

By: James Flannery – Counter Fraud Manager

To: Governance and Audit Committee – 26th January 2023

Subject: **COUNTER FRAUD UPDATE**

Classification: Unrestricted

Summary:

This report details:

- The Counter Fraud activity undertaken for period April 2022 to December 2022, including reported fraud and irregularities.
- An update on the Counter Fraud Action Plan for 2022/23 covering reactive and pro-active activity.
- A review against the “Counter Fraud Arrangements against the Fighting Fraud and Corruption Locally” self-assessment.
- A review of the Anti-Fraud and Corruption Strategy.

Recommendations:

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.
 - Note and comment on the Fighting Fraud & Corruption Locally self-assessment of Counter Fraud Arrangements.
 - Approve and comment on the review of the Anti-Fraud and Corruption Strategy.
-

Irregularity Referrals – 01 April 2022 to 31 December 2022

- 1.1 There were a further 76 referrals received for the reporting period 01 October 2022 to 31 December 2022 bringing the total of 223 referrals reported to the Counter Fraud Team to date this financial year. The distribution and characteristics of the irregularities reported to date are shown in the graphs in **Appendix A**.
- 1.2 Actual losses, (fraud & error) all of which are subject to recovery of the full amount, for the period October 2022 to December 2022 are £27,020, of which £18,447 (eight referrals) are due to salary overpayments due to late notification by management in ending employment. A further £7,902 was due to reported misuse within direct payments made to adult and children social care clients.
- 1.3 Prevented total losses for this period are £6,600 which is due to the removal of blue badges from being misused. Referral rates are just at a manageable level based on the resources available, although some lower-level risk referrals have not been progressed for formal investigation due to other higher risk cases taking priority.

Salary Overpayments

- 1.4 The Counter Fraud Team have been working with the Payroll Team to ensure that these financial irregularities are reported to Internal Audit. It is the responsibility of management to report these irregularities to Internal Audit however management have not been forthcoming when they occur.
- 1.5 Following notification from the Payroll Team, the Counter Fraud Team engages with management to establish why the overpayment occurred, why it was not reported to Internal Audit and what action are they taking to prevent further overpayments.

- 1.6 Engagement with the recipient of the overpayment also occurs to establish if there are grounds to progress the Theft Act offence of retention of a wrongful credit.

Direct Payments

- 1.7 In 2022/23, there have been 19 referrals received relating to direct payment misuse, five being reported between Oct 2022 and Dec 2022. Eight have been logged as a financial recovery only, with two of these receiving warning letters on the correct use of direct payments. Seven are under investigation, one case has been closed with a sanction of a simple caution, one case passed for management investigation and two cases closed with no further action. Loss to date incurred due to the misuse amount to £18,230.

Blue Badges

- 1.8 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 Canterbury City Council. A Press release was issued to raised awareness and the consequences of misusing blue badges.
- 1.9 Positive feedback was received from Canterbury City Council 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 70 badges were inspected across the two days, where genuine badge holders welcomed the checking and validating of badges. Two cases, where cancelled badges were being used, have been referred for further investigation.
- 1.10 A total of 49 referrals have been received for the reporting period (October – December 2022), with 28 resulting in warning letters, two being closed due to insufficient evidence, eight closed due to being low risk and insufficient resources, two cases closed with no further action (these are due to the referral relating to the use of an expired badge) and nine open for further investigation.
- 1.11 Of the 49 referred cases, 13 have also received a Penalty Charge Notice. Five simple cautions have been issued for offences under the Fraud Act/ Road Traffic Act within this reporting period bringing the total number issued to eight for 2022-23.
- 1.12 Referrals by District/ Boroughs are increasing. A presentation to the Kent Chief Executives on blue badge misuse in Kent has been delivered to ensure there is relevant engagement and “buy in” from strategic partners, in particular to those that have lower referral rates.
- 1.13 Referral rates from district/ borough councils continued to be mixed across the county, work continues to support parking teams in conducting effective enforcement action. Further enforcement days are being planned.

Table 1: Blue badge referrals by district/ borough council

Parking Enforcement Area	Referral numbers – Apr to Dec 22	Parking Enforcement Area	Referral numbers – Apr to Dec 22
Ashford BC	50	Maidstone BC	2
Canterbury CC	31	Sevenoaks DC	0
Dartford BC	3	Swale BC	6
Dover DC	7	Thanet DC	0
Folkestone & Hythe BC	1	Tonbridge and Malling BC	6
Gravesham	30	Tunbridge Wells BC	2

Police, Crime, Sentencing and Courts Act 2022

- 1.14 There is new legislation that will have an impact not only on Counter Fraud work but across all enforcement teams within KCC. The legislation, once the relevant part is enacted, will remove the ability to issue simple cautions. Therefore, the disposal options available will be limited to a formal warning letter or prosecution.
- 1.15 Within the legislation, however, there is the ability for prescribed bodies named in the regulations to issue diversionary or community cautions. This will enable the issuing of financial penalties in conjunction with the caution. Representations have been made to the Local Government Association to lobby the Ministry of Justice to ensure that Local Authorities are included as a prescribed body when the regulations are issued in 2023.

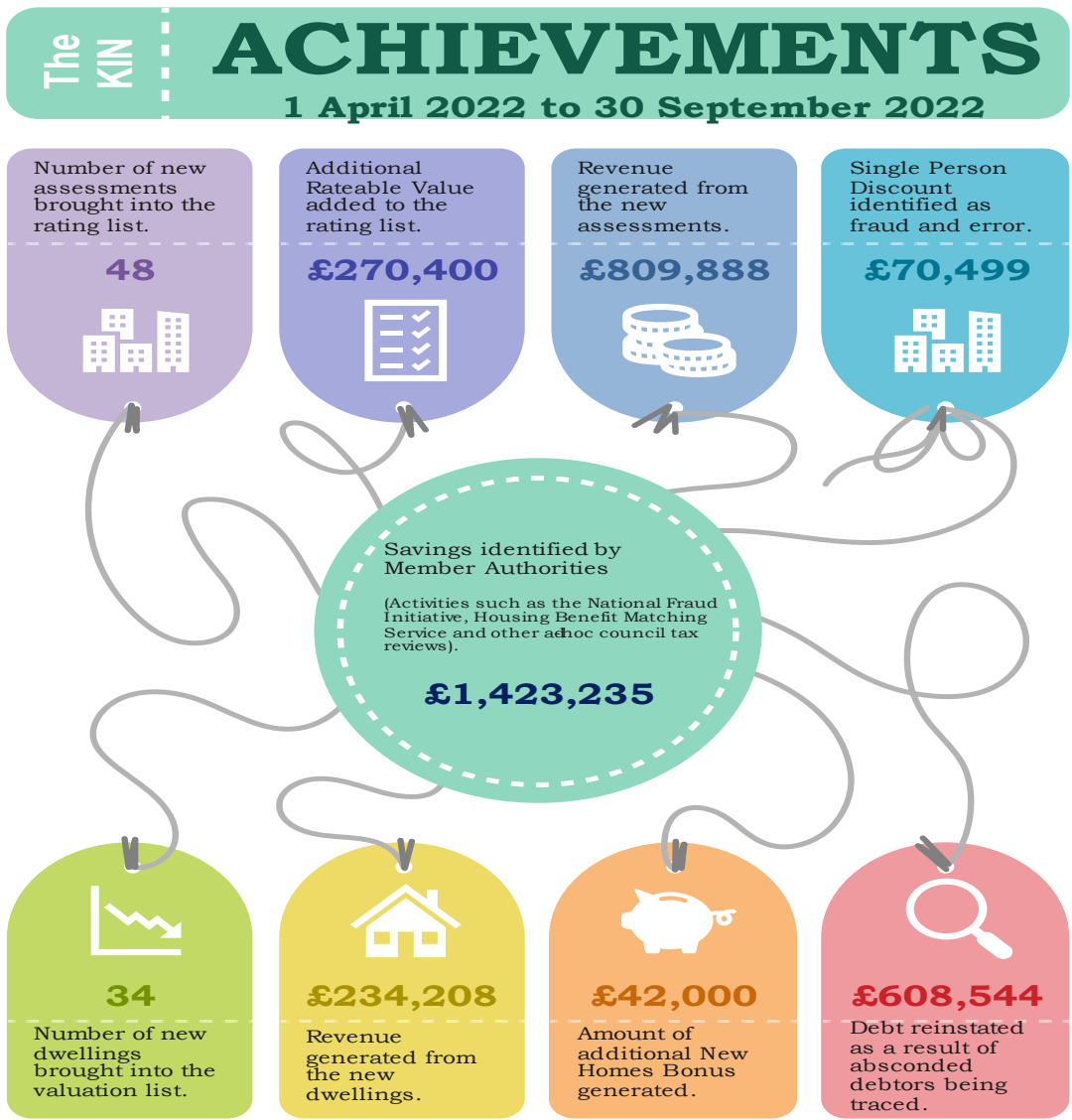
Other Irregularities

- 1.16 A Management Letter has been issued following three internal investigations in employee related areas. This identified the need to make enhancements need in contracts and guidance documents so:
- Employees notify the employer of their current address, to ensure home to work mileage deductions on travel expenses can be calculated accurately.
 - Updating guidance for employees going on maternity leave in relation to the need to notify the employer of any work whilst on maternity leave to ensure statutory Maternity Pay is adjust accordingly.
 - Include anti-fraud statements in time recording processes to alert staff of the consequence of making false representations on time sheets.
- 1.17 An internal investigations identified weaknesses in the asset control of laptops held for children leaving care., The Counter Fraud Team are working with management to enhance their asset controls to ensure all laptops are accounted for.
- 1.18 ICT management have identified, as communicated to all staff within the Council, that not all laptops are currently accounted for within KCC. Internal Audit provided a Limited Assurance opinion in September 2020 due to poor asset controls in place. One of the issues raised related to the lack of an inventory review, managements response was *'KCC request that staff are vigilant when updating Cantium regarding ICT asset ownership and changes of asset ownership. Managers must take responsibility for assets for which they are responsible and notify changes in an accurate and timely manner.'*
- 1.19 Following up on this issue in December 2021 management advised Internal Audit *'An MS Form was published on KNet for all staff to complete and update the asset details, and Cantium took action to update the inventory from this.'* The Counter Fraud Team will report further on the outcome of this project and what the actual, if any, asset loss there is.
- 1.20 An investigation into an abuse of position at a Kent School has concluded. The investigation identified an exams officer who manipulated records to divert income due to the school to their personal account. Full recovery of the £3,668 has occurred and the person has been issued and accepted a simple caution following legal advice.

Kent Intelligence Network (KIN)

1.22 KIN is a collaboration of the 13 local authorities in Kent to tackle fraud and error risks. KCC provide project management support via a project manager and funding to district and borough councils to address fraud and error within Council Tax and Business Rates.

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



1.24 48 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.

1.25 The additional business rates revenue generated from the identification of these missing properties is £800,165 (£809,888 including Medway), of which broadly 9% 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 £409,908 (£417,528 including Medway); and
 - A 'future loss prevention' provision of 3 years of £390,257 (£392,360 including Medway).
- 1.26 This represents the amount of additional income that would have been lost if the respective properties had not been identified by the KIN.
- 1.27 It is also pertinent to highlight that, as at 30th September 2022, there were a further 50 cases with the Valuation Agency awaiting assessment/valuation, none of which are included in the figures stated above.
- 1.28 The KIN also helps to identify dwellings missing from the valuation list and so far, 34 dwellings have been identified. The additional Council Tax revenue generated from the identification of these properties is £234,208, of which broadly 73% 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 £63,129;
 - and A 'future loss prevention' provision of 3 years of £171,079. This represents the amount of additional income that would have been lost if the respective dwellings had not been identified by the KIN.
- 1.29 It is also pertinent to highlight that, as at 30 September 2022, there were a further 13 cases with the Valuation Agency awaiting assessment, none of which are included in the figures stated above.
- 1.30 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 34 dwellings identified will generate £42,000 in NHB, of which 20% comes to KCC.
- 1.31 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.
- 1.32 In respect of the £608,544 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 £425,980 and this would amount to £310,966.
- 1.33 In total, the financial benefit to KCC from the initiatives and successes detailed above amounts to £562,352 to date in 2022/23.

Counter Fraud Pro-Active Work

- 1.34 The Counter Fraud Pro-Active Work delivered for period Oct 2022 to Dec 2022 includes:
- Blue Badge misuse to Kent Chief Executives;
 - Blue Badge enforcement awareness to Canterbury City Council;
 - Fraud, Bribery and Corruption awareness within the Gypsy and Traveller service; and
 - Fraud awareness sessions to management teams across Commercial Services Group.

Counter Fraud Action Plan 2022/23

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

Fighting Fraud and Corruption Locally Self-Assessment.

1.36 The Governance and Audit Committee received a review of the “Fighting Fraud and Corruption Locally Self-Assessment Checklist” in April 2020. A review of the Counter Fraud Arrangements has been conducted against this assessment and is detailed at **Appendix C**.

1.37 The self-assessment is part of the wider strategy document issued in 2020, a full copy of the strategy is available via <https://www.cifas.org.uk/insight/public-affairs-policy/fighting-fraud-corruption-local-authorities/ffcl-strategy-2020>

1.38 The self-assessment shows that KCC are meeting the requirements of the strategy, work continues through the Counter Fraud Action plan to turn the strategy into the operational actions.

Anti- Fraud and Corruption Strategy Review

1.39 A review of the Anti-Fraud and Corruption Strategy has been conducted. This has not identified any changes required to the current Strategy. A copy of the Strategy can be found in **Appendix D**.

Counter Fraud Resources

1.40 The team comprises; 1FTE Counter Fraud Manager, 3FTE Counter Fraud Specialists, 2FTE Counter Fraud Technician, 0.8FTE Intelligence Officer and 1FTE Intelligence Assistant (vacant, recruitment exercise underway).

Conclusions

1.41 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

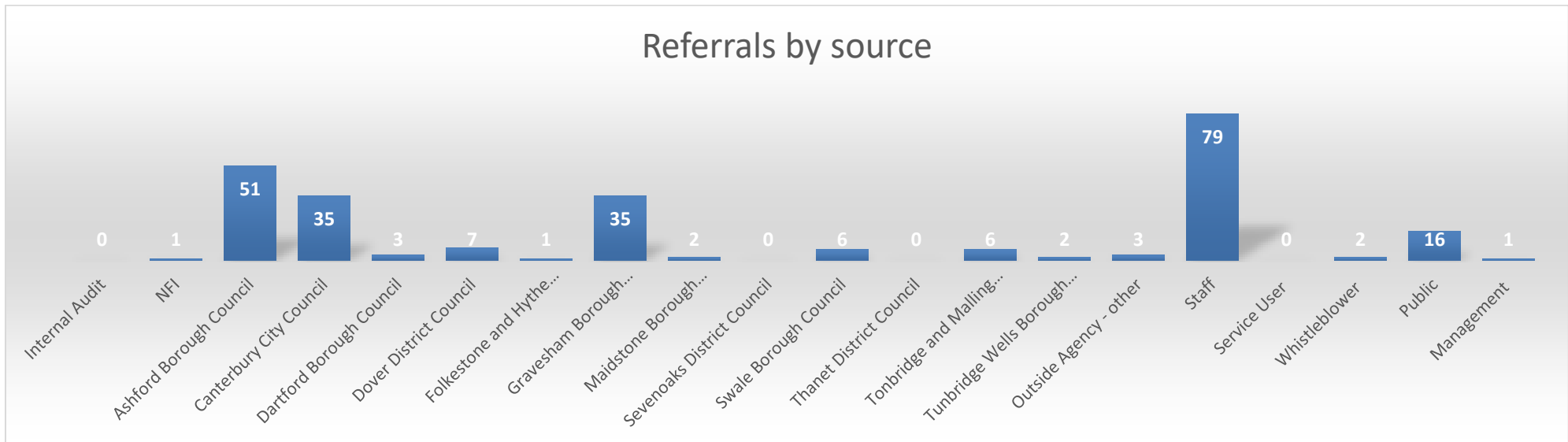
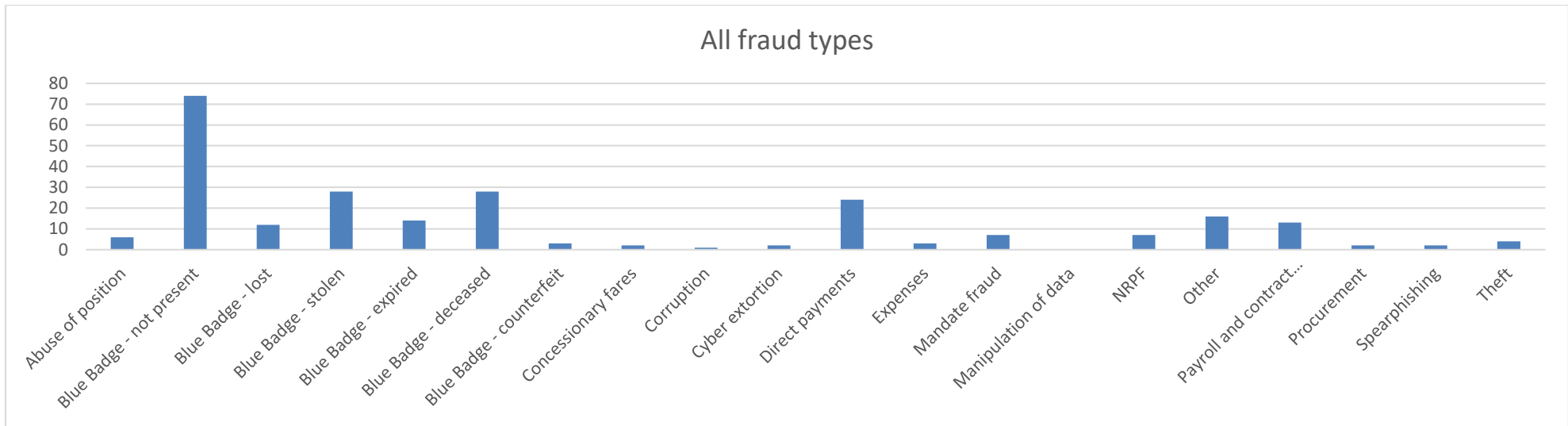
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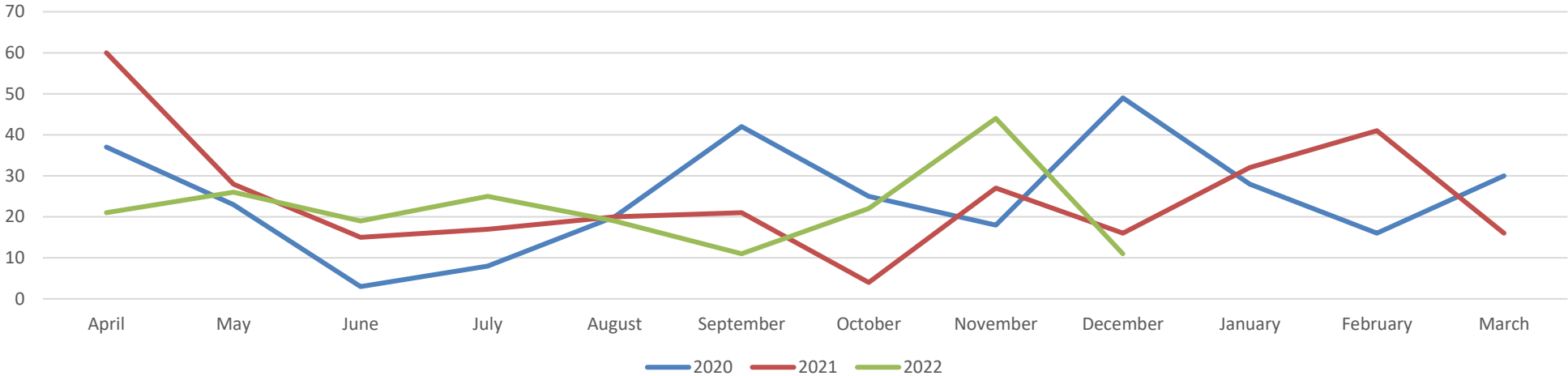
James Flannery, Counter Fraud Manager

January 2023

Appendix A: Fraud and Irregularity referrals – Graphs



Number of referrals per month



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. Data upload complete awaiting output due in Q4 (Jan 23)
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 Fraud, Bribery and Corruption awareness to the Gypsy and Traveller service Fraud awareness to CSG Management Teams.
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 14 Senior Leaders
CF-KCC06-23	Blue Badge fraud risk	Pro-active Fraud Exercise - Blue Badges Enforcement Days and liaison with Parking Managers	Enforcement days –3 completed, 1 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 – Task and Finish group attendance to support ASCH in supported living contracts.
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	O 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	51 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