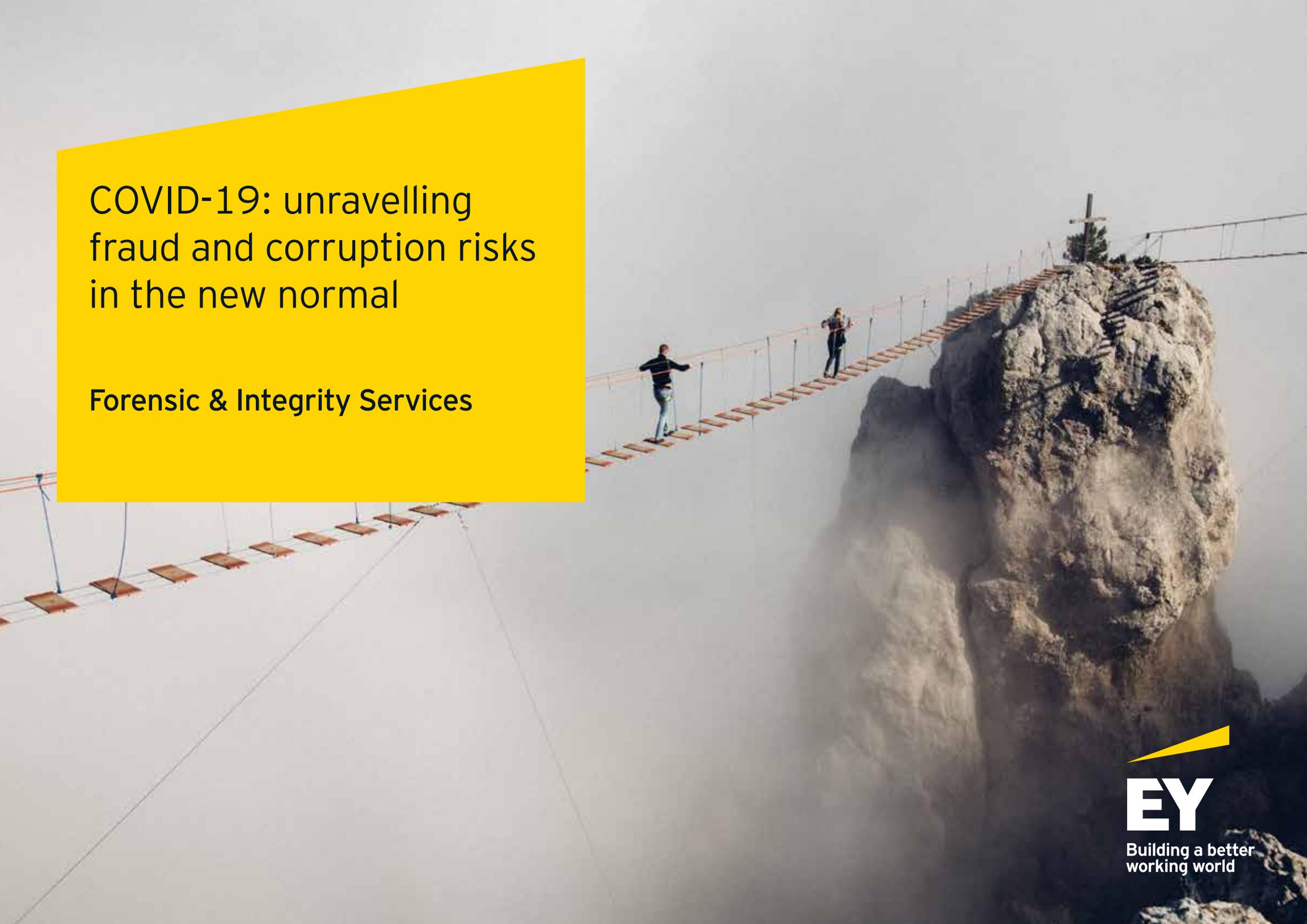


COVID-19: unravelling  
fraud and corruption risks  
in the new normal

Forensic & Integrity Services





## Unforeseen crises brewing fraud, bribery and corruption risks

The world today is in a state of emergency due to the onslaught of the COVID-19 pandemic. The global crisis that stands before us is beyond a health crisis and has had a devastating impact on human lives. Prevailing uncertainties are radically altering societal norms, crippling business operations and impeding economic growth.

The pandemic has led to an unprecedented and unforeseeable situation for the global ecosystem, bringing forth a slew of challenges for people, organizations and governments. Its long-term impact is unfathomable right now till a medical breakthrough aids a cure or eradication of the virus. Curbing the impact of a pandemic situation, as seen recently, typically leads to prolonged periods of disruption, closure of services and stores, limitations on travel and supply chain breakdown.

Fraud, bribery and corruption tend to thrive in chaos. The COVID-19 pandemic has made the business world a breeding ground for a plethora of risks, with vulnerabilities seeping across several industries. As companies grapple with operational pressure, disruption around cash management, working capital, supply chain and workforce issues; resorting to unethical shortcuts, fraudulent practices, compliance violations and management overrides may be construed acceptable in these extraordinary times. Difficult times call for innovative solutions and it the pressure to stay afloat may supersede the need to conduct business the ethical way.

The pandemic's impact is comparable to the aftermath of the 2008 financial crisis where fraud and corruption increased significantly. According to the Association of Certified Fraud Examiners (ACFE), a study conducted after the 2008 recession highlighted that the majority of respondents saw an observable increase in the number of frauds. Almost 80% believed that fraud levels increase in times of economic distress. With a sharp fall in markets worldwide, plunging stocks and job losses, many factors then may be relevant right now, which might impact the global economy.

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**Turbulent times demand greater control and command, making it essential for global organizations to devise and implement preparedness, response and revival measures.**

**Arpinder Singh**

India and Emerging Markets Leader, Forensic & Integrity Services

2,504

Cases

from

125

Countries

Causing total losses of more than  
**US\$3.6 billion**

Average loss per case  
**US\$1,509,000**

## Poor tone at the top

was the primary risk factor in **22%** of all financial statement frauds.

8%

Asset misappropriation

15%

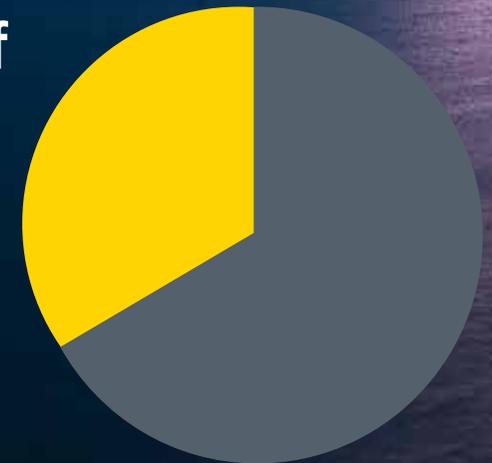
Corruption

22%

Financial statement fraud

A lack of internal controls contributed to nearly

**1/3** of frauds



As the COVID-19 crisis evolves and morphs with time, organizations, their leaders and boards should identify high-risk areas that may emanate from the pandemic's ill-effects on businesses.

● **Misappropriation and window dressing**

Perpetrators may bend the rules to project a better financial performance through non-disclosure of risks and uncertainties in annual or quarterly reports and unethical and unprincipled balance sheet adjustments. Organizations may also see management override or circumnavigate controls, manipulations leading to financial fraud, embezzlement for personal use, related party transactions and diversion of funds for unauthorized or illegal purposes.

● **Integrity lapses**

Disruption in work pattern and behavior may lead to a short-term rise in whistleblowing complaints as the focus may be on business continuity and a shift in the responsibilities of certain executives, or complaints may not be addressed immediately. Conflict of interest situations may go unnoticed by management and corporate governance may take a backseat. Employees may also commit insider trading by misusing access to unpublished price sensitive information (UPSI) for unlawful gains or steal proprietary and confidential company data. From a corporate social responsibility (CSR) standpoint, implementation partners may misuse funds allocated for relief efforts because of weak controls or governance, which may cause ethical lapses in the programs.

● **Bribery and corrupt practices**

Employees may defy compliance with standard operations procedures and take advantage of the exemptions offered by accepting or giving bribes, favors or kickbacks during the crisis. The possibility of imminent job cuts, furloughs or layoffs may also be a justification. Corrupt behavior may also include fast tracking approvals (for example for contracts, recruitment, procurement or sales), decision making without authorization or "speed money" or facilitation payments given when dealing with the authorities or officials and collusion with vendors.



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The pandemic has resulted in unprecedented business and financial disruption, exposing most companies to the risk of corruption, fraud and other economic crimes. In such times, it is imperative to give prompt attention to a robust anti-fraud and compliance framework to prevent, detect and remedy unethical actions.

**Rupinder Malik**

Partner, J. Sagar Associates



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The COVID-19 crisis is obliging governments to make quick decisions and implement drastic measures to protect communities at risk and limit the economic consequences that will follow. Past crises have shown that emergencies and subsequent rapid responses create opportunities for integrity violations, most notably fraud and corruption, seriously weakening the effectiveness of government action.

*OECD's report on Public integrity for an effective COVID-19 response and recovery*

#### ● **Counterfeiting**

The pandemic provided counterfeiters with an opportunity to capitalize on the consumer vulnerabilities, given the shortage in multiple product categories because of supply chain disruptions. The lockdown either ceased or disrupted the supply of goods as many manufacturing operations have been scaled down or suspended. The limited availability of essential and non-essential products may create a vacuum in the market, influencing counterfeiters to release fake products at a rapid pace after the lockdown is lifted. This will have an adverse impact on brand equity and loyalty.

#### ● **Supply chain risks**

Changes in the working environment and conditions has forced companies to revisit their third-party arrangements and decide measures to align them to the new normal. Some of the imminent risks in the supply chain include change in third party arrangements increasing the risk of exposure to unknown third parties, kickbacks for priority treatment, overcharging by logistics vendor taking advantage of the rise in demand and short supply, and diversion of company products to unauthorized channels fueled by sudden increase in demand.

#### ● **Cybercrime, phishing and digital frauds**

With remote working or work from home set-ups, businesses need to consider the impact of cyber- attacks as the employees would be using external internet connections to perform official duties. Some of the biggest threats here are email phishing, system breaches, malwares, ransomware attacks and social engineering attacks may compromise organizations' confidential data and employees' personal data.

#### ● **Losses and damages**

Production slowdown or stoppage leading to idle capacity build-up and operational losses can have a widespread cascading impact on businesses. Disrupted supply chain and distorted relationships with business partners are likely to bring commercial complications such as difficulty in recovery of invoices, unwarranted claims and unsolicited disputes.

# Reinforcing stakeholder confidence in the new normal

The world's response to dealing with a pandemic 25 years ago would have been a stark contrast. Technology and digital proliferation have been a conduit in raising awareness, mitigation methods and even the deployment of containment measures as ways to mitigate risks. However, the ongoing crisis can cast a shadow of doubt on management and organizational efforts to maintain compliance, ethics and governance. A focused approach to proactively address any gaps in governance, risk and compliance, managing business disruption and building resilience can maintain trust with stakeholder as organizations deal with the new normal.

From a compliance and governance standpoint, a technology-led preparedness model with a focus on current, imminent and long-term risk mitigation can tackle several challenges.

The role of compliance, ethics and governance will gain prominence in these turbulent times.



Now



Addressing concerns on the current fraud landscape to the next three months

## ✔ Crisis management

This can encompass commercial agreements, establishment of a cross functional COVID-19 task force and constant assessment and monitoring the effects of the pandemic. The business continuity plan should have a specific emphasis on regulatory matters, supply chain disruptions and an adequate response plan.

## ✔ Empowering compliance

Many business functions including risk, legal and compliance may be overextended as they support areas around business continuity and remote working as restrictions ease. In such times of business pressure and with companies chalking revival strategies, compliance teams should be empowered with resources, get greater guidance from management and the board and support from external specialists to manage threats and maintain regulatory requirements in this rapidly intensifying risk landscape.

## ✔ Virtual safeguards during remote working

The safety of personal and business data, ease in data access for the workforce and overall employee morale are critical for organizations to emerge unscathed from the pandemic. Focused efforts should be made to revisit work from home guidelines, additional internal policies and controls should be incorporated to plug loopholes in data leakage, breach of confidentiality and work efficiency. Companies may consider implementing employee efficiency and sentiment analytical tools to guide, help and monitor staff.

## ✔ Rebuilding the supply chain matrix

Organizations can check the viability of key third parties through risk assessment based on new or changed parameters such as liquidity, operating abilities, change in ownership structure, borrowings, workforce, availability of resources. As business operations restart, conducting fraud vulnerability testing of newly initiated digital initiatives to align with the new strategy, assessing the adequacy of key data monitoring reports generated by the business and compliance testing for key government touchpoints involved restarting operations would be important.

### ✓ **Cyber incident response strategy to meet remote working requirements**

Businesses should mandate that employees follow the established rules and protocols to minimize the impact of any cyber incidents. This includes using secure internet and Wi-Fi connections, virtual private networks (VPN) to connect to company's secured network when accessing company data, not installing new or unwanted software without the IT team's permission and double-checking external emails to avoid phishing, ransomware, malware or spoofing attacks.

### ✓ **Reviewing contracts**

Businesses need to relook contracts with external parties (whether cross border or domestic) to understand what respite is suggested under such an unprecedented scenario; if at all covered. One of them is the force majeure clause and it should be studied to (re)interpret contractual obligations given the current scenario, to understand how the clause could be used in favor of their business interest or to save them from performing any obligations. Otherwise, businesses will need to assess their insurance cover to the extent to which their losses may be covered.

## Questions

for  
consideration

- ▶ Has your organization's existing anti-fraud and compliance framework been tweaked to adjust to a new business model during the disruption?
- ▶ Does your organization have adequate access and anti-fraud control measures built into IT systems?
- ▶ Is your organization monitoring the funds allocated for new CSR projects and relief ventures?
- ▶ Has your organization reexamined employee related policies and procedures, including social distancing, privacy and remote working?

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Providence and lessons from the 2008 financial crisis have shown us how criminal misconduct risks including fraud and bribery increase, with business disruption. Armed with hindsight, it would be prudent to be prepared, ensure compliance and governance is strengthened – as opposed to being ignored or becoming a budget casualty. Compliance functions, will have to rely significantly on technology and remote working for tasks that customarily were in-person or on-site; but the lack of in-person meetings cannot be the cause to bring the compliance organization to a grinding halt and increase risk. The daunting challenge notwithstanding, this also is an opportunity to digitize compliance.

**Sherbir Panag**

Founding Partner, Law Offices of Panag & Babu



## Dealing with potential fraud risks amidst limited business operations in the next three to six months

### > Prioritizing fraud risk assessments

As businesses gear up and resume operations, albeit with limited capacities and workforce, organizations and their legal, risk and compliance teams should relook at identifying fraud risks. Management should reassess the company's risk quotient, state of regulatory compliance, conduct internal investigations if needed while preserving the credibility and discoverability of the evidence collected for litigation proceedings and tighten anti-fraud and compliance frameworks.

### > Revisiting technology infrastructure and assets

The workplace of the future is digitally driven. Slow adopters of technology will have to jumpstart their digital transformation journey, while those at the mature end of the table will need to revisit their current infrastructure and assets. Modernizing the existing cloud environment, enterprise collaboration, network and physical security, and upgrading cyber forensics for enhanced agility and safeguarding the company will be key.

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Digital transformation will reshape the future of investigations, with compliance gaps being assessed and bridged as organizations continue rapid technological adoption.

Mukul Shrivastava

Partner, Forensic & Integrity Services

### > Relooking third party risks

Organizations will have to re-evaluate the risks from third parties, including vendors, contractors and suppliers. The due diligence process will need to be broader to cover background checks, market reputation and allegations of fraud, bribery, corruption and other unethical practices. Automation of vendor onboarding processes through robotics can mitigate possible non-compliance.

### > Digital training capsules

As remote working would continue, organizations will need to shift to digital training to reinforce the integrity agenda. This would involve refresher trainings to minimize potential violations, corrupt practices and foster a culture of ethics.

### > Building resiliency through stronger governance measures

Organizations will have to enhance governance and transparency by integrating the primary touchpoints across various business functions. This will create a holistic model for a rapid crisis management, enabling the organization to respond to risks and enhance the integrity factor.

## Questions

for  
consideration

- ▶ Has your company undertaken any compliance reviews for pirated or unlicensed software?
- ▶ Are your new employees and vendors aware of and trained on Indian and global bribery and corruption regulations?
- ▶ Does your organization use data analytics and predictive modeling to identify red flags?
- ▶ How is your organization handling data privacy and confidentiality with respect to the personal data of employees and third parties?
- ▶ Has your internal investigation and compliance process been updated in line with the pandemic and with regulatory requirements?



## Managing compliance and rebuilding trust in a post COVID-19 world spanning six months and beyond

### » Focusing on sustainable ethical growth

Management and boards will need to create and nurture a culture of integrity, which is sustainable and permeates across all rungs of the organization. The relevance of business integrity is paramount, encompassing governance, culture, controls and procedures, and data-based insights, and should be intertwined within the organizational culture. The tone at the top should emphasize on the importance of mitigating risks, including regulatory non-compliance, possible penalties and prosecution and driving long term ethical growth.

### » Sparking a compliance and cyber revamp through emerging technologies

Automation, artificial intelligence and machine learning for process improvements compliance and enhanced cybersecurity can prepare organizations to ward off the threats of tomorrow. The renewed technology with an underlying cyber forensics environment can be equipped with fraud monitoring dashboards or improvements in current monitoring dashboards to focus on fraud and track anomalies. Anti-fraud, anti-corruption, compliance, corporate governance, data privacy and data protection frameworks will need a renewed look and approach.



### » Continuous assessment and update in insurance coverage

Organizations will have to assess insurance cover around future scenarios covering pandemics, possible loss of profit as well as biological wars in their business continuity plans. They will also have to include measures to resume adequate production capacity levels and augment the supply chain.

### » Re-examining legal agreements

Contracts and agreements will have to be re-examined by legal teams and general counsels to cover contract governance frameworks. Organizations will have to set up the structure and associated processes, design standard contracting templates across categories, benchmark against leading practices (legal, commercial and technical), undertake risk assessments, contract compliance and monitoring.

### » Boosting compliance in CSR efforts

Integrity and ethics should form the core of CSR programs aimed at delivering long term value to wider communities. Organizations will need to maintain compliance with the law and internal policies, choose execution partners after due diligence and identify as well as address risks in implementation.

## Questions

for  
consideration

- ▶ Has digital transformation reinvented your organization's internal controls and compliance framework?
- ▶ Are management and board conversations evaluating governance and ethical dilemmas?
- ▶ Has your organization devised a strategy for future risks?
- ▶ Is your organization able to maintain trust and promise integrity to its stakeholders?

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