

COVID-19 and fraud risk

History demonstrates that during financial crisis and economic downturns, those organisations that invest in enterprise wide resilience, especially in prevention and detection of misconduct will minimise the impact of the crisis on their corporate wellbeing. As governments implement COVID-19 stimulus programs and other measures to support economic survival, one important risk that continues to exist is fraud. Fraud doesn't hibernate during a crisis and we often see an increase of reported incidents as well as the discovery of matters post crisis that indicate significant loss occurred, at a time when organisations were understandably more focused on the safety and wellbeing of their people¹. However, to support economic survival and minimise loss, organisations should be considering now how to emerge from this crisis without adverse issues such as internal and external fraud hindering their ability to recover quickly.



- **Lack of supervision and oversight** – Offices are empty but remain accessible, providing the opportunity for misconduct without detection. Existing lines of defence such as compliance teams and auditors are no longer present onsite.
- **Controls and processes being overridden** - As organisations quickly adapt to new ways of working, existing controls and procedures may be compromised, or disregarded entirely.
- **Management distraction** – Reactive decisions made at short notice leave organisations with little time to consider how fraud risk can be impacted.

Opportunity

Motivation

- **Financial distress** due to potential job losses, pay cuts, or redundancies.
- **Projected economic downturn** in the aftermath of the health crisis.
- **Pressure on financial results** as business fail to meet key targets, leading to falls in share price and staff bonuses being cancelled.

The Fraud Triangle

Rationalisation

- **Workers feeling unfairly penalised** by sudden disruption and financial difficulty.
- **Sense of entitlement** due to delay or confusion over expected government action.
- **Prioritisation of self-interest in crisis conditions** – the 'every man for himself' mindset.

Red flags for fraud during this crisis

🚩 Theft of confidential data

- Lack of visibility over employee activity
- Reduced security staff
- Temporary workarounds such as sharing remote log-ins

🚩 Misappropriation of assets

- Diversion of business revenue or payments to fictitious entities / employee related parties
- Sudden large losses may camouflage losses due to fraud

🚩 Bribery and corruption

- Urgent pressure to secure new contracts
- Essential suppliers demanding kickbacks for continued provision of services.

🚩 Payroll

- Complex Government support schemes involving rebates and conditional payments create further opportunities for fraud and manipulation, in an already high-risk area.

🚩 Purchases and Payables

- Invoice approval controls being bypassed when staff are working remotely.
- Unusually low or high prices for new services.

🚩 Impersonation fraud

- Emails or calls supposedly from vendors with requests for changes to bank details on file.
- Requests for urgent payment or shipment of orders.

🚩 Misreporting

- Pressure to report positive finances in order to secure needed funding, meet market expectations, or avoid breaching financial covenants.

🚩 False accounting

- Hidden costs to disguise or misrepresent the profitability of the business.
- Understaffed Finance teams dealing with stressful situations

🚩 Weakened monitoring capabilities

- Documentation and reporting flows interrupted by the crisis
- Compromised detection effectiveness of compliance or internal audit

¹ Recent publications by the NSW Independent Commission against Corruption also support this observation [<https://www.icac.nsw.gov.au/prevention/corruption-prevention-publications/latest-corruption-prevention-publications/managing-corrupt-conduct-during-the-covid-19-outbreak>]

Common Client challenges – Highly sensitive to crisis



Increased scale, scope, and urgency of threats



Pressures to reduce costs and improve margin



Modelling desired behaviours / level of consequence for non-compliance



Unbalanced approach to fraud and corruption



Talent gaps and staff fatigue, employees unaccustomed to dealing with financial crime



Unprecedented fraud incidents not previously considered in fraud risk assessments

Our services

Our Forensic team can help you protect your organisation before, during, and after a crisis



World-class expertise in fraud investigations

We are a leading provider of investigations services around the world, experienced with dealing with the most complex and high-impact cases. Our team of accountants, legal specialists and former law enforcement can help you get uncover the facts and understand the events behind instances of fraud or misconduct.



Improving business resilience

Where your existing investigations, compliance, and internal audit arrangements need specialist support through this crisis, we can assist. We can provide, training, process consulting and personnel to improve your businesses capability to meet the challenges of COVID19 and reduce the impact of the crisis into the future.



Digital Forensics and legal technology

We use cutting-edge technology tools and expertise to capture, preserve and analyse digital evidence from all areas and data sources within an organisation. Our technology-led approach to data management ensures that evidence within an investigation is maintained to all required legal standards.



Fraud Risk Management

We can provide a proactive review of your organisation to assess the inherent risks in your business and the effectiveness of your existing processes. We provide clearly defined recommendations and implementation support help you avoid problems before they arise.



Integrity Due Diligence

Our multi-lingual Corporate Intelligence team specialize in open-source background research and international adverse news reporting to help you understand potential counterparties and protect your reputation.



Intelligent Risk Analytics

'Dtect', Deloitte's proprietary data analysis and interrogation tool, can identify suspicious behaviour and trends of an organisation's employees, counterparties, or business areas. Our "risk-score" approach enabling you to focus your efforts where they are needed most.

Real and present threats

Conversations with our clients show that the heightened risk of fraud during the COVID-19 outbreak are not theoretical - even in this early stage of the crisis, we have already received reports of:

Staff removing confidential documents from employers' offices and then immediately resigning.

Fraudsters impersonating Government agencies, issuing fake fines or requesting bank details for non-existent stimulus payments

Fake websites offering emergency supplies that never arrive

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