By:	James Flannery – Counter Fraud Manager
To:	Governance and Audit Committee – 8th October 2020
Subject:	**COUNTER FRAUD PROGRESS REPORT**
Classification:	Unrestricted

Summary:
This report details:

- The Counter Fraud activity undertaken for Quarter 1 of 2020/21, including reported fraud and irregularities.

Recommendation: FOR ASSURANCE

Introduction

1.1 This report outlines Counter Fraud work which has been undertaken in Quarter 1 of 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. The dynamics of the Covid-19 pandemic has seen a rise in the number of cyber enabling fraud attempts in Quarter 1. The main targets have been schools where spear phishing emails have been directed to finance staff pretending to be the Head Teacher requesting immediate payments to be made in the region of £7k. As would be expected with the impact of a county wide lockdown, the fraud and misuse within blue badges in Quarter 1 reduced significantly.

1.3 For Quarter 1 for 2020/21, there were 63 suspected irregularities (Trend analysis shown in tables below) reported to the Counter Fraud Team (compared to 77 during the same period in 2019/20). The distribution and characteristics of the irregularities reported to date show that the highest areas of financial risk so far this year were spear phishing frauds against schools.

1.4 Actual fraud losses for Quarter 1. 2020/21 were £693 with potential and prevented fraud losses equating to £352,464. Prevented fraud losses will fluctuate depending on the nature of cases referred.

Spear Phishing/ Cyber Extortion

1.5 Spear phishing is the fraudulent practice of sending emails ostensibly from a known or trusted sender to induce targeted individuals to make payments, in the cases the Counter Fraud Team have been made aware of fraudsters have attempted to obtain between £7k - £9k. At the start of lockdown, when schools were particularly targeted by this fraud type, the Counter Fraud Team provided guidance to schools on this increased risk and how to mitigate against it. No actual fraud loses were incurred by the schools who reported they had been targeted. The majority of prevented fraud loses reported in para 1.4 comes from these financial irregularities (£339,820).

1.6 Cyber Extortion is the practice of sending threating emails requesting payment to prevent disclosure of personal information. They will usually include details harvested from the dark web about the persons usernames and passwords to provide some authenticity to the personal information they would release if payment is not received, no actual losses were incurred.

1.7 Alerts were issued to schools on both spear phishing and cyber extortion during this period to inform schools of this heightened threat.   This included engaging directly with victims to reassure and support them in taking the appropriate action. All referrals were reported to Action Fraud to provide intelligence to the police. Action Fraud is the UK's national reporting centre for fraud and cybercrime. The service is run by the City of London Police working alongside the National Fraud Intelligence Bureau who are responsible for assessment of the reports and to ensure that fraud reports reach the right place.

Abuse of Position, Payroll and Contract Fulfilment

1.8 There have been three new referrals relating to Abuse of Position, Payroll and Contract Fulfilment, received this quarter.

1.9 With the change of demands, working practices and control environment that the Council has experienced during this period the risks around the management of IT assets are being monitored.

Direct Payments

1.10 Referrals on Direct Payments have reduced, with only two referrals received in this period. The monitoring of direct payments by the Direct Payments Monitoring Team has continued during this period where clients use the Kent card as the Direct Payments Monitoring Team has direct access to transactional data to monitor spend. Where clients use their own accounts and may not have internet banking this has proved a challenge for the monitoring team during the lockdown period. Counter Fraud are working with the Direct Payments monitoring team to see if there is any additional support the Counter Fraud Team can provide.
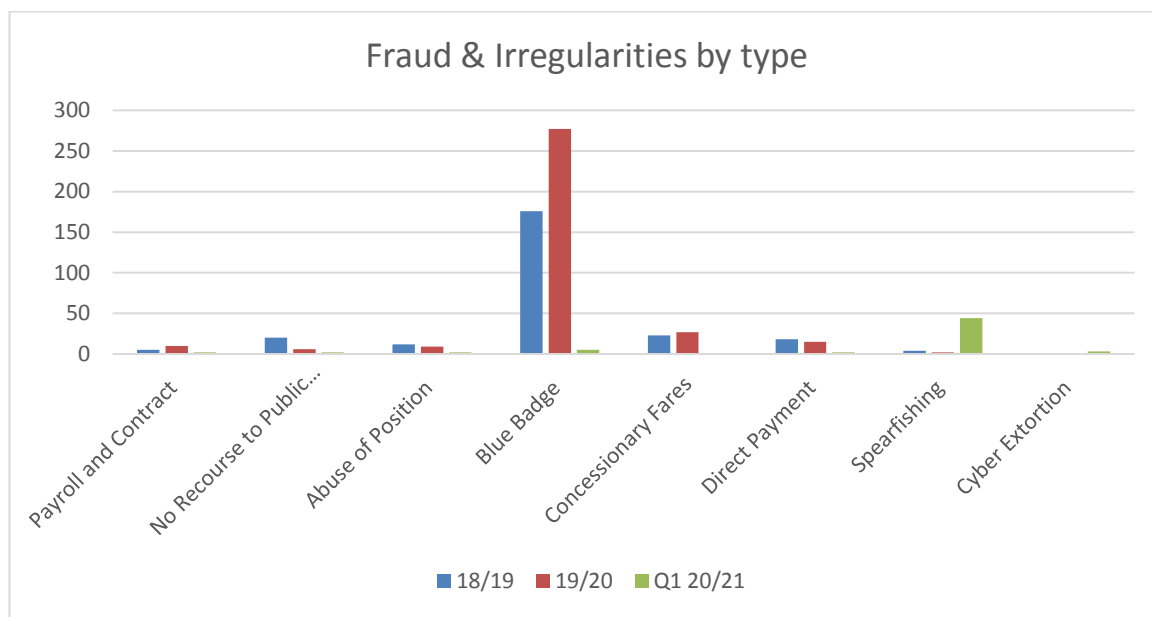
Blue Badges

1.11 Again, the nationwide lockdown has meant that the risk of people misusing the Blue Badge scheme reduced significantly, with only five referrals received in this period. Proactive work has, however, progressed with two further Councils (Canterbury & Dover) receiving training on how to use the Manage system. This system provides real time information to the Civil Enforcement Officers so they can check if the badge has been cancelled.

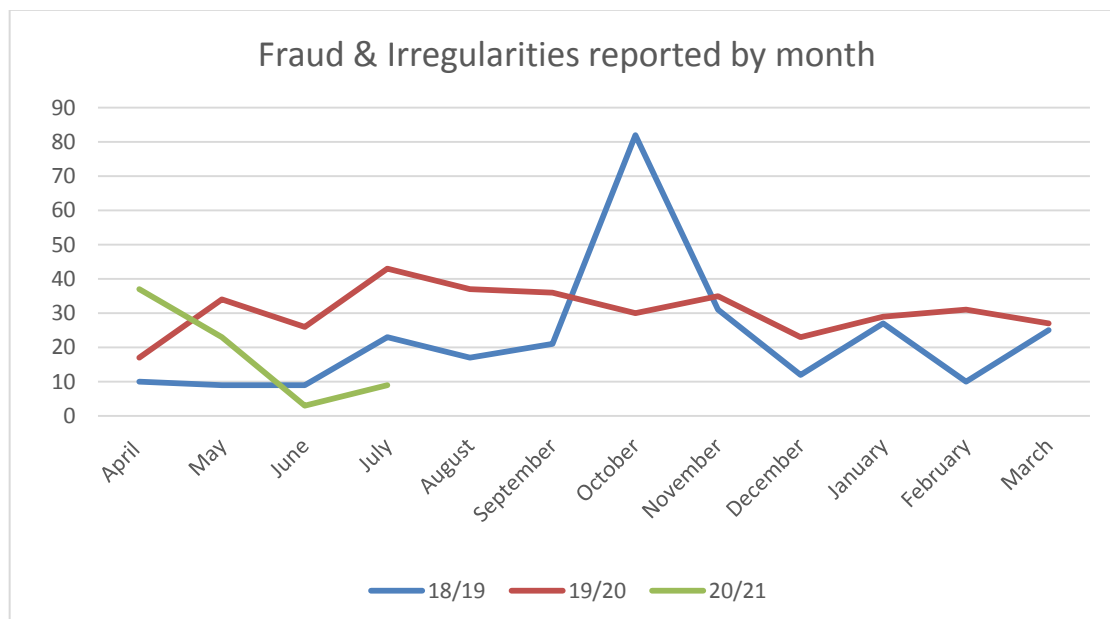1.12 Two enforcement days have been tentatively planned depending on the risk levels associated with the pandemic.

Fraud and Irregularity Trends

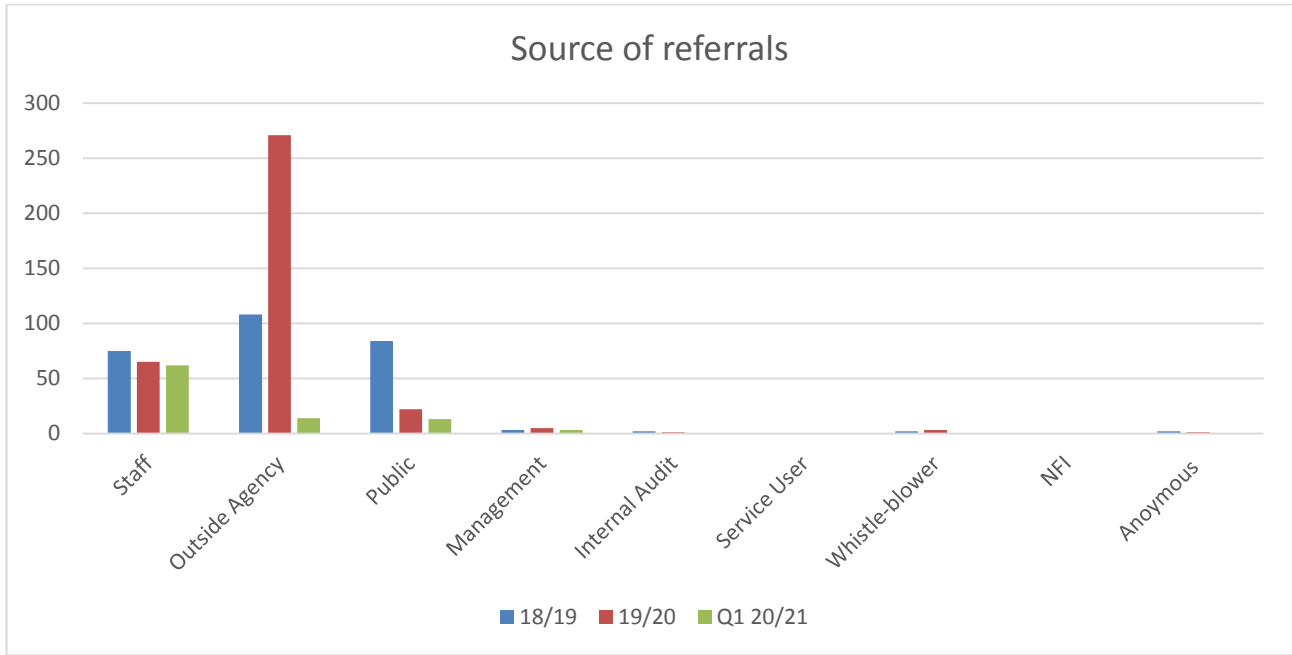1.13 The tables below show trends in reported fraud and irregularities:

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), Q1 20/21 (green)

Categories: Staff, Outside Agency, Public, Management, Internal Audit, Service User, Whistle-blower, NFI, Anoymous

Kent Intelligence Network (KIN)

1.14 The KIN continues to provide support to the District/Borough Councils and the outcomes for Q1, set out below, show some impressive financial returns in the first 3 months of the new financial year.

1.15 26 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.

1.16 The additional business rates revenue generated from the identification of these missing properties is £2,745,142, 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 £1,526,561; and
- A 'future loss prevention' provision of 3 years of £1,218,581. This represents the amount of additional income that would have been lost if the respective properties had not been identified by the KIN.

1.17 The most significant success achieved came about in the Borough of Dartford where two warehouses on the Crossways Business Park were identified, one of which has been occupied by British Gas since 2006. The warehouses are situated next to each other and both have now been brought into the rating list from 1st April 2017 (there is no provision to backdate rating assessments any further than this).

1.18 The combined Rateable Value for both assessments is £425,000 and the total amount of business rates billed was £844,900.

1.19 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 £79,520 in commission fees for District/Borough Councils.

1.20 The KIN has recently expanded its remit and is now starting to identify dwellings missing from the valuation list. So far, 5 addresses have been identified and the occupiers of these dwellings are now paying council tax.

1.21 The additional council tax revenue generated from the identification of these properties is £113,329, of which broadly 73% comes to KCC, and is a combination of the following:

- The total amount of council tax billed for both the current financial year and previous financial years of £73,879; and
- A 'future loss prevention' provision of 3 years of £39,450. This represents the amount of additional income that would have been lost if the respective dwellings had not been identified by the KIN.

1.22 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 5 dwellings identified will generate £28,000 in additional NHB, of which 20% will come to KCC.

1.23 The financial returns continue to demonstrate the value of the KIN. The Network is also gaining national recognition for the work it is undertaking having been shortlisted as a finalist in the national awards detailed below:

- Fighting Fraud & Corruption Locally 2020 in the category of Outstanding Proactive Fraud Prevention and Recovery Award (awards ceremony on 16th October 2020)
- Public Finance Awards 2020 in the category of Outstanding Proactive Fraud Detection and Recovery Awards (awards ceremony on 20th October 2020), and
- Credit & Collections Technology Awards in the category of Best Use of Technology in Credit & Collections, in partnership with Destin Solutions. (awards ceremony on 19th November).

Counter Fraud Plan

1.24 The Counter Fraud plan delivered for this period has been limited due to the national lockdown, however the Counter Fraud Team have continued to make progress against the plan as follows:

Ref.	Counter Fraud 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.	Fraud alerts have been issued to alert on emerging risks. Planning for International Fraud Awareness week (15-21 November) has commenced, running a digital campaign across KCC. Awareness raising through the completion of Divisional Fraud, Bribery and Corruption Risk Assessments within the 2nd line of Defence.
CF02 – 2021	NFI	Coordinate the Council's and its LATCO's participation in the National Fraud Initiative	Project plan in place, with data specifications issued to key contacts to extract data on the 30 September ready for upload into the NFI.
CF03 – 2021	Review Policies & Procedures • Anti-Fraud Strategy • Whistleblowing • Bribery • Code of Conduct	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.	All reviewed and reported to CMT and G&A except Whistleblowing, this is currently under review working with HR as policy owners.
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, Information Governance issues have resulted in the need to revisit the DPIA to ensure the matching is not high risk. Data matching on Council Tax and Business Rates continues.
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: • Leader as Portfolio Holder • CMT (In particular, Head of Paid Service, S.151 and Monitoring Officer) • Corporate Directors • Governance and Audit Committee • Directorate/ Divisional Directors	Counter Fraud Report issued to Leader and CMT prior to going to G&A. Divisional Fraud, Bribery and Corruption Risks assessment progressing.

Ref.	Counter Fraud Activity	Outline Scope / Rationale	Update
CF06 - 2021	Proactive Fraud Exercise - Schools	Provide Fraud awareness sessions to school finance staff, emerging leaders and governors. Including existing and emerging risks	Virtual fraud awareness session being delivered to Finance Staff on the 05 & 14 October via School Finance Services finance briefing. Fraud awareness training for School Finance Services staff within The Education People on the 13 October to support them in identifying fraud within their compliance work.
CF07 - 2021	Proactive Fraud Exercise - Blue Badges	Provide regular attendance at the parking managers meetings to inform them of latest guidance, what is working well and what needs improving. Provide enforcement awareness sessions to district CEOs.	Two awareness sessions delivered to Canterbury and Dover Councils on blue badge misuse and how Manage can support the detection of misuse. Enforcement Day planned for Tonbridge and Malling Council, however this is under review.
CF08 - 2021	Proactive Fraud Exercise - Social Care	Review the Financial Abuse Toolkit to support Social Care in identifying and managing financial abuse.	First draft completed and reviewed, to be issued to key stakeholders within ASCH & Finance to ensure the document meets the need of the services.
CF09 - 2021	Proactive Fraud Exercise - Commissioning	Work with Commissioning in assessing the fraud risks within the supply chain.	Ongoing – fraud e-learning is essential for all staff in Strategic Commissioning. Working with commissioning in reviewing the supplier set up process to ensure risk based due diligence is in place prior to services/ goods being commissioned
CF10 - 2021	Reactive Investigations	To manage and complete investigations.	During this period, we have closed 62 referrals/ Investigations. One case has been closed as police are progressing a prosecution, 52 cases have been referred to Action fraud and 9 cases have no further action.
CF11 – 2021	Data Analytics Development - Payments	To identify a way to use data analytics to help identify fraud and error within the payments systems.	Not started, planned for Quarter 3/4
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.	Not started, planned for Quarter 3/4
CF13 – 2021	Covid-19 Fraud Risk Assessments	To update COVID-19 Fraud Risk assessments as new threats emerge.	Completed and ongoing – Fraud Risk Assessment and guidance provided to key officers.

Ref.	Counter Fraud Activity	Outline Scope / Rationale	Update
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.	Ongoing – All Engagement Plans are reviewed at planning stage to assess and inform the fraud risk in the area being audited.

Counter Fraud Resources

1.25 A recruitment process was progressed during this period, this has seen a change in the structure of the Counter Fraud Team, which includes now having 2.6 FTE Counter Fraud Specialists (previously 1.8). The new member of staff has joined the team from the Metropolitan Police where they were an Acting Detective Sergeant and this will provide the team with additional skills in policing practices and approaches in particular in managing vulnerable people within an investigation.

1.26 A Counter Fraud Apprentice has also been recruited to support the referral management process. This was previously the role of a graduate work placement, however as the placement was only for 44 weeks, this limited the amount of training and development this position offered. The apprenticeship is for between 18 – 24 months which provides the opportunity for them to develop further and provide a more sustainable resource for the team.

Conclusions

1.27 Referrals are not as high as previous periods; this is due to a certain amount of disruption caused by the lockdown and the risk profiles changing on some of the fraud types. There has also been some disruption in progressing face to face interviews, which has been overcome by using Microsoft Teams and progressing interviews at Police Stations whilst the KCC property estate is being made Covid safe.

Recommendations

1.28 The Governance and Audit Committee note the Counter Fraud Update report for quarter 1 2020/21.

James Flannery, Counter Fraud Manager

03000 416092, james.flannery@kent.gov.uk Sept 2020