk assessment is comprehensive.

Southwark response

76 The Council is pleased that the report recognises the hard work being undertaken on anti-fraud activities. All recommendations set out are agreed, and action will be undertaken to consider the fraud risk identified. In addition, specific actions will be undertaken as outlined in the summary below. As part of the internal audit and anti-fraud proactive work planning, the Council considers fraud risks and reflect in work plans as appropriate.
We suggest you take the following action to improve your fight against fraud.

<table>
<thead>
<tr>
<th>Your fraud risks</th>
<th>Action we recommend</th>
<th>Council response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing benefit and council tax benefit - HB / CTB</td>
<td>This is a time of great change within welfare benefits and we suggest you make every effort to ensure your good performance is not allowed to slip.</td>
<td>Agreed.</td>
</tr>
<tr>
<td>Council tax - SPD</td>
<td>You need to take action to address council tax fraud in your area.</td>
<td>Agreed. As subsequently identified, the Council did a review of SPD fraud and as a result, £175,000 worth of SPD cases have been progressed in the 2010/11 financial year.</td>
</tr>
</tbody>
</table>
| Housing tenancy                                       | This is a time of great change within councils and we suggest you make every effort to ensure your good performance is not allowed to slip.  
  
  Continue to assess your response to housing tenancy fraud and determine if you deploy sufficient resources to both prevent and detect such fraud. Review how effectively and efficiently any existing resources are used.  
  
  Continue to explore with local RSLs the scope to work together more to tackle tenancy fraud to your mutual benefit. | Agreed.                                                                                                                                                                                                      |
<p>| Social services                                       | You should carefully consider the way in which the personal budget system is operated, to reduce the risk of fraud.                                                                                              | Agreed. The management in this area are working with internal audit to help ensure that controls are robust and to help manage the fraud risks.          |
| Procurement                                            | You should consider the risk of procurement fraud. In the light of any counter-fraud work you have undertaken reflect on whether you need to do more.                                                          | Agreed. Procurement issues have previously been identified, however may not have been categorised in this way. Work streams to help manage fraud risks are in place already and will continue to form part of our 2011/12 proactive fraud plan. |</p>
<table>
<thead>
<tr>
<th>Your fraud risks</th>
<th>Action we recommend</th>
<th>Council response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blue badge</td>
<td>You could consider the risk of blue badge fraud in your area and what response may be required.</td>
<td>This is an area considered as part of our fraud risk assessment. Activity is undertaken in this area, although not necessarily categorised as fraud.</td>
</tr>
<tr>
<td>Recruitment</td>
<td>You should ensure you have appropriate safeguards to prevent fraudsters getting work in your Council.</td>
<td>Agreed. Proactive work has already been undertaken since the survey was undertaken. The Audit Commission did consider our document verification training to be an area of good practice.</td>
</tr>
<tr>
<td>Anti-money laundering and whistleblowing</td>
<td>You may wish to ensure that whistleblowing disclosures are fully recorded and your whistleblowing procedures are working effectively.</td>
<td>Agreed. The Council is currently reviewing the recording of whistleblowing procedures.</td>
</tr>
<tr>
<td>Governance arrangements</td>
<td>Ensure you collect information about all types of fraud perpetrated against your Council.</td>
<td>Agreed. Fraud cases are recorded, but categories may not always be consistent with the areas identified in this report. Going forward, we will look to reconsider categories, for example procurement fraud.</td>
</tr>
</tbody>
</table>
### Audit Commission counter fraud checklist for you to complete

<table>
<thead>
<tr>
<th>Governance</th>
<th>Y/N</th>
<th>Action to be taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Do we have a zero tolerance approach against fraud?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Do we have appropriate counter-fraud strategies, policies and plans?</td>
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<td></td>
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<tr>
<td>3. Do we have dedicated counter-fraud resources?</td>
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<tr>
<td>4. Do the resources cover all of the activities of our organisation?</td>
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<tr>
<td>5. Do we receive regular reports on fraud risks, plans and outcomes?</td>
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<tr>
<td>6. Have we assessed our management of counter-fraud resources against good practice?</td>
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<tr>
<td>7. Do we raise awareness of fraud risks with:</td>
<td></td>
<td></td>
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<tr>
<td>■ new staff (including agency staff)?</td>
<td></td>
<td></td>
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<td>■ existing staff?</td>
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<td>■ elected members?</td>
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<tr>
<td>■ our contractors?</td>
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<tr>
<td>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?</td>
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<tr>
<td>9. Do we have effective working arrangements with relevant organisations to ensure appropriate sharing of knowledge and data about fraud?</td>
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<tr>
<td>10. Do we identify areas where our internal controls may not be performing as intended?</td>
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<tr>
<td>11. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive and act on reports on outcomes?</td>
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<tr>
<td>12. Do we have effective fidelity insurance arrangements?</td>
<td></td>
<td></td>
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<tr>
<td><strong>Anti-money laundering</strong></td>
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<tr>
<td>13. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?</td>
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<tr>
<td>Governance</td>
<td>Y/N</td>
<td>Action to be taken</td>
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<tr>
<td><strong>Whistleblowing</strong></td>
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<tr>
<td>14. Do we have effective whistleblowing arrangements?</td>
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<tr>
<td><strong>Fighting fraud in the post recessionary environment</strong></td>
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<tr>
<td>15. Have we reassessed our fraud risks in the light of the current financial climate?</td>
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<tr>
<td>16. Have we amended our counter-fraud action plan as a result?</td>
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<tr>
<td>17. Have we reallocated staffing as a result?</td>
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<tr>
<td><strong>Housing tenancy</strong></td>
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<tr>
<td>18. Do we take effective action to ensure social housing is allocated only to those in need?</td>
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<tr>
<td>19. Do we ensure social housing is occupied by those to whom it is allocated?</td>
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<tr>
<td><strong>Procurement</strong></td>
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<tr>
<td>20. Are we satisfied that procurement controls are working as intended?</td>
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<tr>
<td>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?</td>
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<tr>
<td><strong>Recruitment</strong></td>
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<tr>
<td>22. Are we satisfied our recruitment procedures:</td>
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<tr>
<td>■ prevent the employment of people working under false identities?</td>
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<tr>
<td>■ validate employment references effectively?</td>
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<tr>
<td>■ ensure applicants are eligible to work in the UK?</td>
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<tr>
<td>— require agencies supplying us with staff to undertake the checks we require?</td>
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<tr>
<td><strong>Social services</strong></td>
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<tr>
<td>23. Where we are expanding the use of personal budgets for social care, in particular direct payments, have we introduced appropriate arrangements proportionate to risk and in line with recommended practice?</td>
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<tr>
<td><strong>Council tax</strong></td>
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<tr>
<td>24. Are we effectively controlling the discounts and allowances we give to council taxpayers?</td>
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</tr>
</tbody>
</table>
### Governance

<table>
<thead>
<tr>
<th>Y/N</th>
<th>Action to be taken</th>
</tr>
</thead>
</table>

#### Housing and council tax benefits

25. In tackling housing and council tax benefit fraud do we make full use of:

- National Fraud Initiative?
- Department for Work & Pensions Housing Benefit matching service?
- Internal data matching?
- Private sector data matching?

*Source: Audit Commission 2010*

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**For more information and guidance please contact:**

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:
- any director/member or officer in their individual capacity; or
- any third party.