East Lothian Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 21 September 2021

BY: Service Manager – Internal Audit

SUBJECT: Fraud and Irregularity 2020/21 (Audit Scotland, July 2021)

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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, '*Fraud and Irregularity 2020/21: Sharing risks and case studies to support the Scottish public sector in the prevention of fraud'.*

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 continuing to be taken to provide assurance over the Key Fraud Risks identified in 2020/21 highlighted in the *'Fraud and Irregularity 2020/21'* briefing paper.

ii. Examine the case studies of fraud and irregularities identified during 2020/21 (page 16 onwards) and the information throughout the report to identify any further information or scrutiny activity the members would wish to have reported back to future meetings of the Audit and Governance Committee.

3 BACKGROUND

3.1 Since the start of 2020/21, the Covid-19 pandemic and the associated lockdowns have brought significant challenges across the public sector. Public bodies have sought to continue to deliver services in new working environments while at the same time experiencing an increase in demand for many services. The challenges during the last year include additional fraud risks for public bodies to identify and manage.

3.2 The Audit Scotland briefing identifies 7 key fraud risks in 2020/21, which are:

- Covid-19 funding and reopening of premises and services
- Health and Wellbeing

- IT and Cybercrime
- Governance
- Procurement
- Payment
- Payroll and Recruitment

3.3 East Lothian Council has taken proactive action to mitigate these fraud risks in a number of ways with the following key examples:

- Implementation of appropriate controls and subsequent assurance reviews of the key Covid-19 grant processes as reported to the Audit & Governance Committee since June 2020.
- Clear processes including management review and authorisation of the opening of premises.
- Regular communication on staff health and wellbeing to staff and managers throughout the year.
- Clear instructions on appropriate home working policies and procedures to staff and managers throughout the year and on an ongoing basis.
- Internal Audit review of Cybersecurity (June 2021), highlighting regular external review and ongoing implementation of recommendations.
- Continuation of Governance and Assurance arrangements during the pandemic including the continued operation of the Audit & Governance Committee throughout.
- Completion of the Annual Governance Self-assessment as reported to the June 2021 Audit & Governance Committee.
- Internal Audit reviews of Procurement (February 2020), Payroll and Payroll Overtime (June 2021).
- Internal Audit assurance review of Creditors (June 2020).
- Continued engagement and participation in the National Fraud Initiative across services within the Council.

3.4 Further action will continue to enhance assurance around these key risks, including:

- Continued review of changed processes and control frameworks across the Council.
- Monitoring of risk across the Council and continued regular reporting of Risk Registers.
- Finalisation of all high priority matches within the National Fraud Initiative across Council services.

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, '*Fraud and Irregularity 2020/21: Sharing risks and case studies to support the Scottish public sector in the prevention of fraud'* (July 2021).

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DATE	10 September 2021

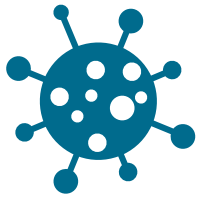
Fraud and irregularity 2020/21

Sharing risks and case studies to support the Scottish public sector in the prevention of fraud

AUDIT SCOTLAND

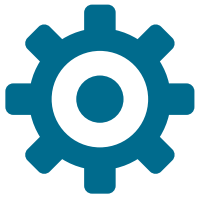
Prepared by Audit Scotland for public bodies and auditors
July 2021

Key messages



1. Significant challenges due to Covid-19

Since the start of 2020/21, the Covid-19 pandemic and the associated lockdowns have brought significant challenges across the public sector. Public bodies have sought to continue to deliver services in new working environments while at the same time experiencing an increase in demand for many services. The challenges during the last year include additional fraud risks for public bodies to identify and manage.



2. Wide range of action required to mitigate new risks

The new fraud risks cover a variety of areas. This means a wide range of actions are required by public bodies to attempt to mitigate these risks.

3. Weaknesses in controls contribute to fraud and irregular activities

Weaknesses in controls have contributed to a variety of fraud and irregular activities being identified across the Scottish public sector. During 2020/21, external auditors reported 13 cases of fraud and irregularity valued at £0.4 million. The value of reported fraud and irregularity remains small compared to the 2020/21 annual Scottish budget of £49 billion.

4. Counter-fraud hub

Audit Scotland's counter-fraud hub contains useful counter-fraud information.

Recommendations

Public bodies should ensure good governance and counter-fraud arrangements are in place, including:

- having in place appropriate governance and oversight arrangements for counter-fraud
- regularly reviewing controls and governance arrangements to ensure they remain fit for purpose
- being alert to emerging fraud risks and where appropriate working with others to help alleviate these risks
- considering whether appropriate controls are in place to prevent the risks identified in this report materialising in their own organisation
- considering whether the weaknesses in internal control that facilitated each case of fraud or irregularity identified in this report may also exist in their own organisations, and taking the required corrective action.

Auditors should confirm that:

- appropriate governance arrangements for the prevention and detection of fraud are in place at their audit clients and that appropriate reviews and amendments of controls have taken place in response to new ways of working
- internal controls at their audit clients are sufficiently strong to prevent the types of fraud and irregularity highlighted in this report.

Background

Impact of Covid-19

The risk of fraud and error has increased over the last year due to the Covid-19 pandemic. This is due to many reasons, including:

- public bodies have become stretched, controls and governance arrangements have required to be changed
- staff working remotely and under pressure
- staff adapting to new ways of working with associated new processes and procedures
- staff being redeployed to work in new and unfamiliar departments as public bodies have responded to increased demands for certain services
- continuous fraud attempts on public bodies including both traditional types of fraud and newer cybercrimes
- former verification and control processes being unable to operate as new ways of working are introduced
- new support schemes for business and communities being developed and implemented at speed.

Public bodies need to review their systems and identify areas where the threat from fraud and error has increased. They need to review existing controls to ensure they are still effective and appropriate and at the same time introduce new controls to address new risks. Measures like these have always been important but the unprecedented challenges and pressures brought by the pandemic, and the opportunities it has presented for fraudsters, bring a renewed focus on ensuring effective governance and controls are in place.

Additional risks will continue to emerge as public money and services are targeted by fraudsters. Fraudsters will continue to look for new opportunities to exploit weaknesses in systems and controls. Public bodies and auditors should stay alert to new scams and approaches by fraudsters, and regularly review controls and governance arrangements to ensure they remain fit for purpose.

Good governance and sound controls are essential in crisis and changing situations.

Aims of this report

This report sets out a range of fraud risks emerging since the start of the Covid-19 pandemic along with suggestions of what public bodies may do to help reduce these risks. It aims to help public bodies identify and manage these risks.

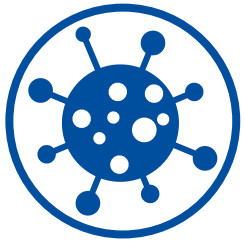
This report also shares information about cases where internal control weaknesses in public bodies have led to fraud and irregularity, to help prevent similar circumstances happening again. External auditors have shared specific details about significant frauds and other irregularities in public bodies during 2020/21. The level of fraud and irregularity reported by external auditors of £0.4 million remains small compared to the 2020/21 Scottish budget of £49 billion.

This report is informed by information provided by external auditors during 2020/21 in their fraud and irregularity returns to Audit Scotland. External auditors are required to report frauds (or suspected frauds) where they are caused or facilitated by weaknesses in internal controls at public bodies. Frauds and irregularities are considered significant where the value of the loss is over £5,000 or where it is of significance due to the nature of the activity.

Auditors of local authorities are not required to report cases of fraud perpetrated by claimants, for example, grant claimants or housing benefit claimants, unless the fraud was facilitated by the collusion of local authority staff or otherwise by weaknesses in internal control. The cases included in this report are likely to have been investigated internally, but it is not necessary for the police to have been involved or for it to have been proven as fraud in a court of law.

Key fraud risks identified in 2020/21

We have grouped the fraud-related risks identified by external auditors over the last year into the following seven categories. They include, but are not limited to, risks associated with:



1. Covid-19 funding and reopening of premises and services

2. Health and wellbeing

3. IT and cybercrime

4. Governance

5. Procurement

6. Payment

7. Payroll and recruitment

1. Covid-19 funding and reopening of premises and services

- Government stimulus packages to support individuals and businesses are provided quickly, possibly with a lower level of scrutiny and due diligence than has previously been in place. Often the support is provided to people and businesses that the public body had no previous relationship with, making the verification of details more difficult.
- Councils may receive emails or Freedom of Information requests asking for details about property details, reference numbers or business grant applications. Fraudsters are possibly looking to identify eligible businesses that have not applied for grants, with a view to submitting a fraudulent application.
- 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.
- Due to applications for Covid-19 related support being made online, there is a risk that fraudulent documents and details are provided.
- Councils may receive fraudulent applications for funding purporting to be from genuine qualifying businesses. These applications are often supported by what appears to be genuine supporting information which has often been obtained from publicly available sources.
- As buildings and offices reopen, emails may be received purporting, for example, to be from the Health and Safety Executive (HSE) saying the HSE is carrying out Covid-19 spot checks on newly opened premises. A link supposedly to guidance documents leads to a file which contains malicious software (malware).
- Texts may be received advising recipients that they are eligible for a Covid-19 grant and that an attached form requires to be completed. The form contains a link to a scam website, possibly similar to the HMRC website, asking for business, personal and bank details.

Additional Covid-19 related risks:

Covid-19:
Emerging fraud risks
July 2020

2. Health and wellbeing

- Remote working may result in isolation and/or mental health issues. This may lead, in some cases, to increased addictive behaviours (eg, gambling), which could result in vulnerability to serious organised crime gangs.
- An increase in internal fraud in public bodies is possible as staff and their families are under increased levels of financial and health pressures.
- Working for sustained periods of time at high levels of demand may lead to errors or fraud due to lapses in concentration.
- Staff/volunteers could take advantage of vulnerable service users, for example by gaining access to bank cards, cash drop-offs at client's house and befriending with sinister intentions.
- Emails may be received purporting to be from the NHS offering a Covid-19 vaccination. Recipients are requested to provide bank details.

3. IT and cybercrime

- 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, by looking at screens or documents used by staff.
- Staff may be more likely to be tempted to steal data when working remotely without the normal office supervision.
- Staff working remotely may receive calls from fraudsters claiming to be legitimate technical support services and attempting to gain access to systems. The callers may say that they are looking at issues with the public body's network and will request the staff member's login details in order to 'fix' the system issue.
- Staff working at home may receive calls purportedly from their broadband providers. The caller says that they are having technical problems with the service. The caller asks the recipient to switch on their computer to check the broadband signal strength and then to enter a scam web address and/or download a piece of malware.
- There is a risk of increased cybercrime as more public-sector staff connect remotely to access systems and for meetings using online video conference services.
- 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.
- It is easier for fraudsters to send 'urgent' emails or texts pretending to be from senior members of staff to their under-pressure teams asking for money to be transferred or for information to be disclosed.
- There is a risk of ransomware attacks. This is where malware is put into bodies' systems and leaves a ransom note demanding money in exchange for the return of information or the reinstatement of systems.
- There is a risk of an increase in **phishing** emails trying to get staff working under pressure to click on links which allow fraudsters access to public-sector systems. For example, staff receive scam emails inviting them to a video conferencing meeting, supposedly being held by someone they know and trust. The link provided leads to a fraudulent log-in page, which asks for the recipient's username and password.

Phishing:

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, or to click on a link that allows malware to be downloaded.

4. Governance

- Public-sector staff are working under extreme pressure which may mean some internal controls are suspended or relaxed.
- Existing controls may have been relaxed to assist homeworking for staff and access to services for clients.
- Fraud investigations may be paused or unable to continue due to difficulties in collecting evidence or investigation staff being redeployed to frontline services.
- When buildings are closed there are additional risks to the security and unauthorised use of assets from both internal and external sources as the removal or unauthorised use of assets may go undetected.
- New equipment and IT devices purchased during the pandemic may be at more risk of being lost or stolen due to possible weakness in controls around delivery, asset-tagging and recording in asset registers when staff are working from home. Any losses may not be detected.
- Staff may be transferred from their own departments to other areas to meet increased demand for certain services. 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.
- There is a risk of weakened governance arrangements as internal audit teams are redeployed to operational areas.

5. Procurement

- Previous controls may be relaxed to allow bodies to buy new or existing goods or services which are required urgently, possibly from new suppliers.
- Fraudsters may be 'selling' popular and/or hard-to-get items online. The products may not arrive or may be counterfeit, eg medicines, personal protective equipment (PPE) such as face masks and gloves, and hand sanitiser products which do not provide the necessary level of protection.
- 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.
- Bodies may buy goods/services from companies without due diligence and vetting being completed due to the urgent demand. This increases the risk of collusion between companies, eg bid fixing, and between companies and staff in the public body buying the goods/services.
- Bodies may receive texts or phishing emails purporting to be delivery companies saying that a parcel is awaiting delivery but that an unpaid shipping fee must be paid. The texts and emails include a link to a scam website asking for payment details.
- Bodies may also receive texts or phishing emails purporting to be from delivery companies saying that they tried to deliver a parcel to closed offices. A link is provided purporting to allow the rescheduling of the delivery. The link leads to a scam website asking for contact and payment details.

6. Payment

- Mandate and diversion fraud may increase as fraudsters try to get employees to update suppliers' bank details and make payments as soon as possible, knowing staff are under pressure. Some attempts may be made using a compromised email account of a genuine member of staff employed at either the public sector body or in an existing supplier.
- Due to staff working from home and under pressure, duplicate payments are possibly not detected, or payments may be made without checking whether goods and services were received to a satisfactory quality.
- Due to controls being loosened it may be possible for staff to pay invoices above their authorisation limits or without the normal approvals.
- Emails may be received from fraudsters purporting to be from a senior member of staff in a contractor requesting copies of initial contracts/award letters and previous invoices last issued. The fraudulent email may also note there has been a change in their bank account details.
- Public bodies may be contacted by someone purporting to be from the fraud department at the body's bank and advising of attempted frauds made against the body's bank accounts. The fraudster then may persuade the member of staff that that they can stop the fraud by setting up a payment to a given sort code and account number.
- Messages may be received purporting to be from the bank saying that a request to add a new payee has been set up. The recipients are asked to click on a link to authorise or cancel this request. The link leads to a scam website which asks for bank account details.
- Messages may be received purporting to be from a known supplier advising that an unexpected sum of money will be debited from the body's bank account. The recipient is asked to click a link to a scam website supposedly in order to cancel the payment.
- Emails may be received where a fraudster tricks officers into thinking a message came from a person they know. For example, a staff member may receive an email from what appears to be a senior colleague requesting the purchase of gift cards and for the cards and codes to be emailed by return email, or that certain invoices have been authorised for payment.

7. Payroll and recruitment

- 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.
- Payroll fraud may increase as normal controls around working hours, expenses, overtime etc may be relaxed.
- Staff returning to work to help respond to Covid-19 may be targeted by unscrupulous tax avoidance schemes.
- Telephone calls may be made by fraudsters to health and social care staff requesting personal bank details in order for the £500 'thank you' payment to be made.
- Telephone calls may be received advising staff that their national insurance number has been compromised or is invalid. The caller asks for personal details in order to apply for a new national insurance number.
- Fake Covid-19 related job adverts may appear on social media, eg for Covid testers. The scammers ask for personal details that job applicants typically provide, eg bank details, proof of address and passport details. This information can be used for identity theft.
- Emails may be received purporting to be from HMRC saying the recipient is due a tax refund. The recipient is asked to click on a link to a scam website to provide personal and bank details for the supposed tax refund.

Ways to reduce counter-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 review 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.
- Review ways of working and delivering services to help ensure those in need are supported.
- Ensure staff and customers receive regular, appropriate communications on the new ways of working and changes to services.
- As staff move back to offices, controls should be reviewed to ensure they are effective and appropriate for the new ways of working. This will include possibly tightening up previously relaxed controls and carrying out audits on assets.
- Consider bank account verification and active company search services, eg that are available to the UK public sector from the Cabinet Office or **NAFN**.
- Continue staff training, especially for staff moved to work in areas that are new to them.
- Continue staff training on counter fraud including new threats. This will include updates on new and emerging frauds as well as reminders that suspicious activity still needs to be reported.
- Run 'dummy phishing' exercises to test employees' reactions, with a requirement to revisit training modules if an employee 'fails'.
- Ensure all software updates are applied as soon as possible to IT systems. This includes regular reviews and updates to all systems and devices and actively looking for vulnerabilities. Where dangerous vulnerabilities are identified, system updates are done immediately even if it means staff can't work while it is being updated. Where a device, eg a laptop, isn't updated, it is disabled and excluded from the network.
- Block and filter every attack vector possible, which can make things difficult for colleagues, and say no to anything that could increase the organisation's susceptibility to attack.

NAFN:

Shared service organisation open to all public-sector organisations. NAFN provides data, intelligence and best practice services for member organisations.

Ways to reduce counter-fraud risks

- Review **NFI** matches to identify fraud and error or system control weaknesses.
- Rotate employees or volunteers working with vulnerable service users and ensure appropriate employee disclosures are up to date.
- Review the NHS Counter Fraud Authority's guidance including the Covid-19 counter fraud guidance
- Review the UK Government Counter Fraud Function's website for the latest guidance including:
  - Covid-19 Counter fraud response team
  - Fraud Control in Emergency Management: Covid-19 UK Government Guidance

NFI:
National Fraud Initiative, an exercise that matches electronic data within and between public and private-sector bodies to prevent and detect fraud.

Further information:

The National Fraud Initiative in Scotland 2018/19

July 2020

A focus on procurement risks

Procurement fraud in the UK is not defined but industry experts put the figure at billions of pounds a year. Procurement fraud is complex and covers a wide range of activities from the pre-contract award phase through to the post-contract phase. Procurement fraud is difficult to detect. Although data analytics to identify fraud are on the increase, manual detection techniques are an important part of fraud prevention approaches.

In order to help reduce some of the risks around procurement, bodies may consider the following:

- All staff should be aware of the potential red flags to look out for within any procurement exercise.
- All staff involved in procurement activity should receive regular appropriate training to help them to identify fraud and error.
- There should be clear processes, procedures and controls to be followed regarding procurement. Checks should be made, eg by internal audit, to ensure these are followed.
- A central contract register should be in place which is regularly reviewed and analysed for irregularities.
- Staff should be extra vigilant where a contract is required in a rush and/or where the contractor may be pressurising staff for a quick response.
- Appropriate controls should be in place to ensure invoices, purchase orders and requisitions all agree before payments are made.
- Appropriate segregation of duties should be in place for the authorisation of contracts, payments and technical specifications.
- Procedures should be in place and followed, for all requests for payments to new bank account details.
- Due diligence should be carried out on new suppliers. This may include a review of online customer reviews, and calling the landline on a website to check it is genuine.
- Consideration should be given to job rotation to ensure staff do not deal with the same clients on a long-term basis.
- Internal audit should review procurement activity, eg through spending analysis, to identify where any large spend to a particular supplier may exceed approval thresholds when aggregated or a review of the security around bids and tender documentation.

Further information:

Red flags

Procurement

October 2019

Fraud and irregularity identified during 2020/21

Auditors have provided Audit Scotland with details of cases of fraud and other irregularity discovered in their audited bodies during 2020/21. This report sets out examples of the various different categories of fraud and irregularity reported during 2020/21 and the control weaknesses which have contributed to these cases.

Reporting cases about fraud and irregularity and sharing information about what happened helps highlight weaknesses in internal controls and aims to help prevent similar circumstances from happening in other public bodies.

Public bodies are encouraged to consider whether the weaknesses in internal control that facilitated each of the cases highlighted in this report may also exist in their own arrangements, and take the required corrective action.

Auditors should confirm that appropriate governance arrangements for the prevention and detection of fraud are in place at their audit clients and that appropriate reviews and amendments of controls have taken place in response to new ways of working. They should also confirm whether internal controls are sufficiently strong to prevent the types of frauds and errors highlighted in this report.

Fraud and irregularity reported during 2020/21 totals £0.4 million

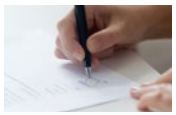
Falls into the following key categories:

2
cyber attacks

5 cases =£132,500
Fraud and irregularity involving expenditure

4 cases = £25,000
Fraud involving payroll

1 case = £237,000
Theft



1 case = £7,000
Involving third party funds

Control weaknesses were highlighted where fraud or irregularity was identified.

Common control weaknesses

A review of fraudulent and irregular activity highlights common control weaknesses which have contributed to the fraudulent and irregular activity reported by external auditors.

A lack of management checking and review

Procedures not followed

Weak security arrangements

A lack of staff training

Missing indicators within emails that the email is not genuine

Not verifying applications for funding to existing records

Poor budget monitoring

System reconciliation weaknesses

Poor record keeping

Cyber attacks

A cyber attack is where computers and networks are targeted by criminals in order to alter, disable, steal or gain information through the unauthorised access to computer systems. Our blog entitled 'Cybercrime is a risk that the public sector in Scotland needs to take seriously,' raises awareness among boards and non-executive directors of this growing area of risk as well as to signpost readers to key resources to help protect organisations from this type of crime.

Case study 1

A public body was subject to a serious complex cyber attack which impacted upon access to systems, processes and communications.

Key features

1.2GB of data amounting to just over 4,000 files had been stolen.

The public body instigated its business continuity plan and took action to limit the impact of the attack. The public body made clear that it would not engage with criminals intent on disrupting public services and extorting public funds.

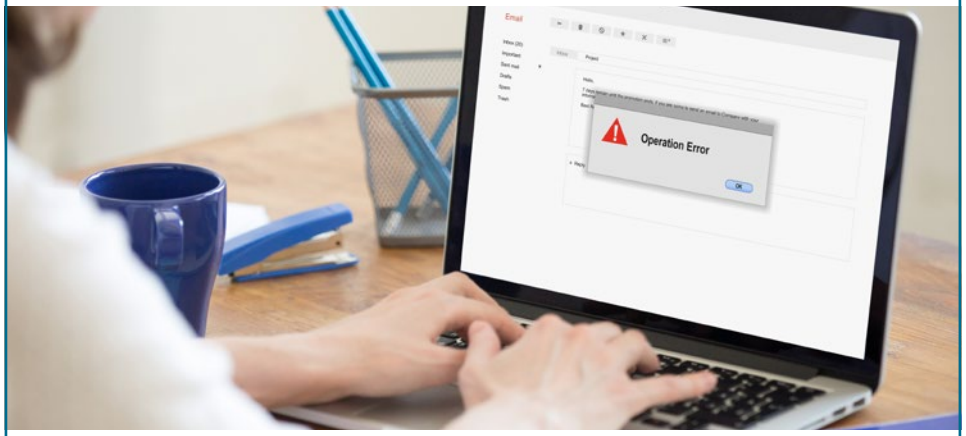
The information that was stolen from the public body's systems was published illegally online on the dark web the following month. The information that was published is still being assessed. IT systems have been disconnected to prevent further data losses.

The impact of this attack will last for some time due to the loss of data, including financial data, and the need to re-build systems and re-create records.

A Police Scotland investigation is under way. The public body is also working with the Scottish Government, the Information Commissioner and the National Cyber Security Centre in order to investigate the specific details of the attack and identify areas to strengthen existing controls.

Case study 2

A cyber-attack caused disruption to services at several colleges.



Key features

The colleges' IT engineers worked to isolate and minimise the impact from the incident.

As a result of the attack, the colleges were closed to some students for a short period of time.

The source of the attack is not known, however a Police Scotland investigation is currently under way.

Expenditure

Expenditure frauds relate to cases where a body has incurred additional expenditure because of fraud. This may be due to invalid suppliers, ficticious invoicing, or the redirection of payments intended for legitimate suppliers.

Case study 3: Invalid supplier

A third party defrauded over £46,000 from a public body by purporting first to be a staff member and then a supplier to the body.

Key features

One of the public body's suppliers received an email purporting to be from the body, asking if there were any outstanding invoices. The supplier replied attaching an invoice. The public body then received an email purporting to be from the supplier with the invoice attached asking for it to be paid to a new bank account. The bank records were amended, and the invoice paid. The fraud was identified when the genuine supplier contacted the body looking for payment of the invoice.

The fraud was possible as:

- the accounts payable department did not confirm that the change of bank details had been verified by the contracting service
- the member of staff within the contracting service had not received training on how to verify new bank details
- indications within the email that it was not genuine were missed
- learning from a previous unsuccessful similar attempted fraud involving the same supplier had not been shared with staff.

The public body is introducing robust verification processes for change of bank details.

Case study 4: Invalid supplier (2)

A third party defrauded £64,500 from a public sector body by purporting to be a genuine supplier.

Key features

The purchase ledger team received several emails purporting to be from a named contact at their utility supply company requesting payment of legitimate outstanding invoices. They included copy invoices from the supplier which appeared to be genuine. The emails requested that the standing bank details be amended to those on the invoices. The bank details were changed, and three payments were made. Remittance advices were sent to the legitimate supplier's email address. The fraud was identified when correspondence was received from the legitimate supplier advising that they had received remittance advice notices but no payment.

The fraud was possible as the procedure for confirming bank account changes was not followed. In addition, the email from the supplier had a subtle difference in the address that was not identified at the time.

All finance staff are now receiving training on fraud prevention and detection. The body has notified Police Scotland.

Expenditure

(continued)

Case study 5: Misuse of a vehicle

A public sector employee defrauded almost £7,000 through unauthorised use of a car over a six-month period.

Key features

The employee was using a hire car while at the same time using a leased car. Both cars were provided by their employer.

The fraud was identified after the payroll team questioned why the car was still on hire.

The fraud was possible due to a lack of review and challenge by the line manager of the monthly car hire report for their department.

The case has been reported to Police Scotland and options for civil recovery are being investigated.

Case study 6: Misuse of vehicle

A public sector employee defrauded over £5,000 over an eight-month period through unauthorised use of a car.

Key features

The employee used a pool car for personal use after their own car broke down.

The fraud was identified after a finance report was issued to the budget holder suggesting that providing the employee with a small van would provide better value for money.

The fraud was possible as the budget holder failed to identify the pool car recharges and investigate accordingly.

Internal audit has reviewed the pool car system to identify system weaknesses.

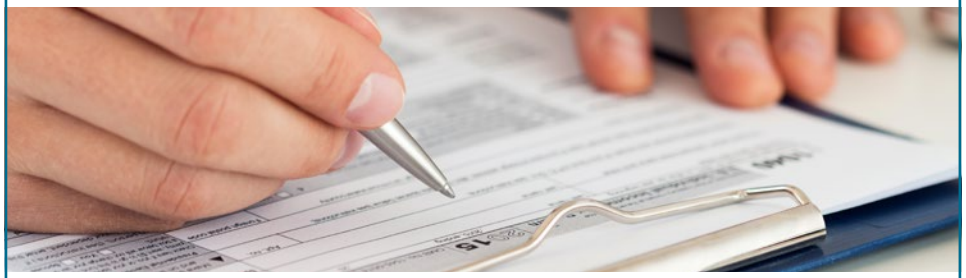
Expenditure

(continued)

Public bodies have been issuing many different grant and funding streams to businesses and individuals over the last year due to the Covid-19 pandemic. There have been many instances of claimant fraud identified in these applications. This report does not include cases of fraud that are perpetrated by claimants, for example, grant claims, unless the fraud was facilitated by either the collusion of local authority staff or by weaknesses in internal control.

Case study 7: Grant payment

A third party defrauded £10,000 from a council by making a false claim for a business grant.



Key features

The perpetrator claimed a business grant for premises they had previously occupied. The fraud was identified when the legitimate business proprietor applied for a grant.

The fraudulent payment was possible as the council failed to identify that:

- the name on the business grant application was not the name of the business on the business rates system
- the bank statement used in support of the application was for a personal bank account rather than a business bank account.

Internal controls have been improved and more stringent checks are now carried out.

Payroll

Payroll frauds relate to cases where an organisation's payroll has been misappropriated, eg employees working elsewhere while claiming to be unfit or where salary payments have been redirected.

Case study 8: Re-directing salary

Four parties defrauded almost £25,000 from four public bodies by redirecting salary payments.

Key features

In all cases, the payroll team received emails purporting to be from genuine members of staff, advising of a change to be made to bank account details. The payroll records were amended, and salary payments were made. The frauds were identified when employees contacted the payroll team to query why they had not been paid.

The fraud was possible as the procedures in place to check the validity of bank detail changes had not been followed.

Payroll staff have been reminded of the proper procedures, including verification procedures for changes to employee bank account details. The cases have been referred to Police Scotland for investigation.

Theft of assets

Theft relates to cases where someone acts dishonestly appropriating property belonging to another with the intention of permanently depriving the other of it.

Case study 9: Theft of assets and cash

An employee misappropriated cash and other assets valued at £237,000 from a public body over a period of eight years.

Key features

The employee was responsible for maintaining records for a secure store. The employee abused their position of trust.

The theft was possible due to inadequacies in the reconciliation of a manual card recording system and in management oversight. The theft was identified when a new process for recording the cash and other assets was introduced and the perpetrator was going to be moved to a new department.

A subsequent internal audit identified the cash and assets were missing. Police Scotland were informed.

The employee admitted the theft, was prosecuted and imprisoned for over three years.

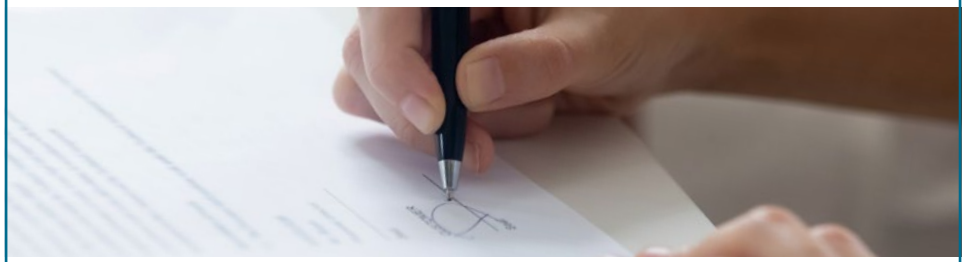
Procedures have been reviewed and improvements made.

Private funds

Private fund frauds relate to cases where third party's funds have been misappropriated.

Case study 10: Third party funds

A member of staff misappropriated over £7,000 from the accounts of vulnerable social care clients.



Key features

The member of staff committed the fraud by forging the signature of another staff member. The fraud was identified when a colleague examined records of client funds and identified an entry that they had apparently authorised but had no knowledge of.

When interviewed, the member of staff admitted forging the signature of a colleague. An internal audit identified the full extent of the fraud.

The fraud was possible due to weakness in record keeping and in the oversight by management and the **Corporate Appointee**. Improvements have been introduced in relation to reconciliation processes and the review of client accounts.

The matter was reported to Police Scotland and disciplinary processes were instigated. The member of staff has repaid the full amount.

Corporate Appointee:

A Corporate Appointee is where an organisation, eg a council, has been appointed by the DWP to manage and look after a customer's welfare benefits to make sure they get the benefits they are entitled to.

Next steps for governance boards in scrutinising counter-fraud arrangements

Strategies

- Are there appropriate and up to date counter-fraud strategies in place?
- Are there appropriate governance and oversight arrangements for the counter-fraud strategies? This will include appropriate performance reporting arrangements.

Risk assessment

- Has an assessment been carried out of where the fraud and error risks lie?
- Has the risk from fraud and error risk been measured and reported? This should be updated regularly.
- Have controls been put in place to prevent and detect these risks?

Controls review

- Are the controls regularly reviewed to ensure they are operating effectively and still appropriate?
- Are controls amended or new controls implemented where new risks emerge?

Further information

You can find further information about Audit Scotland's work to support counter-fraud and good governance on our website. This includes information about:

Website:

Our work on counter-fraud

Report:

Covid-19: Emerging fraud risks

July 2020

Report:

Red flags in procurement

October 2019

Website:

The National Fraud Initiative

Report:

How councils can safeguard public money

April 2019

Blog:

Cybercrime: A serious risk to Scotland's public sector

May 2021

Fraud and irregularity 2020/21

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ISBN 978 1 913287 55 9