

# The Covid-19 pandemic and the implications for fraud



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**The global pandemic has had a significant impact on the third sector. The focus for many charities has been to continue delivering services often with fewer resources available.**

In some organisations there have been major changes, and some roles that were deemed non-essential for the delivery of services may have been furloughed or roles made redundant in order to safeguard the charity over the longer term. The reduction in resources in the initial period has increased the workload for the staff remaining. One major implication of this is that oversight arrangements and financial controls that were previously in



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place may have slipped as capacity is reduced, or may not be being carried out to the same standard. As part of Charity Fraud Awareness Week, we wanted to consider some of the risks and implications for finance teams. In our experience, the uncertain economic impact has led to increased scrutiny of financial information, with cash flow management being critical. While this means that any fraud that does occur may have a bigger impact, it also suggests that fraud is more likely to be detected.

Head to the [Charity Fraud Awareness Hub](#) for more advice and information on how to keep #CharityFraudOut



## FRAUD CASE STUDY

We have set out in the case study below an example of a fraud that occurred during the Covid-19 crisis. We chose this case study as during these times, the availability of key information from business systems (in this case the finance system) and from third parties (in this case the bank) prove vital to effectively review and sense check the validity of transactions.

### The issue

The charity was alerted to suspicious activity in its finances by the bank. Initial internal investigations raised suspicions about the conduct of the finance manager as bank transactions were not traced to the accounting system.

Unfortunately, there were no independent oversight arrangements in place for finance and limited challenge over the financial reports by senior management or the trustees, given their increased focus in responding to the crisis.

### The process

We obtained all the charity's bank account and PayPal statements to analyse and assess the legitimacy of transactions that had occurred since the finance manager commenced employment.

### The outcome

A number of transactions were identified that were bank transfers from the charity to the finance manager's personal account. The value of transactions that were diverted to the finance manager's accounts was quantified.

### Lessons learned

Where charity finance teams are small and appropriate segregation of duties is tricky to manage, trust can (mistakenly) be used in the absence of a control. In this case, an individual had too much control and there was not enough oversight activity in place.

Senior management have since established accountability for interpreting and challenging financial information to ensure it is consistent with other management information.

## TOP TIPS

**Here are my top tips for charities to consider to help reduce the risks of fraud during these times.**

**Risk management discussions are happening much more often with senior management teams and boards.** Many organisations have been more focused on ensuring financial sustainability – even those with healthy reserves, preparing scenario plans and assessing the financial impact frequently. This increased focus on the money is in itself a good deterrent for internal fraud.

**Critique your procedures ensuring that they remain fit for purpose within the current working environment with the current availability of resource.** The sudden switch to homeworking for many charities has impacted their ability to demonstrate compliance with policies and procedures, potentially increasing the possibility of fraud.

**Communicate fraud scams to increase the chance that staff will not be caught out by phishing or other scams.** Organisations have been congratulated on their ability to switch to home working practices so successfully. However, new remote working arrangements have seen an increase in phishing emails and requests to change supplier details. While these are not new fraud attempts, the changed ways of working can make spotting them more difficult.

**Know your people.** While everyone has been affected in some way by the pandemic, the scale of the impact is varied. As a general rule, fraud increases at times of economic downturn as people may become more desperate. Remote working also makes it more difficult to pick up on lifestyle changes that would be more obvious under normal circumstances.

Many organisations have made a conscious effort to increase the focus on staff wellbeing. Some workers may have more commitments in terms of caring for family members impacting on their ability to give as much time or effort to their roles as before. The impetus on knowing your people and their circumstances allows organisations to assess capacity to follow expected processes preventing and detecting fraud.

