

By: James Flannery – Counter Fraud Manager  
To: Governance and Audit Committee – 23<sup>rd</sup> April 2021  
Subject: **COUNTER FRAUD UPDATE**  
Classification: Unrestricted

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### **Summary:**

This report details:

- The Counter Fraud activity undertaken for period April 2020 to December 2020, including reported fraud and irregularities.
- An update on the Counter Fraud Action Plan for 2020/21 covering reactive and proactive activity.

### **Recommendation: FOR ASSURANCE**

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### **Introduction**

- 1.1 This report outlines Counter Fraud work which has been undertaken in Quarter 1, 2 & 3 of 2020/21 and the progression of the Fraud Action plan for 2020/21. The report provides:
- An overview of the work of the Counter Fraud Team;
  - details of savings identified through counter fraud activity; and
  - a spotlight on the volume and variety of investigations work that the Counter Fraud Team undertakes and the competing priorities.

### **Irregularity Referrals**

- 1.2 For quarter 3 of 2020/21, there were 89 reported financial irregularities (trend analysis shown in tables below) reported to the Counter Fraud Team. This brings the total of reported financial irregularities to 223 for the period April 2020 to December 2020. The distribution and characteristics of the suspected irregularities reported to date show that the highest areas of financial risk this year are from misuse of social care support paid via Direct Payments.
- 1.3 Actual fraud losses for Quarter 1, 2 & 3 of 2020/21 was £44,541, with prevented fraud losses for at was £463,707.00. Prevented fraud losses will fluctuate depending on the nature of cases referred.

### **Direct Payments**

- 1.4 There have been a further 15 cases referred in Quarter 3 of 2020/21 bringing the total number of referrals to 30 for 2020/21. Compared to a total of 15 cases for 2019/20, the nature of these referrals are due to funds not being spent in accordance with the care and support plans. As certain services have not been available to recipients due to Covid-19 restrictions, excess funds have been misused.

### **Blue Badges**

- 1.5 Referrals for Blue Badge misuse for Quarter 3 have increased to 55 (47 in Q2) bringing the total number of referrals for 2020/21 to 107. This compares to 176 referrals in 2018/19 and 277 referrals in 2019/2020. Engagement with parking managers continues through virtual meetings to

manage the situation of enforcement during this lock down period and the planning for enforcement activity when non-essential business open in a Covid safe way.

- 1.6 The Counter Fraud Team progressed a blue badge prosecution during quarter 3. A press release was issued to help raise awareness and act as a deterrent to others via KCC's press office, it was also reported on a local news website.
- 1.7 The defendant, who used their deceased mothers' blue badge was caught by Civil Enforcement Officers on two occasions in different locations in Kent. They admitted the offences of using the badge at interview and pleaded guilty at the first hearing. They were sentenced to 40hrs community service, £1,000 court costs and £90 victim surcharge.
- 1.8 This demonstrated that the Magistrates Bench took the matter seriously by imposing that level of community service (they also took a third off the sentence for the early guilty plea). We also received a contribution to the overall costs of the investigation and prosecution to alleviate the cost from the Council Tax payer.

### **Fraud by Abuse of Position**

- 1.9 The Counter Fraud Team also progressed a prosecution for abuse of position by a school finance manager. The case was also reported via KCC's press office and on a local news website.
- 1.10 The case was an abuse of the school's purchase card that the defendant was issued with. We identified a number of control weakness within the purchase card process that the finance manager had set up which created the opportunity for this abuse to occur. The case was complex, in that the investigating officer needed to obtain admissible evidence from a number of national and international retail providers in order to prove the offence.
- 1.11 In addition to the criminal investigation, the investigating officer also progressed a disciplinary and civil investigation. This resulted in the defendant being dismissed for gross misconduct and full recovery of the £15,065 of personal purchases back to the school.
- 1.12 The defendant received 180 days in prison suspended for two years, 30 days rehabilitation with the probation service and ordered to pay £500 costs and £115 surcharge. Again a third was taken of the sentence for the early guilty plea.

### **National Fraud Initiative (NFI)**

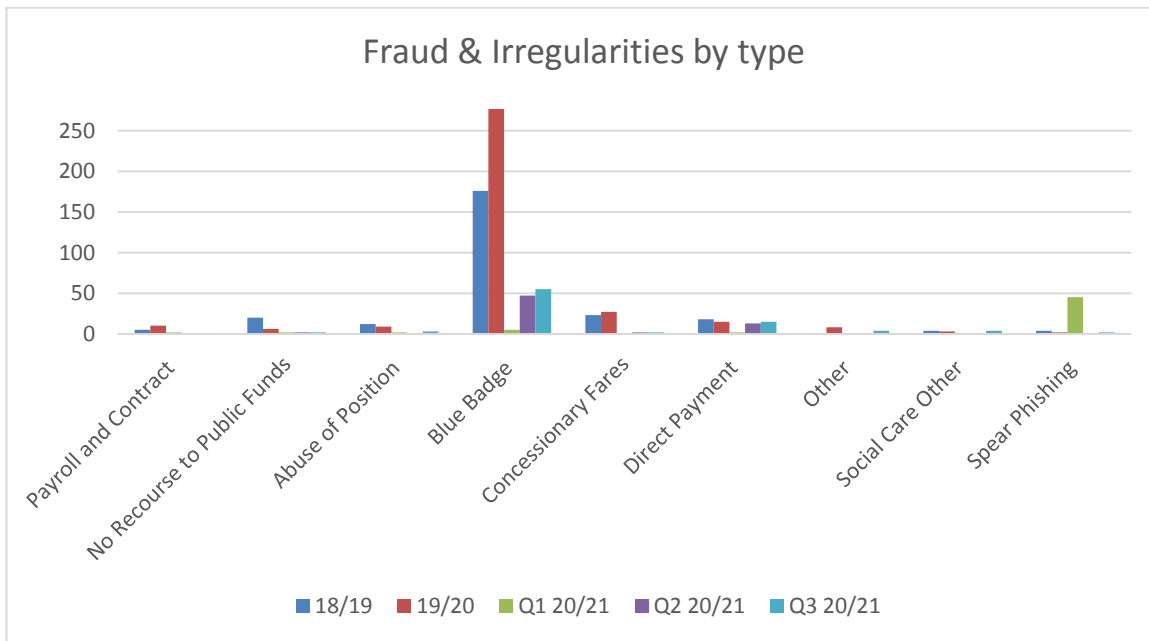
- 1.13 The biennial NFI results have been released for progression. This initiative sees data sets from KCC matched against other data sets held by other local authorities, DWP and police data. A full list of data sets and the number of referrals is shown in **Appendix B**.
- 1.14 In summary, the highest volume of matches relate to concessionary travel passes (4852) & blue badges (3146) matched against DWP deceased data. These matches are cleared through an automated process by the software providers and results in the concessionary travel pass and blue badge being cancelled on the system. For concessionary travel passes this will prevent the pass being accepted when someone uses it on a bus. For Blue Badges this feeds into the 'Manage' system that Civil Enforcement Officers use to check the validity of a badge.
- 1.15 The other matches need to be cleared on a case by case; the matches cover further blue badge cases where the person has two badges from differing issuing authorities. Pensions data to prevent and detect people claiming a pension entitlement they are not entitled to. Payroll matches are done to prevent and detect people who may have two or more substantial job roles. There is also a match against the Police's 'Amberhill' data that detects any false identities used in obtaining blue badges and/ or concessionary fares.

1.16 Social Care data has been excluded from the data sets this round, this is due to the Department for Health and Social Care and the Cabinet Office reviewing the use of social care data within the NFI against the Department for Health and Social Care’s responsibilities on patient data.

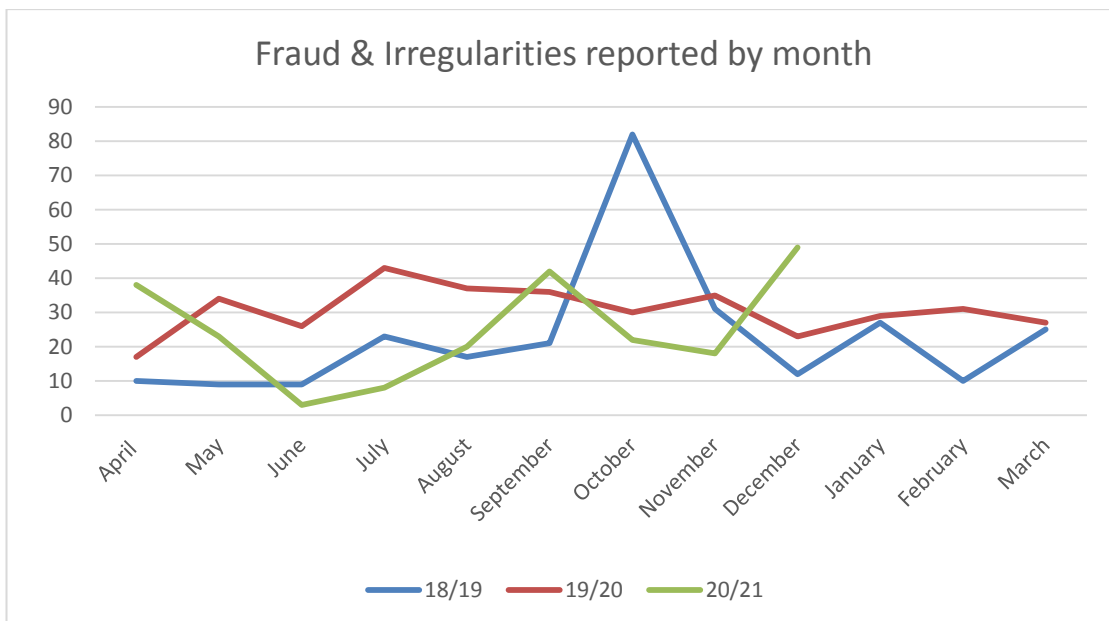
**Fraud and Irregularity Trends**

1.17 The tables below show trends in reported fraud and irregularities:

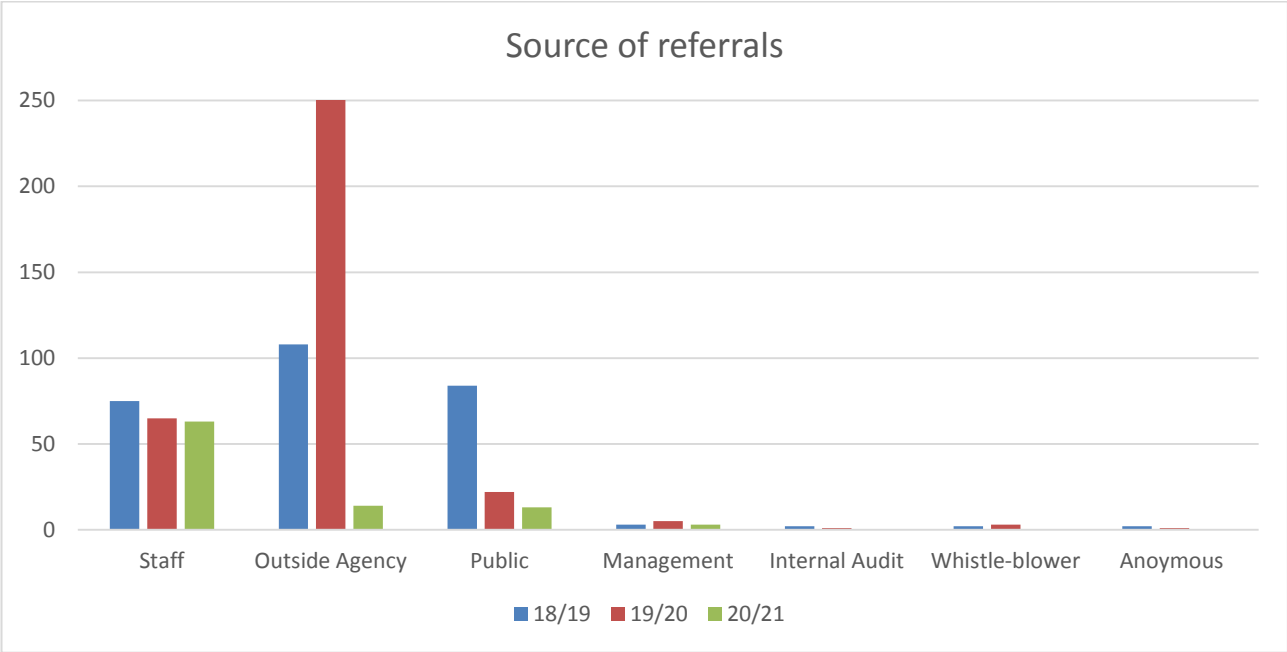
**Table CF1 - Top Seven areas of reported fraud and irregularities over the past 2.75 years**



**Table CF2 – Number of Irregularities Reported by Month**

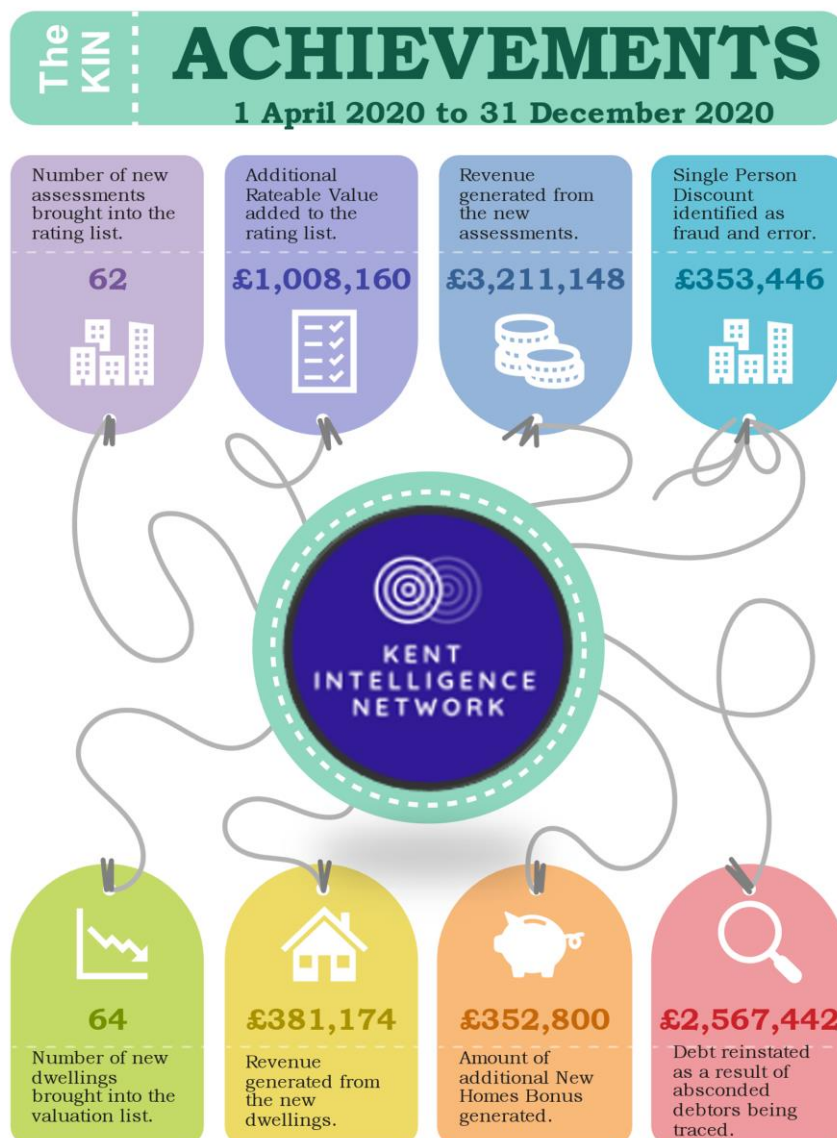


**Table CF3 – Referrals by Source**



## Kent Intelligence Network (KIN)

1.18 The KIN continues to provide support to the District/Borough Councils and the outcomes at the end of Q3, set out below, show some impressive financial returns in the first 9 months of this financial year.



1.19 62 commercial properties have been identified that were previously missing from the rating list. These properties have now been brought into the list by the Valuation Office Agency and consequently, the businesses occupying these properties are now paying business rates.

1.20 The additional business rates revenue generated from the identification of these missing properties is £3,211,148, of which broadly 9% comes to KCC, and is a combination of the following:

- The total amount of business rates billed for both the current financial year and previous financial years of £1,680,073; and
- A 'future loss prevention' provision of 3 years of £1,531,075. This represents the amount of additional income that would have been lost if the respective properties had not been identified by the KIN.

1.21 It is also pertinent to highlight that at 31<sup>st</sup> December 2020, there were a further 33 cases with the Valuation Agency awaiting assessment/valuation.

1.22 The KIN has also expanded its remit in 2020/21 and is now starting to identify dwellings missing from the valuation list. So far, 64 dwellings have been identified, the majority of which are self-contained annexes missing from the list.

1.23 The additional council tax revenue generated from the identification of these properties is £381,174, of which broadly 73% comes to KCC, is a combination of the following:

- The total amount of council tax billed for both the current financial year and previous financial years of £115,866; and
- A 'future loss prevention' provision of 3 years of £265,308. This represents the amount of additional income that would have been lost if the respective dwellings had not been identified by the KIN.

1.24 Dwellings added to the valuation list also help to generate additional New Homes Bonus (NHB) for both Districts/Boroughs and KCC. It is estimated that the 64 dwellings identified will generate £352,800 in additional NHB, of which 20% will come to KCC.

1.25 It is also pertinent to highlight that at 31<sup>st</sup> December 2020, there were a further 30 cases with the Valuation Agency awaiting assessment.

1.26 In total, the financial benefit to KCC from the initiatives and successes detailed above amounts to £637,820.

1.27 The financial returns continue to demonstrate the value of the KIN and as a result, District/Borough councils have now agreed a 'payment-by-results' scheme that will help to fund the project going forward. The main principle behind this is that for every commercial property and domestic dwelling found by the KIN, districts will pay a fee based on the following:

- A charge of 8% of the Rateable Value identified for commercial properties added to the rating list, and
- A charge of 50% of the gross current year Council Tax liability for domestic dwellings added to the valuation list.

1.28 The total amount to be billed to districts at the end of December 2020 is £125,915. This amount, together with the balance of funds currently available in the KIN's budget, means that the project's costs can be fully underwritten for both 2020/21 and 2021/22.

1.29 The KIN is also gaining national recognition for the work it is doing. Having already won the ALARM Risk Award for Best Initiative in Combatting Fraud in 2019, the KIN has also been successful in the national awards detailed below:

- Fighting Fraud & Corruption Locally 2020 in the category of Outstanding Proactive Fraud Prevention and Recovery Award (Highly Commended)
- Public Finance Awards 2020 in the category of Outstanding Proactive Fraud Detection and Recovery Awards (Finalist), and
- Credit & Collections Technology Awards 2020 in the category of Best Use of Technology in Credit & Collections, in partnership with Destin Solutions (Finalist).

### **Counter Fraud Pro-Active Work**

1.30 The Counter Fraud Pro-Active Work delivered for 2020/21 includes:

- Supporting the review of Financial Regulations
- Delivering fraud awareness to The Education People's Schools' Financial Service
- Delivering fraud awareness to Kent Schools' Finance Information Group
- Working with Kent Councils' Parking Managers

1.31 Feedback has been provided by Counter Fraud as part of the review of Financial Regulations, this has included a number of enhancements to strengthen the counter fraud culture across the authority.

1.32 Fraud awareness has been delivered to 20+ Schools' Financial Services staff on fraud risks and red flags to support them in their compliance work across Kent maintained schools.

1.33 Counter Fraud have also delivered fraud awareness to over 250 staff who work within Kent schools, including academies.

1.34 Counter Fraud continue to work with Kent Councils' Parking Managers on progressing blue badge enforcement. Due to the working environment over the past 12 months, it has not been possible to work alongside district and borough councils in blue badge enforcement. However, this is being addressed through virtual training sessions as well as joint enforcement days in 2021/22.

### **Government Counter Fraud Profession (GCFP)**

1.35 Counter Fraud are pleased to report that the Government Counter Fraud Professional Board have authorised the 'grandfather' of Kent County Council Counter Fraud Specialists into the profession.

1.36 The Governments Counter Fraud Profession has been introduced by the Cabinet Office and was launched in October 2018 to develop a common structure for developing counter fraud capability across government. It now has 7,000 members across 33 organisations including HMRC, the DWP and Serious Fraud Office.

1.37 The Counter Fraud Team, who have worked alongside other local authorities in the South of England to form a collective application now need to complete a peer review of the learning and development in place that supports officers' professional development.

1.38 A further application is being made to 'grandfather' Counter Fraud Managers into the profession and there should be an update on this in the next report.

## **Counter Fraud Resources**

1.39 We were unsuccessful in filling the vacant apprentice position during a recent recruitment process, we will in due course go back out to the market, however due to the reduction in blue badge referrals we are currently managing the workload within the current staffing structure.

## **Counter Fraud Action Plan 2020/21**

1.40 The Counter Fraud Action Plan has almost been completed for 2020/21. One area of activity that will be deferred into 2021/22 will be the data analytics in purchase cards. This will enable the Counter Fraud Team to include maintained school's purchase card data into the data analytics moving forward. Details of the activity against the action plan can be found in **Appendix A**.

## **Conclusions**

1.41 The Counter Fraud Action plan is being progressed, with some delay due to the new ways of working. Fraud risks are being assessed, however the embedding of fraud risks assessments in new policies, strategies and initiatives needs strengthening to ensure services engage with us at concept stage to properly assess the risks, in particular with new initiatives to respond to the pandemic.

## **Recommendations**

1.42 The Governance and Audit Committee note the Counter Fraud Update report for 2020/21.

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## Appendix A

### Work to Prevent and Pursue Fraud and Corruption

Ref.	Activity	Outline Scope / Rationale	Update
CF01 2021	Fraud Awareness / Detection and Prevention Authority Wide	Plan and deliver a fraud awareness campaign in 2020-21 that is supported by the leadership team and includes both internal and external communications. The latter should raise awareness across clients and customers and include 'good news' stories such as successful prosecution or fraud prevention activity.	Commissioning Fraud Awareness completed.  KNet Fraud Awareness Week completed.  235 Fraud E-Learning Courses completed  Fraud Awareness to 250+ School Finance Officers  Fraud Awareness to Schools' Financial Services
CF02 – 2021	NFI	Co-ordinate the Council's and its LATCO's participation in the National Fraud Initiative	Data extraction and upload completed Results received in Jan/ Feb 2021  Results received included in progress report
CF03 – 2021	Review Policies & Procedures <ul style="list-style-type: none"> <li>• Anti-Fraud Strategy</li> <li>• Whistleblowing</li> <li>• Bribery</li> <li>• Code of Conduct</li> </ul>	Review each policy annually ahead of the April G&A Committee and ensure that this is presented to CMT and once agreed to be communicated across KCC management via Kmail for managers.	Completed
CF04 – 2021	Kent Intelligence Network	Actively participate in the Kent Intelligence Network and develop data matching proposals to increase detection of fraud at KCC and across Kent authorities	Ongoing

CF05 – 2021	Relationship Management Strategy for Senior Stakeholders - Including Fraud, Bribery and Risk Assessments	To ensure that key Senior Stakeholders are kept up to date on the fraud risks and mitigation: <ul style="list-style-type: none"> <li>• Leader as Portfolio Holder</li> <li>• CMT (In particular, Head of Paid Service) S.151 and Monitoring Officer, Corporate Directors</li> <li>• Governance and Audit Committee</li> <li>• Directorate/ Divisional Directors</li> </ul>	Ongoing Risk assessments within CYPE and ASCH Division for final review. Risk Assessments within GET ongoing through engagement at divisional level Risk Assessments within ST, G&L, Finance & Infrastructure final draft. Strategic Commissioning/ HR&OD to be completed.
CF06 2021	Proactive Fraud Exercise - Schools	Provide Fraud awareness sessions to school finance staff, emerging leaders and governors. Including existing and emerging risks	Completed
CF07 2021	Proactive Fraud Exercise - Blue Badges	Provide regular attendance at the parking managers' meetings to inform them of latest guidance, what's working well and what needs improving. Provide enforcement awareness sessions to district CEOs.	Virtual meetings attended, CEO enforcement training deferred to 21/22.
CF08 2021	Proactive Fraud Exercise - Social Care	Review the Financial Abuse Toolkit to support Social Care in identifying and managing financial abuse.	Completed.
CF09 2021	Proactive Fraud Exercise - Commissioning	Work with Commissioning in the assessment of the fraud risks within the supply chain.	Ongoing Supplier set up process being progressed with Strategic Commissioning. Data analytics on payments to dissolved companies being investigated. Awareness training provided .
CF10 2021	Reactive Investigations	To manage and complete investigations.	Ongoing 256 cleared referrals and investigation in Q1, Q2 & Q3
CF11 – 2021	Data Analytics Development - Payments	To identify a way to use data analytics to help identify fraud and error within the payments systems.	On-Going Results from NFI on creditor data due in Q4 will inform next steps. NFI Creditor data due in May 2021 due to technical issues on the upload of data.

CF12 – 2021	Data Analytics Development - Procurement Card Usage	To identify a way to use data analytics to help identify fraud and error within the procurement card systems.	Deferred to 2021/22 to incorporate school purchase card data as well.
CF13 – 2021	Covid-19 Fraud Risk Assessments	To update COVID-19 Fraud Risk assessments as new threats emerge.	Completed and under review
CF14 – 2021	Supporting Internal Audit on specific audits where there is a fraud risk, through planning, fieldwork and reporting stages as required.	Provide advice and support on key fraud controls in specific audits, support in testing and reporting as required.	On-Going  Training provided to Internal Audit on fraud risks and controls in Q3

### Appendix B – NFI Data Matches

Match description	Number of referrals
<p>Pensions/Pension Gratuity to DWP Deceased</p> <p>The purpose of the match is to identify instances where an occupational pensioner has died but the pension is still being paid</p>	271
<p>Deferred Pensions to DWP Deceased</p> <p>The purpose of the match is to identify instances where the former employee has passed away but payment of any widow/dependant entitlement may not have commenced</p>	59
<p>Pensions to Payroll – Matched between KCC pensions data and KCC payroll data</p> <p>To identify pensioners who may have gone back into employment that could result in an abatement of their pension. Generally abatements apply in instances where the pay from the new employment plus the pension exceeds the level of pay at the time of retirement.</p>	364
<p>Pensions to Payroll – Matched between KCC pensions data and other public sector bodies payroll data</p> <p>To identify pensioners who may have gone back into employment that could result in an abatement of their pension. Generally abatements apply in instances where the pay from the new employment plus the pension exceeds the level of pay at the time of retirement.</p>	310
<p>Payroll to Payroll – Matched between KCC payroll data and KCC payroll data</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	28
<p>Payroll to Payroll – Matched between KCC data and other public sector bodies</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	85
<p>Payroll to payroll phone number – Matched between KCC data and KCC data</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term</p>	4

<p>sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	
<p>Payroll to payroll email address – Matched between KCC data and KCC data</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	1
<p>Payroll to payroll phone Number - Matched between KCC data and other public sector bodies</p> <p>To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time.</p> <p>The criteria for a match are a person having one full-time post plus at least one other post elsewhere.</p>	10
<p>Payroll to pensions - Matched between KCC payroll data and other public sector bodies pensions data</p> <p>To identify cases where employees who have gone back into employment after drawing a pension that could result in an abatement of pension.</p>	15
<p>Blue Badge to Blue Badge permit – Matched between KCC data and KCC data</p> <p>The purpose of this match is to identify people who may have committed fraud by obtaining more than one blue badge.</p>	46
<p>Blue Badge Parking Permit to DWP Deceased</p> <p>Individuals who have a blue badge have been matched to deceased records. This will identify cases where a permit holder has died, but the local authority may not have been notified.</p>	3146
<p>Concessionary Travel Passes to DWP Deceased</p> <p>Individuals who have a concessionary travel pass have been matched to deceased records. This will identify cases where a permit holder has died, but the local authority may not have been notified.</p>	4852
<p>Blue Badge to Blue Badge – Matching phone number – Matched KCC Blue Badge data to KCC Blue Badge data</p> <p>The purpose of this match is to identify people who may have committed fraud by</p>	124

obtaining more than one blue badge.	
<p>BB permit to BB permit phone number - Matching phone number – Matched KCC Blue Badge data to other public bodies Blue Badge data</p> <p>The purpose of this match is to identify people who may have committed fraud by obtaining more than one blue badge.</p>	345
<p>Blue Badge to Amberhill</p> <p>Identity fraud happens when fraudsters use a false identity or somebody else's identity details to support their criminal and deceptive activities. The NFI uses the Metropolitan Police Fraudulent Identity (Amberhill) Data to help identify potential fraud being perpetrated against NFI participating bodies through the use of these false identities including fraud by false representation (Section 2 - Fraud Act 2006).</p>	1
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<p>Concessionary Fares to Amberhill</p> <p>Identity fraud happens when fraudsters use a false identity or somebody else's identity details to support their criminal and deceptive activities. The NFI uses the Metropolitan Police Fraudulent Identity (Amberhill) Data to help identify potential fraud being perpetrated against NFI participating bodies through the use of these false identities including fraud by false representation (Section 2 - Fraud Act 2006).</p>	1