

By: James Flannery – Counter Fraud Manager

To: Governance and Audit Committee – 25th October 2023

Subject: **COUNTER FRAUD UPDATE**

Classification: Unrestricted

Summary:

This report details:

- The Counter Fraud activity undertaken for the period of April 2023 to August 2023, including reported fraud and irregularities.
- An update on the Counter Fraud Action Plan for 2023/24 covering reactive and pro-active activity.

Recommendations:

The Governance and Audit Committee are asked to;

- Note the Counter Fraud Update report for 2023/24.
 - Note the progress of the Counter Fraud Action Plan for 2023/24.
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Irregularity Referrals – 01 April 2023 to 31 August 2023

- 1.1 There were 174 irregularity referrals received for the reporting period of the 01 April 2023 to 31 August 2023. This is higher than previous years, with the majority of the increase in referrals relating to blue badges and No Recourse to Public Funds, indicating greater awareness within these areas. The distribution and characteristics of the irregularities reported to date are shown in the graphs in **Appendix A**.
- 1.2 There has been an actual loss of £83,898 within this period. All amounts are subject to recovery for the full amount due.
 - The majority of the loss - £62,916, was due to a social care provider continuing to invoice for services after the person had passed away.
 - There has been an actual loss of £11,605 due to pension payments being made to someone who had passed away with no next of kin.
 - A further £7,719 is due to salary overpayments caused by late notification by management.
 - There was a further loss due to a laptop being stolen by an ex-member of staff, which has subsequently been recovered by the Metropolitan Police and returned to the service.
- 1.3 There has been a potential loss of £290,284 with the majority of this (£202,568) due to a build-up of Direct Payment funds within a child's direct payment account and a failure to recover underspends over the past four years. The majority of the remaining is due to the potential loss caused by the misuse of blue badges.
- 1.4 Prevented total losses for this period are £246,603, again with the majority of this due to reclaiming the £202,568 sitting unused in a direct payment account. The remaining prevented loss is due to the removal of blue badges.

Supporting Living within Adult Social Care

- 1.5 The Counter Fraud Team have completed an investigation into the way providers invoice and the way KCC pays providers within the supporting living contract. The investigation was progressed following concerns being raised by social workers that several clients did not receive the level of care and support that had been commissioned.

- 1.6 The investigation looked at care and financial records held by the provider (who are commissioned in the region of £500,000 per year) to support the invoicing to KCC, and how reconciliation between the invoice and care being delivered is controlled within KCC. The review identified:
- There was no link between the care being delivered and the invoicing within the provider, therefore invoicing against what had been commissioned rather than what had been actually delivered;
 - The level of care being recorded by the provider was inconsistent and not recording all the care being delivered within the client contact records;
 - The number of care hours was at a level to deliver the required care;
 - There is no requirement within the contract for providers to capture care delivered or to provide performance information on the percentage of care hours delivered against what has been commissioned;
 - There is no reconciliation occurring on the invoicing submitted, against the care being delivered, this is due to no requirement for providers to provide supporting evidence when invoicing. Subsequently, it was concluded that a key financial control is not in place.
- 1.7 The above issues have been reported back to management, which have been accepted with relevant management actions to address them. This will require a contract variation and engagement with providers to progress. There has also been full cooperation from the provider to improve their process to ensure that the invoicing is against what has been delivered and not what has been commissioned.

East Kent Opportunities

- 1.8 Following a no assurance report issued by Thanet District Council on East Kent Opportunities (EKO), a review of financial and procurement arrangements at KCC has been completed. This has identified:
- The procurement of consultancy services by Economic Development has not followed any formal procurement processes with around £850,000 spent on consultancy services over the past 12 years.
 - There is no contract in place with the consultancy service, despite this being raised over two years ago.
 - There is a lack of metrics to inform the performance of the regeneration project.
- 1.9 Management (who have recently inherited this responsibility) have accepted the issues and provided relevant management actions to ensure compliance with the financial and procurement regulations.

Blue Badges

- 1.10 Proactive and reactive work continues to address the risk of blue badge misuse across Kent. During this period, there has been engagement with the County's Parking Managers to continue raising awareness of blue badge misuse. Enforcement days are being planned and delivered with others expected by the end of October 2023.
- 1.11 The Counter Fraud Team has received 116 blue badge referrals within the reporting period with 113 being received from District/ Borough Parking Teams. From the 116 referrals, this has resulted in 52 warning letters being issued, 11 closed due to insufficient evidence, one caution, 22 cases closed with no further action, two closed referred to partnering agencies and 28 cases open for further investigation. There has also been 86 Penalty Charge Notices issued by Parking Enforcement Teams.
- 1.12 There has been a successful prosecution of a blue badge misuse case that occurred in Gravesend. The person received a two-year conditional discharge, £35 victim surcharge and ordered to pay the full legal and investigation costs of £1,963.

1.13 Referral rates from District/Borough Councils continue to be mixed across the county and work continues to support parking teams in conducting effective enforcement action. Further enforcement days are in progress.

Table 1: Blue badge referrals by district/borough councils

Parking Enforcement Area	Referral numbers – Apr 23 to Aug 23	Parking Enforcement Area	Referral numbers – Apr 23 to Aug 23
Ashford BC	37	Maidstone BC	14
Canterbury CC	12	Sevenoaks DC	3
Dartford BC	2	Swale BC	14
Dover DC	3	Thanet DC	3
Folkestone & Hythe BC	0	Tonbridge and Malling BC	2
Gravesham	21	Tunbridge Wells BC	2

No Recourse to Public Funds

1.14 The Counter Fraud Team supports the CYPE Directorate in conducting verification checks on those seeking support due to being destitute and having children. The Counter Fraud Team have received nine referrals within this reporting period.

1.15 The Counter Fraud Team are monitoring referral rates and working with CYPE to ensure that relevant information is captured at point of contact, the process is as efficient as possible, and resources are in place to meet any increase in demand.

National Fraud Initiative

1.16 The matches for the biennial National Fraud Initiative exercise have been released. **Appendix B** provides details of types of reports released and number of matches. This shows a considerable number (30,002) of matches to be cleared, these will be cleared according to their risk rating, with high and medium level matches taking priority. Sample testing of low-risk matches will occur to determine if the cost/ benefit of reviewing these matches.

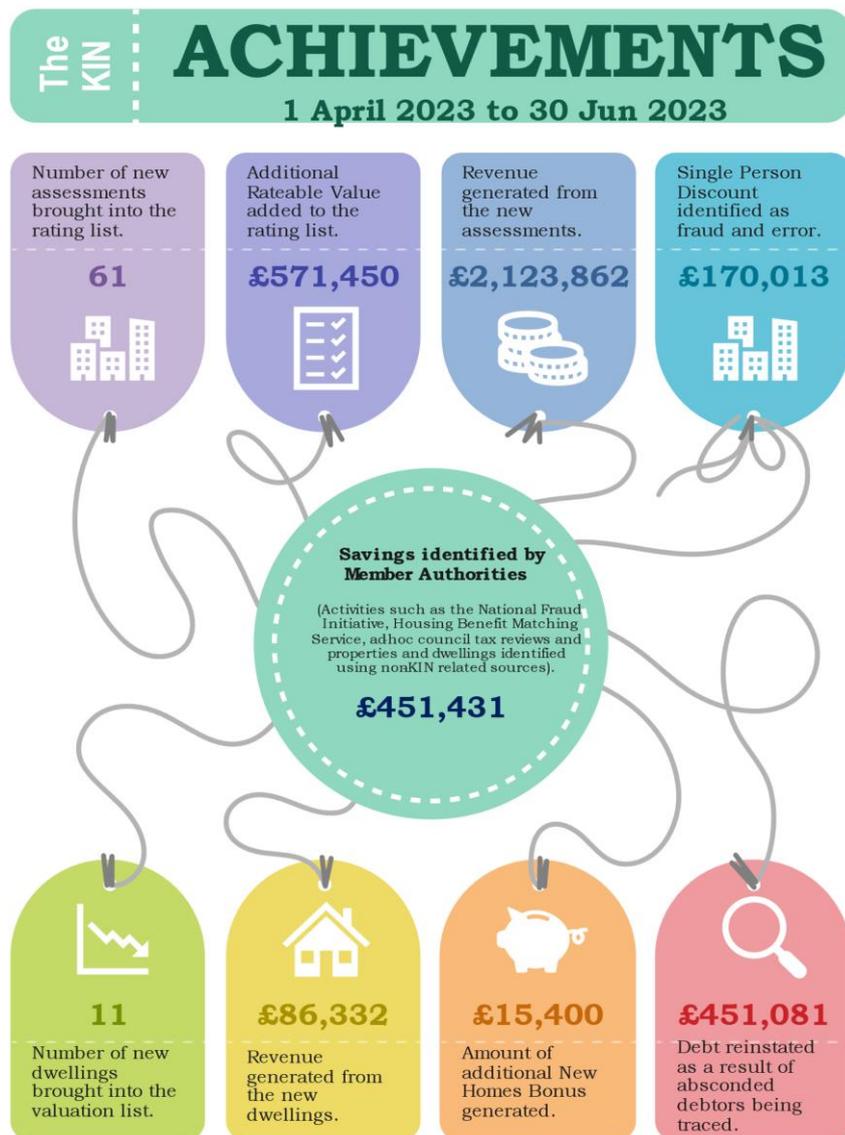
1.17 Match 172.1 Blue Badge to deceased data has been completed. The Cabinet Office applies an estimated saving of £650 for every cancelled badge, from 2887 matches received, 338 badges have been cancelled that were not already known about with an estimated saving of £219,700.

1.18 There are a number of cases that are with management/HR to investigate in relation to the payroll to payroll matches. Due to the process involved, these will take time to resolve.

1.19 Historically, there has been a number of false positives in the data matching (a false positive is where the conditions of the match has been met but due to data quality the condition is not realised). These are most common within the creditor data that has been received. Sample testing will determine the value of progressing of these matches against the resources needed to clear them.

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 2023 to 30 Jun 2023, set out below, show the results and financial returns achieved.



1.21 61 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 £2,096,749 (£2,123,862 including Medway), of which broadly 9% (£188,707) 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 £1,276,317 (£1,294,298 including Medway); and
- A 'future loss prevention' provision of 3 years of £820,432 (£829,564 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 on 30 June, there were 228 Business Rate cases with the Valuation Agency awaiting assessment/valuation, none of which are included in the figures stated above, and a further 304 cases which are currently under investigation by billing authorities.
- 1.24 The KIN also helps to identify dwellings missing from the valuation list and so far, 11 dwellings have been identified.
- 1.25 The additional council tax revenue generated from the identification of these missing properties is £86,332, of which broadly 73% (£63,022) comes to KCC, is a combination of the following:
- The total amount of council tax billed for both the current financial year and previous financial years of £29,746; and
 - A 'future loss prevention' provision of 3 years of £56,586. 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 on 30 June, there were 10 Council Tax cases with the Valuation Agency awaiting assessment/valuation, none of which are included in the figures stated above, and a further 21 cases which are currently under investigation by billing authorities.
- 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 11 dwellings identified will generate £15,400, of which 20% (£3,080) comes to KCC.
- 1.28 In respect of the £451,081 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 £315,756 and this would amount to £230,502.
- 1.29 In total, the financial benefit to KCC from the initiatives and successes detailed above amounts to £485,311 for the first quarter of 2023/24.
- 1.30 It is also important to highlight the investment made by KCC to help billing authorities achieve these outcomes. This investment is by way of an annual grant given to the respective billing authorities, the components for which are broken down as follows:
- A grant of £352,646 for the provision of additional resources to help carry out KIN related work, and also to assist with non-KIN related initiatives that help to increase the tax base and rates base.
 - A grant of £19,710 towards a product that helps to trace absconded council tax debtors.
- 1.31 Solely in respect of the KIN related work, the return-on-investment to date (April to June) is £112,955 above the annual cost of this activity.

Counter Fraud Proactive Work

- 1.32 The Counter Fraud Proactive Work delivered for period April 23 to August 2023 includes:
- Fraud Awareness to East Kent Social Workers within CYPE;
 - Fraud and Forgery/ Counterfeit awareness to Client Financial Services within Finance ;

- Attendance at KCC Serious and Organised Crime working group; and
- Attendance at Kent Fraud Panel meetings.

Counter Fraud Action Plan 2023/2024

1.33 Updates to the 2023/24 Counter Fraud Action Plan can be found at **Appendix C**. The balance between pro-active and re-active work continues to be a challenge within resource levels. The Counter Fraud Team continues to challenge and support management in managing their fraud and error risks.

Counter Fraud Resources

1.34 There has been a successful recruitment exercise to replace a Counter Fraud Specialist and there is currently a recruitment exercise to replace a Counter Fraud Technician (TMBC Lead) position.

1.35 The team comprises; 1FTE Counter Fraud Manager, 3FTE Counter Fraud Specialists, 2FTE Counter Fraud Technician, 0.8FTE Intelligence Officer and 1FTE Intelligence Assistant. These resources are there to support not only KCC but as part of our shared services with Tonbridge and Malling Council, as well as our external clients.

Conclusions

1.36 Reactive fraud work continues to address the irregularities being reported, with lessons learnt being reported back to management where there has been a lack of control or a control failure. There are instances where low level cases cannot be progressed due to resource pressures.

Recommendations

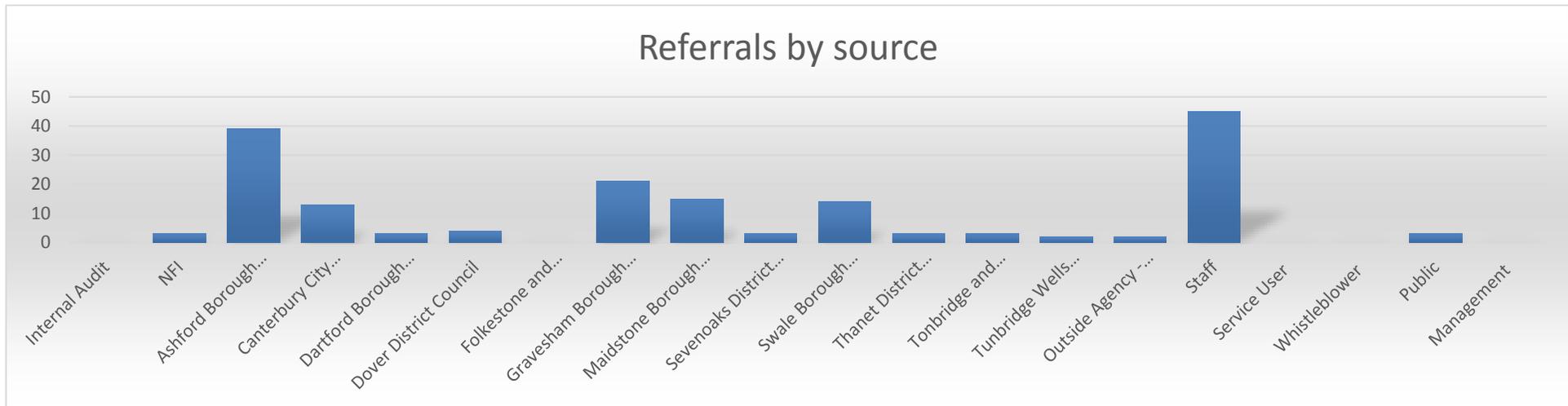
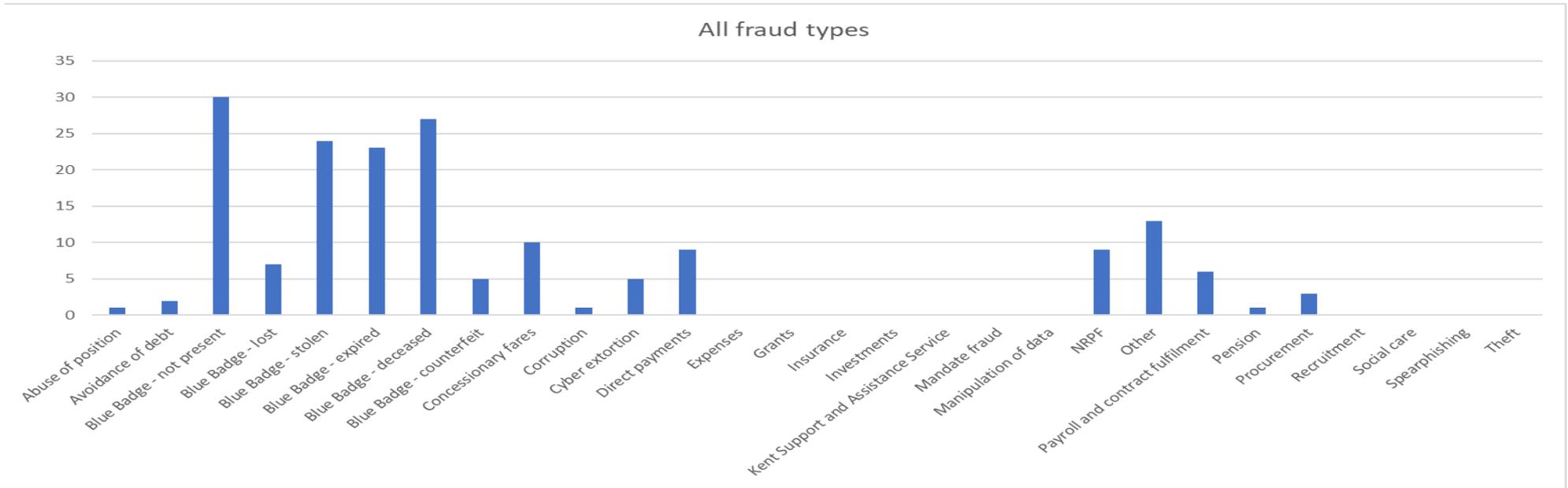
1.37 The Governance and Audit Committee are asked to:

- Note the Counter Fraud Update report for 2023/24.
- Note the progress of the Counter Fraud Action Plan for 2023/24.

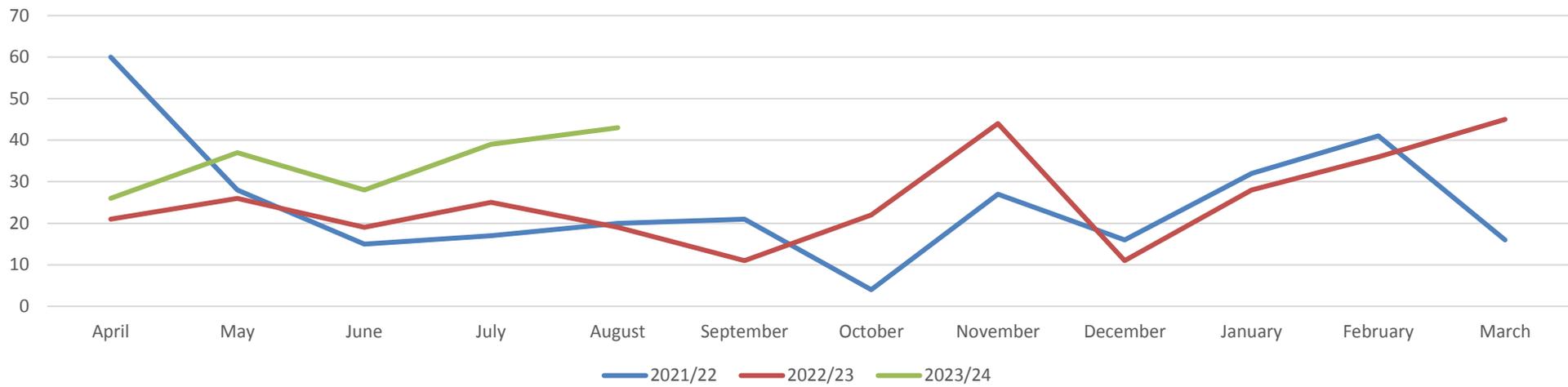
James Flannery, Counter Fraud Manager

October 2023

Appendix A: Fraud and Irregularity referrals April 2023 to August 2023 – Graphs



Number of referrals per month



Appendix B – National Fraud Initiative Outturn

Report Title	Description of match	No of matches	Current Status
Pension/ Pension Gratuity/ Deferred Pension to DWP Deceased (52, 53)	The purpose of the match is to identify instances where an occupational pensioner has died but the pension is still being paid	388	In progress with pension service
Pension to Payroll (54,55,78)	To identify pensioners who may have gone back into employment that could result in an abatement of their pension	436	Cleared no impact due to conditions of pension allowing for employment with no abatement.
Payroll to Payroll (65,66, 67.2,68.1)	To identify individuals who may be committing employment fraud by failing to work their contracted hours because they are employed elsewhere or are taking long-term sickness absence from one employer and working for another employer at the same time	87	Open – Investigations continuing.
Payroll to Creditors (80, 81)	The match identifies instances where an employee and creditor are linked by the same bank account or the same address to identify employees with interests in companies with which your organisation is trading	195	Open – Investigations continuing.
Blue Badge to Blue Badge (170, 170.1, 172.7, 172.8, 172.9)	The purpose of this match is to identify people who may have committed fraud by obtaining more than one blue badge	1,303	Open – Investigations continuing.
Blue Badge to DWP Deceased (172.1)	Individuals who have a blue badge have been matched to deceased records. This will identify cases where a permit holder has died, but the local authority may not have been notified	2,887	Complete – Cabinet office applies an estimated saving of £650 for every cancelled badge 338 badges cancelled that were not already known about. Total estimated saving £219,700
Blue Badge to Amberhill data (303, 304)	Identity fraud happens when fraudsters use a false identity or somebody else's identity details to support their criminal and deceptive activities	2	Open – Investigations continuing.

Concessionary Travel Passes to DWP Deceased (172.2)	Individuals who have a concessionary travel pass have been matched to deceased records. This will identify cases where a permit holder has died, but the local authority may not have been notified	5,286	Completed – Cabinet office applies an estimated saving of £24 per cancelled pass. Total estimated saving £124,062
Concessionary Travel Passes to Amberhill Data (306, 307)	Identity fraud happens when fraudsters use a false identity or somebody else's identity details to support their criminal and deceptive activities	2	Open – Investigations continuing.
Duplicate Creditors by creditor reference (700)	Duplicates identified in this match suggest poor creditor management as the system has permitted a creditor reference to be used more than once	27	Closed – no issues found.
Duplicate Creditors by creditor reference, name, address, account number (701, 702, 703, 707)	Duplicates identified in this match suggest poor creditor management as the system has permitted a creditor reference to be used more than once	1,200	Open – investigations continuing.
Duplicate records by amount and creditor reference (708)	This match highlights possible duplicate payments in excess of £1,000 that may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff	17,374	Open – investigations continuing.
VAT overpaid (709)	This report identifies instances where VAT may have been overpaid	190	Awaiting review
Duplicate records – creditors (711, 712, 713)	This match highlights possible duplicate payments for the same goods/services but to creditors with different reference numbers, which may have arisen as a result of poor controls or fraudulent activity by suppliers and/or staff	483	Open – investigations continuing.
Procurement – Payroll to Companies House (Director)	To identify potential undeclared interests that have given a pecuniary advantage	142	Open – investigations continuing.

Appendix C: Counter Fraud Plan 2023/24

Ref	Strategy link	Risk Area	Activity	Description	Update
CFT-01	Govern	Corporate Fraud	Policy, Strategy and Risk Review	Review each policy bi-annually, presented to CMT & G&A and once agreed to be communicated across KCC management via Kmail for managers. Expected policies to be reviewed: Anti-Fraud and Corruption Strategy Anti Bribery Policy Anti Money Laundering Policy Financial Regulations Whistleblowing Policy Spending the Councils Money To review any other policy that may have an inherent fraud, bribery & corruption risk	Anti-Fraud and Corruption Strategy Anti Bribery Policy Anti Money Laundering Policy Whistleblowing Policy Above be reported to the January 2024 G&A Committee
CFT-02	Govern	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.	Ensure that the culture which is supported by Corporate Management Team and Governance and Audit Committee is embedded throughout the organisation through Counter Fraud attendance at relevant meetings and focus groups.	ASCH Supporting Living risk assessment plus management letter to raise issues.
CFT-03	Prevent	All fraud risk areas faced by schools to support the prevention and detection of fraud	Proactive Fraud Exercise - Schools	Create and deliver a communication strategy to provide Fraud awareness sessions to school finance staff, senior leaders and governors. Including existing and emerging risks. As well as providing ad-hoc advice	Sessions booked for Autumn 23 and Spring 24
CFT-04	Prevent	Blue Badge fraud risk	Proactive Fraud Exercise - Blue Badges	Provide regular communication to parking managers to inform them of latest guidance, what's working well what needs improving, including the issuing of a quarterly newsletter. Provide enforcement awareness sessions to district CEOs.	Parking Manager meetings attended to provide engagement and feedback. 2 enforcement days in progress Q1 Newsletter issued.

CFT-05	Prevent	Social Care fraud risks - ASCH	Financial Abuse Review	To progress a review of the approach taken by ASCH safeguarding on addressing financial abuse against vulnerable adults.	Support in place, challenge and support provided on a case by case basis, including engagement with Kent Police in progress.
CFT-06	Prevent	Fraud Risks – ASCH	To deliver fraud culture work/ awareness sessions ASCH	To create and deliver a communication and engagement strategy that meets the need of the Services in addressing fraud/ financial crime risks.	In progress
CFT-07	Prevent	Fraud Risks - CYPE	To deliver fraud culture work/ awareness sessions CYPE	To create and deliver a communication and engagement strategy that meets the need of the Services in addressing fraud/ financial crime risks.	In progress – Awareness session delivered to East Kent Social Worker teams. Fraud Awareness to East Kent Social Worker Team Risk Assessment and reporting requirements for overpayments within LAS payment system.
CFT-08	Prevent	Fraud Risks - GET	To deliver fraud culture work/ awareness sessions across GET	To create and deliver a communication and engagement strategy that meets the need of the Services in addressing fraud/ financial crime risks.	In progress
CFT-09	Prevent	Fraud Risks - CED/ DECD	To deliver fraud culture work/ awareness sessions across CED/ DECD	To create and deliver a communication and engagement strategy that meets the need of the Services in addressing fraud/ financial crime risks.	Awareness to Client Financial Affairs on fraud awareness and forgery/counterfeiting of documents.
CFT-10	Prevent	No Recourse to Public Funds	Review of CF Process	To review the guidance, forms, and controls in place to enable effective assessments of someone's destitution. Review NRPF applications where these financial checks are required.	In progress- review of process completed, new financial assessment form completed and passed to service for review and implementation. NRPF checks being completed

CFT-11	Prevent	All risk areas to support the prevention and detection of fraud and corruption	Fraud Awareness	Agile awareness sessions to be delivered in conjunction with emerging risks	Bespoke engagement to: CYPE quality assurance Shared Lives management GET Economic Development Management
CFT-12	Pursue	Payroll Pension Blue Badge Concessionary fares Trade Creditors	Progression of NFI Data Matches	Coordinate the Council's and its LATCO's participation in the National Fraud Initiative, including the monitoring of matches being completed by the relevant team.	In progress – See Appendix B
CFT-13	Pursue	Corporate Fraud	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.	In progress – update included in report.
CFT-14	Protect	Counter Fraud Profession	Professional standards	Engagement with the Cabinet Office on the Counter Fraud Profession	Practitioners group updating standards. Onboarding Managers into profession being progressed.
CFT-15	Protect	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.	Provide advice and support on key fraud controls in specific audits.	In progress- Engagement plans reviewed.
CFT-16	Acknowledge	All fraud risk areas	Reactive Investigations	To manage and complete investigations into the financial irregularities reported to Internal Audit & Counter Fraud. Including criminal, civil and where needed disciplinary investigations. Providing management with any areas of improvements needed to reduce the risk of fraud or error occurring again.	In progress – outputs reported in main report.

CFT-17	Acknowledge	All fraud risk areas	Data Analytics	Providing advice/ guidance and data analytical support in order to identify fraud and error occurring.	Reviewed Supporting Living information to inform if data analytics can be used for reconciliation, data structure not in place to enable data analytics.
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