

Fraud prevention: What we can learn from fighting a pandemic to help combat fraud

Since the outbreak of the COVID-19 pandemic, the global economy has slowed with a significant number of people across a large number of countries at home in mandatory lockdowns. The pressure on governments to deal with weakening economies and health issues was unimaginable only months ago. At the same time, financial pressures continue to mount on both companies and employees meaning the risk of fraud is heightened.

The increase in risk of fraud resulting from the pandemic, in particular employee misconducts can be explained by the following examples consistent with the three elements of “the fraud triangle”:¹

- **Increased financial needs** for management that are facing pressure to meet key financial targets or employees who may have taken a pay cut;
- **Opportunities** for fraud given the internal controls of the organisation may have changed recently to adapt to working from home; and
- **Rationalisation** of employees who might be afraid of losing their jobs after being committed employees.

Whilst there is no definitive roadmap for companies navigating the current unprecedented conditions, a review of how governments have laid out plans to combat COVID-19 provides some insights into how companies can mitigate the risk of fraud.

From a prevention perspective, there are considerable parallels drawn between these plans laid out by governments to combat COVID-19 and those set out by organisations against fraud.

Three key steps in fraud prevention

Similar to strategies employed by government health authorities around the world in addressing COVID-19, companies may consider the following three key steps in reducing fraud risk: **Education, Testing and Recovery**. The insights companies can glean from governments may be simple, but they are fundamental to limiting the risk of fraud. They also serve as a timely reminder that simplicity is sometimes the most effective plan.

Step 1: Education

Governments have promoted education relating to how COVID-19 spreads throughout the community and have consistently encouraging hand washing, social distancing, and wearing of masks to prevent the spread of the virus.

¹ <https://www.acfe.com/fraud-triangle.aspx>

Similarly, an organisation could continue to educate and create employee awareness to its anti-fraud programmes, policies and procedures, relevant domestic laws and regulations, and how these effect both the organisation and the individual employee.

Encouraging employees to use whistle-blower mechanisms, together with sharing, discussing, and engaging employees with in-person or virtual case study scenarios may be useful tools employed throughout the education process.

Step 2: Testing

Data has become important for governments in designing strategies to manage COVID-19. Segmentation of data has identified countries, or areas, where COVID-19 is more widespread or whether there has been a plateau or reduction in the infection rates.

Analysis of an organisation's data may identify trends and outliers, which may be indicative of potential fraud risks. Any potential outliers, or "red flags" should be further investigated by reviewing source documents or seeking information through information gathering discussions. If required, a more comprehensive analysis could be carried out next by reviewing a wider population of similar transactions to determine the severity, losses incurred, and where possible, the root causes of the issues.

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Step 3: Recovery

Patients that test positive for COVID-19 are initially isolated and the symptoms are treated using the necessary equipment and health care professionals.

Likewise, once an organisation has identified potential fraud risks and their associated root causes, it is important to remediate issues to ensure the same fraud does not occur in the future. While organisations will not be able to fully eliminate the risk of fraud, significant efforts can be done to reduce the risk.

Remedial actions that organisations could consider include removing errant business partners and employees, rethinking local business models, reassessing internal controls and implementing new policies and procedures. With appropriate management support, adequate resources and time, an organisation should be able to remediate the identified issues.

Road to success

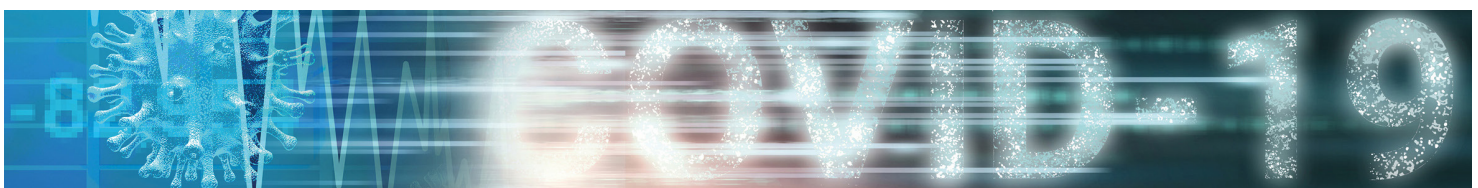
Management of organisations can learn much from how governments have reacted to COVID-19. The use of Education, Testing and Recovery has been applied to date by governments in their fight against COVID-19 but equally, management of organisations may apply the same approach to reducing the risk of fraud in their organisation.

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