By:	James Flannery – Counter Fraud Manager
To:	Governance and Audit Committee – 22nd July 2021
Subject:	**ANNUAL COUNTER FRAUD REPORT 2020-21 AND PROPOSED COUNTER FRAUD PLAN 2021-22**
Classification:	Unrestricted

Summary:
This report details:

- The Counter Fraud activity undertaken for 2020/21, including reported fraud and irregularities.
- The Counter Fraud Action Plan for in 2021/22 covering reactive and proactive activity.
- A Review of the Anti-Fraud and Corruption Strategy, Anti-Bribery Policy and Anti Money Laundering Policy.

Recommendation: FOR DECISION AND ASSURANCE

Introduction

1.1 The report provides:

- An overview of the work of the Counter Fraud Team for 2020/21;
- Details of savings identified through counter fraud activity;
- A spotlight on the volume and variety of investigations work that the Counter Fraud Team undertakes and the competing priorities;
- A review of key policies that support a strong counter fraud culture; and
- The proposed work Counter Fraud work programme for 2021/22.

Irregularity Referrals 2020/21

1.2 Referral rates are a good indication to demonstrate awareness of fraud risks. Overall, irregularity referrals have fallen in 2020/21 compared with previous years. The reduction is linked to the impact of lockdown over the past year on the number of Blue Badge misuse reports received, however we have seen an increase in referrals in existing fraud risk areas as well as other areas following fraud awareness sessions.

1.3 For 2020/21, there were 296 suspected irregularities (Trend analysis shown in tables below) reported to the Counter Fraud Team (compared to 368 in 2019/20). The distribution and characteristics of the irregularities reported to date show that the highest areas of financial risk this year are from misuse of social care support paid via a Direct Payment, Spear Phishing & Cyber Attack threats and blue badges.

1.4 During 2020/21, the Counter Fraud Team cleared 300 referrals and investigations. Reported outcomes of cases are only possible where a prosecution has occurred. During 2020/21 three successful prosecutions occurred, two on blue badge offences by the general public and one abuse of position case in relation to a School Finance Manager. Two simple cautions and 38 warning letters have been issued in relation to blue badge offences.

1.5   Actual fraud losses for 2020/21 was £25,967 compared to £88,764 for 2020/21. Prevented fraud losses for 2020/21 was £382,673 compared to £216,237 for 2020/21. Prevented fraud losses will fluctuate depending on the nature of cases referred.

Direct Payments

1.6   There have been 38 cases referred during 2020/21 compared to 15 cases in 2019/20. The majority of cases is where spend has been determined to be outside of the agreed care and support plan. This has resulted in an actual loss of £17,307 which is recoverable from the service user or their representative.

Spear Phishing

1.7   At the beginning of lockdown, there was a significant increase in the number of spear phishing attempts, mainly on schools.   This type of fraud uses the spoofing of emails by fraudsters pretending, for example, to be the headteacher requesting an urgent payment to a supplier.

1.8   On average, requests for payment of £7,755 were made, however due to the quick reporting of schools with intelligence being disseminated further by the Counter Fraud Team across Kent schools, no actual loss occurred. This fraud type made up the most significant part of the potential loss amounting to £344,489.

Blue Badges

1.9   Many of the irregularities (156) reported relate to the misuse of the Blue Badge. These types of fraud are low value, high volume activity. The approach to these investigations is risk based and Blue Badge low level fraud and misuse is being addressed through educational warning letters to the badge holder and person misusing the badge.

1.10 In 2020/21, two prosecution cases were progressed by the Counter Fraud Team. Both cases were delayed due to the impact of lockdown measures on the court service. Press releases were issued and received good local news coverage to act as a deterrent to others. Both cases received a community punishment order and required to pay a contribution to KCCs investigation and prosecution costs.

1.11 Work continues to engage Borough & District Councils to monitor the use of blue badges in their area through attendance at the parking managers meetings. Further training is being planned for 2021/22 through two enforcement days in areas where there are the least amount of referrals.

1.12 Referrals from the general public have increased during the lockdown periods as residential parking is more in demand due to an increase in home working. Engagement with Borough & District Councils occurs for them to monitor the area to ensure correct use of the scheme is applied.

Fraud and Irregularity Trends

1.13 The Tables below show trends in reported fraud and irregularities:

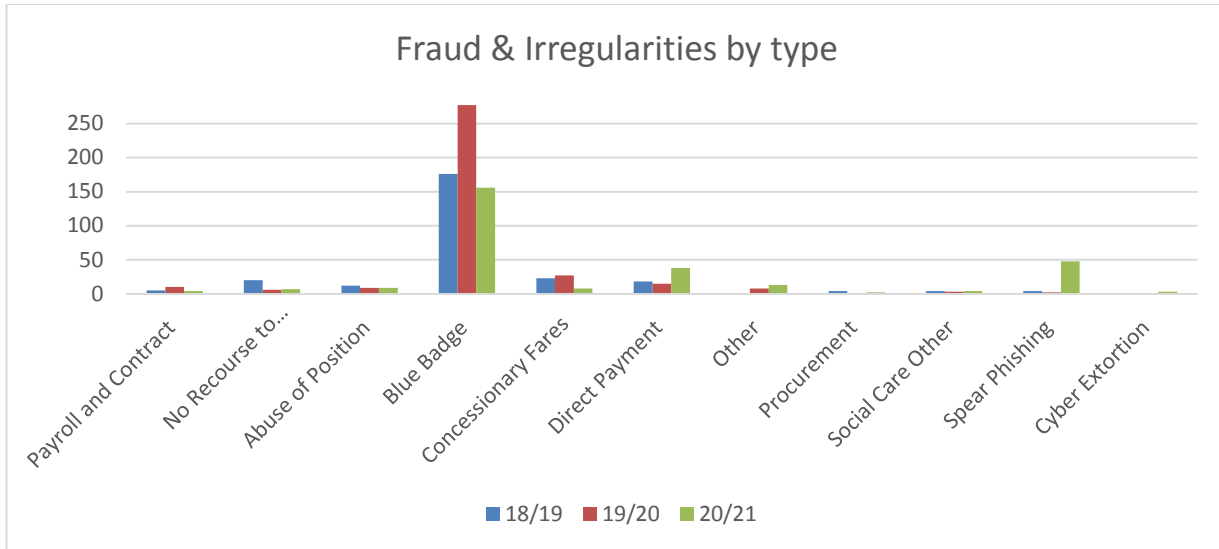**Table CF1 - Top Seven areas of reported fraud and irregularities over the past 3 years**

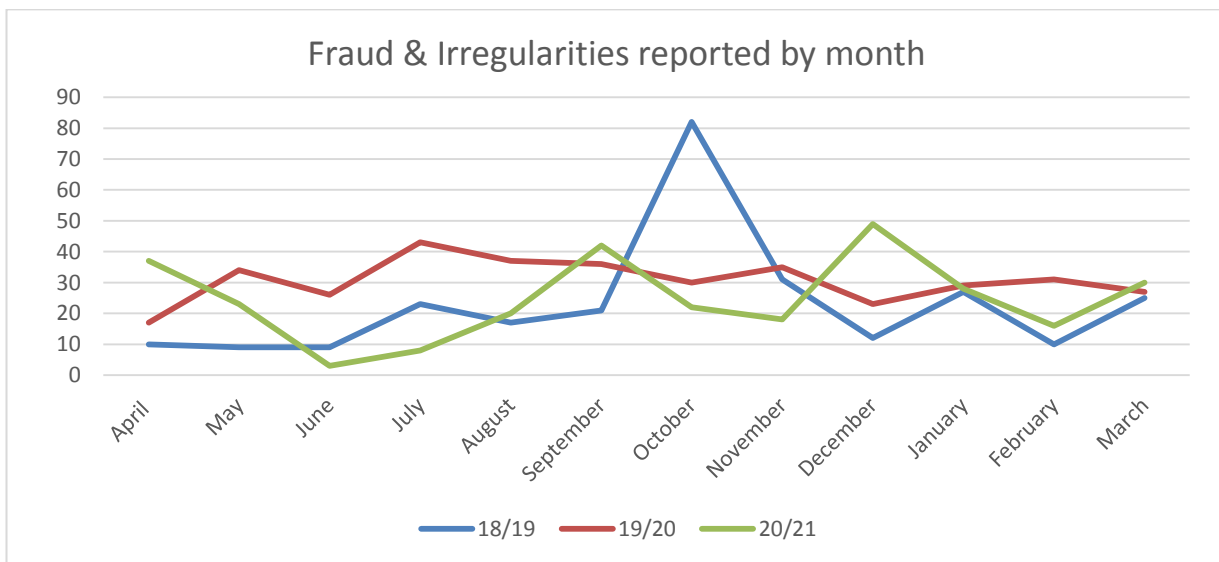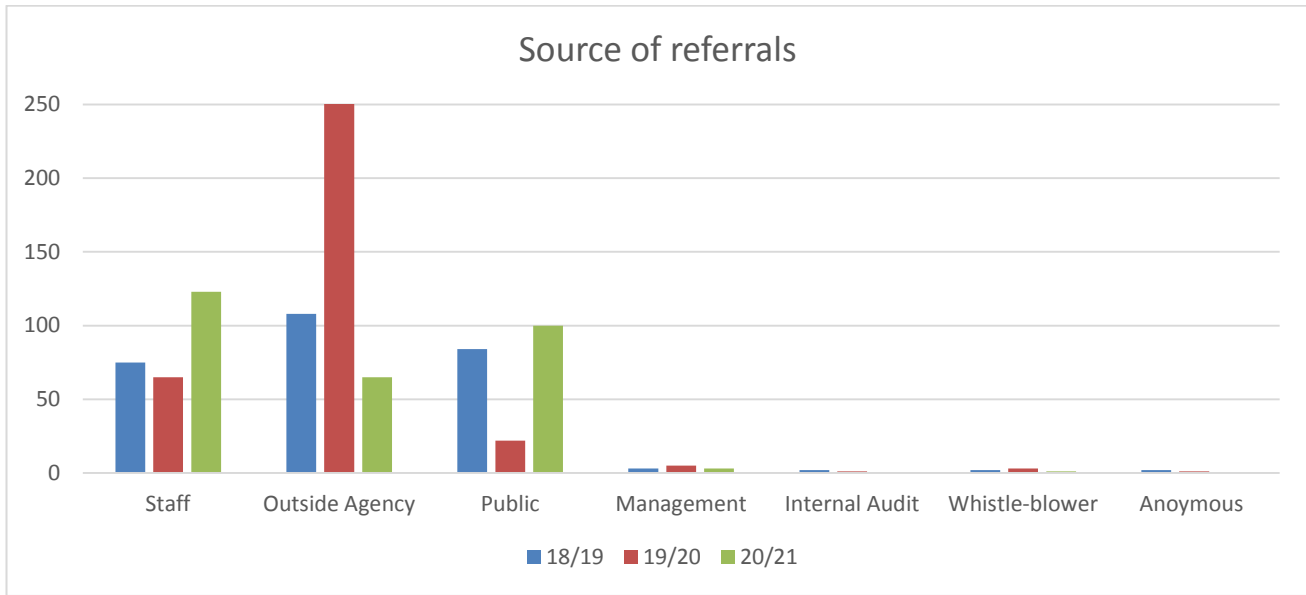**Table CF2 – Number of Irregularities Reported by Month**

Table CF3 – Referrals by Source

Source of referrals

Legend: 18/19 (blue), 19/20 (red), 20/21 (green)

Kent Intelligence Network (KIN)

1.14 The Kent Intelligence Network was set up to support a co-ordaninated approach to the activity by billing authorities (District and Borough Councils) in increasing the Council Tax and Business Rates tax base.

1.15 Having gone through unprecedented challenges over the past 12 months, the final Infographic for 2020/21 below shows that the KIN has still delivered some impressive results and financial returns.

The KIN **ACHIEVEMENTS**
1 April 2020 to 31 March 2021

Number of new assessments brought into the rating list.	Additional Rateable Value added to the rating list.	Revenue generated from the new assessments.	Single Person Discount identified as fraud and error.
84	£1,182,685	£3,643,365	£394,235

KENT INTELLIGENCE NETWORK

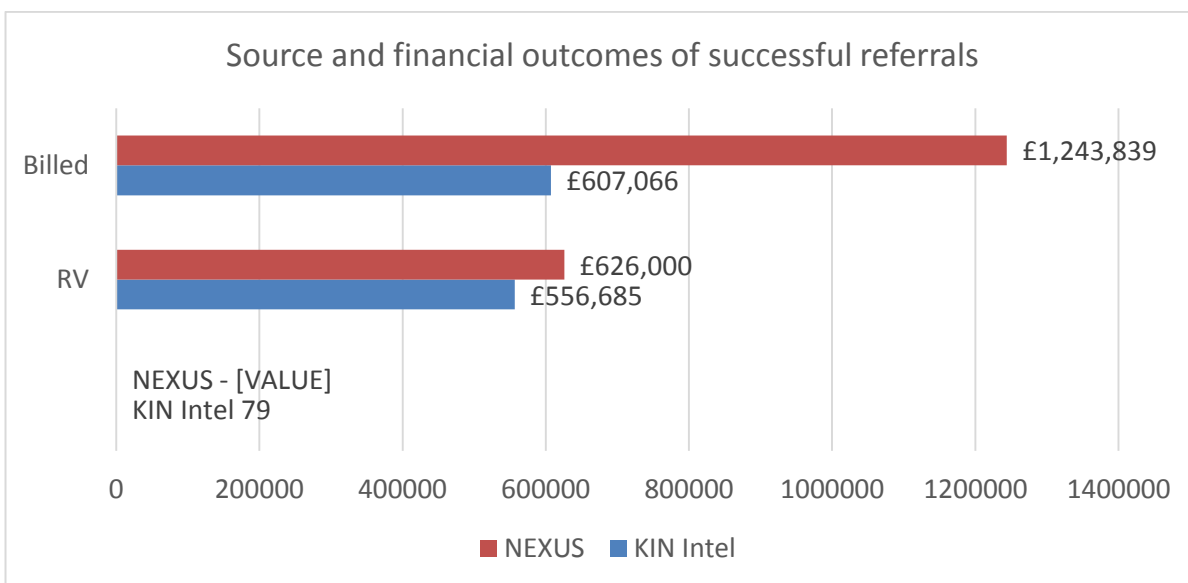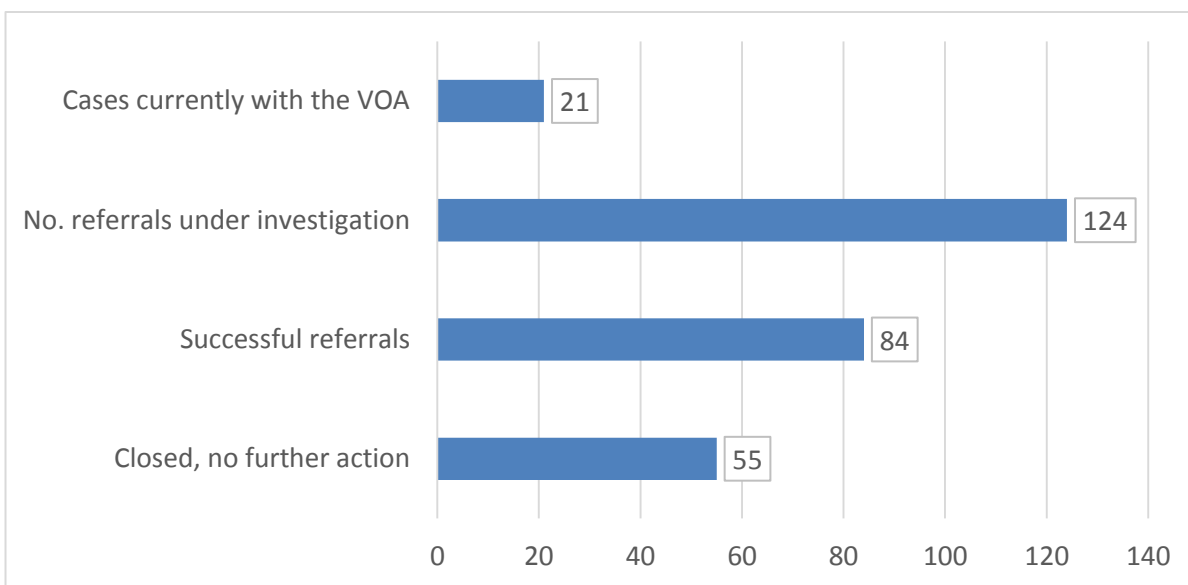| Number of new dwellings brought into the valuation list.	Revenue generated from the new dwellings.	Amount of additional New Homes Bonus generated.	Debt reinstated as a result of absconded debtors being traced.
91	£504,713	£509,600	£1,912,479

1.16 Acknowledging the challenges, it is quite remarkable what has been achieved. The financial returns continue to demonstrate the value of the KIN, however, this has only been possible because of the shared commitment to work together and the motivation to drive the project forward.

1.17 In addition, the results set out in this report have only been achieved because of all those involved in the project, in particular our counter-fraud professionals who manage and investigate the KIN's referrals and who remain dedicated to combatting fraud and abuse.

Business Rates

1.18 The additional business rates revenue generated from the 84 new business premises that have been identified is £3,643,365, of which £1,850,905 is the total billed for current/previous years and £1,792,460 being in respect of the 3-year 'future loss prevention' provision.

1.19 The tables below summarise the outcomes of the 284 referrals issued and the source of the successes to date.
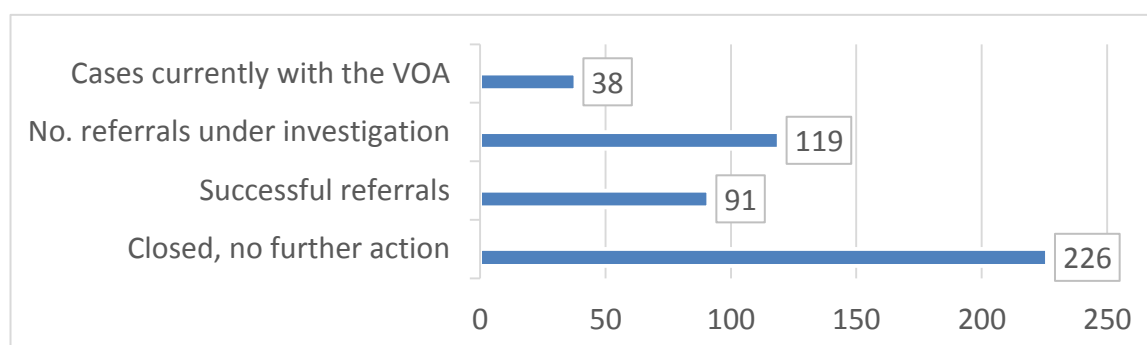

1.20 It is pertinent to highlight that 50% of the referrals are either still under investigation or with the Valuation Office Agency awaiting review and assessment, a position that should help to deliver

further positive outcomes in 2021/22.

Council Tax

1.21 The project to identify dwellings missing from the valuation list this year has also been very successful, with an additional 91 dwellings previously missing from the list having been added as a result of the work undertaken by the KIN.

1.22 The council tax revenue generated from the addition of these dwellings to the valuation list is £504,713, of which £126,875 is the total billed for current/previous years and £377,838 being in respect of the 3-year 'future loss prevention' provision.

1.23 The tables below summarise the outcomes of referrals issued, properties added to the valuation list by Band and the source of the successes to date.

Source	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
KIN Intel	67	11	6	2	0	0	0	0	86
NEXUS	0	0	0	2	1	0	1	1	5

1.24 The addition of these dwellings to the list has also helped to generate additional New Homes Bonus of £509,600, of which 80% goes to districts (£407,680) and 20% to KCC (£101,920).

1.25 It is pertinent to highlight that 33% of the referrals are still under investigation or with the VOA awaiting review and assessment.

Awards Summary

1.26 Since winning the Alarm Risk Award in 2019, the KIN has gained further recognition for its work having had further successes in 2020/21 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

1.27 The Counter Fraud Pro-Active Work delivered for 2020/21 as shown in **Appendix A** included some early pro-active work as we entered lockdown during the end of quarter four in 2019/20:

- Supporting the Serious and Organised Crime Project Board;
- Reacting to the COVID-19 lockdown when contacted by services, by conducting fraud risk assessments as new process and ways of working are adopted;
- Providing guidance and support to Kent schools following an increase in spear phishing and sextortion emails;
- Fraud awareness delivered to:
  - The Education People's Schools Financial Services Team;
  - 200+ attendees at the Schools' Finance Information Group;
  - 30+ commissioners across KCC; and
  - Cross directorate resilience forum on fraud risks in emergency planning.

- Reviewing and updating the Financial Abuse Toolkit to support safeguarding vulnerable adults from financial abuse;
- Fraud risk assessments at divisional levels;
- Supporting the review of the Financial Regulations;
- Engaging with local teams within CYPE to discuss fraud risks in relation to No Recourse to Public Funds;
- Engaging with the Parking Managers Forum to support blue badge enforcement activity and to report back the success of prosecutions.

Counter Fraud Resources

1.28 Resources within the team is based on a structure of Counter Fraud Manager, 2.6 FTE Counter Fraud Specialists and a Counter Fraud Technician. There is currently a recruitment process in place to recruit a Counter Fraud Apprentice into the team. This provides a total allocated resource of 744 days to deliver the Counter Fraud action plan for KCC 2021-22.

1.29 The Counter Fraud Team also provide chargeable services to a number of other organisations (in line with the way Internal Audit operates).

1.30 The Counter Fraud Specialists were successful in being grandfathered into the Government Counter Fraud Profession (backed by the Cabinet Office). The criteria set for entry is for each Counter Fraud Specialist to meet 53 competencies through a self-assessment and management sign off process.

1.31 Following this, a peer review has been conducted by Medway Councils Internal Audit and Counter Fraud Team. The review assessed the learning and development arrangements within the organisation and within the team to ensure continuous professional development is in place. The assurance provided to the Head of Internal Audit on the Counter Fraud function is that staff learning and development is at the forefront of the counter fraud function within Kent County Council.

Counter Fraud Action Plan – 2021/22

1.32 The Counter Fraud Action Plan can be found at **Appendix B.** The plan is based on risk areas of fraud and error identified within the Council from referrals, audits and from wider sources of risks across other public and private sector organisations obtained via formal and informal networks.

1.33 The plan is an ambitious one with activity already commencing, in particular the National Fraud Initiative, tax strategy and the planning of blue badge enforcement days. Fraud risk assessment

have been completed on new initiatives, in particular the reconnect grant programme aimed at funding organisations in reconnecting children to activities post lockdown.

Policy Review

1.34 The Anti-Fraud and Corruption Strategy received a significant review in 2020, following the release of Fighting Fraud and Corruption Locally – A strategy for the 2020s. Members may find it beneficial to review this strategy - https://www.cifas.org.uk/insight/public-affairs-policy/fighting-fraud-corruption-local-authorities/FFCL-Strategy-2020 as an insight into the way the strategy was developed by local authorities for local authorities.

1.35 Due to this review, no additional amendments are being recommended to the KCC Anti-Fraud and Corruption Strategy, which is available at **Appendix C**.

1.36 Similarly, the Anti-Bribery Policy (**Appendix D)** and the Anti-Money Laundering Policy (**Appendix E)** was reviewed in 2020. The Anti Money Laundering Policy was updated to align with the new regulations that were introduced in January 2020. Therefore, no recommended additions or amendments are being made for this policy review.

1.37 The Whistleblowing policy and procedures are due for a review and the Counter Fraud Team will be working with HR colleagues in progressing this and will report back to the Committee on the policy at the next committee meeting.

Conclusions

1.38 Referrals are still increasing overall which is a good indication of awareness levels and further work is required in key risk areas with a 25% increase compared to the same period in 2018/19. Currently, some of the lower-level cases are not being progressed due to insufficient resources. Fraud Awareness is receiving positive feedback and the culture work is support services in understanding what training is needed to improve their counter fraud culture.

Recommendations

1.39 To note and comment on the outturn of the Counter Fraud Activity for 2020/21.

1.40 To review and agree the Counter Fraud Plan for 2021/22.

1.41 To review and agree the Anti-Fraud and Corruption Strategy, Anti-Bribery and Anti-Money Laundering Policies.

Supporting Documents

Appendix A – Counter Fraud Action Plan output for 2020/21
Appendix B – Counter Fraud Action Plan for 2021/22
Appendix C – Anti-Fraud and Corruption Strategy
Appendix D – Anti-Bribery Policy
Appendix E – Anti-Money Laundering Policy

James Flannery, Counter Fraud Manager
July 2021