

By: James Flannery – Counter Fraud Manager  
To: Governance and Audit Committee – 21<sup>st</sup> July 2020  
Subject: **COUNTER FRAUD UPDATE**  
Classification: Unrestricted

---

### **Summary:**

This report details:

- The Counter Fraud activity undertaken for 2019/20, including reported fraud and irregularities.
- To review and comment on the review of Counter Fraud against the Fighting Fraud & Corruption Locally checklist.
- The Counter Fraud Action Plan for in 2020/21 covering reactive and proactive activity.

**Recommendation: FOR ASSURANCE**

---

### **Introduction**

- 1.1 This report outlines Counter Fraud work which has been undertaken in 2019/20 and 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 Referral rates are a good indication to demonstrate awareness of fraud risks. Irregularity referrals have risen in 2019/20 compared with previous years, this is linked to the pro-active work the Counter Fraud Team have undertaken in key risk areas (in particular, the rolling programme of awareness and support with the District Parking teams in addressing fraud and misuse with the Blue Badge Scheme).
- 1.3 For 2019/20, there were 368 suspected irregularities (Trend analysis shown in below tables) reported to the Counter Fraud Team (compared to 276 in 2018/19). The distribution and characteristics of the irregularities reported to date show that the highest areas of financial risk this year are from abuse of position/ payroll and misuse of social care support paid via a Direct Payment.
- 1.4 Actual fraud losses for 2019/20 was £88,763.80 compared to £95,462.40 for 2018/19. Prevented fraud losses for 2019/20 was £216,237.08 compared to £463,904.00 for 2018/19. Prevented fraud losses will fluctuate depending on the nature of cases referred.

## **Abuse of Position, Payroll and Contract Fulfilment**

- 1.5 There have been 10 cases investigated during 2019/20 compared to 5 in 2018/19 relating to Abuse of Position, Payroll and Contract Fulfilment, which span across all four directorates. These cases are often complex due to the nature of the referral and external factors, they have included investigated cases of:
- False representations of employment history and qualification;
  - False representations of previous convictions;
  - Cash missing (low amount) from amenity funds;
  - Working whilst claiming to be sick;
  - False representations made to claim special leave and sick leave.
- 1.6 The outcomes of these cases have resulted in simple cautions, dismissal for gross misconduct or resignation prior to disciplinary hearings.

## **Direct Payments**

- 1.7 The Counter Fraud Team have been supporting Adult Social Care in a project looking at the way Direct Payments are paid in order to assess and help mitigate the risk of fraud. This project has been placed on hold but is due to recommence during 2020/21.
- 1.8 There have been 15 cases referred during 2019/20 compared to 18 cases in 2020/21, Counter Fraud are of the view that the referral rates in this area is not indicative of the fraud risk, therefore will progress some further proactive work in this area to raise awareness of what fraud is and the red flags in its identification..
- 1.9 The main type of referrals against this fraud risk is where people in receipt of a direct payment either directly, or as a 3<sup>rd</sup> party, spend the money of items outside of their care and support plan.

## **Blue Badges**

- 1.10 Many of the irregularities (277) reported relate to the misuse of the Blue Badge and concessionary fare schemes. 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. In 2019/20, a total of 160 warning letters were issued, this is in addition to the badge temporarily being removed and on most occasions a Penalty Charge Notice being issued by the District Council when appropriate.
- 1.11 For more serious cases, where the use of stolen badges or those of deceased people occur, then a criminal investigation is progressed. In 2019/20, there were four cases awaiting a revised court date following these being deferred due to lockdown.

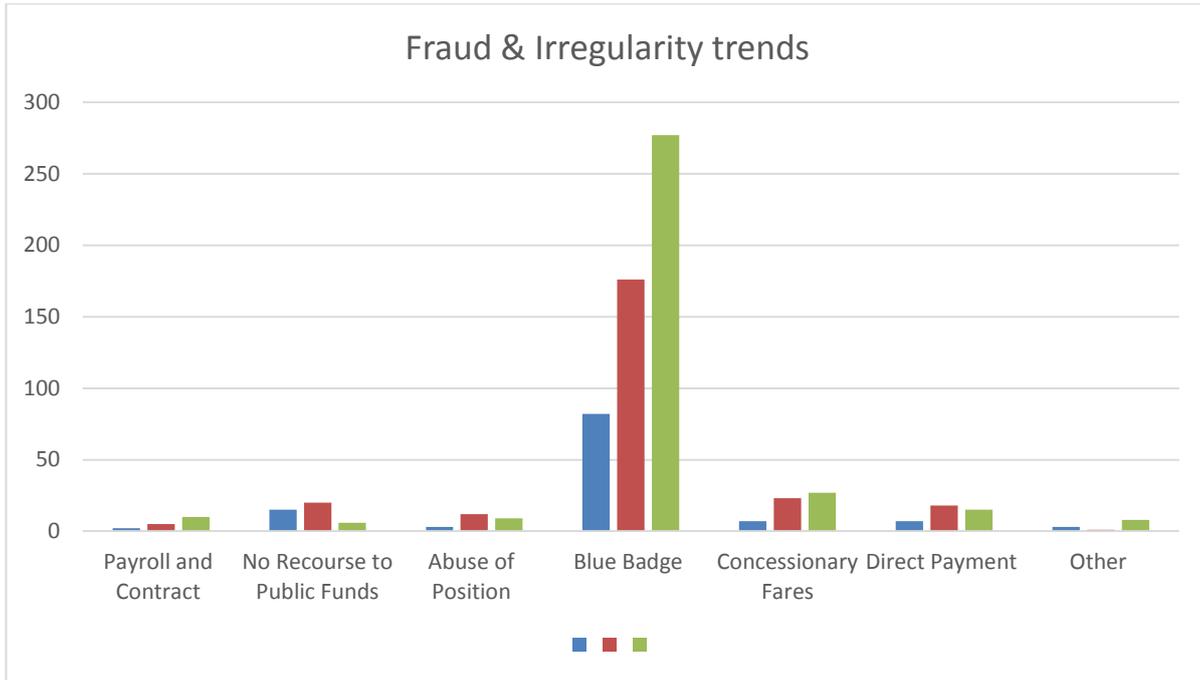
## **Concessionary Fares**

- 1.12 The Counter Fraud Team have replicated the approach used in raising awareness with Parking Enforcement Teams with Bus Operators, with an online reporting form to be used in order to capture key information that has been missing from previous referrals in the past. Further work, however, is needed to improve the quality of referrals and access to evidence held by the bus operators. It is expected to see through further engagement and awareness an increase in referrals in this area once lockdown restrictions are eased.

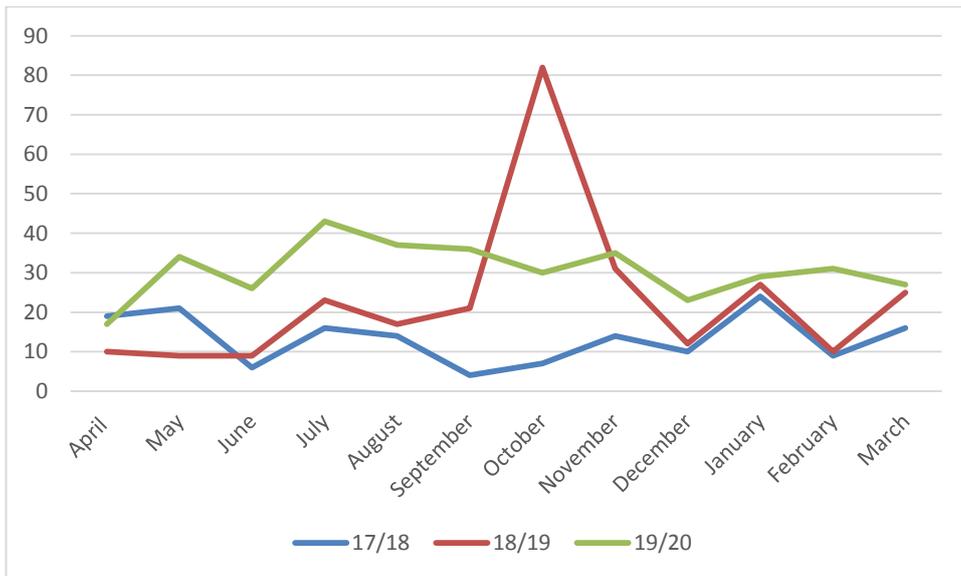
## **Fraud and Irregularity Trends**

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

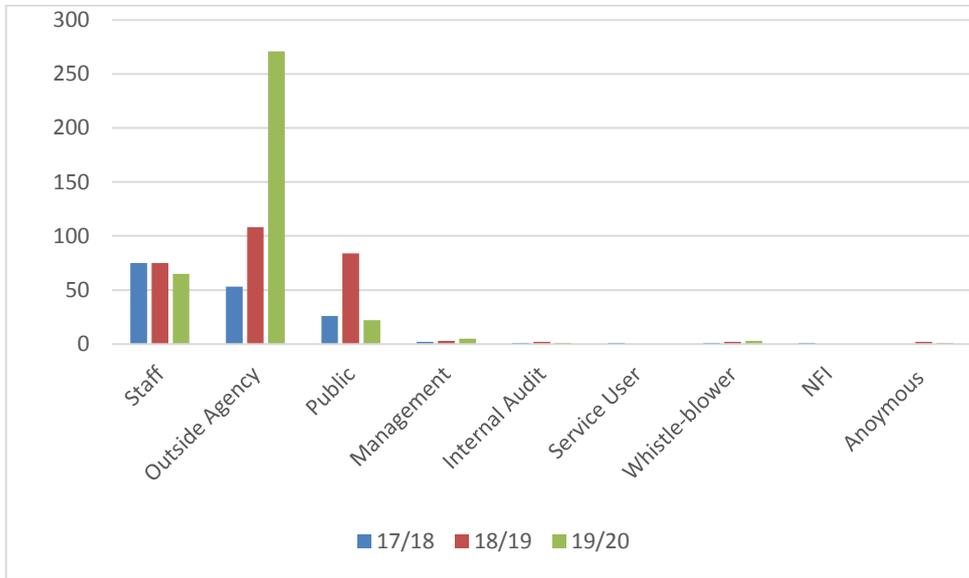
**Table CF1 - Top Seven areas of reported fraud and irregularities over the past 3 years**



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



**Table CF3 – Referrals by Source**



### Kent Intelligence Network (KIN)

1.14 The KIN continues to provide support to the District/Borough Councils and the results set out below for 2019/20 are testament to the skills and ingenuity of all involved, in particular the County’s counter-fraud professionals who are dedicated to combatting fraud and misuse.



1.15 133 existing business 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, these businesses are now paying business rates.

1.16 The additional business rates revenue generated, £4,733,427, from the identification of these existing properties, of which broadly 9% comes to Kent County Council, is a combination of the

following:

- The total amount of business rates billed for both the current financial year and previous financial years - £1,456,314; and
- A 'loss avoidance' provision of 3 years for each property identified - £3,277,113. This represents future income losses which have been prevented as a result of a property being found.

1.17 The following highlights a couple of the major successes achieved:

- In the district of Sevenoaks, at a Farm, based at Longfield, was originally a standalone referral. Following an investigation, 20 single business units and a storage container were identified, the majority of which were brought into the rating list from 1<sup>st</sup> April 2017. The combined Rateable Value was £122,200 and the total amount of business rates billed was £152,773.
- In the borough of Ashford, a company based in Biddenden, that has been established for over 30 years. Brought into the rating list from 1<sup>st</sup> April 2017 with a Rateable Value of £47,500, this business was billed a total of £68,258.

1.18 The majority of billing authorities currently use a company to help find properties missing from the rating list. This company charges a commission fee for every property found, so because the KIN have picked up these properties before the company concerned has, this has helped to save £157,075 in commission fees for District/Borough Councils.

1.19 Every billing authority has a separate contract with a software provider that helps to trace absconded council tax/business rates debtors and monitor the validity of council tax single person discounts. Through the KIN, these contracts have been renegotiated to help drive down costs and ensure fairness and transparency in the pricing structure. The revised contracts are for 3 years and this has helped to deliver an overall saving of £362,736.

In 2019/20, District/Borough Councils reinstated the recovery of debt totalling £753,646 attributed to absconded debtors and identified £619,839 in additional Council Tax through the removal of single person discounts. The debt recovery tracing tool was also promoted in the Council and through this, it has now been adopted across Client Financial Services, both by Debt Recovery and also for tracing when invoices are returned as 'gone away'. To date, there have been 300 successful traces.

1.20 72 properties that were previously classified as long-term empty for council tax purposes have been identified as being occupied through a data-matching exercise involving credit reference agency data. This initiative has helped to increase New Homes Bonus by £403,200 over 4 years, 20% of which comes to the Council.

1.21 Through a software solution that pools and tags all ratepayer data published by every local authority, the KIN has also identified a number of businesses who should not have been entitled to small business rate relief. The amount of relief withdrawn, £658,284, is the total reclaimed from 97 companies.

1.22 There has, been a very high level of performance and delivery of savings in 2019/20 and these achievements were recognised at a national level when the KIN won the Alarm Risk Award for Best Initiative in Combatting Fraud in June 2019. Additionally, it was shortlisted for three other national awards, two of which the results will be announced later on this year.

1.23 The financial returns alone demonstrate the value of the KIN but the benefits are so much more than that, showing how well the Kent authorities and private sector organisations can work together when there is a shared commitment and the impetus to make things happen.

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

1.24 The Counter Fraud Pro-Active Work delivered for 2019-20, this included some early pro-active work as we entered lockdown during the end of Quarter four:

- Fraud awareness to the School Governor Forum. This raised awareness to over 100 school governors across Kent;
- Blue Badge Enforcement day in Gravesham to work with Civil Enforcement Officers, this has seen an increase in referrals from the Gravesham area, in particular to the use of stolen blue badges;
- Fraud Culture assessments and workshops with Client Financial Services and a Local Authority Company;
- Supporting the Serious and Organised Crime Project Board;
- Reacting to the COVID-19 lock down by conducting fraud risk assessments as new process and ways of working are adopted;
- Providing a critical friend role to Commercial Services Group and developing a fraud risk assessment to manage the fraud risks associated to a cyber attack;
- Providing guidance and support to Kent schools following an increase in spear phishing and sextortion emails.

## Counter Fraud Resources

1.25 Due to the increase in referrals and continued risk of fraud within KCC and its trading companies, a review of resources identified the need to increase resources. Management agreed a business case, which has resulted in an 0.8 FTE increase in staffing levels to 5.4 FTE working on Counter Fraud Activity. A recruitment exercise is underway which is being managed via virtual interviews.

## Fighting Fraud and Corruption Locally – A Strategy for the 2020s

1.26 Attached at **Appendix A** is the “*Fighting Fraud and Corruption Locally (FFCL) - A strategy for the 2020s*”, produced by Local Authorities for Local Authorities. All members of the Governance and Audit Committee should be aware of and have a good understanding of this strategy document.

1.27 The key themes from the strategy build on the previous strategic approach, and Local Authorities will be able to:

- Develop and maintain a culture in which fraud and corruption are unacceptable;
- Understand the harm that fraud can do in the community;
- Understand their fraud risk;
- Prevent fraud more effectively;
- Use technology to improve their response;
- Share information and resources more effectively;
- Better detect fraud loss;
- Bring fraudsters to account more quickly and efficiently;
- Improve the recovery of losses;
- Protect those at risk.

1.28 In addition to the established Acknowledge, Prevent and Pursue, two additional pillars have been added to the strategy:

- Govern - Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Having a holistic approach to tackling fraud is part of good governance.
- Protect - Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community. For a local authority, this will also cover protecting public funds, protecting its organisation from fraud and cybercrime and also protecting itself from future frauds.

1.29 In light of this new strategy, KCC's Anti-Fraud and Corruption strategy has been updated and a separate paper has been presented to Governance and Audit Committee to agree the new strategy document.

## **Review of Counter Fraud approach**

1.30 The annual review of the Counter Fraud Approach has been undertaken against the FFCL checklist, which can be found at the end of the FFCL document. The checklist is conducted in two parts, firstly a review of how senior stakeholders (Including the Governance & Audit Committee) receive information and their roles and responsibilities. The second part is how the local authority approaches Counter Fraud. The results of this review can be found at **Appendix B**.

1.31 The outcome of this review has identified that KCC already have good practices in place to ensure there are good Counter Fraud Arrangements these include:

- Mechanisms in place to conduct fraud, bribery and corruption risk assessments (although further work is needed to embed these at an operational and project level);
- Reporting of fraud risks to Governance and Audit Committee and the approaches to manage those risks;
- KCC Standards and Code of Conduct promotes probity and propriety;
- Fraud Action Plan (the response plan) to manage the programme of re-active and pro-active work, including prevention and detection activity;
- Vetting of staff to help prevent potentially dishonest employees from being appointed;
- Whistleblowing policy and procedures in place to support staff in raising concerns which includes a route other than line management;
- Allegations of fraud and corruption are risk assessed to ensure resources are sufficiently allocated;
- Collaboration with KCC Internal enforcement teams, Kent & Medway local authorities and Kent Police in managing the risk of fraud;
- Access to specialist staff to support surveillance, computer forensics, asset recovery and financial investigations;
- Counter Fraud Staff are Accredited Counter Fraud Specialists.

1.32 The assessment also identified areas of improvement across the council which includes:

- Better reporting to the portfolio lead on the fraud and corruption risks, and senior stakeholders;
- The completion of fraud risk assessment across the Council at Directorate and Divisional level;
- The need to consult with Counter Fraud Specialists on new policies, strategies and initiatives to help fraud proof these;
- Understand how and ensure contractors sign up to the whistleblowing policy and how this is communicated across their organisation;
- Continue to develop the use of data analytics to help prevent and detect fraud;

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

- 1.33 As expected, the dynamics of 2020/21 are ever-changing, therefore some of the proactive work has had to be agile in its approach to managing emerging risks. During the first quarter of 2020/21 we have seen a significant increase in spear phishing and sextortion emails hitting all areas of the business, in particular schools.
- 1.34 During quarter 1 we have been proactive in sending out specific alerts to areas across the Council on the fraud risks migrating into a more digital platform. In particular,
- 1.35 Considering the outcome of the review as well as the changing environment that we are working within the Fraud Plan for 2020/21 has been developed which can be found at **Appendix C**.

## **Conclusions**

- 1.36 Referrals are still increasing overall which is a good indication of awareness levels 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**

- 1.37 The Governance and Audit Committee note the Counter Fraud Update report for 2019/20.
- 1.38 To review and comment on the FFCL Check list.
- 1.39 To review and comment on the Counter Fraud Action Plan for 2020/21.

## **Background Documents**

Appendix A – Fighting Fraud Locally – A strategy for the 2020's

Appendix B – Fighting Fraud Locally – Check List Review

Appendix C – Counter Fraud Action Plan 2020/21

**James Flannery, Counter Fraud Manager**

03000 416092, [james.flannery@kent.gov.uk](mailto:james.flannery@kent.gov.uk)

July 2020