

# Managing the Increased Risk of Fraud During the Coronavirus Pandemic

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by **Alex Moss**

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Extreme crises—such as the Coronavirus (COVID-19) pandemic—present extraordinary challenges to individuals, businesses, and the global economy. Moreover, they bring about conditions in which misconduct can thrive.

Many businesses were not sufficiently prepared for the COVID-19 pandemic. Such a sudden increase in business pressure can result in otherwise effective policies, procedures and internal controls being relaxed or even ignored. While management may be focused on survival, internal controls must not be overlooked, as fraudsters and organised crime gangs are seeking to exploit weaknesses exposed by the pandemic.

Where the pandemic has disrupted business on an unprecedented scale, companies and individuals may be tempted to engage in bribery and corruption to meet demands. Employees or third-party agents may resort to illicit activities, such as ‘kickbacks’, to expedite a government process or obtain goods from a supplier.

As a result of ‘social distancing’, isolation and travel restrictions, companies may not be able to maintain effective on-site monitoring of activities and direct oversight of employees, which increases the risk of fraud and corruption. In addition, with a significantly increased number of employees working from home, any weaknesses in remote connections are susceptible to cyber attacks.

Organisations on the front line of combating the pandemic will be most at risk of fraud and corruption, including government bodies and contractors, healthcare companies and the charitable sector. The UK Government issued guidance on the increased fraud threat posed by the COVID-19 pandemic. In addition, regulatory bodies such as the Financial Conduct Authority (“FCA”) have published advice on avoiding scams.



**Alex Moss**

Senior Manager, StoneTurn  
amos@stoneturn.com  
+44 (0)20 7427 0410

# How can businesses protect themselves?

## 1 Conduct Fraud Risk Assessments:

Companies should assess existing anti-fraud controls to ensure they are operating effectively and determine whether improvements are needed. Businesses should continually scan for new fraud risks and implement new controls as required.

## 2 Enhance Third-Party DueDiligence:

As businesses experience shifts in production, interruptions to supplies and compressed timelines, they may need to look outside their normal supply chain to address demand. Companies should not be tempted to cut corners when performing third-party due diligence, allowing transactions prior to the successful completion of formal vetting. To reduce the risk of bribery, enhanced due diligence of new suppliers, agents or distributors will provide greater comfort and security for businesses.

## 3 Leverage Data Analytics:

Businesses should leverage data analytics to help

ensure data integrity (completeness and accuracy), spot potential anomalies and perform targeted predictive analysis to identify 'problematic' transactions, such as those involving foreign officials or third-party agents.

## 4 Refresh Training:

Companies rely on their employees' ability to recognise potential misconduct and to respond to it appropriately. Businesses should consider refreshing anti-fraud training provided to employees to address the risks created by the COVID-19 pandemic.

## 5 Perform Post-Event Assurance Reviews:

Fraud and corruption violations committed during the COVID-19 pandemic may not become apparent until the crisis is over. Companies should, therefore, perform targeted post-event assurance, as soon as practicable, to understand how their policies performed during the crisis, identify potential instances of fraud, and what remediation steps may be required.

## Leaving no stone unturned.

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