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Counter Fraud Services

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COVID 19 Fraud activity and income pressures update

DAP Partners.

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CUSTOMER SERVICE EXCELLENCE CSE

Support, Assurance & Innovation

Contents

COVID 19 Fraud Activity Update

1. Introduction

1.1 It is generally reported that there has been a general upturn in fraudulent activity during the COVID 19 (C19) crisis. Many frauds which are often referred to as Scams have adopted a C19 camouflage in order to play on people fears and lack of knowledge. Fraud activity had already, significantly increased in the years prior to C19, therefore an accurate picture of the direct effects of the current crisis remains unclear.

1.2 Local authorities continue to face a significant and unprecedented fraud challenges. Official figures are dated, however the argument for protecting the public purse remains a renewed priority. The National Fraud Authority (2013) estimated local authorities face the threat of £2.1bn fraud a year. In fact, the Annual Fraud Indicator, produced by Crowe Clark Whitehill, estimates that figure may be as high as £7.8bn in 2017, out of a total of £40.4bn for the public sector as a whole. The Government's Economic Crime Plan states that the numbers of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.

2. Fraud How and Why

2.1 How and why fraud is committed generally remains unchanged over our history. The vehicle to deliver the fraud may vary over time (letter or email), but essentially 'it is the same old wine in new bottles'. As C19 took hold and fears grew, the way we work, shop and fill our leisure time changed. Fraudsters understand, how many of us think and react as human beings. In many instances they use a technique which is called the Amygdala Hijack. This is where they create a situation which causes an overwhelming and emotional response to a stimulus (such as an email or text) that increases our stress levels which in turn trigger our fight or flight responses. Normal logical thought is over-ridden by the need to take immediate action.

2.2 When people are already stressed the effect of an email or text that they may normally dismiss suddenly triggers a response and the reaction can be to 'click the link', take up the offer or believe something that may appear to be extraordinary in normal times.

2.3 The high risk indicators of fraud fall into three categories outlined in the diagram on (**Appendix 1**).

- Pressure – "Financial or emotional pressure pushing towards fraudulent activity". Financial hardship either perceived or real will drive fraud. Greed and fundamental dishonesty (getting something for nothing) are emotions that many find difficult to control. The pressures that cause people to commit fraud are wide and varied. The issue could be drug, alcohol or related to some other addiction such as gambling. Whatever the reason there will be a driving force that makes someone do something they know to be fundamentally wrong. With organised crime the drivers are, that this is their business and how they make money to support other illegal activities. As we were starting to emerge from one global financial crisis, C19 has tipped us back into a much larger one, causing even more pressure.
- Opportunity – "The perceived ability to execute a planned fraud without getting caught". C19 has required many LA Departments and all businesses to operate outside of normal and accepted, tried and tested processes. Staff drafted into new positions and roles, with little training. Decisions have needed to be made quickly and often with no prior example to follow. Whilst every opportunity to block any fraudulent attempts will have been made, it is clear that there will have been gaps in

normal defences and greater opportunity for dishonest activity. Fraudsters look for these opportunities, hence why fraud has adopted a C19 camouflage.

- Rationalisation – "The personal justification for dishonest actions". All fraudsters self-justify their actions. C19 will mean that the pressures on individuals may change their perception of what they feel is acceptable. Fraud is seen by many of those who commit it as a 'victimless crime', as "insurance will cover it" or "well it's my money anyway as I pay taxes". Organised criminal gangs operate on a lower moral stance and just see fraud as good business. Whatever the justification in a fraudsters mind, they clearly know their actions are dishonest and this is what generally catches them out as their justifications appear hollow and without any moral substance under formal questioning.

2.4 The economic impact as a result Covid-19 is far reaching, extreme, and it is likely to be quite some time before the economy recovers. Many people will suffer financial hardship which will increase the risk of fraud. People of previous good character can be driven to commit fraud and related offences when they or their families are suffering financial hardship and the opportunity presents. Therefore, extra vigilance, awareness and checks will be required in the current and following years.

3. Examples of C19 related frauds.

3.1 Some of the more common examples of this type of fraud based on fear, which have already been reported -

- Victim alleged to have breached stay home regulations scam, fraudulent text messages from .GOV.UK issuing fines for leaving home.
- Free school meals scam, fraudulent messages to parents entitled to free school meals requesting bank details. Messages received via email and text.
- Fraudsters purporting to be from a research group that mimic the Centre for Disease Control and Prevention (CDC) and World Health Organisation (WHO). They claim to provide the victim with a list of active infections in their area but to access this information the victim needs to either: click on a link which redirects them to a credential-stealing page; or make a donation of support in the form of a payment into a Bitcoin account.
- Fraudsters providing articles about the virus outbreak with a link to a fake company website where victims are encouraged to click to subscribe to a daily newsletter for further updates.
- Lender Loan Fraud – there are already media reports circulating about parents concerned that they may not be able to feed their children if they are not at school and those who will be made redundant or self-employed receiving a much reduced income with potentially the same or increased living costs. This may mean people look to quick loans to see them through.

3.2 Where people feel that they are at risk, medically or financially, the same method is used in an attempt to appeal to our natural need for security and stability -

- Fraudsters sending investment scheme and trading advice encouraging people to take advantage of the coronavirus downturn encouraging victim to divulge details and or click on fraudulent links.
- Fraudsters purporting to be from HMRC offering a tax refund and directing victims to a fake website to harvest their personal and financial details. The emails often display the HMRC logo making it look reasonably genuine and convincing. We have also had reports of people receiving similar text messages.
- Since lockdown eased, fake websites have offered cheap holidays abroad and at home with links that steal personal data and or encourage payment when no product is available.
- Holiday rental homes scam, where there is no rental home available.

3.3 As the crisis deepened, we became more settled in our new reality and many wanted to help others less fortunate and those who were on the front line during the pandemic.

- Scam emails purporting to be from the Government asking for donations to the NHS.
- Emails, texts, letters and telephone calls purporting to be from legitimate charities requesting financial support.
- Scam emails requesting details of individuals to sign up to volunteering schemes in the local area.

3.4 Local Government Partners should also be aware of the following expected and emerging frauds both for their business and their constituents and customers –

- Online Shopping and Auction Fraud – more people at home socially distancing increases the number of people online shopping through necessity but also the fact they have more time on their hands to browse the internet.
- Computer Software Service Fraud – more people working from home will increase demand on IT systems causing slower responses and making some scripts seem more believable.
- Mandate Fraud – with more people working at home, it may be easier for fraudsters to impersonate senior decision makers, with seemingly valid reasons why they cannot be contacted, and request a change in direct debit or standing order payments.
- Investment Fraud including Pension Liberation Fraud – fraudsters could take the opportunity to create bogus investments in commodities in high demand, for example oxygen, and if people are worried that they might not have enough money to see them through this financially uncertain time, they may be more prepared to invest.

4. C19 Grant Fraud

4.1 In response to the pandemic the Government announced there would be support for small businesses, and businesses in the retail, hospitality and leisure sectors. This support took the form of grant funding schemes, including the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund. There has also been a Discretionary Business Grants Fund developed separately by LA's.

4.2 The Grant values range from £5k to £25k per business and has proven a high value target for fraudsters. This has prompted a national wide response from HM Government and since the implementation of the schemes many organisations have come forward offering support, especially in the data matching and analysis area in an attempt to provide tools to LA's so that they in turn are able provide full 'Assurance' that the £20 billion spent nationally in support for businesses that –

- Only genuine claims are processed and or have been paid and
- Where claims have been identified as incorrect, false or spurious, that they have been highlighted for follow up action and or redress.

4.3 All Local Authorities will be affected by fraud in this area whether they have direct responsibility for the dispersal of funds, or not, as it is all funding from the 'Public Purse' - eventually this will affect all areas of public life in the UK.

4.4 With such large amounts of money available, it is unsurprising that opportunistic as well as organised fraudsters have taken advantage of the urgency and confusion caused by the C19 global pandemic, in order to line their own unscrupulous pockets. Below are some known successful and attempted frauds in this area of Council Business.

- Scam one: Someone emails the council pretending to be the liable party on a business rates account. They ask to be reminded what their account number is because they don't have access to the paperwork. They then use this account number to apply for a Covid-19 business grant.

- Scam two: Someone emails the council saying they moved to a new business premises in the area before March 2020. Often they use a tactic to add pressure, e.g claiming they tried to contact the council months ago, but their application form was lost. They don't have to actually pay the business rates because they've been suspended. They can access a Covid-19 business grant with the account information provided (up to £25k).

- Business owners, whose business liquidated prior to 11/03/20, attempt to claim and fail to notify that the business has folded prior to qualification. This may take the form of the owner maintaining that there is a new business taking over from the old one.

4.5 All involved LA's have a Single Point of Contact (SPOC) who is responsible for fraud reporting at the national level. Any frauds that cross LA borders or are considered related to organised crime must be reported in real time.

4.6 National Fraud Initiative Response (NFI) A recent consultation document issued by the Cabinet Office (CO) made it clear that it is the Government's intention to ensure that Grant Payments made during the C19 crisis are included in this year's data submission for the NFI. This data will need to be submitted by Dec 2020.

4.7 The resultant matches/mismatches will have to be investigated, justified or corrected. Where fraud is identified it may be necessary for LA's to use the full weight of the law in order to be able to recover fraudulent debt. This may / will undoubtedly uncover more sophisticated frauds that cross LA borders.

5. Predicted threats to income

5.1 The threat to income from non-payment of Council Tax and Non Domestic Rates is an obvious one as business and jobs come under threat. There is little statistical analysis available this time as Councils are busy doing all they can to minimise the impact on individuals, businesses and service users. The information below is taken directly from a report by the Institute for Fiscal Studies titled The financial risk and resilience of English local authorities in the coronavirus crisis.

5.2 Lower-tier shire district councils are particularly reliant on business rates revenues and income from sales, fees and charges, putting them at greater risk of revenue falls. On average, they could lose business rates revenues equivalent to 18% of revenue expenditure before a 'safety net system' compensates them for losses, compared with 6% for urban metropolitan districts and 2% for county councils. Fees for parking, cultural and leisure services, planning and trade waste schemes, which are likely at particular risk, are equivalent to an average of 29% of shire districts' budgets, compared with 7% for London boroughs and less than 1% for county councils.

5.3 There is substantial variation in reliance on these revenue sources between individual LAs, implying significant variation in risk to overall revenues. One in ten shire districts rely on fees from parking, cultural and leisure services, planning and trade waste schemes for less than 9% of their expenditure, while another one in ten rely on them for more than 55%, for instance.

5.4 LAs serving more deprived communities seem likely to be subject to less revenue risk than LA's serving more affluent communities. First, they rely less on income from sales, fees and charges, and much less on council tax revenues. For example, the tenth of LAs with the highest levels of deprivation rely on council tax for 32% of their non-schools revenue expenditure, compared with

69% for the tenth of LAs with the lowest levels of deprivation. Second, a smaller share of jobs in their areas are in the sectors most affected by the coronavirus lockdown (such as non-food retail, hospitality and transport), and a smaller fraction of their adult residents are self-employed and had to wait until late May for financial support for loss of income.

6. Statistical evidence

6.1 The problem of fraud is an ever growing one, which is constantly changing and evolving. Research shows that detected or reported examples of fraud do not represent the total cost of fraud, as much remains undetected and or hidden. Investing in the appropriate strategies means that organisations can continue to increase their resilience to fraud as this is recognised as one of the most effective ways to reduce the risk of fraud.

6.2 Various organisations have seen an upturn in the reporting of fraudulent activity. Whilst this is to be expected, the full extent of fraud activity will not be known for some time and the total of losses at this time it is difficult to say whether there is more fraud activity due to C19 or whether reporting has increased and fraud has just taken on a C19 cover, whereas prior it hid in many different guises. Below are some headlines from national counter fraud investigation teams.

6.3 We know from previous experience that reported fraud is the tip of the iceberg and that most goes undetected and or unreported as it is a hidden crime.

Action Fraud

- Animal lovers looking for pets in lockdown defrauded of nearly £300,000 in two months - Tuesday, 5 May, 2020
- Cyber experts shine light on online scams as British public flag over 160,000 suspect emails - Thursday, 7 May, 2020
- 260 reports of coronavirus-related TV Licensing emails so far this month - Wednesday, 27 May, 2020
- A total of £11,316,266 has been reported lost by 2,866 victims of coronavirus-related scams.
- Action Fraud have received 13,820 reports of coronavirus-related phishing emails. 12 June, 2020
- Over £16 million lost to online shopping fraud during lockdown - Friday, 19 June, 2020

Her Majesties Revenues and Customs (HMRC)

- More than 10,000 COVID related phishing scams are being investigated by Her Majesty's Revenue & Custom (HMRC)
- In May alone more than 5,000 scams were reported to HMRC by the public. A rise of 337% if compared to March figures, when lockdown began. During the month, HMRC asked internet service providers to remove 292 scam websites to help combat the issue.

GOV.UK

- Fraudsters are exploiting the spread of coronavirus (COVID-19) in order to carry out fraud and cybercrime. Police have reported an increase in coronavirus related scams.
- We are issuing an alert to help charities minimise the risk of becoming a victim of such frauds and cyber-attacks. All charities, but especially those providing services and supporting local communities during the coronavirus crisis, could be targeted by fraudsters.

7. Where can our customers get advice?

7.1 Detailed counter fraud advice is available online, including from these trusted sites. **Only use trusted sites and or those displaying that they are secure**. (site address starts with "https" or displays a padlock image next to the site address)

- Scamsmart,
- ActionFraud,
- CIFAS,
- TakeFive,
- Citizens Advice,
- Trading Standards
- National Cyber Security Centre.
- Fraud Advisory Panel

8. Devon Audit Partnership how can we help?

8.1 Devon Audit Partnership DAP is committed to providing (independent) assurance and services that assist all Partners in fulfilling their responsibilities to comply with their duty to adequately protect the public purse.

8.2 At DAP we have fully professionally qualified Auditors and Fraud Investigators. This means that we can assist our partners in ensuring that they have the correct processes and practices in place to show that all reasonable steps have been taken to secure the public purse and provide assurance to Her Majesty's Government of the same. At DAP we take an integrated Risk Management, Audit and Counter Fraud approach to ensure that our partners receive the best service and advice.

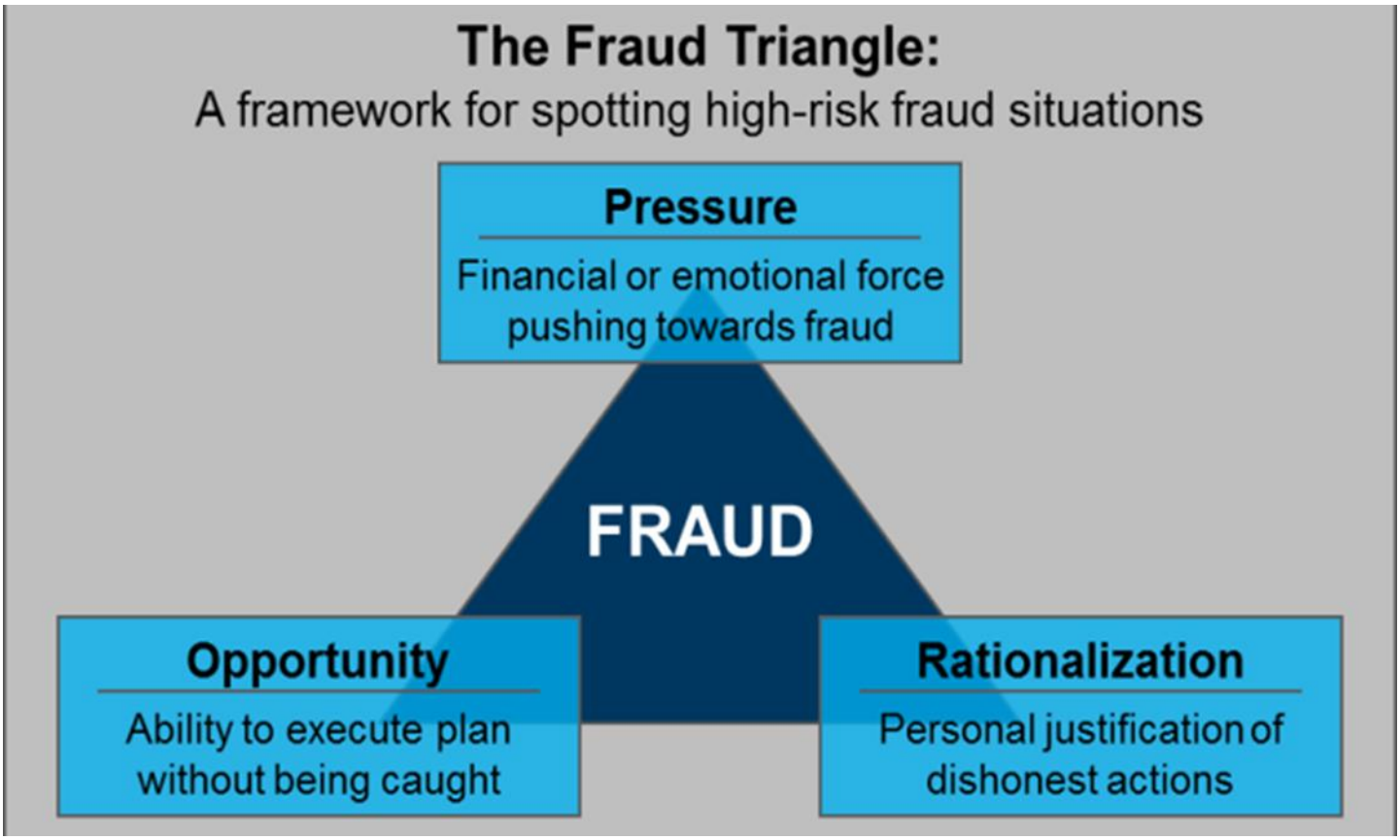
8.3 We already have sound connections with CIFAS and are already members of NAFN. The Counter Fraud Services Team won the CIFAS Fighting Fraud and Corruption Locally national award in the 'Prevent' category in 2019. They have also won national awards from ALARM Risk Management in 2018 and were 'Highly Commended' in the Government Counter Fraud Awards in 2019, only coming second to NHS Scotland.

8.4 Criminal investigation demand a high level of impartiality and professionalism. The Manager and Investigators are all 'Accredited Counter Fraud Specialists' and all other staff within the team are 'Accredited Counter Fraud Technicians'. We have dealt with thousands of criminal investigations and have successfully prosecuted many hundreds of individuals, with 100% success. The team are recognised as a ground breaking and highly effective counter fraud option in many areas of Local Authority business.

8.5 There are many things to be done in a short space of time to ensure financial security and assurance at the required standard for our customers and yours. If you think we can help then contact us at dap@devon.gov.uk

8.6 For further information on any counter fraud matters, please contact me directly Ken.johnson@devon.gov.uk or ken.johnson@plymouth.gov.uk or on 01752 307625.

Appendix I


The Fraud Triangle:
A framework for spotting high-risk fraud situations
Pressure
Financial or emotional force pushing towards fraud
FRAUD
Opportunity
Ability to execute plan without being caught
Rationalization
Personal justification of dishonest actions