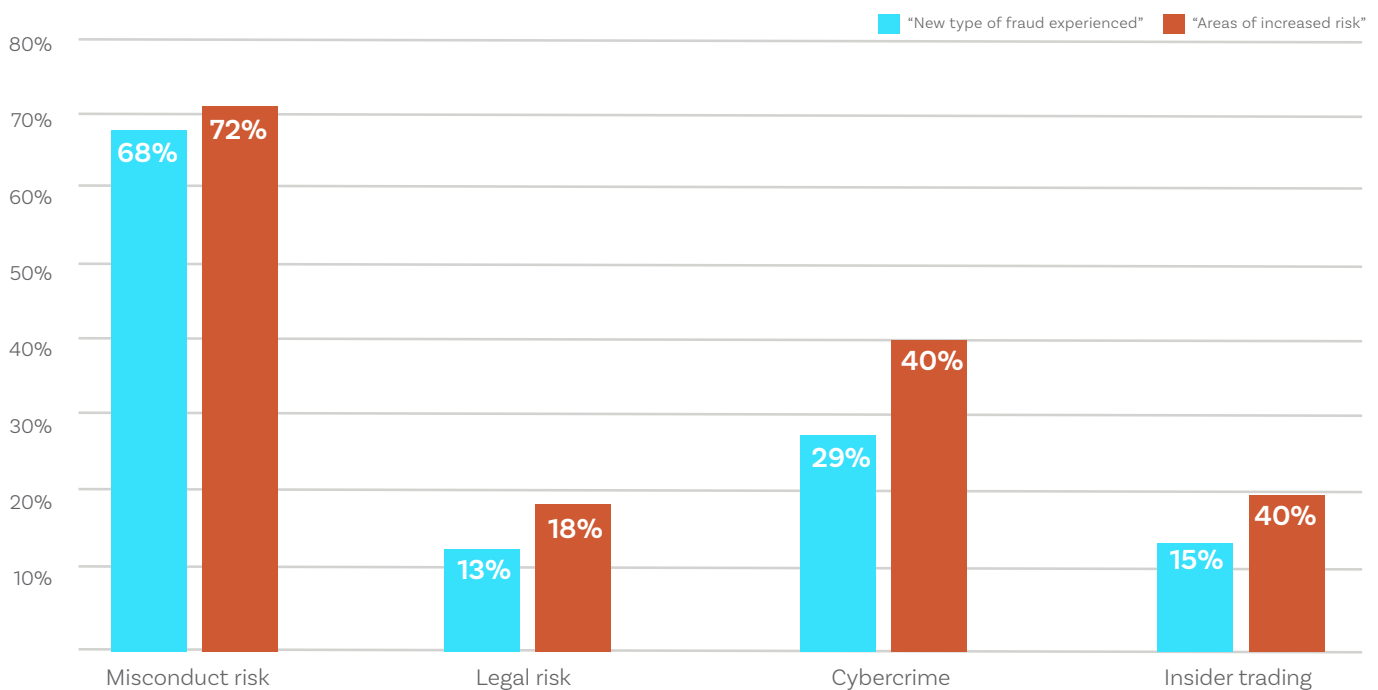


Lingering Fraud Risks of the COVID-19 Pandemic

Much of the world spent 2022 working to emerge as fully as possible from the most disruptive impacts of the COVID-19 pandemic. Unfortunately, while the world seems back to a relatively normal environment in some ways, remnants of the world that COVID created still remain. The pandemic affected the business world in many ways, including raising the risk of fraud.

The International Federation of Accountants noted early in the pandemic that the new environment created “a heightened risk of fraud and improper financial reporting, as new opportunities and pressures can arise for both internal employees and external parties.”¹

Figure 1 - New pandemic-related fraud experiences and areas of increased risks



Source: PwC's Global Economic Crime and Fraud Survey 2022

Board members should be aware that even though many of the pandemic's effects may be over, the fraud impacts may still be occurring (See Figure 1). “History shows that fraud trends in a time of turmoil don't emerge immediately,” according to the 2022 PwC Global Economic Crime and Fraud Survey. Instead, they may not

be apparent for 18 to 24 months. They may become more visible at inflection points, such as during a time like this one when significant changes to the economy are taking place, because those who would commit fraud know that organizations may have let their guards down.²

Among other things, “companies need to assess how their employees might respond to the intense commercial pressure brought on by this unique economic situation,” according to a Deloitte report.³

For example:

- **Workers may turn to misconduct due to employer pressure to improve sales targets during a recession.**
- **Disruptions in the supply chain may also make it easier for fraud to occur.**
- **Some of the corner cutting or ad hoc procedures adopted as part of crisis management efforts during the peak of the pandemic may also still be in use, with potential consequences for organizations.**

As a result, now more than ever, boards need to understand their oversight role in fraud risk management and how internal audit can help prevent or mitigate fraud risk.

New Practices, New Risks

Remote work is one of the key lasting transformations driven by the pandemic. Researchers have found that while remote work has declined significantly since the pandemic shutdowns in 2020, it has since stabilized at a point higher than before COVID, according to the Washington Post.⁴ While it offers many benefits for employees and organizations, remote work can enhance fraud risk.

A total of 74% of audit committee members said their organizations had updated their internal controls over a recent 12 months because of the remote work environment, according to a report from Deloitte and the Center for Audit Quality.⁵ Remote work is often associated with a breakdown in internal controls, as employees improvise to maintain procedures in a new environment. One reason is that some tasks that were previously conducted on site and in collaboration with others are performed alone and unsupervised in an employee’s home, opening the door to possible fraud or error. “Most organizations were office-centric before the pandemic, with internal control structures that often relied on the day-to-day interaction of

employees to achieve and document their control processes, such as manually initialing invoices for approval, reviewing original source documents, and manually signing checks,” noted the Construction Financial Management Association.⁶

At the same time, disengaged employees, sometimes with little regular contact with supervisors, colleagues, or a collegial workplace, may be more likely to perpetrate or accommodate fraud. What’s more, there may also be fewer people to carry out or oversee important controls if organizations have downsized during the pandemic, or new workers brought on since last year’s wave of resignations may not be as familiar with those controls. Such staffing fluctuations may lead to having fewer experienced people to spot fraud or error or to help prevent fraud through segregation of duties. Companies may also have changed some procedures to adapt to strained circumstances during the pandemic, making it more likely that new procedures will not be adequate, won’t be understood or followed, or will be easier for a fraudster to evade.

Consider the Culture

Employees and the corporate culture they are a part of are critical elements in fraud detection and prevention. While corporate culture may not necessarily have been damaged by the pandemic, it was almost certainly changed in some ways. This may be a good time for boards to initiate a discussion on the organization’s culture, asking questions such as:

- ***Do we have a strong ethical culture in place?***

Steps such as creating a code of ethics or implementing a whistleblower hotline signal the organization’s emphasis on fraud prevention and awareness. Most important, company management and the board should support, acknowledge, and adhere to the code. Whistleblowers should be rewarded and should not face consequences for bringing fraud or other wrongdoing to light.

- ***Has the culture changed since the pandemic?***

If so, was it for better or worse? What actions have contributed to any change? In addition to remote work, staff losses or new recruits may have an impact on employee behavior, attitudes, and engagement. It may be necessary to survey employee understanding of the organization’s ethical culture and to reaffirm company values and procedures to ensure continued adherence.

- ***What steps can strengthen an anti-fraud culture going forward?***

If the organization is not doing so now, it can consider using metrics and accountability measures to reinforce the commitment to ethics and culture.⁷

Internal audit can offer ideas on the best steps for each organization’s specific needs post-pandemic and can consult on introducing or enhancing a strong ethical culture.⁸

About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 230,000 global members and has awarded more than 185,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

The IIA

1035 Greenwood Blvd.
Suite 401
Lake Mary, FL 32746 USA

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Forward-Looking Internal Audit

Internal audit teams have found a variety of solutions to the problems raised by this shifting fraud environment. They have taken on a more forward-looking role in fraud prevention and detection, rather than a reactive role, according to *Fraud and the Pandemic: Internal Audit Stepping Up to the Challenge*, a joint research report by the Internal Audit Foundation and Kroll.⁹ “A number of participants cited more strategic engagement with management from a fraud risk perspective, and more involvement in examining enterprise-wide fraud risk through a risk assessment,” the report said. For example:

- Rather than “surprise” and one-off annual audits, internal audit teams shifted to providing continuous assurance to enable organizations to better grapple with ongoing operational challenges and rapid changes in business practices. Internal audit teams reported conducting fraud risk assessments and revisited processes initiated under emergency conditions.
- Internal audit has increased the use of new and developing technologies and aimed to upskill capabilities in data analytics and other advanced technologies. That includes putting data to effective use in fraud prevention and detection. Examples are “gathering specific analytics around the movement of smaller inventory items to counter high-volume, low-value fraud and the consideration of the analysis of overtime using data drawn from around the organization,” according to the report. In putting data analytics to work, many report participants emphasized the need to tailor the use of data analytics to the specific industry and type of organization.

The use of data analytics by internal audit for fraud detection and deterrence as well as other important assurance services is explored in the [December 2022](#) issue of *Tone at the Top*.

Strengthening the Fraud Ecosystem

Board members have ultimate responsibility to ensure robust efforts to detect and deter fraud in an organization. A new year is a good time to consider the organization's fraud ecosystem and the opportunities to strengthen it. As directors review existing approaches to fraud and necessary updates or changes to them, internal audit can provide valuable insights and advice.

QUESTIONS FOR BOARD MEMBERS

- » What does the post-pandemic fraud risk landscape look like in our organization?
- » What vulnerabilities may have been overlooked?
- » Have internal controls been recalibrated to adequately address the new risk environment?
- » What kind of consulting advice can internal audit offer to help us better understand and address our post-pandemic fraud risk?



Quick Poll Question



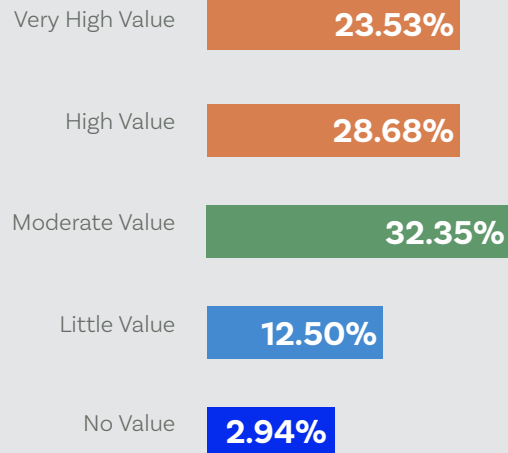
In what areas has your organization experienced increased fraud risk during the past year? (Select all that apply.)

- Remote work
- Internal control failures
- Supply chain disruptions
- None of these
- Don't know

Visit theiia.org/Tone to answer the question and learn how others are responding.

QUICK POLL RESULTS

Overall, how would you rate the value that has been created from internal audit's use of data analytics or automation at your organization?



Source: Tone at the Top December 2022 Quick Poll Survey.

¹Reporting and Fraud Risk Arising from COVID-19 Pose Significant Challenges for Professional Accountants; Stathis Gould and Laura Leka, International Federation of Accountants, May 4, 2020.

²PwC's Global Economic Crime and Fraud Survey 2022.

³COVID 19 Operating in the "New Normal"—A Backdoor to Increased Fraud?; Sven Probst, Nic Carrington, Andra Horwat, Deloitte.

⁴The Remote Work Revolution Is Already Reshaping America; Andrew Van Dam, Washington Post, August 19, 2022.

⁵Audit Committee Practices Report: Common Threads Across Audit Committees; Deloitte Center for Board Effectiveness and the Center for Audit Quality, January 25, 2022.

⁶Identifying & Mitigating Fraud Risks in a Remote Working Environment; Robert Sprague, Construction Financial Management Association.

⁷Importance of Corporate Governance for Fraud Prevention; Simon Pham, Polonius Systems, January 5, 2022.

⁸Assessing Corporate Culture: A Proactive Approach to Deter Misconduct; Anti-Fraud Collaboration, March 2020.

⁹Kroll/IIA Report 2022—Fraud and the Pandemic: Internal Audit Stepping Up to the Challenge, March 25, 2022.