

# CALLING OUT COVID-19

Business Strategies for Surviving a 'Pompeii Event'

## Chapter 4 Fraud 101

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and



Written by

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*Business Strategies for Surviving a 'Pompeii Event'*

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and Geetha A. Rubasundram

*Calling Out COVID-19: Business Strategies for Surviving a 'Pompeii Event'*

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This book is dedicated to all the (living and fallen) global frontline heroes, be they clinicians or chaplains or cleaners or carers, who continue to battle COVID-19...THANK YOU!

Also, special thanks to the international teams of researchers who have managed to create a suite of vaccines in such a record-breaking time.

*You never know how strong you are until being STRONG is the only choice you have.*

—Anonymous

# Description

We are currently experiencing the second wave of an unprecedented global pandemic—the COVID-19 crisis, which is destroying established industries such as tourism and attributing to the death of millions of people worldwide. The authors believe that the pandemic is analogous to the ancient Roman tragedy of Pompeii when the citadel was buried under four to six meters (13 to 20 feet) of volcanic ash and pumice in the eruption of Mount Vesuvius in AD 79.

This book is written for business owners, entrepreneurs, leadership, or management teams in public or third sector and professionals who are currently dealing with the COVID-19 epidemic. It offers tools and techniques located in the economics of innovation, other frameworks such as the Fraud Triangle, and the authors extensive experience including rigorous cash management, practical fraud prevention, and detection and advice on implementing and refining corporate governance structures. The book will also be of interest to postgraduate including MBA students and business researchers.

The book concludes by summarizing the key theories that can be used to understand the impact of this Pompeii Event and pragmatic solutions to fight COVID-19. The authors argue that organizations rooted in foresight will survive and emerge as future trail blazers. An extensive appendix is also included which outlines the implications for financial reporting.

## Keywords

COVID-19; Pompeii Event; innovation; crisis; uncertainty; decision-making; cash management; fraud prevention and detection; corporate governance; foresight

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# Reviews

*“A romping, interesting, and well-informed read—not a standard recommendation for many business and accounting texts. The text reiterates the need for trust, good leadership, and the importance of the work force, in the creation of real—living and breathing best in practice, global governance. Behavior and good communication, inside and outside the organization; the move onward from beyond budgeting and agile management, to well informed global management control. A valuable and interesting text for executives, managers, and business students, if they want to survive, be inspired, and respond effectively to a POMPEII EVENT.”*—**Eileen Roddy, Former Associate Dean Salford Business School, Managing Partner at International Strategy Application, [eileen.rodny@outlook.com](mailto:eileen.rodny@outlook.com)**

*“Written while in the “teeth of the storm,” the authors’ comparison of the unfolding catastrophe of the 2020 Coronavirus pandemic with the fate of Pompeii in AD 79 is compelling. The socio-economic ramifications of the pandemic are likely to be with us for generations to come. In this book, the connected strategies, activities, and risks posed to the corporate world are carefully examined. That this latest Pompeii Event could be the threshold to a greener world with increased importance assigned to CSR—leaves the reader with some hope of a better future.”*—**Richard Williams, Staff Partner, Beever & Struthers, [https://beeverstruthers.co.uk/aboutus/richard\\_williams](https://beeverstruthers.co.uk/aboutus/richard_williams)**

*“It’s a captivating 125 pages. Despite the fact that multiple authors were involved in the project, its tone and style of presentation flow smoothly, and the appearance of a single voice has been accomplished. The book has potential for a wide and diverse user base. For instance, I can envision it being on a reading list in an accounting seminar, in a business policy and strategy course, a crisis management seminar, or even in a public policy course offered in a sociology department.”*—**Professor Mark Bettner, Visiting Professor of Accounting at Furman University, [mark.bettner@bucknell.edu](mailto:mark.bettner@bucknell.edu)**

## CHAPTER 4

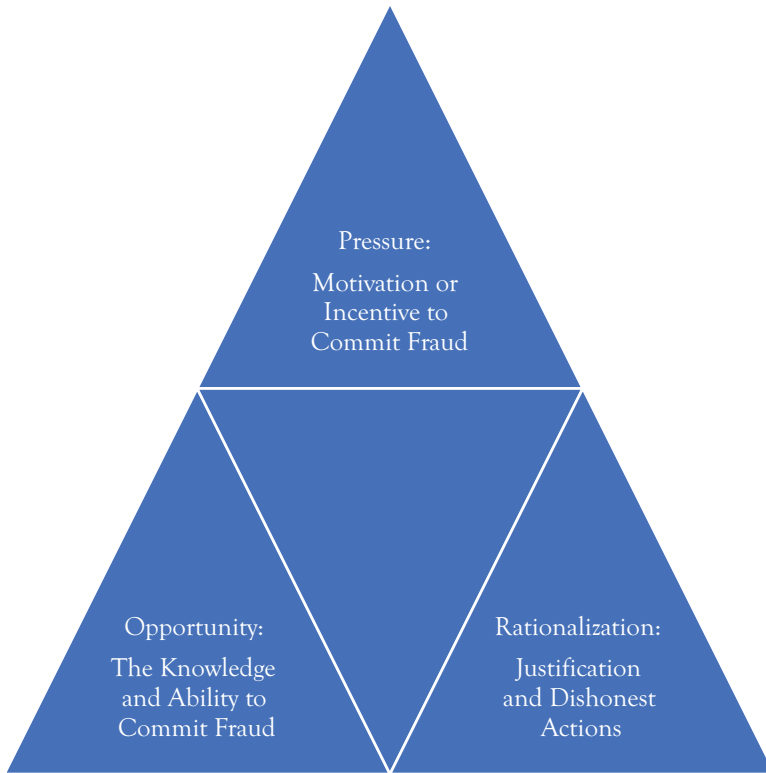
# Fraud 101

In the wake of this Pompeii Event, governments across the world are borrowing tens of billions of dollars in order to satisfy spending needs, as tax receipts have plummeted. National gross domestic products (GDPs) are deteriorating, and unemployment rates are sky rocketing. Millions of workers are working from home due to hard and soft lockdowns and are social distancing, which has also disrupted local and global supply chains. The result is a fertile ground for fraudulent activity. For example, in December 2020, in America, two owners of New York pharmacies were charged in a \$30M COVID-19 health care fraud and money laundering case, due to exploiting Medicare rules that were intended to help patients obtain access to essential COVID-19 medications.

Although imperfect, the most appropriate theory to understand why fraud occurs is Cressey's (1953) *The Fraud Triangle*, which argues three conditions are necessary, namely *pressure*, *opportunity*, and *rationalization*, see Figure 4.1 for the perpetration of any type of fraud. The analogy of starting a fire is a good way to visualize why a fraud occurs. Pressure is the *source of heat for the fire*, opportunity as the *fuel that keeps the fire going*, and rationalization as *oxygen that keeps the fire burning*.

The principal factor contributing to an increase is pressure from the economic fallout due to the unfolding pandemic. As workers lose their jobs or are overworked, they will be tempted to look for internal control weaknesses and rationalize any fraudulent activity such as embezzlement due to mounting bills such as mortgage payments. Consequently, the Fraud Triangle is amplified in a downturn and even more so in a Pompeii Event. An exploration of how to deal with the menace of fraud will now be made.





**Figure 4.1** *The Fraud Triangle* by Donald R. Cressey (1953)

Source: Adapted by authors

## The Menace of Fraud and What to Do

Everyday life in general needs money, and everyone who handles money needs basic numeracy skills. For example, when buying or selling something, the money is followed; when dinner is made and a recipe may be followed, which means that the chef is in touch with weights and measures, and employed people need to be aware of what they earn and what taxes they pay. Unfortunately, life is full of some people trying to take advantage of others. Individuals are reasonably good at spotting fraud because no one likes to be cheated. So rather than saying “everyone is an accountant,” which sounds a bit dull, the authors argue that “everyone is a Fraud Detective.”

The latest research shows that the true cost of fraud on society, on organizations, and on lives is continuously rising. Measured as a percentage of turnover, some researchers put the figure as high as 10 percent. Experiences since the appearance of COVID-19 suggest that the figure is not going down.

Similarly, international organizations, such as the UN and the OECD, typically put the global cost of corruption (and fraud) at around 5 percent of GDP. According to professional bodies, institutes of auditors, fraud examiners, and other research bodies, if the same consideration is given to companies, the figure is between 3 to 7 percent of sales (e.g. in sectors such as the construction industry). The Chartered Institute of Management Accountants put the cost of financial crime at over 6 percent of GDP. It is not purely money but also the costs of damage to reputation, the organizational culture, and all those *problems down the line*, which can, in fact, be measured.

The cost of fraud and cost of stopping it spiraling out of control in this Pompeii Event will inevitably lead to a stark COVID-19 credit crunch. Consequently, it is argued by the authors that this may be an ideal time to rethink if not shake-up how fraud is dealt with and undertake something that really works: *to spot it and stop it before it spreads*.

The cruel irony of the year 2020 is that it has resulted in so-called *20-20 vision* or a moment to stop and reflect upon the behavior and actions of individuals, and as a collective, the human race. It is apparent that some of the things that were done in the past were unnecessary and wrong such as “jumping on planes all the time for meetings which would last an hour” and “crowding together allowing the spread of diseases.” On the other hand, COVID-19 is an opportunity that can stimulate new insights and fresh ideas on how to eradicate all that unnecessary waste.

The authors suggest that whether one is a board member, manager, or an employee working in an organization, everyone can play a valuable role in defending the organization against the threat of fraud.

Consequently, every organization can:

- Raise its efforts to identify early warning signs where the organization is losing money to fraudsters as well as greedy suppliers, middlemen, and customers.

- Motivate and educate *everybody* around the organization to help guard against and spot attempted fraud before it spreads, thus saving money, which is already a precious commodity in this Pompeii Event (see Chapter 3).
- Revolutionize the way fraud is investigated by taking charge internally; look for effective and fast resolutions and avoid investigations becoming dramatic and spinning out of control and deal with fraud with both *passion and compassion*.

The authors contend that each reader is a fraud detective, and at the end of this chapter, the reader will have an opportunity to take an online test to discover what type of fraud detective they are. Fraud detective DNA may lead toward the transactional, intuitive, technocratic or holistic quadrants.

It is worthwhile posing the rather provocative question: “Are accountants and auditors actually boring?” Monty Python and its famous *vocational guidance counselor* sketch seems to think so. In this sketch, a chartered accountant who wants to become a lion tamer instead is told by the counselor that the results of his personality tests describe him as dull, unimaginative, timid, spineless, easily dominated and humorless, exactly the right qualities to be a chartered accountant. *It is an iconic sketch, but is that really the sort of people accountants are, or has a society made them that way? Are these people the fraud detectives who could be the saviors of society?*

The authors have in their almost 100 years of combined professional experience, seen many frauds and can be summarized as follows:

- Fraud is one of the oldest habits in the world going back thousands of years, and even with the advent of computers, to many aspects of business in the 1980s, not much has changed. The Fraud Triangle holds true, and bending the rules for a benefit and rationalizing why that is acceptable is part of human nature.
- Fraudsters are so desperate to make money and not get caught that they engage in a type of *corporate bullying*, which is destructive not only for all those who try to stand up to them, but also all those around them who do not want to take part.

- The consequences of fraud, deception, and fraudulent behavior are deep. This includes false reporting, use of stolen goods, slave labor, black market sales for cash, major tax evasion, and even environmental damage.
- There are a plethora of new rules and regulations thus it is fair to ask why are auditors and fraud specialists so inept at identifying fraud. The question provides a clue to the answer, and the authors argue that people are drowning in so many rules that the spirit of these rules has been lost. Consequently, people may have abdicated their responsibility for fraud detection and deterrence to the experts.

The authors believe it is time to simplify the way that fraud is discussed, so that every stakeholder is educated with fraud awareness and empowered to play a part in seeing it and stopping it. This will also contribute to a much needed financial and emotional resilience in the months and years to come.

No one likes to be cheated, fooled, or deceived. Arguably one of the most popular film and drama genres is crime, the hero being the detective, be it Sherlock Holmes, Miss Marple, or a modern-day version. It can be observed that the detective is the defender of those who were deceived and wronged, and perhaps many would like to transform into a Sherlock Holmes.

The authors reiterate that as most people handle money and are accounting for it, they are accountants to some extent, and as they do not like to be cheated, they are also *fraud detectives*. Here are some examples:

### ***Example 1***

Someone is having dinner with a friend and they are presented with the bill. Upon inspection, it is apparent that an unordered dessert and a 25 percent service charge, which was not made clear at the start of the meal, have been added to the bill.

More than likely, most customers would question the bill and request a quiet word with the manager, but there would be no ruckus.

**Example 2**

Someone is having some repair and renovation work undertaken by their regular builder who is an ardent follower of the *reduce—reuse—recycle mantra*. However, the bill itemized costs include:

Cement and plaster	\$1,000
Admin charge for plumbing (20 percent)	\$ 200
Tools	\$ 524

Most people would challenge the 20 percent admin mark up as it appears that they are being taken advantage of and query the tools bill, as it would be assumed that the builder should already possess them for the job in hand.

**Example 3**

In the current COVID-19 crisis, a struggling student finds much needed work through a job agency. Upon receipt of the first paycheck, it becomes clear that they have been overpaid as the correct tax and insurance deductions have not been undertaken. They believe that they are honest citizens and call up the agency who categorically state that the deductions have been correctly processed, and it is up to them to make a further declaration if they believe that they have been overpaid. What should the struggling student do as they are potentially becoming involved in fraud?

The everyday examples highlight that most people do not want to be cheated or deceived, especially when it is their own money. If the analogy is extended, most people would not like their loved ones to be defrauded. Should people be not concerned if their workplace, regardless of size and sector, is being potentially defrauded?

## Defining Fraud

Over the years, the word *fraud* has been overcomplicated. In the 1980s, it meant “someone who obtained a benefit by deception,” and since then, many academics and specialists have considered the phenomenon

of fraud, if the reader looks for a fraud definition on the Internet, they will find many pages. For example, a professional anti-fraud body has renamed *theft* (which is a part of fraud) as *asset misappropriation*. Even calling *fraud*, *white-collar crime* adds to the ambiguity.

The following is a useful current definition used by the authors:

“Anything deliberate and dishonest (or unethical), done by anyone, external or internal which removes value, destroys reputation and culture of an organization or person.”

Most people who undertake fraud know what they are doing, although there is a well-supported theory that states it is hard for the perpetrator to realize when they have crossed the line. When it comes to what is dishonest or unethical, one is immediately into a subjective or gray zone. Eventually, everyone needs to make up their own mind as to what constitutes dishonest or unethical.

The authors make a distinction between external and internal fraud because they argue that for many years, the most common and rather narrow perception of fraud has been that insiders are stealing from an organization, usually taking high personal risks for relatively low rewards. On the other hand, a much larger group of potential external fraudsters such as greedy suppliers, unethical customers, middlemen, agents, consultants, hackers and organized criminals are taking relatively lower risks for rather higher rewards.

For example, one of the authors vividly remembers during an audit assignment that he was summoned to an emergency meeting with the client. The client rather bemusedly asked why he had been billed for \$500 for *consulting work* when all he had was a short telephone conversation with the engagement partner.

There are always exceptions to the rule as some people get involved with fraud due to uncontrollable factors, and others are pathological criminals, and include:

- The person who committed fraud because they were already conditioned and were *part of a fraudulent culture*.
- The “I deserve it” or *license to bill* people. The employee or consultant who has *an overdeveloped sense of entitlement*.

- And, *the corporate psychopath*, a rather nasty person who gets pleasure out of hurting people and glorifying themselves in the process.

Using the preceding definition, an attempt has been made to list seven basic types of fraud, which will be prevalent in the current Pompeii Event:

1. *Greedy suppliers*: This ranges from small-scale fraud such as shops and builders that try to overcharge, major suppliers and contractors who factor in large overcharges, and all other sorts of fraud where suppliers pay bribes, use illegal labor, deliver poor quality, and put lives at risk.
2. *Customers who take unfair advantage*: This includes everything from customers who do not pay or deliberately go bankrupt before paying, to customers who want bribes.
3. *Unnecessary middlemen*: Agents, consultants, and advisors who are providing an unnecessary service that may be illegal.
4. *Dirty money*: This could be transactions with complex *front* companies located in tax havens who usually have obscure or offshore bank accounts. In the commercial world, this is common and ranges from tax evasion, to companies that want to conceal their identity and owners behind shell companies.
5. *False figures*: This is usually in the domain of *accounting or creative accounting* where costs may be underreported, and revenues overstated.
6. *Insiders*: Where employees (including senior management) engage in deceptive, unethical or illegal activities. At its most simple, this could be straightforward theft where someone is acting alone, but it could also be much bigger and involve suppliers, customers, dirty money, and middlemen.
7. *Outsiders*: Attempts by information technology (IT) hackers and cyber fraudsters who are attempting phishing, man-in-the-middle attacks, fake websites, and ransomware. Attempts can also be made by other opportunists, organized criminals, and even competitors; in short, any outsider who is trying to unfairly take advantage. Although cybercrime is constantly in the media, one interesting

observation, when considering incidents over the past year, is that the attacks appear to be more seem *robotic* in nature, suggesting the nexus of artificial intelligence (AI) and machine learning algorithms.

The preceding *seven basic types of fraud* are not meant to be exhaustive, and organizations in the current pandemic should be vigilant for a variation or multipronged attack consisting of any combination of the seven. Apart from cyber fraud, the rest of the frauds have been undertaken for centuries.

*Why does fraud persist?* The authors believe, the major reasons, garnered through their collective experience and research are, in descending order:

10. *People overcomplicate matters:* For example, the Association of Certified Fraud Examiners (one of the many professional fraud bodies) has a subcategory for fraud called “Asset Misappropriation.” Why not just call it *theft*?
9. Fraud is considered a *developing country’s phenomenon:* The authors argue that Westerners have allowed themselves to falsely believe that corruption and fraud happen mostly in poorer nations, such as in parts of Africa, Asia, and South America, or pariah states such as North Korea. Observers are dazzled by the *corruption perception index*, which portrays many affluent rich countries as low-corruption zones. That might be correct, but the problem is that in a country where the perceived costs of corruption are approximately 25 percent of GDP compared to one where the perceived costs of GDP are approximately 3 percent, it must be considered that 3 percent of GDP per capita in an affluent country, is much more than 25 percent of GDP per capita in a poor country.
8. *Dependency on computers:* People have become lazy and believe that robots with AI using *big data* will find fraud. Robots and AI have their place, especially when humans are still in control, but fraud is still so human that it needs humans to find it because humans are quirky and unpredictable. One of the authors was recently contacted by someone who had been told by his bank that they



no longer wanted him as a customer because their AI robot had detected his voice, making calls to the bank's voice activated system to remove money from other accounts. However hard he tried to protest that this was *not him*, the bank's fraud officer insisted that the *robot never makes mistakes*. In attempting to clear up the mistake, he informed his employer who promptly suspended him, and for several months felt that his life had become, as he described it, a "Kafkaesque universe." In the end, with some help from CIFAS, the UK fraud prevention authority, enough pressure was put on the bank to re-examine its *robot fraud detector*, and when they finally investigated, they found that it had *made a mistake*.

7. *Zero tolerance*: Having a *zero tolerance* policy toward fraud, in principle, is proper; however, all human beings are imperfect. Everyone has probably crossed the unethical line, albeit as small as accepting extra change from a cashier, but that does not mean that all people are fraudsters. Consequently, if zero tolerance was applied to the latter, then almost every person would have to be locked up. The biggest error of judgment is that the more someone is boxed in and the harsher the punishment, the more they are likely to fight their corner. Many fraudsters have more than enough financial resources at their disposal in order to fight back. The authors argue that every religion and faith preaches tolerance and, in a sense, *restorative justice* of some form. An excellent modern-day example is the late Nelson Mandela and Desmond Tutu's Truth and Reconciliation Commission, which probably saved South Africa and ultimately forced affirmed foes to reconcile and move on. Perhaps, *restorative justice* is just what fraudsters are pining for and want to actively make amends if only the thresholds to do so were lower.
6. *Dirty money that we choose to ignore*: The world is awash with dirty money, but the perpetrators are rarely brought to justice. Occasionally, there is a major breakthrough (such as the Panama Papers in 2016), but the lawyers, accountants, administrators, and sometimes governments, who are behind the shell companies, individual regulations, which keep them alive, move swiftly to make them

even more watertight. *One senior police officer, known to the authors and specializing in dirty money, stated that if regulators managed to open all the centers of dirty money and shell companies on the same day, probably every government would fall.*

5. *Obsessive compliance disorder:* Unfortunately, auditors and other verifiers operate in a *tick-box* or *bureaucratic* or *management by exception* world. In the literature, this is referred to as *compliance*, a profession that has mushroomed in recent years. There is compliance for everything, but in the end, authentic compliance does not exist in the world of finance and accounting. The authors argue that even an external report, where the auditors say they have been professionally skeptical, has very little value today.
4. *Someone else's problem:* While most people, even senior management, believe that fraud costs are substantial, they are reluctant to believe that it occurs in *their* organization. As a defense, some will refer to their reams of procedures and controls; whilst others tend to highlight the last audit where typically zero or very few minor frauds are reported to management. Thus, while there is plenty of fraud and corruption in the world, it is not happening on senior management's watch. Surely, when everybody thinks like this, something could be fundamentally wrong.
3. *Panicking at the last minute:* Management oscillates widely between doing nothing about fraud, leaving it to the box tickers, and mad panic when they feel that matters are out of control. The situation is usually exacerbated by sensationalist journalists and headlines. On the other hand, it has already been acknowledged that 5 percent of the GDP or sales is the approximate cost of fraud. Thus, this panic is like the way people become shocked when they notice homeless people on the streets. There is hunger and disease in certain parts of the world, but may be some people are just conditioned not to see it. The same is true of fraud, may be people have conditioned themselves to believe that fraud is not there and is *someone else's problem*.
2. *Waiting for the whistleblower:* It has become the norm, and the stark reality is that most people do not want to become a whistleblower. Based on the authors' experiences, becoming a whistleblower only

unleashes the full might of the institution, which usually exonerates the perpetrator or “sweep the mess under carpet” in order to avoid *reputational damage* and either the whistleblower is *hung out to dry* or unceremoniously leaves the organization. For example, in 2011, Michael Woodford was suddenly removed as the CEO of Olympus Corporation after exposing a major accounting fraud.

1. *A false sense of security and reliance on (for want of a better acronym) C<sup>3</sup>.R.A.P<sup>2</sup>: Mountains of rules and regulations will not help the pandemic of fraud. Thus, C<sup>3</sup> is for codes of conduct and compliance with these codes, in the full knowledge that hardly anyone is reading anything these days. R is for risk analysis, which seems to rather ignore the risk of fraud. A is for external audits, which, judging by how few frauds are discovered by external auditors, are completely misunderstood, and P<sup>2</sup> is for 20 years of a tsunami of policies and procedures, which have become a necessary evil, but which no one ever has the time to read, leading to many big words but little action.*

## The Opportunity for Reset in This Pompeii Event

As fraud and corruption continue to spread, a revolutionary reset is needed without too much blame and shame. For example, the authors know an established investment bank, which has genuinely made the effort to turn the corner from the dark days and is following the mantra to “*rethink everything.*”

If something radical is undertaken, this generation can succeed in eradicating fraud. The following are eight proposed pathways to cut out fraud and learn from years of failure.

### Eight Pathways to Eradicate Fraud

Based on their professional and academic experience, the authors have crafted eight pathways, which in some way, people can utilize to make a positive contribution to the eradication of fraud. However, a stop must be made to the blame game, a halt to the nefarious gossiping, people

must stop being passive bystanders and blaming others (such as auditors and accountants) for not doing enough. In fact, it is high time to stop shaming people who are involved but instead encouraging them to come out into the open.

(The authors have added several short-anonymized examples they have experienced as the pandemic continues to unfold.)

### ***A. All Hands on Deck***

Management should be empowering and trusting every single employee to play their role in the defense against fraud and corruption.

Depending on where a person is in their organization and the role they currently undertake the first step that is, putting ones toe in the water, to take a genuine and reflective interest. The following simple yet powerful questions can be posed: *“How would someone, external or internal, decide to defraud my organization, what would they do, and how would they get past all the checks and balances?”* This method is called *thinking like a thief*. Consider how the opposition thinks and remember that there really is an opposition out there. Then the employee will not only begin identifying fraud, but start their journey into becoming a bona-fide fraud detective.

### ***Post-COVID-19 Example***

In March 2020, just before the lockdown, a European charity got a bad feeling about operations in one of its African field offices. No red flags had been raised in the past by external auditors, but the outgoing financial controller sent a strong warning to the chief financial officer that she should investigate. However, as travel was impossible, rather than waiting, the chief executive took charge, and in the space of a few weeks, had secured the bank account, communicated with the local staff, and made it crystal clear that head office had tightened control and were there to help. The situation calmed down and then improved dramatically. Pre-COVID, there would have been a drawn-out investigation and much

frustration. In this case, early intervention by the chief executive demonstrated his care and matters improved.

Post-Pompeii Event, this type of agile and lean action will become commonplace and nip fraud in the bud before it blooms. As the British Transport Police slogan goes “See it, Say it, Sorted.”

### **B. Situational Awareness is Key**

*By thinking like a thief:* It is a useful exercise to list out all the frauds that could be hitting an organization. This simple action will yield many avenues of investigation, which should be shared with all internal stakeholders as a genuine exercise in transparency and accountability.

#### **Post-COVID-19 Example**

An energy company, as part of its business, was buying and selling carbon credit certificates. Knowing that there are many false certificates floating around the market, a smart financial controller had a closer look at the sales and purchase transactions to reveal a zero-sum gain, plus the fact that the trading company they were dealing with was a front company in Jersey, most probably run by organized criminals. Spotting it early enough enabled the energy company to quickly back out of the deals.

Situational awareness of fraud empowers everyone and removes the need for a whistleblower, which may be too late in the current climate. This is potentially true with detecting cyber fraud or attacks, which can be thwarted by normal people spotting unusual anomalies or patterns.

### **C. Embracing Curiosity**

Curiosity usually starts with a hunch, which can become a nagging doubt, and this should be fostered by the fraud detective. This human trait can stem a potentially well-oiled fraud, and organizations ignore it at their peril. *It is proven: if someone takes an interest in what is going on, they will see or notice things.*

### **Post-COVID-19 Example**

The curiosity of an accountant who spotted that one customer was receiving sales invoices, which were then reversed the next year, helped put a stop to a scheme where salespeople regularly moved sales from the next year into the current year, in order to achieve their targets.

Human beings are naturally curious, and it is that curiosity that can be harnessed in the defense against fraud and corruption.

### ***D. Being Passionate and Compassionate in Dealing With Fraud***

Fraudulent behavior usually occurs because people merely slide into bad habits, for example, they get too greedy. They rationalize what they do or become part of a fraudulent culture. It is never easy to pull back, especially if the penalties for being caught are severe, and it is potentially easier to cover up the fraud. When anyone is investigating fraud, they should be mindful of the following:

- *Clearing innocent people of suspicion is one of the most important objectives.*
- *It is easy to start rumors and hard to reverse them. Avoid creating a culture or climate of blame and fear.*
- *Negative emotions such as anger and revenge are a distraction, and it is the experience of the authors that investigations, predicated by retribution rarely end well.*
- *Most people who have done bad things would like to undo them and would prefer a graceful, and if possible, honorable way back or a quiet exit.*
- *The best informants and witnesses are the perpetrators themselves. It is surprising how much people want to talk and befriend fraud detectives.*

As already noted, showing tolerance and forgiveness when looking into fraud will result in a better chance of resolving it, rather than a long drawn-out and painfully expensive investigation. It is worth mentioning that the words *truth* and *reconciliation* are also accounting terms.

### ***E. Never Panic***

Even when a fraud is uncovered, there is no need to be shocked or panic. Fraud is just a regular aspect of life, and if any of the official statistics are to be believed, it is as normal as bad weather, or the common cold. Consequently, when something that possibly looks like fraud, it probably is some form of fraud. There is an old phrase that comes to mind: “If it looks like a duck, swims like a duck, and quacks like a duck, then it probably is a duck.”

### ***Post-COVID-19 Example***

It was discovered by the chairman of a company based in country X that the management and minority owners of the subsidiary in country Y had, behind the backs of everyone, sabotaged the business, stolen assets, and were in the process of setting up a parallel business. The main perpetrator was even heard to say “I will destroy them” when talking about the mother company. But rather than panic and cause, an all-out war in a landscape which might have been hard to control, the Chairman instead put in place a strategy to save the business, staff and revenues in the short term, neutralize the threat, and ensure the long term survival and success of the subsidiary, all very calmly and without panicking.

### ***F. Become Part of the Fraud A Team***

Teamwork is essential when uncovering fraud, more so in the current pandemic when people are increasingly working remotely. Silo-mentality, protectionism, elitism, and internal rivalries need to be confined, albeit for the short term, to the dustbin, if not only for successfully rooting out fraud but also for job preservation. This attitude should also improve work culture and help people to focus on bouncing back from this Pompeii Event.

Some of the most successful football teams work together to *out-think the opposition*. Similarly, there should be an onus to “out-think the fraudsters, whoever they are.”

### *Post-COVID-19 Example*

One of the oldest banks in Europe, where fraud previously was only talked about in hush-hush tones, transformed its culture and empowered its employees to become its eyes and ears.

### *G. Take Charge of Technology*

Most organizations are already leveraging technology in their systems, but it is important not to let technology take control. The travel restrictions caused by COVID-19 have forced organizations to rethink how they control and monitor their operations. What has been seen is that expensive and often complicated solutions are reliant on big data and require highly trained and expensive specialists to operate them, but may not, after all, be the best way forward.

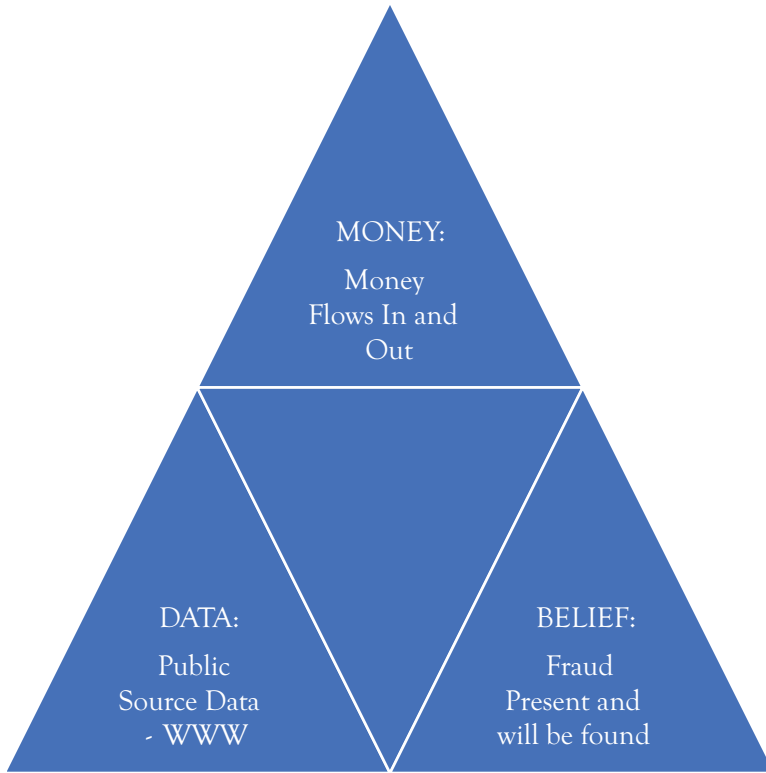
For example, universities and other bodies that administer examinations are doing so remotely, and students have undertaken them in their private rooms, where there is scope to cheat. On the other hand, smart device technology devices already owned by the students, such as mobile phones, can be successfully administered on a relatively inexpensive basis, rather than the need to install advance surveillance equipment in every student's room.

### *H. Stay Ahead of the Problem*

This last action is extremely simple, but may be the hardest to implement because it requires major a paradigm shift in the world with considerably less reliance on whistleblowers, a reactive approach, and less drama. This mindset, coined by one of the authors, is *precrime* and is a method of keeping ahead of the fraud before it takes root.

The authors *define precrime fraud* as: “The capability to detect, contain and remove fraud before it grows and spreads.” This should *not* be confused with punishing innocent persons for crimes that have not yet been committed. This approach consists of triangulating the following key variables based into a *precrime Fraud Triangle*, see Figure 4.2:





**Figure 4.2** *Precrime Fraud Triangle*

1. *MONEY*: Identifying the key money flows in and out of any organization
2. *DATA*: Public source data (such as on places, companies, people)
3. *BELIEF*: Inherent belief that fraud is always *there to be found and removed*

In the earlier restaurant bill and builder examples, the *precrime Fraud Triangle* can be applied as the brain rapidly assimilates:

1. *MONEY*: The fact that some restaurants and builders will try to cheat customers (although people hope that will not be the case)
2. *DATA*: Customers could easily use their smartphones to check the Internet for restaurant service charges or cost of materials or surcharges that may be applicable in that location or job

3. *BELIEF*: The customer is reading their bill or invoice and its *data-stream*

Using the *precrime Fraud Triangle* will allow practitioners to quickly identify the tell-tale signs of fraud at an early stage and taking action to prevent future fraud and will lead to:

- Significantly less direct and indirect losses
- Fewer and more streamlined investigations
- Much less drama, guilt, blame, and shame for all stakeholders, including victims, management, perpetrators, as well as bystanders, and crucially a better chance of achieving *win—win* resolutions

The cost of fraud is substantial and will probably increase greatly in what are going to probably be lean financial years, as the world recovers from this Pompeii Event. Therefore, the authors believe that each one of us has an incentive to be proactive, contribute to the fight against fraud, and all become *fraud detectives*. It is time to stop thinking of fraud as frightening, shocking, or exceptional, and instead treat it as a relatively normal occurrence, even though human nature tends to block out such thoughts.

The authors firmly believe that the *precrime Fraud Triangle* is the way forward. This precrime insight is a self-belief, and courage is required to look behind the numbers for strange patterns, trusting in colleagues and gut instinct, which all dampen fraud. At a time when people need to find every way to be more effective and resilient, let there be a transformation of bad news into good news.

***A question which remains to be asked, is what kind of fraud detective are you? The answer to this question will depend on who you are and how you interact with your organisation.*** Thus, for example if your organisation encourages empowerment of people, this will strengthen your personal fraud detective traits, encouraging you to be more holistic and crucially raise concerns. On the other hand, if the governance-culture is all about box ticking or compliance you may not be inclined to investigate further or highlight any problematic issues. Governance of organizations is the topic of the next chapter.

### ***Fraud Test***

Based on extensive research and professional experience the authors believe there are typically four key fraud detective traits, and people tend to be stronger in one, or some, of these traits. To find out more and take the Fraud Detective Challenge click on:

**[www.b4fraud.com](http://www.b4fraud.com)**

After taking the test you will receive a report describing your current: ***Transactional, Technocratic, Intuitive and Holistic Fraud Detective DNA.***

## CHAPTER 6

# Conclusion

On December 31, 2019, Wuhan City health officials reported a strange collection of 27 pneumonia cases, the origin of which was unknown, but with an initial source connected to the infamous but currently closed Wuhan Wet Market. This was later established to be a novel coronavirus (2019-nCoV) or COVID-19. The novel COVID-19 pandemic completely caught the world off guard, wholly unprepared and seemingly helpless in the face of the unprecedented socioeconomic fallout.

The pandemic has created a *new normal* that is leading to an unthinkable paradigm shift that is affecting everything, including how people live, work, and shop. Across the globe, governments have spent approximately \$12Tn to combat the socioeconomic side-effects resulting from COVID-19, such as unparalleled state intervention to support the unemployed and small businesses.

In February 2020, the *lead author (Faisal Sheikh, England)*, like millions across the globe, thought that a short, sharp, hard lockdown would solve the crisis. However, weeks became months, and the continued social distancing and restrictions disorientated the lead author, who was desperately attempting to find meaning during the global havoc and rising international death toll (the United States has suffered 500,000 deaths and counting), resulting from an invisible virus that appeared to be disrupting every facet of life. Emerging nations were particularly hard hit; for example, according to some commentators, during the inception of the pandemic more than 50 percent of Malaysia's small and medium sized enterprise (SME) sector closed.

During one late 2020 summer night as the lead author contemplated the crisis and crises in general, he began thinking about historical precedents such as the 1918 Spanish flu. Then, he had a sudden thought that the COVID-19 pandemic was analogous to the ancient Roman tragedy of *Pompeii* when the citadel was buried under 4 to 6 meters (13–20 feet) of

volcanic ash and pumice after the eruption of Mount Vesuvius in AD 79. Within a matter of days, he managed to assemble a team of experts, notably all qualified accountants and practicing academics, residing in *England (Brian Leigh)*, *Malaysia (Geetha Rubusundram)* and *Norway (Nigel Iyer)*, and they began thinking how they could help businesses navigate this *Pompeii Event, that is, Accountants versus COVID-19*.

It became apparent that businesses regardless of size, sector, specialty, or geography were confronting a set of challenges for which there was no conventional wisdom or *playbook*. Most businesses appeared to maintain existing systems with information technology (IT)-based extensions such as Zoom to ensure management teams and workers could continue servicing customers from their homes. The authors decided that, based on their professional experience and environmental analysis, *agile innovation (Chapter 2)*, *rigorous cash management (Chapter 3)*, *all-encompassing fraud prevention and detection (Chapter 4)*, and *dynamic corporate governance (Chapter 5)* were critical success factors to survive this *Pompeii Event*.

The following is a summary, Table 6.1, of the salient theories or metaphors and tools or techniques offered by the authors to help businesses to successfully thrive under the pressure of the pandemic, including an extensive appendix, which covers the financial reporting implications due to COVID-19.

Many organizations with a remote workforce will be experiencing the phenomenon of what the lead author calls *Green Productivity*. Communications and meetings are taking place virtually and located in people's homes, where the boundaries between management and subordinates are becoming blurred. Everyone has unwittingly introduced their families and partners and may even have jointly celebrated or acknowledged personal moments such as birthdays. The *professional (BLUE)* and *private (YELLOW)* have merged to create in most cases superior *productivity (GREEN)*, which can be leveraged for the benefit of the organization and the individual. Consequently, the authors believe it is important to realize that the successful implementation of any of the aforementioned techniques is based on the key assumption of empowered employees and management teams rooted in foresight.

As this conclusion is being written, the world is in the thick of the second wave of COVID-19 or the second *pyroclastic* flow from the eruption

**Table 6.1 Summary of salient theories or metaphors and tools or techniques**

Chapter	Theoretical lens	Toolbox
Chapter 1: Pompeii Event: The COVID-19 Catastrophe	<ul style="list-style-type: none"> <li>– Pompeii Event</li> <li>– VUCA</li> </ul>	<ul style="list-style-type: none"> <li>– Critical success factors</li> </ul>
Chapter 2: Innovation 101	<ul style="list-style-type: none"> <li>– Schumpeter’s 1953 innovation theory of trade cycle</li> </ul>	<ul style="list-style-type: none"> <li>– Jobs to be done</li> <li>– Ten types of innovation</li> <li>– Effective brainstorming</li> <li>– Frugal innovation</li> </ul>
Chapter 3: Cash Flow Management 101	<ul style="list-style-type: none"> <li>– Legitimacy theory</li> <li>– Resource-based theory</li> <li>– Pecking order theory</li> <li>– Progressive utilization theory</li> </ul>	<ul style="list-style-type: none"> <li>– Smash, grab, go</li> <li>– Working capital</li> <li>– Dashboards</li> <li>– Beyond budgeting</li> <li>– Zero-based budgeting</li> <li>– Going back to basics</li> <li>– Buy Now Pay Later</li> <li>– Sustainable finance</li> </ul>
Chapter 4: Fraud 101	<ul style="list-style-type: none"> <li>– Fraud Triangle</li> <li>– Pre-crime Fraud Triangle</li> </ul>	<ul style="list-style-type: none"> <li>– Fraud detective</li> <li>– Seven basic types of fraud</li> <li>– Ten reasons why fraud persists</li> <li>– Eight pathways to eradicate fraud</li> <li>– Online fraud detective type test</li> </ul>
Chapter 5: Corporate Governance 101	<ul style="list-style-type: none"> <li>– Emergence of corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>– Types of corporate governance</li> <li>– Six principles of corporate governance</li> <li>– VICTORY model</li> </ul>

of Mount Vesuvius, that is, *Pompeii Event*. However, teams of scientists have been working hard in the preceding months, and the rollout of the Pfizer BioNTech, The University of Oxford, AstraZeneca, and Moderna vaccines has not only raised morale but led to a rallying of the financial markets. However, humanity is still in trouble and far from out of the woods. The great 12th century poet Rumi wrote:

“The cure for the pain is in the pain”

“These pains you feel are messengers. Listen to them”

This extreme crisis can become a source of deep learning, if not renewal, once the lava from the eruptions cools and this Pompeii Event subsides. For example, it is argued that the aftermath of the European-wide, 14th century Black Death, which caused 200 million deaths, ushered

in an era of positive economic growth and laid the foundations for the coming European Renaissance and Industrial Age.

The lead author believes that to survive and succeed during this uncertain and evolving pandemic, it is not enough to implement the outlined critical success factors. In fact, it is critical to embed foresight across all levels in the organization because it is a matter of when, not if, the next Pompeii Event suddenly erupts possibly in the shape of global warming. The great futurist Inayatullah (2007) states:

Deconstructing the normalcy of the past, scenario planning directs our thinking towards foreseeable alternative futures that remind us that while we cannot predict a particular future always accurately, by focussing on a range of alternatives, we can better prepare for uncertainty, indeed, to some extent embrace uncertainty.

The breathtaking speed, scale and scope of COVID-19 has challenged all organizations to intentionally incorporate change, together with the capacity to pivot to the dynamic terrain of the future. The *new normal*, characterized by physical distancing, increasingly digital services, and remote working underpinned by digitally focused communications, is here to stay.

Finally, according to another noted futurologist Ziauddin Sardar, *postnormal times* is a stage of deep change highlighted by *complexity, chaos, and contradiction*. This will essentially make *decision making* for the foreseeable future highly challenging, due to a fast-moving external environment, coupled with constantly changing information, all in a flawed yet beautiful world. In short, what will ultimately separate the present and future winners from the losers will be those individuals or boards or companies or organizations who are mindful of the following:

*We are drowning in information, while starving for wisdom. The world henceforth will be run by synthesizers, people able to put together the right information at the right time, think critically about it, and make important choices wisely.*

—E.O. Wilson (1929) American Biologist

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