

By: James Flannery – Counter Fraud Manager
To: Governance and Audit Committee – 19th October 2022
Subject: **COUNTER FRAUD UPDATE**
Classification: Unrestricted

Summary:

This report details:

- The Counter Fraud activity undertaken for period April 2022 to September 2022, including reported fraud and irregularities.
- An update on the Counter Fraud Action Plan for 2022/23 covering reactive and pro-active activity.

Recommendations:

The Governance and Audit Committee are asked to;

- 1.1 Note the Counter Fraud Progress report for 2022/23.
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Irregularity Referrals – 01 April 2022 to 22 September 2022

- 1.2 There were a further 58 referrals received bringing the total of 117 referrals reported to the Counter Fraud Team for this period. The distribution and characteristics of the irregularities reported to date (as shown in the graphs in **Appendix A**) show that the highest areas of financial risk this year are from mandate fraud with further attempts being made to change bank details.
- 1.3 Actual losses (fraud & error) for this period are £586,391, of which £222,769 (recovered) is due to a mandate fraud that impacted KCC, £164,453 (under investigation) due to a mandate fraud that impacted a Kent school and £172,860 (recovery progressing) due to an overpayment to a Social Care provider as a service provision was not ended.
- 1.4 Prevented total losses for 2022/23 for this period are £1,791,363 of which a potential of £1,748,169 of losses occurring if the Counter Fraud Team/ Management had not intervened, the majority of this figure is due to attempts to change bank account details.
- 1.5 Referral rates are at a manageable level based on the resources available, although some low level risk referrals have not been progressed due to other priorities. Staff are alert to the risk of mandate fraud and awareness of this risk continues across formal and informal awareness sessions.

Mandate Frauds

- 1.6 Mandate Frauds, where fraudsters use deception to change bank details, continues to be of risk to KCC, schools and businesses across Kent. KCC was subject to a mandate fraud that saw a provider not receiving £222,769 in payments due for services delivered. Full recovery has occurred and the provider has received payment. The loss occurred due to human error within the Cantium Control Team following the reallocation of work that resulted in a change occurring without relevant due diligence being completed.
- 1.7 Additionally, a Kent school was a victim of a mandate fraud, which resulted in a loss of £164,453, this is subject to an ongoing investigation.

- 1.8 An email hack of a senior officer also saw an attempt to defraud KCC of £1.2m which was prevented, although this was identified and action taken to protect KCC systems, interactions occurred that could have resulted in payment being made.
- 1.9 A further attempt was made to amend a school's bank account following the email hack of a finance officer which would have resulted in a loss of their monthly advance of £518,213. Again, interactions occurred that could have resulted in payment being made.
- 1.10 Warnings of previous attempts were communicated via a Management Letter in January 2022 to key officers across the payment processes. Awareness sessions have continued across key business areas to alert staff of this risk and the red flags to be alert to.

Blue Badges

- 1.11 Proactive and reactive work continues to address the risk of blue badge misuse across Kent. During this period there have been two enforcement days completed within Swale Borough Council and Folkstone and Hythe District Council. Both authorities outsource their parking enforcement function, so the Counter Fraud Team have worked with the contracted provider in enhancing their knowledge on tackling blue badge misuse.
- 1.12 Positive feedback was received from Civil Enforcement Officers on the pre-training and delivery of the enforcement day to help them continue to enforce the blue badge scheme. A total of 333 badges were inspected across the two days, where genuine badge holders welcomed the checking and validating of badges. One case, where a cancelled badge was being used, has been referred for further investigation. Press releases were issued with support and input from the Borough and District Council and issued on KCC's media hub.
- 1.13 A total of 75 referrals have been received for the reporting period, with 30 of these receiving warning letters, 7 closed due to insufficient evidence, 4 closed due to insufficient resources, 12 cases closed with no further action (these are due to the referral relating to the use of an expired badge) & 22 open for further investigation.
- 1.14 Of the 75 referred cases, 44 also received a Penalty Charge Notice. To date, five simple cautions have been issued for offences under the Road Traffic Act, two cases have been recommended for prosecution, and a further case for legal review on disposal options.
- 1.15 The cases recommended for prosecution have aggravated factors associated to them, in that the blue badges have been reported stolen. Statements from victims have identified the harm of not only having the badge stolen but the criminal damage caused to vehicles.

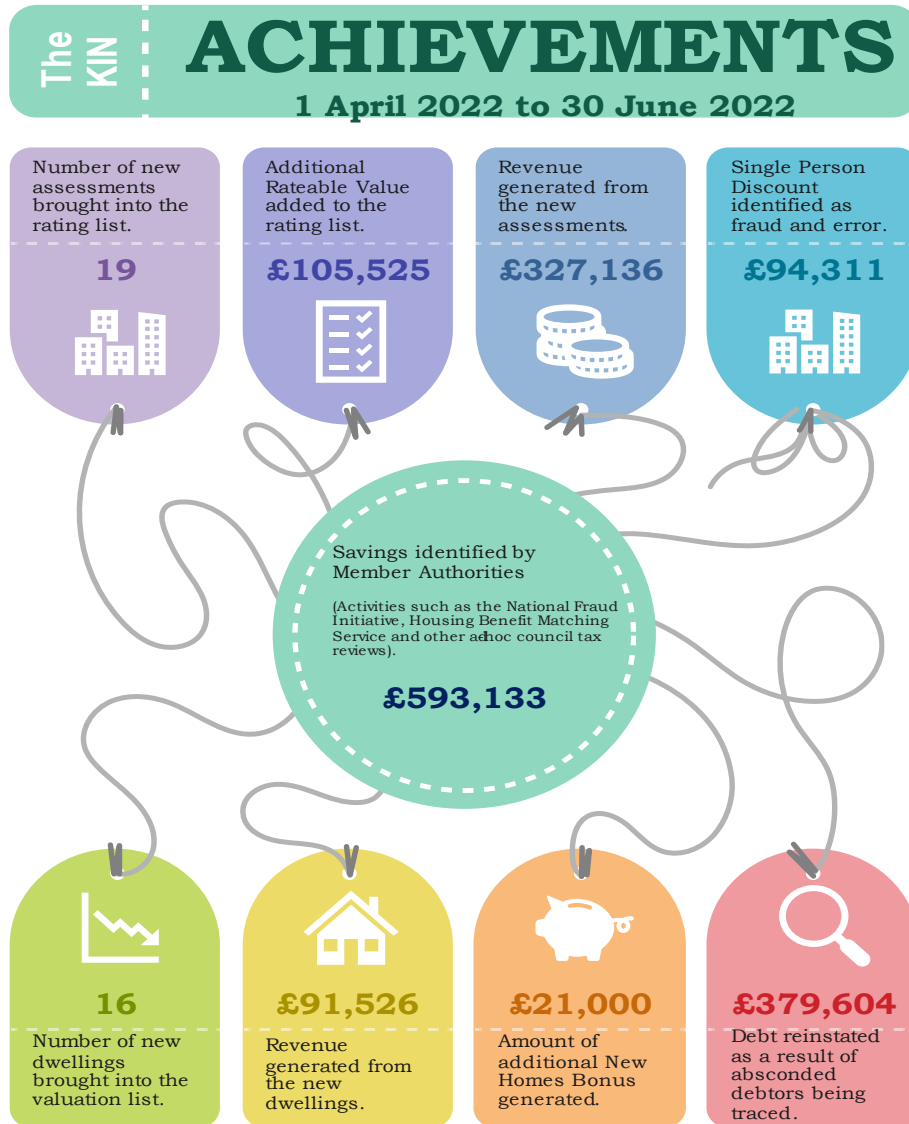
Parking Enforcement Area	Referral numbers – Apr to Sept 22	Parking Enforcement Area	Referral numbers – Apr to Sept 22
Ashford BC	27	Maidstone BC	0
Canterbury CC	17	Swale BC	0
Dartford BC	2	Sevenoaks DC	0
Dover DC	5	Thanet DC	0
Folkestone & Hythe BC	1	Tonbridge and Malling BC	1
Gravesham	21	Tunbridge Wells BC	1

Other Irregularities

- 1.16 A Management Letter has been issued following an investigation into the cloning of a purchase card resulting in a loss of £1,028 (full recovery has occurred) with a further £450 of transaction being attempted. An active purchase card was in place despite the member of staff leaving KCC in August 2019. Although a staff leaver notification was completed by management this did not include the cancelling of the purchase card.
- 1.17 An issue has been raised and accepted by management to conduct a review of all active purchase cards against current employees to ensure there are no further active purchase cards assigned to staff who have left KCC, if they have to ensure no spend has occurred following their departure.
- 1.18 A Management Letter has also been issued following an investigation into an undeclared conflict of interest/ additional employment by an officer involved in grant application processes. An issue has been raised which management have accepted to ensure declarations of interests are embedded into normal business activity.
- 1.19 A review into the overpayment to a service provider of £172,860 has identified that a contracted service was not ended on the payment system. Despite attempts of the provider to alert KCC that payments were continuing, action was not taken. Recovery action has now been instigated and a review of contracted services is being progressed by the service to ensure no other payments are being made in error.

Kent Intelligence Network (KIN)

1.20 The KIN continues to provide valuable support to the District/Borough Councils and the outcomes for the period 1 April 2022 to 30 June 2022, set out below, show the results and financial returns achieved.



1.21 19 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 liable for business rates.

1.22 The additional business rates revenue generated from the identification of these missing properties is £298,710 (£327,136 including Medway), of which broadly 9% (£26,884) comes to KCC, is a combination of the following:

- The total amount of business rates billed for both the current financial year and previous financial years of £157,920 (£173,472 including Medway); and
- A 'future loss prevention' provision of 3 years of £140,790 (£153,664 including Medway). This represents the amount of additional income that would have been lost if the respective properties had not been identified by the KIN.

- 1.23 It is also pertinent to highlight that as at 30 June 2022, there were a further 52 cases with the Valuation Agency awaiting assessment/valuation, none of which are included in the figures stated above.
- 1.24 The KIN also helps to identify dwellings missing from the valuation list and so far in 2022/23, 16 dwellings have been identified.
- 1.25 The additional council tax revenue generated from the identification of these properties is £91,526, of which broadly 73% (£63,813) comes to KCC. This is made up of a combination of the following:
- The total amount of council tax billed for both the current financial year and previous financial years of £26,300; and
 - A 'future loss prevention' provision of 3 years of £65,226. This represents the amount of additional income that would have been lost if the respective dwellings had not been identified by the KIN.
- 1.26 It is also pertinent to highlight that as at 30 June 2022, there were a further 24 cases with the Valuation Agency awaiting assessment, none of which are included in the figures stated above.
- 1.27 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 16 dwellings identified will generate £21,000 in NHB, of which 20% (£4,200) comes to KCC.
- 1.28 It should be noted, however, that the value of NHB for each new dwelling identified has been reduced for this year from £5,600 to £1,400. This is to reflect the fact that the NHB scheme has been wound down over previous years and to acknowledge that 2022/23 may be the last year that NHB is paid.
- 1.29 In respect of the £379,604 that has been traced from absconded council tax debtors, this will generate additional income for KCC, depending on the amount that is collected. Even if a bad debt provision of 30% is applied to the amount of debt brought back into recovery, KCC would broadly receive 73% of £265,723 and this would amount to £193,977.
- 1.30 Therefore the work generated by KIN is likely to bring in an additional £288,874 of revenue for KCC for this period.

Counter Fraud Pro-Active Work

- 1.31 The Counter Fraud Pro-Active Work delivered for period April 2022 to September 2022 includes:
- Fraud awareness to school governors and senior leaders;
 - County Safeguarding strategic group;
 - Fraud briefings to finance staff; and
 - Review of policy and application procedures within the Gypsy and Traveller service

Counter Fraud Resources

- 1.32 The team comprises; 1FTE Counter Fraud Manager, 3FTE Counter Fraud Specialists, 2FTE Counter Fraud Technician, 0.8FTE Intelligence Officer and 1FTE Counter Fraud Apprentice.

Counter Fraud Action Plan 2021/22

1.33 Updates to the 2022/23 Counter Fraud Action Plan can be found at **Appendix B**.

Conclusions

1.34 Delivery of pro-active awareness sessions are continuing with good feedback being received on their impact and value. Reactive work is being managed, to a degree, within current resources, with several complex cases being progressed alongside the high-volume low complex cases.

Recommendations

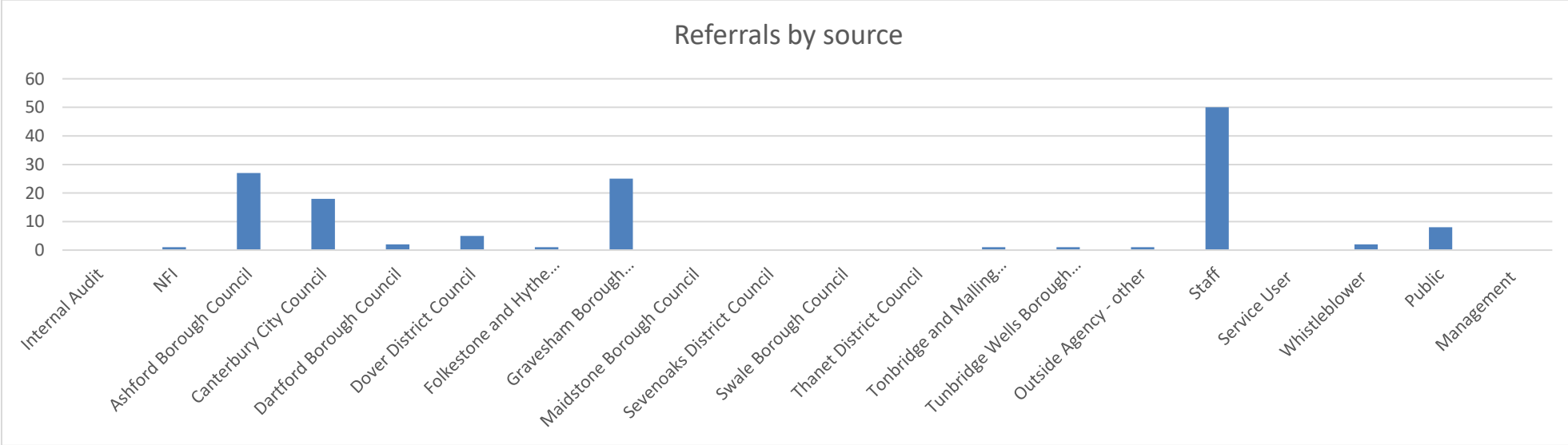
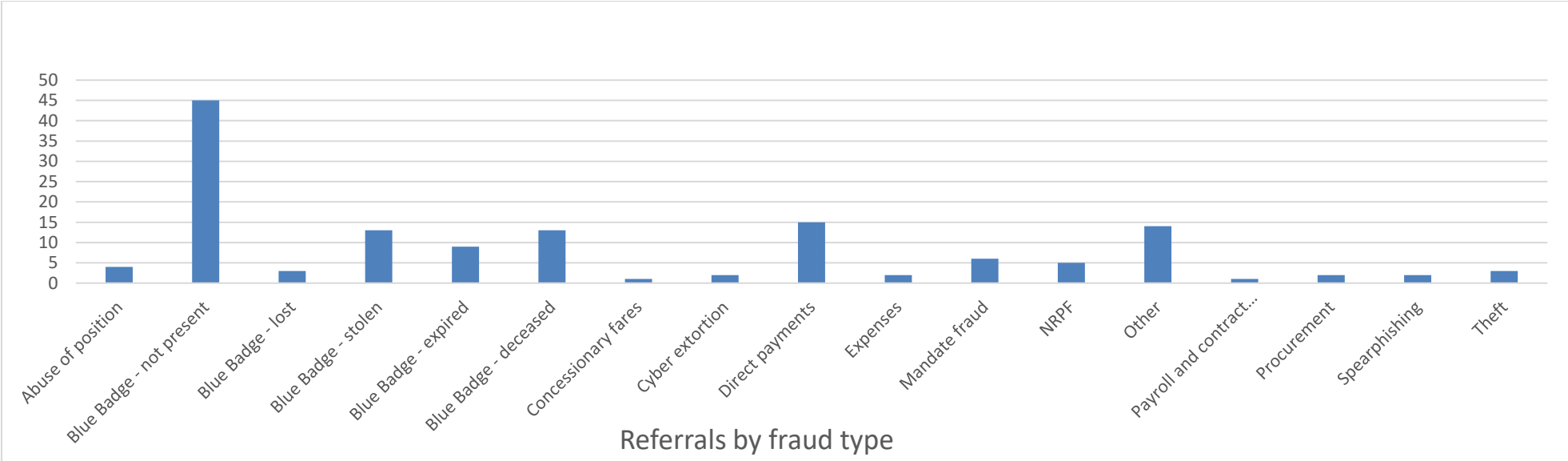
1.35 The Governance and Audit Committee are asked to:

- Note the Counter Fraud Update report for 2022/23.
- Note the progress of the Counter Fraud Action Plan for 2022/23.

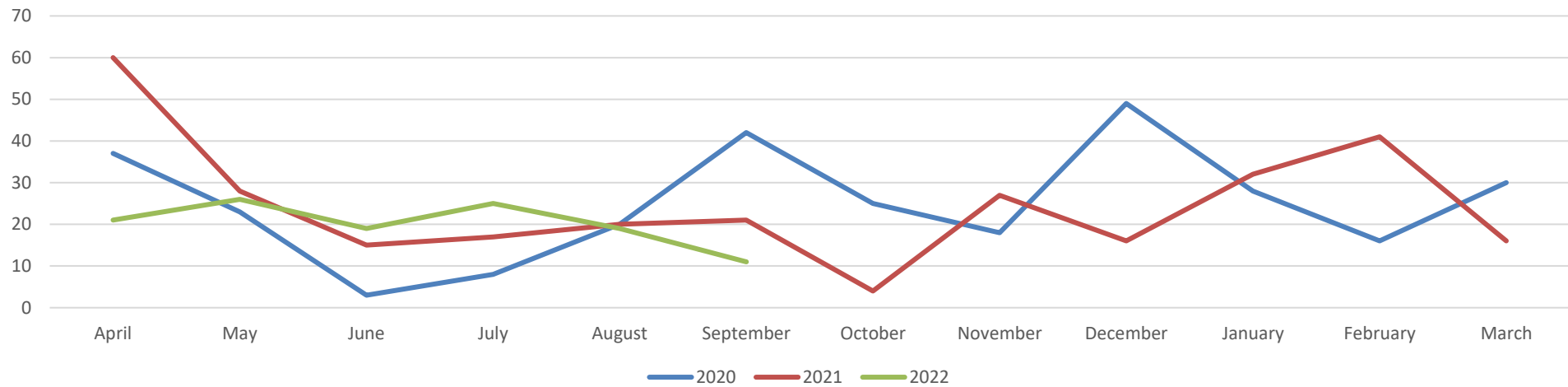
James Flannery, Counter Fraud Manager

October 2022

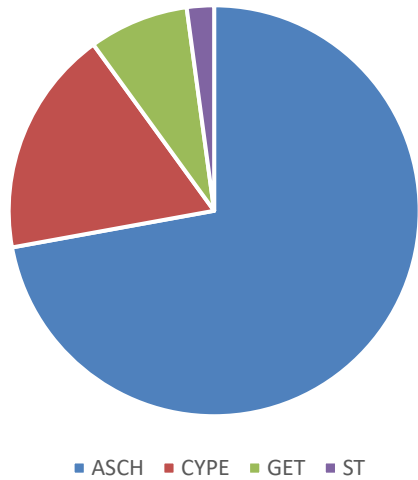
Appendix A: Fraud and Irregularity referrals – Graphs



Referrals by month



Referrals by directorate



Appendix B: Counter Fraud Plan 2022/23

Ref	Risk Area	Activity	Update
CF-KCC01-23	Payroll, Pension, Blue Badge, Concessionary fares, Trade Creditors	Progression of NFI Data Matches – Full submission due in Q3	Due in Q3 – Data collection in progress for upload.
CF-KCC02-23	Corporate Fraud	Policy, Strategy and Risk Review	Reviews of directorate risk levels is underway to inform what risks will be escalated from service risk registers to the corporate risk registers.
CF-KCC03-23	Corporate Fraud	Kent Intelligence Network	Out turn for 22/23 reported above. Work on the Digital Economy Act Business Case continues.
CF-KCC04-23	All risk areas to support the prevention and detection of fraud and corruption	Relationship Management Strategy for Stakeholders - Including Fraud, Bribery and Risk Assessments – new Initiatives, policies and strategies. Enhanced vetting of senior officers. Kent Fraud Panel Fighting Fraud and Corruption Locally	Enhance vetting checks being completed for senior officers. Fraud awareness sessions delivered to: County Safeguarding Leads Chief Accountants Team Financial Analysis and Support Team Finance Operations Management Team Finance Business Partners Review of policy and application process within the Gypsy and Traveller service
CF-KCC05-23	All fraud risk areas faced by schools to support the prevention and detection of fraud	Pro-active Fraud Exercise - Schools	Awareness sessions delivered to: 150 School Governors 11 Senior Leaders Further planned awareness sessions booked for end of Sept 22.
CF-KCC06-23	Blue Badge fraud risk	Pro-active Fraud Exercise - Blue Badges Enforcement Days and liaison with Parking Managers	Enforcement days – 2 completed, 2 planned for delivery.
CF-KCC07-23	Social Care fraud risks - ASCH & CYPE	Review of Financial Abuse Tool Kit	Completed and issued to business to adopt.
CF-KCC08-23	Procurement fraud risks	Pro-active Fraud Exercise - Commissioning	In progress
CF-KCC09-23	Social Care Fraud Risks - CYPE & ASCH	To deliver fraud culture work/ awareness sessions across both CYPE and ASCH	Providing Counter Fraud Support to County Safeguarding Strategic Group and operational support on financial abuse referrals.
CF-KCC10-23	Counter Fraud Profession	Professional standards	On going
CF-KCC11-23	All risk areas to support the prevention and detection of fraud and corruption	Supporting Audit on specific audits where there is a fraud risk, through planning, fieldwork and reporting stages as required.	Ongoing – All received engagement plans reviewed and advice provided to auditors on relevant fraud risks.
CF-KCC12-23	All fraud risk areas	Reactive Investigations	61 Ongoing referrals and investigations
CF-KCC13-23	No Recourse to Public Funds	Review of Counter Fraud referral processes	Q3 activity – Planning started
CF-KCC14-23	All risk areas to support the prevention and detection of fraud and corruption	Fraud Awareness – Review and update of e-Learning on Delta, fraud awareness week.	In progress