

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 22 September 2020

**BY:** Service Manager – Internal Audit

**SUBJECT:** Covid-19 Emerging Fraud Risks (Audit Scotland, July 2020)

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## **1 PURPOSE**

- 1.1 To review East Lothian Council's position in relation to the identified emerging fraud risks highlighted in the Audit Scotland briefing paper, '*Covid-19 Emerging Fraud Risks*'.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee:
- i. Note the position of East Lothian Council in regard to the actions taken and planned to be taken to provide assurance over the areas highlighted in the '*Covid-19 Emerging Fraud Risks*' briefing paper.
  - ii. Use the recommended elements of '*What Public Bodies can do to reduce these fraud risks*' (page 6) to identify any further information or scrutiny activity it would wish to have reported back to future meetings of the Audit and Governance Committee.

## **3 BACKGROUND**

- 3.1 The Covid-19 pandemic has brought significant challenges across the Scottish public sector, including East Lothian Council, as we seek to deliver services for individuals, communities and businesses in an extremely difficult time. Since the start of the pandemic, the risk of fraud and error has increased as organisations become stretched, and controls and governance are changing.
- 3.2 The Audit Scotland briefing sets out a range of fraud risks emerging from the Covid-19 crisis, and what public bodies might do to help reduce these risks.

3.3 East Lothian Council has taken action to communicate, investigate and mitigate these fraud risks in the following ways:

- Through a series of Employee and Manager briefings highlighting internal and external fraud risks and better ways of home working, managing and monitoring of Mental Health.
- Internal Audit assurance exercises completed on new and at risk processes, including Business Grants, Duplicate Payment controls, NDR relief changes, and relaxation of procurement controls.
- Internal Audit have also reviewed alternative data analysis tools and decided to remain with the National Fraud Initiative as the key data analysis tool moving forward.

3.4 Further action is also planned to enhance assurance around these key risks, including:

- Presentation of the Audit Scotland briefing note to the Council Senior Management Team.
- Internal Audit reviews of Payroll and Cyber Security.
- Provision of data, including Business Grant data, to the National Fraud Initiative for data analysis.

## **4 POLICY IMPLICATIONS**

4.1 None

## **5 INTEGRATED IMPACT ASSESSMENT**

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

## **6 RESOURCE IMPLICATIONS**

6.1 Financial - None

6.2 Personnel - None

6.3 Other - None

## **7 BACKGROUND PAPERS**

7.1 Audit Scotland briefing paper, '*Covid-19 Emerging Fraud Risks*', July 2020.

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<b>DATE</b>	11 September 2020



Covid-19

# Emerging fraud risks



# Covid-19: Emerging fraud risks

The Covid-19 pandemic has brought significant challenges across the Scottish public sector as bodies seek to deliver services for individuals, communities and businesses in an extremely difficult time.

Since the start of the pandemic, the risk of fraud and error has increased as organisations become stretched, and controls and governance are changing. These risks are emerging for a range of reasons including:

- public-sector staff working remotely and under extreme pressure
- an increase in phishing emails and scams which try to get staff to click on links which allow fraudsters to access public-sector systems
- government stimulus packages to support individuals and businesses being provided quickly, possibly with a lower level of scrutiny and due diligence than has previously been in place for similar schemes.

This briefing sets out a range of fraud risks emerging from the Covid-19 crisis, and what public bodies might do to help reduce these risks. It aims to raise awareness of these new fraud risks with public bodies and their auditors; and support them in identifying and managing these risks, and ensure that sound governance and controls are in place.

Additional risks will continue to emerge as fraudsters identify new ways to target public money and services. Public bodies and auditors should stay alert to new scams and approaches by fraudsters, and regularly review their controls and governance arrangements to ensure they remain fit for purpose.

The information in this briefing is based on our professional judgement in auditing risk factors in the public sector. We would like to thank colleagues in Police Scotland, NHS Scotland Counter Fraud Services, local government chief internal auditors and fraud investigators for their support in preparing this briefing.

# 1. Emerging public sector fraud risks due to Covid-19

Covid-19 has raised significant challenges for the public sector. In such emergency situations, existing controls may be compromised, and it can be difficult to put in place robust controls for new processes. Good governance and sound controls are essential in such crisis situations. The risks include, but are not limited to:

 General governance risk
  Procurement risk
  Covid-19 funding
  Payroll/recruitment risk
  IT/cyber crime risk
  Health and wellbeing risk



Public sector staff are working under extreme pressure which may mean some internal controls are suspended or relaxed



Procurement fraud could increase as normal controls may be relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers



Staff may be transferred from their own departments to other areas experiencing resource pressures. This may leave some departments under-staffed at the same time that inexperienced staff may be working remotely without a full understanding of the required procedures and controls



An increase in medical and sanitary waste may see criminals attempt to gain waste management contracts. This could result in the inadequate disposal of the waste, with the potential associated harm to public health as well as generating proceeds for the criminals



There is a risk of weakened governance arrangements as internal audit teams are redeployed to operational areas



Duplicate payments are possibly not detected, or payments may be made without checking goods and services were received to a satisfactory quality



Mandate and diversion fraud<sup>1</sup> may increase as fraudsters try to get employees to update bank details and make payments to suppliers as soon as possible, knowing that staff are under pressure and that the normal controls may have been relaxed



Fraudsters may be 'selling' popular and/or hard to get items online. The products may not arrive or may turn out to be counterfeit, eg medicines, PPE and hand sanitiser products that are unsafe and do not provide the necessary level of protection

Note 1. Mandate fraud is when an employee is deceived into changing bank payment details (eg, of a supplier) in order to divert payments to fraudsters.

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Government stimulus packages to support individuals and businesses are being provided quickly, possibly with a lower level of scrutiny and due diligence than has previously been in place



Councils may receive requests for business rate liabilities to be changed. This may be an attempt to ensure a business falls within a category qualifying for grants



Councils may receive Freedom of Information requests asking for details that may be used for business grant applications. Fraudsters are possibly looking to identify eligible businesses that have not applied for grants, with a view to putting in a fraudulent application



There is a risk of recruitment fraud as new staff are needed immediately due to increased demands for services and the normal checks may not be completed



Councils may receive fraudulent email enquires purporting to come from national companies asking for property details, reference numbers, etc, possibly with a view to making fraudulent applications for Covid-19 business grants



Payroll fraud may increase as normal controls around expenses, overtime, etc may be relaxed



There is a risk that applications for Covid-19 related support due to being made online, are made using fraudulent documents and details



Staff returning to work in the NHS to help respond to Covid-19 may be targeted by unscrupulous tax avoidance schemes



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Staff working remotely may pose potential security risks, eg when using personal devices and/or using removable devices to download data. Household members may gain unauthorised access to confidential information such as payroll, social work client details, etc, via screens or in documents used by staff



More remote working may result in isolation and /or mental health issues which could lead to increased addictive behaviours (eg, gambling), which could result in vulnerability to serious organised crime gangs



There is a risk of increased cyber crime as more public-sector staff connect remotely to access systems and for meetings using online video conference services



An increase in internal fraud in public bodies is possible as employees and their families are under increased levels of financial and health pressures



Staff working remotely may receive calls from fraudsters claiming to be legitimate technical support services and attempting to gain access to systems



Working for sustained periods of time at high levels of demand may lead to errors or fraud due to lapses in concentration



There is a risk of an increase in phishing<sup>1</sup> emails and scams trying to get staff working under pressure to click on links which allow fraudsters access to public-sector systems



















Employees/volunteers could take advantage of vulnerable service users, eg by gaining access to bank cards, cash drop-offs at client's house, befriending with sinister intentions



There is a risk of more system access breaches where personal information is accessed without a valid reason by staff working remotely, eg possibly to check friends' applications for services

Note 1. Phishing is where criminals send emails purporting to be from reputable sources in order to deceive individuals into providing information or data such as passwords, user names or bank details.

## 2. What public bodies can do to reduce these fraud risks

-  Discuss and agree the organisation's risk appetite and associated approach to the newly emerging risks
-  Carry out a risk assessment to identify the most vulnerable areas under the new working conditions. This will include a review of IT system security for remote working
-  Ensure Internal Audit reviews systems of control. Some of the existing controls are unlikely to be still relevant and appropriate
-  Introduce new systems of control to address new and emerging risks
-  Ensure existing ways of reporting fraud or irregularity are still operating and are promoted, eg fraud hotlines and whistleblowing processes are still operating
-  Continue staff training, especially for staff moved to work in areas that are new to them
-  Ensure staff and customers receive regular, appropriate communications on the new ways of working and changes to services
-  Review the NHS Counter Fraud Authority's guidance including: [Covid-19 counter fraud guidance](#) 
-  Review the UK Government Counter Fraud Function's website for latest guidance including [Covid-19 Counter fraud response team](#)  and [Fraud Control in Emergency Management: Covid-19 UK Government Guidance](#) 
-  Consider bank account verification and active company search services, eg that are available from the Cabinet Office or NAFN<sup>1</sup> to the UK public sector
-  Review NFI<sup>2</sup> submission requirements that will require data to be submitted related to Covid-19 payments and services
-  Run 'dummy phishing' exercises to test employees' reactions, with a requirement to revisit training modules if an employee 'fails'
-  Rotate employees or volunteers working with vulnerable service users and ensure appropriate employee disclosures are up to date

### Notes:

1. NAFN is a shared service organisation open to all public-sector organisations. NAFN provides data, intelligence and best practice services for member organisations.
2. NFI is the National Fraud Initiative, an exercise that matches electronic data within and between public and private-sector bodies to prevent and detect fraud.

## 3. Wider Covid-19 fraud risks

Covid-19 could unfortunately see an increase in fraud across all areas of life.



Texts may be received advising recipients that they are eligible for a tax refund under the Self-Employment Income Support Scheme. Recipients are asked to click on a link which leads to a fake HMRC website where they are asked for personal and financial details



Texts may be received posing as coming from the NHS contact tracing service. The texts advise people they have been in contact with someone with symptoms of Covid-19. The texts direct the recipient to a website which attempts to obtain personal details



Blackmailing and phishing emails may be received, telling victims that family or friends will be infected with Covid-19 if they do not pay



Fraudulent emails may be received telling people they can claim a tax refund to help with Covid-19 financial challenges. Recipients are asked to submit personal and financial details



Cold callers posing as the NHS contact tracing service may call people to advise that they have been in contact with someone who has tested positive for Covid-19. The caller may ask the recipient for bank details to pay for a Covid-19 test



Texts may be received advising that a 'Covid-19 Home Testing Team' will visit your home and that you will need to wait in a separate room while they put on protective clothing. This is an attempt by fraudsters to gain entry to people's homes



Texts posing as coming from the local council may be received, eg asking local residents to pay for food boxes which are being delivered to families with children eligible for free school meals



People may receive telephone calls from fraudsters posing as police officers to tell them that they have breached Covid-19 restrictions and have to pay a fine



Special offers may appear online containing malicious links that users click to allegedly receive free or discounted goods



There is a risk of online child sexual exploitation increasing as children spend the majority of their time online during the lockdown, either during their spare time or while receiving education



With the possible increase in online gaming during lockdown, criminals may be developing more sophisticated ways of attacking online gaming systems



Criminals may exploit loneliness during lockdown by looking through online dating profiles in order to commit romance crime<sup>1</sup>



Fraudsters may be posing as council, NHS or charity staff and taking money from people to buy shopping which is never delivered



During lockdown, illicit or prescription drug use may have increased which in turn pushes prices up due to a lack of availability. The pandemic may induce 'panic buying' from different suppliers and stockpiling, leading to possible increased consumption or consuming substitute or contaminated drugs



Fake and malicious apps purporting as providing Covid-19 information and trackers may start emerging



Under lockdown, illegal drug producers may have been manufacturing pills in preparation for the summer and festivals. As a result they may have significant stockpiles of drugs, which could see the market being flooded with cheap drugs as soon as lockdown eases

Note 1. Romance crime is the engineering of a supposed friendship or relationship for fraudulent, financial gain. This may involve, for example, gaining access to the victim's bank accounts.

# 4. If you see or suspect fraud or would like to find out more...



Please visit the Audit Scotland [counter-fraud hub](#)



Report fraud or illegal activity to [Police Scotland](#)



[Police Scotland – Keep Secure Online](#)



[Police Scotland – Reporting Cybercrime](#)



[Trading Standards](#)



[NHS Scotland Counter Fraud services](#)

## Information

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You can find our reports and other material on counter-fraud on our [website](#)

## Contacts

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