

By: James Flannery – Counter Fraud Manager
To: Governance and Audit Committee – 25th January 2022
Subject: **COUNTER FRAUD UPDATE**
Classification: Unrestricted

Summary:

This report details:

- The Counter Fraud activity undertaken for period April 2021 to December 2021, including reported fraud and irregularities.
- An update on the Counter Fraud Action Plan for in 2021/22 covering reactive and proactive activity.

Recommendation: FOR ASSURANCE

Introduction

- 1.1 This report outlines Counter Fraud work which has been undertaken in from April 2021 to December 2021 and the progression of 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 For the period July 2021 to December 2021, there were 104 suspected irregularities (Trend analysis shown in below tables) reported to the Counter Fraud Team (compared to 70 in the same period for 2020/21). 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 Payments.
- 1.3 Actual losses (fraud & error) for the period July 2021 to December 2021 are £66,378, of which £66,3784 is recoverable. The main contributor is £56,118 due to an error in a direct payment that resulted in payments continuing for services not received. Actual losses have increased compared with previous years. Prevented losses for 2021/22 stand at £1,137,735 with a potential of £1,136,800 of losses occurring if the Counter Fraud Team/ Management had not intervened, the majority of this figure is due to two attempts to change a supplier's bank account.

Mandate Fraud

- 1.4 Mandate fraud is where fraudsters attempt to change the bank details of a supplier. Two attempts have been made recently which resulted in one near miss as the bank details had been updated and payment (£123,000) made. Management, however, engaged with the bank to freeze the funds, which have now be recovered.
- 1.5 The second attempt was to change the bank details of a significant supplier to KCC, this would have resulted if actioned in a loss of over £1m. Further details of how these attempts were made

can be made available to members of Governance and Audit Committee within the private session of the meeting if required.

Blue Badges

- 1.6 Referrals for Blue Badge misuse for Quarter 2 & 3 have increased to 72, although not at the same rate as pre-Covid, this is a good indication that parking enforcement teams, especially in Ashford and Gravesham, are continuing to detect misuse.

Parking Enforcement Area	Referral numbers – Apr to Dec 21	Parking Enforcement Area	Referral numbers – Apr to Dec 21
Ashford BC	32	Maidstone BC	2
Canterbury CC	5	Swale BC	0
Dartford BC	1	Sevenoaks DC	0
Dover DC	4	Thanet DC	0
Folkestone & Hythe BC	0	Tonbridge and Malling BC	1
Gravesham	21	Tunbridge Wells BC	4

- 1.7 There has been an upturn in the number of referrals/ complaints from the public where they witness misuse in residential on-street parking, especially where there are parking restrictions in place. This is probably due to the change in the way people are working, with more home working going on than before.
- 1.8 Whilst the Counter Fraud Team can pass intelligence to parking enforcement teams to act where appropriate, there is no provision within the on-street parking agreement covering blue badge misuse. This has been raised with representatives in the GET Directorate and an update is awaited on a way forward.

Counter Fraud Reviews

Kent and Medway Business Fund (KMBF)

- 1.9 A review of funding paid through the KMBF has been completed by the Counter Fraud Team. The review looked at the way a loan paid to a community transport provider was facilitated as no funding scheme had been advertised for applications to be received.
- 1.10 It was established the Investment Advisory Board agreed to a pilot scheme to support non-commercial providers to deliver community transport services. However, prior to the scheme being advertised, a business case was received from a community transport provider.
- 1.11 The pilot did not progress and was closed with no advertising of the scheme. The Business Investment Team (who provide the secretariate for KMBF) were unable to provide information on how the applicant became aware of the pilot and how the business case came into KCC for consideration. The review identified a need to enhance the governance arrangements and roles and responsibilities within the terms of reference of KMBF.

Transport Contracts

- 1.12 A review has been completed on the approach taken in awarding of contracts, in particular relating to the Kent Karrier Contract. The review reviewed the risks of legal challenges occurring at a national level where commercial operators were taking legal action against Local Authorities on awarding commercial contracts to not-for-profit community transport providers. This led to

changing guidance from the Department of Transport and Driver and Vehicle Standards Agency, as well as a judicial review all of which has informed KCC's approach.

1.13 Changing guidance resulted in a community transport provider being suspended from the contract framework due to their operating model not being compliant with the guidance at the time. Updated guidance has been provided by the Department for Transport which will provide clarity to both KCC and Community Transport providers when contracts are made available for tendering.

1.14 The review also looked at the way KCC Transport Team progress enforcement action. A multiagency approach is taken, known as 'Operation Coachman', to ensure users of bus services are safeguarded. The operation helps detect and prevent operators in sending unfit or unlicensed drivers and faulty vehicles when transporting children and vulnerable adults. The review identified the service adopt a site visit matrix to ensure wider coverage across all KCC contracts and sites.

Fraud and Irregularity Trends

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

Table CF1 - Key areas of reported fraud and irregularities

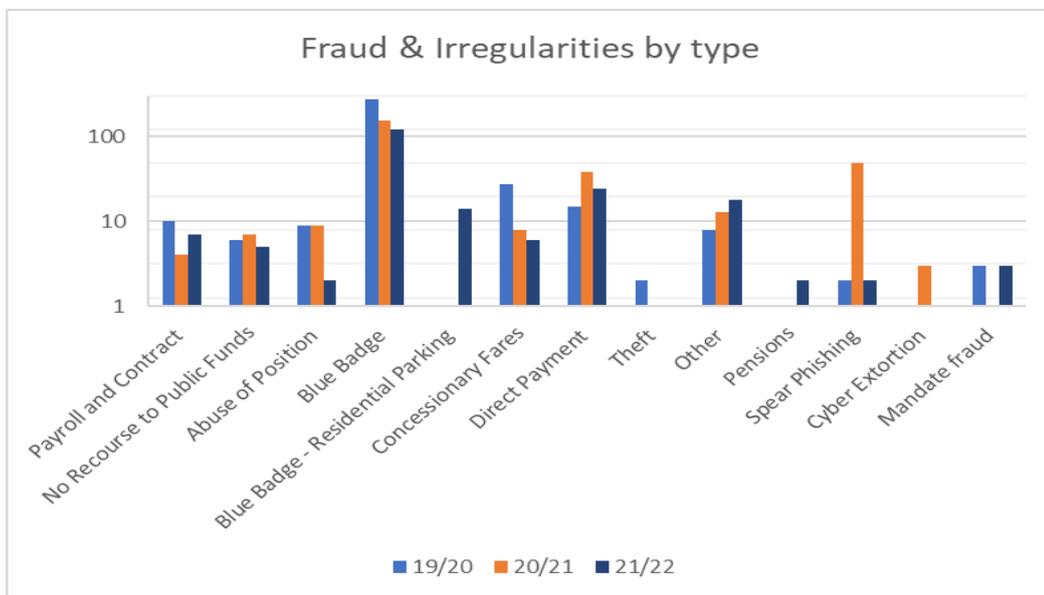


Table CF2 – Number of Irregularities Reported by Month

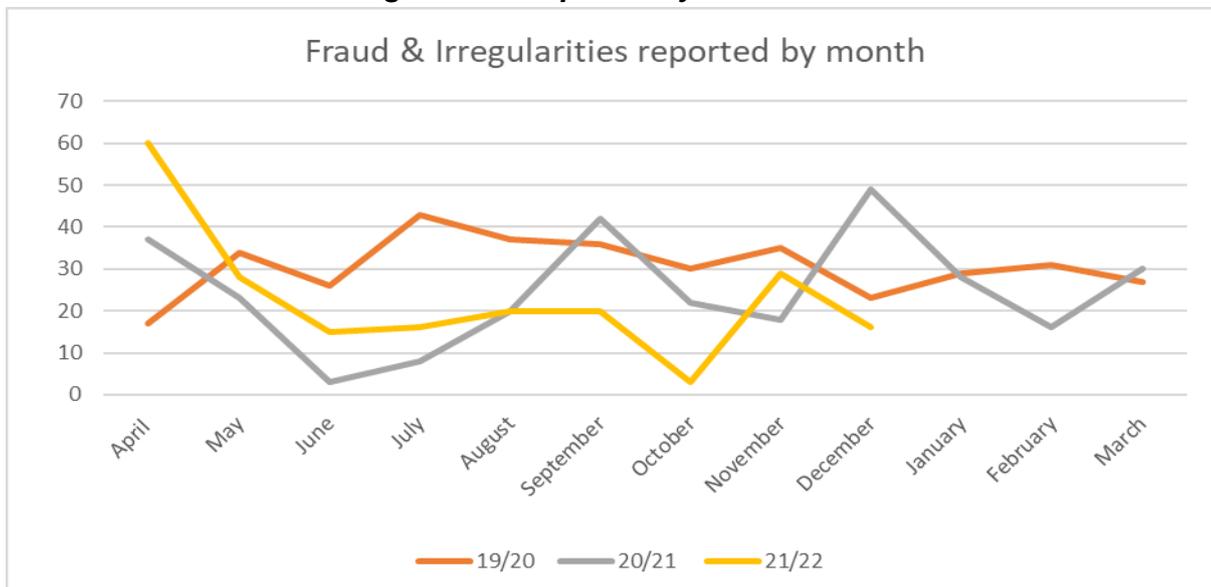
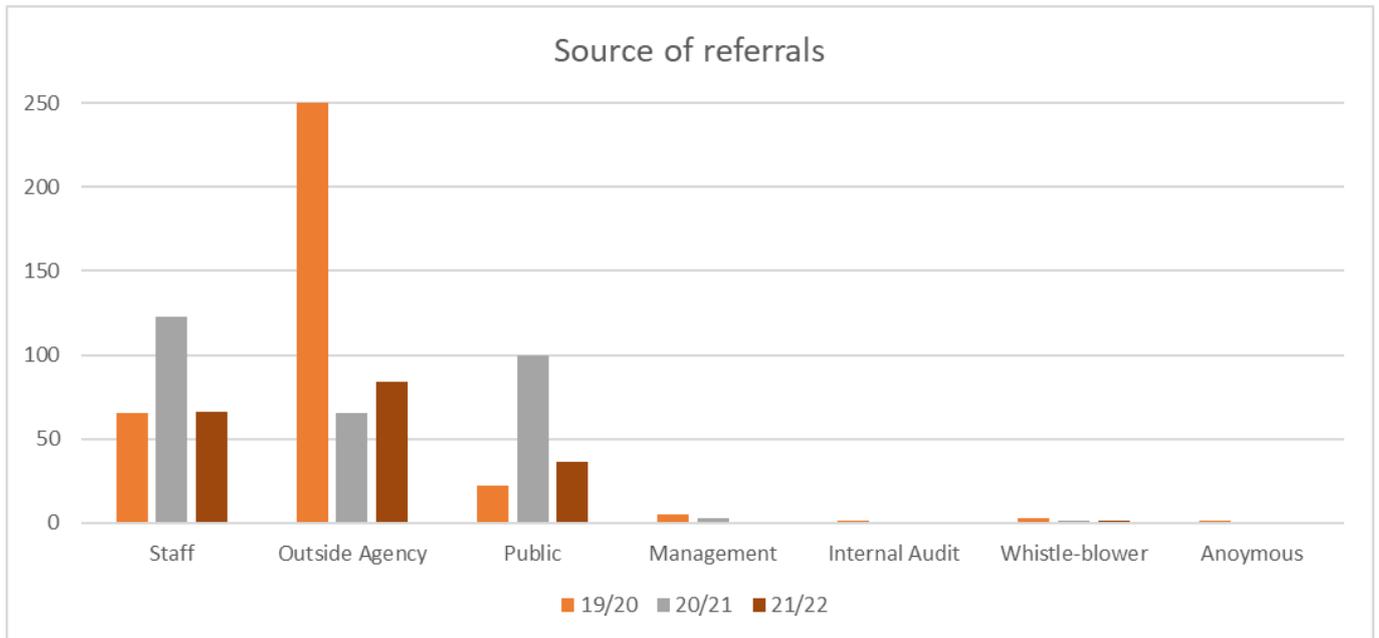


Table CF3 – Referrals by Source



Counter Fraud Pro-Active Work

1.16 The Counter Fraud Pro-Active Work delivered for Q2 & Q3 2021/22 includes:

- Fraud awareness to 60+ Commissioners;
- Fraud awareness campaign across KNet;
- Fraud Culture assessment for an external client;
- Supporting the due diligence checks for Reconnect Grant Scheme;
- Fraud awareness to school senior leaders;
- Presentation to the inaugural Government Counter Fraud Profession conference on fraud risks facing Local Authorities to raise awareness with Central Government Counter Fraud Professionals;
- Enhanced vetting checks on senior officers;
- Data Breach – Searchlight Review.
- Policy Review – See separate report for details.

1.17 The Fraud awareness presentation to Commissioners concentrated on fraud and corruption in the commissioning cycle. It concentrated on the research by the Cabinet office on the risks of fraud and corruption in local government procurement

Counter Fraud Resources

1.18 The team comprises of; 1FTE Counter Fraud Manager, 2.6FTE Counter Fraud Specialists, 2FTE Counter Fraud Technician, 0.8FTE Intelligence Officer and 1FTE Counter Fraud Apprentice.

1.19 On the 1 October 2021 staff (1FTE Counter Fraud Technician & 0.8FTE Intelligence Officer) were TUPE'd from Tonbridge and Malling Council as part of the shared services arrangement.

Counter Fraud Action Plan 2021/22

1.20 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 A**. Challenging times are still present with the changing in government guidelines due to Covid and the new variant. This presents difficulties in delivering face to face awareness sessions which support better engagement from attendees compared to when they are delivered virtually. In addition interviewing suspects is also a challenge in this current environment.

Conclusions

1.21 The Counter Fraud Action plan is being progressed, there is equal balance at present with the level of proactive and reactive work within the Council.

Recommendations

1.22 The Governance and Audit Committee note the Counter Fraud Update report for 2021/22.

James Flannery, Counter Fraud Manager

Jan 2022

Appendix A: Counter Fraud Plan 2021/22

Ref	Risk Area	Activity	Progress
CF01-2022	Payroll Pension Blue Badge Concessionary fares Trade Creditors	Progression of NFI Data Matches	In progress – Matches being cleared
CF02-2022	Corporate risk of Fraud	Policy and Strategy Review	Completed review of Anti-Fraud and Corruption Strategy, Anti Bribery Policy, Anti Money Laundering Policy, Financial Regulations and Whistleblowing policy
CF03-2022	Corporate Fraud	Kent Intelligence Network	In progress – savings reported
CF04-2022	All risk areas to support the prevention and detection of fraud and corruption	Relationship Management Strategy for Senior Stakeholders - Including Fraud, Bribery and Risk Assessments.	Fraud risk assessment of the Reconnect grant programme completed. No requests for fraud risks assessments on any new initiatives, policies or strategies have been received from management.
CF05-2022	All fraud risk areas faced by schools to support the prevention and detection of fraud	Proactive Fraud Exercise - Schools	Two sessions delivered to the Finance officers' group. Two sessions delivered to the Schools Senior Leader group
CF06-2022	Blue Badge fraud risk	Proactive Fraud Exercise - Blue Badges	Two enforcement days delivered – with press release to raise awareness Training video under development Engagement with Parking managers occurring
CF07-2022	Social Care fraud risks	Proactive Fraud Exercise - Social Care	Completed – issued and live on Knet.
CF08-2022	Procurement fraud risks	Proactive Fraud Exercise - Commissioning	Received Commissioning Standards currently under review
CF09-2022	Payment/ procurement fraud risks	Data analytics development - payments	Deferred to Q4

CF10-2022	Procurement fraud risks	Data analytics development - procurement card usage	Deferred to Q4 – awaiting outcome of Schools Themed Review
CF11-2022	Counter Fraud Profession	Professional standards	Engagement with the Cabinet Office on the Counter Fraud Profession.
CF12-2022	Tax evasion	Support the development and introduction of a tax evasion strategy and risk assessment	Completed - tax evasion risks and the mitigating controls and actions recommended to Senior Accountant.
CF13-2022	Payment fraud risks	Supporting Audit on specific audits where there is a fraud risk	In progress
CF14-2022	All fraud risk areas	Reactive Investigations	In progress. 181 cleared referrals & investigations for 2021/22.