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**TRAINING**

International

# THE ANATOMY OF FRAUD AND CORRUPTION IN THE ERA OF COVID-19

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Fraud has been around for as long as people have been trading with one another. Corruption, ever since a minority of society was entrusted with power over the majority and given discretion in how that power should be applied. Economic crime and abuse of power are sadly a permanent part of our world. We will never eradicate either.

However, we can manage them by accepting that they will appear and by working to make them:

- as hard as possible to commit,
- as easy as possible to detect, and
- as unappealing as possible to be prosecuted for

A truism of financial crime is that fraud follows the money. It is not hard to identify high, medium and low-risk areas and in general, these change surprisingly little over time. This allows us to look for patterns, spot anomalies and develop proportionate, risk-based approaches to minimise our exposure to the threat. I was recently in court listening to a case of alleged marine insurance fraud and was struck by the similarities with the case of Hegestratos, a Greek shipowner and the first recorded case of someone planning to turn a quick buck, or drachma, by a convenient sinking over 2,300 years ago. Some things don't change. Most of the time.

But what happens when suddenly, everything is thrown into disarray by a crisis such as the current pandemic? Processes, systems and checks and balances are overwhelmed by the scale of money needing to be spent or are deliberately abandoned in favour of speed. Due diligence is temporarily put aside and in general, an 'end justifies the means' political mood prevails.

Some of the consequences of this were obvious from the outset: companies being set up simply to access loans, then promptly shut down again. National security, emergency powers and commercial confidentiality used to cloak vital equipment being obtained through less than transparent procurement arrangements. Resources being deployed for political or financial gain rather than to those in greatest need. Stockpiling, price-fixing and under-delivery.

Others were less easy to predict. In particular, the dramatic growth in so-called 'romance fraud.' It is presumably a consequence of furlough arrangements, prolonged lock-downs and increased home working that so many more people have fallen victim to an apparently innocent approach from a new 'friend.'



Of course, for every story of cruelty and cynical exploitation of the vulnerable and the lonely, there are hundreds of kindness, heroism and generosity. For those of us interested in reducing losses to and harm caused by fraud and corruption, that is a comfort. It is not however a reason to just accept current losses and abuses as 'the cost of doing business in a global crisis.'

So what should we do about it? We need to:

- pursue money wrongly paid out
- introduce robust, revised arrangements to ensure scrutiny of current and future spending, and
- support those who have been victims of fraudsters in ways which encourage others to come forward

We need to apply an **'adapt, adopt, abandon'** approach to build, or rebuild fraud resilience.

- How do we need to adapt traditional arrangements to better fit 'the new normal?'
- What can we adopt from other prevention and protection regimes to help us reduce the threat from financial crime?
- What arrangements no longer offer adequate protection and should now be abandoned?





At the heart of this is the need for an anti-fraud culture, which anticipates, looks for and shares fraud risk as well as places accountability for its management high up in the organisation. We also need to recognise that big numbers don't automatically translate into increased complexity.

If the same transaction is happening many times, that may increase the fraud risk by magnitude, but not necessarily by sophistication.

Perhaps most importantly, we need to recognise that no matter how much the words may look alike, pandemic and panic are only related if we choose to make them so.



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