

# Heightened Risks of Fraud and Other Illicit Activities during COVID-19

Presenter: **Lettie Janse van Vuuren CA(SA)**



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*This webinar highlights the heightened risks of fraud arising from the disruptive and uncertain COVID-19 environment (including considerations for auditing Financial Statements) and the implications for both professional accountants in business and in public practice, including auditors and accountants in government*

# Presenter

## Lettie Janse van Vuuren CA(SA), RA, CBA(SA)

- Lettie joined SA Accounting Academy in November 2017 as Head of Technical. She is a Chartered Accountant, Registered Auditor and Certified Business Accountant.
- She is a **professional trainer and webinar host**, and with her relaxed and humorous presentation style, she is able to hold the attention of an audience. She has a unique ability to communicate with delegates at their respective levels of knowledge and experience. Over the last 20 years, she has trained thousands of partners, managers, trainee accountants and other professionals.
- She is responsible for our MCLU (Monthly Compliance and Legislation Updates).
- She was the Professional Development Manager at SAICA for 4 years and in charge of accrediting new training offices and monitoring existing ones (including the moderation of training offices and trainee assessments).
- Lettie is passionate about improving the efficiency and standardisation at practices. She has extensive experience on a variety of technical and practical topics which she consults on, including: SAICA re-accreditation assistance and preparation, IRBA inspection assistance and preparation, audit file reviews (post-issuance monitoring and EQCR), Quality control implementation, other office-specific manuals, and FASSET skills development facilitation.



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# Quotes

If you see fraud and do not say fraud, you are a fraud

– Nassim Nicolas Taleb

Fraud is the daughter of Greed

– John Grant



# WHAT'S ON THE AGENDA?



# Contents

- ❑ Introduction
- ❑ The Fraud Triangle *(including some examples)*
- ❑ How can the International Standards help?
  - *The application of the Code's Conceptual Framework, NOCLAR, Inducements, including Gifts and Hospitality, Pressure*
- ❑ Auditing Financial Statements and the increased risk of Fraud
  - *Fraud Risk, Planning and Performing the Audit, Communicating with Management and TCWG (those charged with governance), Professional Skepticism*
- ❑ What now? *Some important reminders for accountants*
- ❑ Resources



# INTRODUCTION

# Abbreviations used

- **IESBA** = the International Ethics Standards Board for Accountants
- **IRBA** = the South African Independent Regulatory Board for Auditors
- **IAASB** = the International Auditing and Assurance Standards Board

# Staff Alert publication

- **IESBA** (International Ethics Standards Board for Accountants) have published an **11-page staff alert** as a guidance and support tool on *Navigating the Heightened Risks of Fraud and Other Illicit Activities During the COVID-19 Pandemic, including Considerations for Auditing Financial Statements*
- This publication was developed by the Staff **IRBA, IESBA & IAASB**
  - under the auspices of a Working Group formed by the **IESBA** and **national ethics standard setters (NSS)** from **Australia, Canada, China, South Africa, the UK and the US**. The publication has also benefited from the input of the Staff of the IESBA & IAASB
- *This webinar is complemented by an IESBA Staff Publication, **COVID-19 and Evolving Risks for Money Laundering, Terrorist Financing and Cybercrime**. Lettie has already presented a webinar on this document on 23 February 2021 – which is available to you as a webinar on demand*



# Introduction

- Many entities and their stakeholders are experiencing financial, operational and personal difficulties
- They are now exploring avenues to remain as going concerns, keep operational stability, and drive sustainability and growth in the longer term
- Those avenues might create opportunities for illegal and fraudulent activities...
  - could provide new opportunities for fraud that remains undetected for a long period, causing more financial hardships for its victims
  - On the flip side, this pandemic may expose fraudulent activities that were previously concealed

COVID-19 IS SHOWING UP  
JUST SO MANY FRACTURES!



# PAs' responsibilities

- ✓ Professional Accountants can play an ethical leadership role
  - in helping to minimize the incidence of fraud and
  - to identify and respond to instances of fraud or suspected fraud
- ✓ Remember: PAs must act in the public interest
- ✓ So, PAs should comply with:
  - The Code of Conduct, and
  - The applicable professional standards

# THE FRAUD TRIANGLE

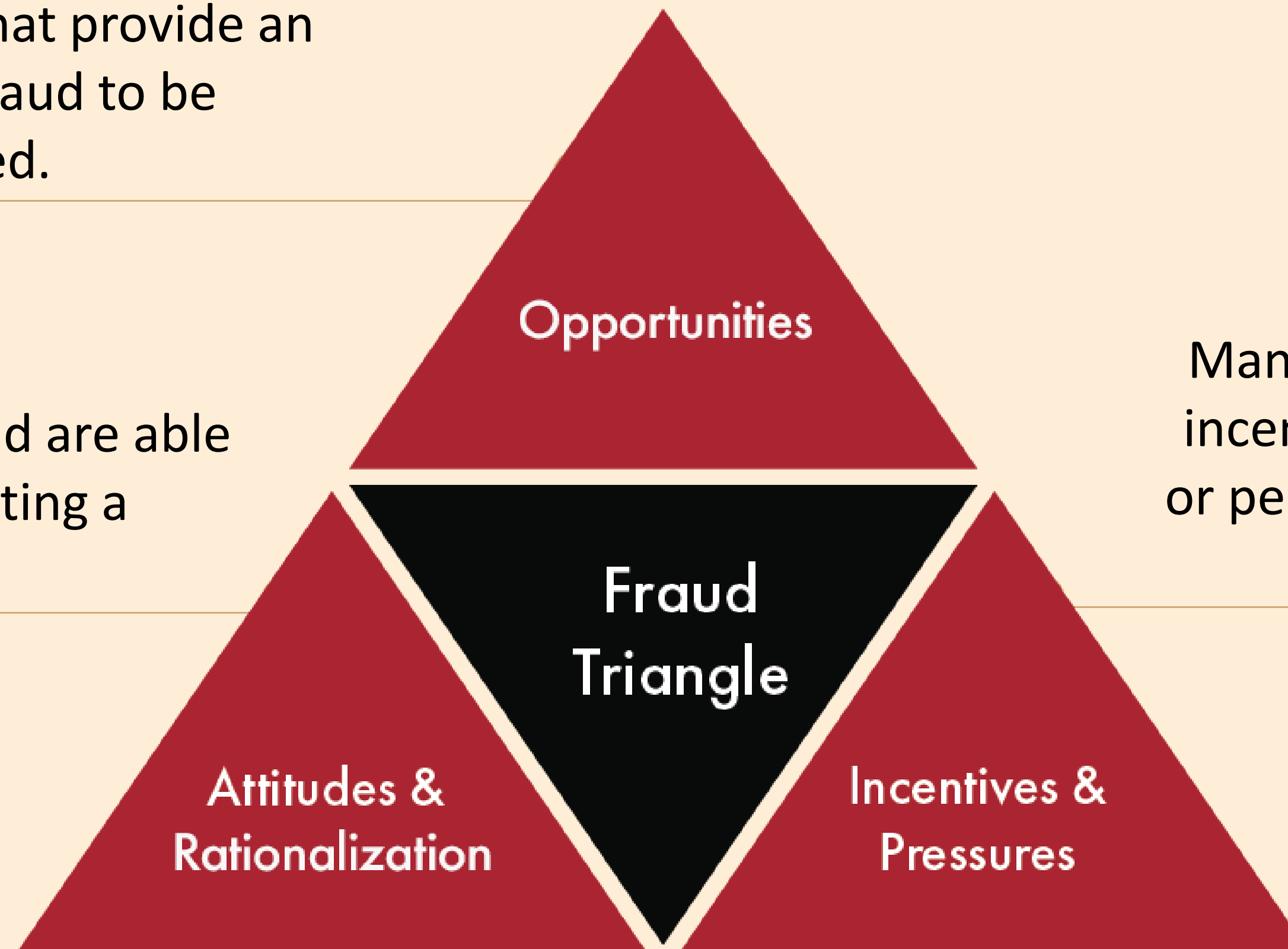


# The Fraud Triangle

Circumstances exist that provide an opportunity for fraud to be perpetrated.

Those involved in the fraud are able to rationalize committing a fraudulent act.

Management or employees have an incentive or are under pressure, real or perceived, which provides a reason to commit the fraud.



**Why?**

**Opportunity**

**Motive**  
Incentives  
Pressures

**Rationalisation**



# Examples of Opportunities for fraud

1. Large amounts of funds being made available
2. Distracted management amidst time pressure
3. Continuing effectiveness of internal controls
4. Significant market opportunities

# Other Examples of COVID-19 fraud...

1. individuals selling fake COVID-19 “cures”
2. websites selling fake vaccine kits
3. private companies requesting fees for government relief applications
4. companies selling unproven drugs to treat symptoms
5. fraudsters impersonating the Public Health Agency of Canada and requesting personal information and credit card numbers
6. fraudsters impersonating cleaning companies, claiming e.g. their duct-cleaning can protect people from COVID-19
7. fraudsters impersonating NPOs and other known charities, offering free medical products (e.g. masks) for a donation



# Incentives & Pressures (Motive)

- Fraud is more likely to occur when management and/or employees have an incentive or are under pressure, real or perceived, to “cross the line” and commit a fraudulent act
- COVID-19 has impacted entities in many ways
  - Under financial distress
  - facing severe cash flow shortages
  - some have stopped their operations as a result of lockdown or other pandemic-related measures
- The desire of businesses to minimize financial losses and remain going concerns have given rise to both incentives and pressures to commit fraud

# Attitudes and Rationalizations

- Entities want to:
  - ✓ Remain in business
  - ✓ Avoid job cuts
  - ✓ Avoid future cash flow difficulties
- So...they might be desperate to do anything ...
- This provides the **justifications** to commit fraud
- May be reasoned as a decision for the “greater good”
  - What is in the best interests of every entity?  
*For partners, and employees to uphold the highest standards of ethical behaviour*

# HOW CAN THE INTERNATIONAL STANDARDS HELP?

# Our Code of Conduct

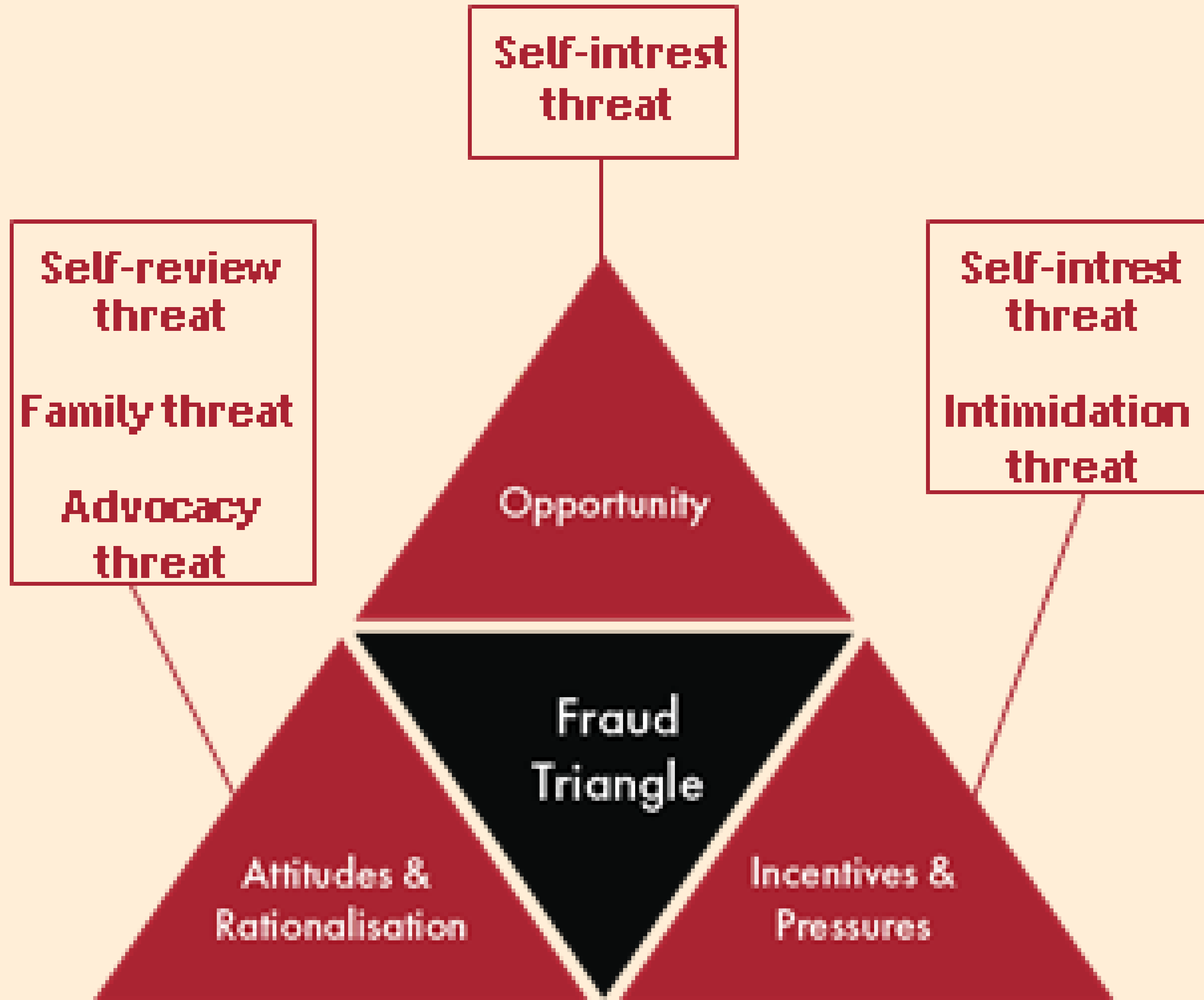
- Complying with the Code's fundamental principles assists professional accountants with navigating the evolving risks, including during the dynamic pandemic period
- The conceptual framework provides accountants with an approach to identify, evaluate, and address threats to compliance with these principles

# PAs' actions

- To successfully carry out their professional activities, it is important for accountants to adapt to the dynamic and disruptive nature of the COVID-19 pandemic, including how abruptly it has altered individuals' and organizations' plans, work routines, as well as other activities and practices.
- **An understanding of COVID-19-related risks and pressures, including those relating to Fraud, Money Laundering, Terrorist Financing and cybercrime, can help accountants comply with their professional obligation to remain alert for new information or sudden changes in facts and circumstances that might affect compliance with the fundamental principles**

# Applying the Conceptual Framework

- Accountants should consider any opportunities, incentives and pressures and changes in attitudes and rationalizations that could create or heighten one or more **threats to compliance with the fundamental principles**
- Where that information or **changes in facts and circumstances** might impact whether a threat has been eliminated or reduced to an acceptable level (which may be common in the COVID-19 environment), the accountant shall **re-evaluate and address that threat**
- PAs must have an **inquiring mind**
- PAs must exercise **professional skepticism**



# An inquiring mind helps in...

- Obtaining and understanding information relevant for making reliable judgments.
- Making informed decisions and challenging the views of others, as appropriate.
- Assessing the validity or integrity of information, including the source of the information and the appropriateness of its presentation.
- Exercising professional judgment that is informed by thoughtful consideration of all known and relevant available information.



# NOCLAR

- Fraud = unlawful!
- PAs need to **be alert to the opportunities** for fraud created by the current pandemic environment
- Refer to Code:
  - Section **260** for PAIB (accountants in business) and
  - Section **360** for PAPP (accountants in public practice)
- Accountants have a responsibility to not only **respond** to, but also **be alert** for, NOCLAR or suspected NOCLAR

# COVID-19 increases opportunities for fraud...

- Fraudulent applications for government support
- Procurement and product fraud
- Benefit fraud, including fake claims
- Impersonation fraud
- Electronic fraud
- Insurance fraud
- Financial statement fraud

# Inducements

## incl. Gifts & Hospitality

- Entities use inducements as a means of boosting morale or influencing the behavior of their employees, customers and colleagues
- Inducements might be permissible if they do not cause the recipient to act in an unethical manner
- Employees in certain roles may be more susceptible to bribery and corruption
- PAs are prohibited from offering or accepting inducements with the intent to improperly influence the behavior of the recipient
- Offering or accepting inducements where the intent is to improperly influence the behavior of the recipient will result in a breach of the fundamental principle of integrity

# Pressure

- Employing organizations, firms and individual professional accountants are experiencing significant pressures during the COVID-19 pandemic
- Can potentially compromise the accountant's ability to comply with the fundamental principles of ethics
- Accountants shall not allow pressure to result in a breach to the fundamental principles and shall not exert pressure on others that would lead to a breach of the fundamental principles
- Refer to Section **270** of the Code

# Examples of COVID-19 pressures

1. Pressure to influence the preparation and presentation of information to present a false picture of the viability of business operations or valuation of assets and liabilities
2. For auditors, pressure to accept management judgements which may not be reasonable or evidence-based
3. Pressure related to the acceptance of inducements to behave unethically
4. Pressure from intimidation by parties affected by the impact of the pandemic to achieve a desired outcome
5. Pressure to turn a blind eye to unethical behavior
6. Pressure to act without sufficient expertise or due care
7. Pressure relating to putting personal/business interests ahead of the public interest

# AUDITING FINANCIAL STATEMENTS AND THE INCREASED RISK OF FRAUD



# Obtaining audit evidence

- The combination of health and financial threats has made people more vulnerable and has created more opportunity for fraud, which in turn results in heightened risks of material misstatement of financial statements.
- Obtaining audit evidence may also be **more challenging** in the current COVID-19 environment as many businesses have moved to remote working, with a consequential impact on controls over financial reporting

# Fraud Risks

*The auditor shall consider fraud risk factors to help identify risks of material misstatement arising from fraud*

Consider the 3 sides of the Fraud Risk Triangle from an audit perspective:

- **Motive** (Incentives/Pressures)
  - Modify amounts to achieve targets or avoid bankruptcy
  - ❖ **Focus area** = Journal entries
- **Opportunity**
  - Breakdowns in internal control or adaptations to controls to accommodate a different working environment
  - ❖ **Focus area** = Internal controls and management override of controls
- **Rationalisation** = makes fraud more “acceptable”



# Examples of opportunity for fraud

*Due to Fraudulent financial reporting or Misappropriation of assets*

1. Remote working has impacted internal control
2. Supply chains have changed
3. Financial aid from governments and local authorities have given rise to new transaction flows
4. Available audit evidence may be different to what the auditor has previously obtained
5. Increased data security risks from working remotely
6. A shift in focus by management and those charged with governance to address more immediate needs of the business

# Audit areas

- **Planning & Performing the audit**
  - When the environment changes, auditor should continually be considering whether the identification and assessment of fraud risks remains the same throughout the audit (might lead to changes in audit procedures)
  - Information provided by the client
    - ❖ **Focus area** = Relevance and reliability of audit evidence obtained
- **Communication with Management and TCWG** Those Charged with Governance
  - ❖ **Focus area** = Communications
- **Professional Skepticism**
  - ✓ Have a questioning mind, be alert to conditions that indicate risks

# Heightened risks in...

- **NOCLAR**
  - Bigger risk of non-compliance
  - e.g. unclear regulations re funding
- **Auditing Accounting Estimates**
  - Increased risk of material misstatement, including due to fraud
  - e.g. impairments, doubtful debts, provisions, etc.
- **The Auditor's Understanding of the System of Internal Control**
  - Especially if you want to place reliance on internal controls
  - e.g. new reporting lines, different responsibilities, different focus, etc.

# Consider breakdown of ICs

- As the pandemic started, and entities had to adjust quickly to working in a different (often remote) environment, the need to make changes and implement new controls, or supplement existing controls, may have put additional pressures on entities already struggling with the rapid changes
- The operation of the entity's controls may have been suspended or delayed, and workaround processes may have been inadequate or insufficiently controlled at the time
- Notwithstanding that at the start of the period the entity's controls may have been functioning, and many of the issues and challenges overcome by the end of the reporting period, it is essential that the time during which the significant changes took place are considered, in particular for fraud risk factors
- Changes and disruptions during specific time periods may indicate higher risks of material misstatement due to fraud, which would impact the auditor's design and performance of further audit procedures

**WHAT  
NOW?**

# Some important reminders for accountants

- **Be alert:** Remain alert to threats to compliance with the fundamental principles
  - PAs may be required to reconsider safeguards and the expectations of a reasonable and informed third-party (RITP)
- **Be an advocate for the public interest:** Remind others
  - Add ethical considerations as a regular feature to written and verbal communications to continually amplify the messaging
- **Increase awareness:** Be aware of publications like this one!
  - This may help create awareness of ethics issues

# RESOURCES



# Useful resources

- COVID-19 and Evolving Risks for Money Laundering, Terrorist Financing and Cybercrime
  - <https://www.ethicsboard.org/publications/covid-19-and-evolving-risks-money-laundering-terrorist-financing-and-cybercrime>
- IESBA Staff Q&As publication, COVID-19: Ethics and Independence – May 2020
  - <https://www.ifac.org/system/files/publications/files/IESBA-Staff-Q-A-COVID-19-Ethics-Independence-Considerations.pdf>
- Fraud schemes and investigations amid the COVID-19 pandemic - July 2020
  - <https://www.fraud-magazine.com/article.aspx?id=4295010930>
- Exploring the IESBA Code
  - <https://www.ifac.org/knowledge-gateway/building-trust-ethics/discussion/exploring-iesba-code>





# Useful webpages

- **IRBA: COVID-19 Resources for Auditors**
  - <https://www.irba.co.za/>
- **IESBA: COVID19: Ethics & Independence Consideration**
  - <https://www.ethicsboard.org/focus-areas/covid-19-ethics-independence-considerations>
- **IAASB: Guidance for Auditors During the Coronavirus Pandemic**
  - <https://www.iaasb.org/>



# Available Resources

**The following webinars' recordings are also available on demand:**

- ***COVID-19: Ethics and Independence Considerations***
  - ✓ *Webinar by Lettie: 30 September 2020*
- ***Using Specialists in the COVID-19 Environment: Including Considerations for Involving Specialists in Audits of Financial Statements***
  - ✓ *Webinar by Lettie: 28 January 2021*
- ***IESBA – Exploring the IESBA Code series***
  - ✓ *Series of 6 webinars presented by Lettie: various dates*
- ***Evolving Risks of Money Laundering during COVID19***
  - ✓ *Webinar by Lettie: 23 February 2021*

# IAASB Resources

## Staff Audit Practice Alerts

- Review Engagements on Interim Financial Information in the Current Evolving Environment due to COVID-19
- Auditing Accounting Estimates in the Current Evolving Environment due to COVID-19
- Auditor Reporting in the Current Evolving Environment due to COVID-19
- Subsequent Events in the Current Evolving Environment – Audit Considerations for the Impact of COVID-19
- Going Concern Auditor Reporting in the Current Evolving Environment – Audit Considerations for the Impact of COVID-19
- Highlighting Areas of Focus in an Evolving Audit Environment due to the Impact of COVID-19

***Links to these documents can be accessed in this webinar's main Source Document***

# Documents available to you

## Source Document:

- IESBA\_Staff Alert Navigating the Heightened Risks of Fraud and Other Illicit Activities During the COVID-19 Pandemic**

## Useful Documents included for your convenience:

- IESBA\_Staff QandA COVID 19 Ethics Independence Considerations\_May2020
- Exploring-the-IESBA-Code-Installment-8-of-12-NOCLAR-for-PAIBs
- Exploring-the-IESBA-Code-Installment-9-of-12-NOCLAR-for-PAPPs

# In closing...

- During the COVID-19 pandemic, PAs need to be **especially mindful** of the need to be **adaptable** and should always ensure that they have the right level of training, expertise, and experience in undertaking their professional activities
- Bulk up on your knowledge relating to fraud & how it is committed...

**We have to act in the public interest, which means that we must be aware of and responsive to these risks arising from fraud!**



# QUESTIONS



# Formal Q&A Session

We will now take a **quick comfort break** before we go live to discuss some questions received during the webinar.

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