

An analysis of measures to combat the risk of economic crime associated with post-disaster funding in South Africa

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Abstract

Purpose – The purpose of this paper is to analyse the measures that could be taken to combat the risk of economic crime in the aftermath of South African disasters.

Design/methodology/approach – This paper used secondary sources including, but not limited to, institutional reports, newspaper articles and peer-reviewed academic journal articles.

Findings – The COVID-19 pandemic was used as an example in this paper to discuss the susceptibility of post-disaster funding to the risk of economic crime and to assess how the South African government attempted to combat this risk during the pandemic. The Auditor-General of South Africa (AGSA) conducted a real-time audit of the government's essential COVID-19 initiatives in collaboration with the newly established Fusion Centre. Through their collaborative efforts, they successfully identified mismanaged funds, facilitated the recovery thereof and prosecuted individuals and entities involved. This paper found that to proactively combat economic crime in future post-disaster events, the collaborative use of the AGSA and the Fusion Centre, in conjunction with existing bodies established under the Disaster Management Act, should be considered.

Originality/value – This paper contributes to the body of knowledge in disaster risk management and forensic accountancy. As the frequency of disasters is expected to increase in the future, so will the economic crime risk associated with post-disaster funding. This paper demonstrates that post-disaster funding is especially susceptible to the risk of economic crime and it is therefore important to research methods to combat this problem and prevent further losses.

Keywords Economic crime, COVID-19 pandemic, Auditor General South Africa, Fusion Centre, Post-disaster funding

Paper type Literature review

1. Background to global disasters

António Guterres, the secretary-general of the United Nations, stated in the 2022 Global Assessment Report on Disaster Risk Reduction that: “Nothing undermines sustainable

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development like disasters. They can destroy decades of progress in an instant” [United Nations Office for Disaster Risk Reduction (UNDRR), 2022, p. ix].

Notwithstanding commitments to increase resilience, fight climate change and establish pathways for sustainable development, existing societal, political and economic decisions are accomplishing the opposite [United Nations Office for Disaster Risk Reduction (UNDRR), 2022, p. ix]. Human actions keep pushing the world to its ecological and existential boundaries and risk mitigation efforts frequently appear to be too little and too late [United Nations Office for Disaster Risk Reduction (UNDRR), 2022, p. ix].

In addition to the human, material, economic and environmental losses and damages caused by disasters, allegations of fraud and corruption often emerge, which brings about added consequences [Kratcoski and Edelbacher, 2018, p. 139; United Nations Office for Disaster Risk Reduction (UNDRR), 2022, p. 2]. According to Fenner and Mahlstein (2009, p. 241), certain industries, types of transactions or events have been proven to favour fraud and corruption more than others, and this is particularly true in disaster circumstances. Disaster circumstances trigger a massive humanitarian response that necessitates immediate actions and results in a rapid and large injection of money, goods and services into a country (Fenner and Mahlstein, 2009, p. 241).

This paper will outline measures that can be taken to combat the risk of economic crime following South African disasters. This will be achieved by analysing the measures implemented by the Auditor-General of South Africa (AGSA) to identify the risk of economic crime during the COVID-19 pandemic and its subsequent collaboration with the Fusion Centre to investigate and recover funds misappropriated during the COVID-19 pandemic.

1.1 Global impact of COVID-19

According to the World Health Organisation (2023), the COVID-19 pandemic was a global epidemic of coronavirus, an infectious disease brought about by the severe acute respiratory syndrome coronavirus 2. The first COVID-19 cases initially emerged in China in December 2019, but quickly spread to the rest of the world (WHO, 2023). Consequently, this prompted the WHO to declare a Public Health Emergency of International Concern on 30 January 2020 and to classify the worldwide outbreak as a pandemic on 11 March 2020 (WHO, 2023). Following this declaration, numerous countries invoked emergency laws to declare a state of emergency in response to the COVID-19 outbreak (Du Plessis *et al.*, 2022, p. 901).

While the implementation of these states of disaster aimed to curb the spread of COVID-19, these measures have, however, increased the global risk of economic crime (Leighton-Daly, 2022). The direct government involvement in national economies has resulted in large sums of money being poured into local initiatives that fraudsters have used to their advantage (HLB International, 2023). This is supported by the 2022 PwC Global Economic Crime and Fraud Survey [PricewaterhouseCoopers (PwC), 2022, p. 7] which found that in 2022, 70% of the survey participants experienced new fraud types due to the COVID-19 pandemic.

This increase in economic crime has caused numerous countries to suffer substantial financial losses. To illustrate this point, the UK incurred financial losses of more than £21bn in public funds due to fraudulent activities in the two years following the outbreak (National Audit Office, 2023). Similarly, the USA incurred financial losses amounting to over \$403bn attributable to the COVID-19 pandemic (Lardner *et al.*, 2023).

The United Nations Office on Drugs and Crime (UNODC) (2022, p. 1) noted that the urgency to address the consequences of the global pandemic, coupled with the quick implementation of relief measures, led to insufficient accountability and oversight processes.

Consequently, economic crime increased, threatening the efficiency and effectiveness of COVID-19 responses. The economic crime risk associated with the pandemic was not confined to certain regions, instead, it impacted countries worldwide, including South Africa.

1.2 South African impact of COVID-19

South Africa quickly followed in the footsteps of other countries and was consequently the first African country to declare a state of disaster on 15 March 2020 under the Disaster Management Act (DMA) 57 of 2002 (Du Plessis *et al.*, 2022, p. 901). This declaration gave the Minister broad authority to issue any directives necessary to manage the disaster (Du Plessis *et al.*, 2022, p. 901). Although the South African government was applauded for their rapid response to the global pandemic, despite having limited resources, the relaxed process subsequently resulted in various allegations of fraud and corruption (Mlambo and Masuku, 2020, p. 550).

Consequently, the AGSA agreed to work alongside the newly created Fusion Centre to identify and investigate fraud and corruption allegations pertaining to the R500bn COVID-19 relief package [Auditor-General South Africa (AGSA), 2020a, p. 5, 2020b, p. 7]. The Fusion Centre is a public collaboration among law enforcement agencies that facilitate intelligence sharing across all government levels and sectors (FIC, 2023a, p. 2; Molobela, 2022). The Fusion Centre played a prominent role in combating economic crime during the COVID-19 pandemic, which will be elaborated on further in this paper.

1.3 Purpose of the paper

This paper aims to analyse the measures that could be taken to combat the risk of economic crime in the aftermath of South African disasters. The COVID-19 pandemic is used as an example to demonstrate the susceptibility of post-disaster funding to the risk of economic crime and to assess how the South African government attempted to combat this risk.

It is important to understand that the offences of fraud, corruption and economic crime are interchangeably used by different sources. For this paper, the term economic crime should be understood as an umbrella term that can include not only fraud and corruption but also misleading consumers, fraudulent bankruptcy, tax evasion, cybercrime and money laundering (Kohalmi and Mezei, 2015, pp. 36–39; Transparency International, 2021, p. 3).

As a result, the term “economic crime” will be used and will refer to any offences previously mentioned unless otherwise stated by a specific source. However, to maintain the integrity of the sources used in this paper, the terms “corruption” and “fraud” may be referred to but will still fall within the broad context of economic crime.

This paper will focus on the role that the AGSA and the newly established Fusion Centre played during the investigation, recovery and prosecution of the relief funds misappropriated during the COVID-19 pandemic. This paper not only attempts to outline their roles in the COVID-19 pandemic but also attempts to understand their prospective roles in combatting economic crime in future disasters. For this reason, the background of these entities will be discussed, as well as their collaboration efforts during the COVID-19 pandemic.

2. The Auditor-General of South Africa

2.1 General mandate of the Auditor-General of South Africa

The AGSA is the Supreme Audit Institution (SAI) of government entities in South Africa and was established in terms of Chapter 9 section 180 of the Constitution of the Republic of South Africa 1996 (the Constitution) [Auditor-General South Africa (AGSA), 2022, p. 1].

The Constitution emphasises the important role that the AGSA plays and ensures its independence by mandating that the AGSA act impartially and conduct its responsibilities without fear, favour or prejudice [Auditor-General South Africa (AGSA), 2023a; The Constitution of South Africa, 1996].

Section 188 of the Constitution of South Africa (1996) outlines the responsibilities and mandate of the AGSA and stipulates that the AGSA should “audit and report on the accounts, financial statements and financial management of:

- (1) (a) all national and provincial state departments and administrations;
- (b) all municipalities; and
- (c) any other institution or accounting entity required by national or provincial legislation to be audited by the auditor general;
- (2) (a) any institution funded by the National Revenue Fund or a Provincial Revenue Fund or by a municipality; or
- (a) any institution that is authorised in terms of any law to receive money for a public purpose”.

As a result, the AGSA should prepare audit reports on all government departments, public entities, municipalities and public institutions yearly, in accordance with its responsibilities to oversee how the government makes use of public finances [Auditor-General South Africa (AGSA), 2022:1]. The AGSA is also accountable to the National Assembly under Section 181(5) of the Constitution and Section 3(d) of the Public Audit Act 25 of 2004 (PAA), and it is required to report on its operations and fulfilment of its responsibilities under Section 10 of the PAA.

2.2 Material irregularities identified during audits

In addition to the Constitution, the AGSA also receives its mandate in accordance with the PAA, as revised in 2019 [Auditor-General South Africa (AGSA), 2022, p. 1]. The PAA expands on the AGSA’s functions, and its regulations have been established to promote the objective of fair, transparent and legally sound administration of justice [Auditor-General South Africa (AGSA), 2023b].

Ideally, preventative controls are supposed to be efficient to ensure that it is difficult to circumvent or exploit them, and any efforts to do so should be easily detected and dealt with [Auditor-General South Africa (AGSA), 2023b]. Furthermore, if an individual successfully misappropriates public funds, the accounting officers or authorities involved should act swiftly to recover the funds and take the appropriate measures [Auditor-General South Africa (AGSA), 2023b]. Unfortunately, this is not always the case [Auditor-General South Africa (AGSA), 2023b].

Consequently, the AGSA commenced the process in 2016 of expanding its mandate beyond just auditing and reporting and in 2018, the President enacted the Public Audit Amendment Act [Auditor-General South Africa (AGSA), 2023b]. The Public Audit Amendment Act expanded the AGSA’s powers to include the concept of material irregularities, which ultimately supports consequence management and corrective action [Auditor-General South Africa (AGSA), 2023b].

The term “material irregularity” is defined in terms of the PAA (25 of 2004) as “any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public”.

Once a material irregularity is identified, the AGSA is mandated to take the following steps [[Auditor-General South Africa \(AGSA\), 2023b](#)]:

- *Refer*: The AGSA can request any public entity that has the required authority to investigate the material irregularity. The public body will then investigate the matter within its own legal mandate and take corrective action when needed.
- *Recommendations*: The AGSA can provide suggestions in their audit reports on certain methods that can be implemented to address material irregularities and set a particular deadline for those suggestions to be executed.
- *Remedial actions*: If the auditee neglects to adhere to the recommendations within the specified deadline, the AGSA possesses the authority to enforce binding remedial measures. Furthermore, if the material irregularities lead to a significant financial loss, the AGSA may direct the accounting officer or authority to ascertain the amount lost and pursue its recovery from the responsible parties.
- *Certificate of debt*: If the accounting officer or authority fails to take necessary corrective action, which includes calculating and recovering the financial loss, the AGSA can issue a certificate of debt in the name of that accounting officer or authority. The loss must then subsequently be recovered from the accounting officer or authority.

While its mandate includes identifying material irregularities during audits, the AGSA lacks the authority to conduct investigations, recover funds or prosecute guilty parties. Effective collaboration with other organs of state becomes paramount in this context because the AGSA is only authorised to refer matters to public entities that have the required authority and mandate to investigate material irregularities.

2.3 Auditor-General of South Africa mandate during COVID-19

According to the [Parliamentary Monitoring Group \(2020\)](#), R230bn of the R500bn COVID-19 relief package fell under the oversight of the AGSA. The AGSA operated not only within its normal constitutional mandate to audit and report on these COVID-19-related funds, but also within its expanded mandate to include material irregularities [[Auditor-General South Africa \(AGSA\), 2021](#), p. 23].

Various material irregularities were identified during the COVID-19 audit [[Auditor-General South Africa \(AGSA\), 2021](#), p. 24]. The material irregularity procedure was incorporated into the auditing process, but was not attached to the audit cycle in the same manner that regular annual audits are conducted [[Auditor-General South Africa \(AGSA\), 2021](#), p. 24]. Unlike regular audits, this process during the COVID-19 audit lacked a distinct start and end date, which enabled the AGSA to identify material irregularities during any stage of the audit [[Auditor-General South Africa \(AGSA\), 2021](#), p. 24].

In such instances, the material irregularities were not deferred to the next annual audit cycle [[Auditor-General South Africa \(AGSA\), 2021](#), p. 24]. The AGSA was subsequently mandated to share its findings, fraud risk indicators and data analysis with the Fusion Centre, which held the authority to investigate these results [[Auditor-General South Africa \(AGSA\), 2021](#), p. 5]. This will be discussed further in Section 3 below.

3. The Fusion Centre

3.1 The Fusion Centre concept

According to the [Royal United Services Institute for Defence and Security Studies \(RUSI\) \(2019, p. 1\)](#), one measure that can be implemented to proactively prevent and detect

economic crime is the establishment of financial information-sharing partnerships. Overall, these partnerships encourage knowledge and insight sharing to support strategic analysis (co-develop typologies or knowledge products), as well as tactical information sharing (sharing of sensitive information) [Royal United Services Institute for Defence and Security Studies (RUSI), 2019, p. 5]. This encompasses increased suspicious reporting, more timely and accurate reporting, improved quality and utilisation of suspicious reporting and enhanced law enforcement outcomes promoting investigations, prosecutions, asset recovery or other disruption of criminal networks [Royal United Services Institute for Defence and Security Studies (RUSI), 2019, p. 11].

The establishment of financial information-sharing relationships may greatly assist in the combatting of economic crime by enabling ongoing communication between entities regarding financial crime threats, the utilisation of available information-sharing laws, the exchange of information and knowledge between specific entities, the sharing of operational intelligence and collaborative efforts to develop an understanding of the threats and risks related to economic crime [Royal United Services Institute for Defence and Security Studies (RUSI), 2017, p. 12].

Various countries have recognised the crucial role played by financial information-sharing partnerships, resulting in the establishment of initiatives such as the Joint Money Laundering Intelligence Taskforce (JMLIT) in the UK, the Anti-Money Laundering and Countering the Financing of Terrorism Industry Partnership in Singapore, the Fintel Alliance in Australia and the Fraud and Money Laundering Intelligence Taskforce (FMLIT) in Hong Kong [Royal United Services Institute for Defence and Security Studies (RUSI), 2017, pp. 13–17].

Significant progress has been made with this new collaboration strategy. For example, JMLIT in the UK restrained £7m of suspected criminal funds, arrested 63 people involved in alleged money-laundering offences and identified 2,000 suspicious bank accounts between May 2016 and March 2017 [Royal United Services Institute for Defence and Security Studies (RUSI), 2017, p. vii]. Similarly, the FMLIT in Hong Kong seized HK\$1.9m in assets in its first four months since its establishment that resulted in the arrest of 65 individuals [Royal United Services Institute for Defence and Security Studies (RUSI), 2017, p. vii].

While the reports published by the RUSI primarily focused on public–private partnerships, the establishment of public–public partnerships are just as important. According to the [Financial Intelligence Centre \(FIC\) \(2023b\)](#), public–public collaboration efforts, similar to public–private initiatives, are aimed at establishing beneficial connections among multidisciplinary role players and optimising the utilisation of financial intelligence. These partnerships promote the timely exchange of information to ensure the prevention, detection, investigation and resolution of financial crimes (FIC, 2023b).

3.2 Collaboration required in terms of the South African constitution

In South Africa, the collaboration and cooperation between government entities are formally regulated by section 41 of the [Constitution of South Africa \(1996\)](#). Section 41(1)(h) mandates that: “All spheres of government and all organs of state within each sphere must co-operate with one another in mutual trust and good faith by –

- fostering friendly relations;
- assisting and supporting one another;
- informing one another of, and consulting one another on, matters of common interest;
- coordinating their actions and legislation with one another;

-
- adhering to agreed procedures; and
 - avoiding legal proceedings against one another.

Furthermore, the National Anti-Corruption Strategy of South Africa also emphasises the collaboration of various governmental entities in an attempt to address the national corruption problem. One of the core values of this strategy is to foster multi-sectoral cooperation across all government spheres, communities, civil society organisations and the business sector (South African Government, 2020, p. 25).

The National Anti-Corruption Strategy report furthermore indicated that the lack of collaboration has hindered the accomplishment of a corruption-free country (South African Government, 2020:22). The strategy furthermore requires the sharing of information and the coordination of anti-corruption activities between the various role players (South African Government, 2020, p. 38).

3.3 *The establishment of the South African Fusion Centre*

According to the Organisation for Economic Co-operation and Development (OECD) (2023, p. 29), the creation of the Fusion Centre was initially approved in 2018, as a collaborative and intelligence-driven body tasked with investigating priority offences connected with money laundering and terrorist financing. The Fusion Centre was however only established in 2020 with an amended mandate to investigate corruption, fraud and other financial crimes related to the misappropriation of the government's COVID-19 relief efforts [FIC, 2023a, p. 2; Organisation for Economic Co-operation and Development (OECD), 2023, p. 29]. In an attempt to investigate the various fraud and corruption allegations that surfaced during the government's essential COVID-19 relief efforts, the AGSA agreed to work alongside the newly created Fusion Centre [Auditor-General South Africa (AGSA), 2020b, p. 7].

The Fusion Centre is grounded on four fundamental pillars, namely [Organisation for Economic Co-operation and Development (OECD), 2023, p. 29]:

- *Prevention*: Engaging with financial institutions for proactive reporting, as well as important government entities that are especially susceptible to fraud and corruption.
- *Early detection*: Regularly conducting media searches and reviewing, amongst others, financial intelligence, public complaints, reports published by the auditor general and national treasury, special investigating unit (SIU) proclamations and intelligence reports.
- *Investigation*: The Fusion Centre is dedicated to conducting successful investigations and has investigated over 200 matters, with over 15 cases presented in court.
- *Prosecution and resolution*: Inter-stakeholder collaboration has resulted in several actions taken such as the freezing of bank accounts, recoveries, criminal prosecution and referrals to municipal authorities.

The Fusion Centre is a public-public collaboration among law enforcement agencies that facilitates intelligence sharing across all government levels and sectors (Molobela, 2022). The Anti-Corruption Task Team, spearheaded this multi-disciplinary initiative, based at the FIC, which brought together South African law enforcement agencies, the intelligence community and other relevant authorities such as (FIC, 2022, p. 1):

- The National Prosecuting Authority (including the Asset Forfeiture Unit and National Prosecuting Services);
- Special Investigating Unit;

- South African Revenue Service;
- South African Police Service's Directorate for Priority Crime Investigation and its Division: Crime Intelligence and Detective Service;
- State Security Agency; and
- National Intelligence Coordinating Committee.

Every organisation acts under its own legislative framework and mandate, concentrating law enforcement and other competent authority partners' knowledge, skills and experience in a single centre (FIC, 2022, p. 1). The Fusion Centre fosters a culture of collaboration among various agencies and serves as a platform for seconded investigators and prosecutors with specialised knowledge to come together and share their expertise to enhance the ability to detect, prevent, investigate and prosecute corruption-related cases (SAPS) (2023).

The Fusion Centre additionally received assistance from South African Anti-Money Laundering Integrated Task Force (SAMLIT) members, a public-private financial information-sharing collaboration to combat financial crime, during COVID-19-related investigations [South African Anti-Money Laundering Integrated Task Force (SAMLIT), 2020, p. 15].

4. Auditor-General of South Africa approach to COVID-19

According to Mlambo and Masuku (2020, p. 549), one of the most recent national state of disasters in South Africa includes the 2020 COVID-19 pandemic, which presented South African politicians and public officials with severe challenges. As a result, the COVID-19 pandemic was selected to be discussed in this paper.

It brought to light the inequalities in society while demonstrating how the country's various public sectors have been unable to combat the problem of corruption (Mlambo and Masuku, 2020, p. 549). The AGSA consequently decided to commence a real-time audit of the government's essential COVID-19 programmes and initiatives, which included a proactive strategy, the use of multidisciplinary teams and various fraud risk identification processes that will be discussed in more detail below [Auditor-General South Africa (AGSA), 2020a, p. 10, 2021, p. 16].

4.1 *The Auditor-General of South Africa's real-time auditing approach*

Considering the large amount of funds allocated to address the challenges posed by the COVID-19 pandemic, the urgency inherent in the government's response and the potential threats of mismanagement and corruption, the AGSA adopted an alternative approach to the COVID-19 audit [Auditor-General South Africa (AGSA), 2020a, p. 9]. This entailed auditing the government's expenditures as it occurs through real-time auditing [Auditor-General South Africa (AGSA), 2020a, p. 9].

According to the International Organisation of Supreme Audit Institutions (INTOSAI) (2022, p. 15), SAIs can play a proactive role in monitoring the government's response to emergency circumstances through a real-time auditing approach, ensuring that vulnerable individuals receive immediate and efficient assistance [International Organization of Supreme Audit Institutions (INTOSAI), 2022, p. 15].

The African Organisation of English-speaking SAIs (AFROSAI-E) (2020, p. 11) indicated that real-time audits require auditors to collect and analyse information and data in real-time and modify audit strategies accordingly. Real-time audits are often ex-post audits completed shortly after the occurrence of a disaster and provide input and suggestions for quick decisions on emergency response operations (AFROSAI-E, 2020, p. 16).

Enhancing internal capacity to carry out real-time audit strategies is essential for conducting performance and compliance audits before, during and after a disaster while establishing the internal capacity to conduct forensic audits is also regarded as an integral component of this process (AFROSAI-E, 2020, p. 11).

4.2 *The proactive strategy of the Auditor-General of South Africa's real-time audit approach*

As part of its real-time audit approach, the AGSA adopted a proactive auditing strategy throughout the COVID-19 pandemic, drawing insights from lessons learned from previous disasters that occurred in countries such as Indonesia and Japan (Parliamentary Monitoring Group, 2020).

This proactive strategy comprising of three elements namely, prevention, detection and reporting (Parliamentary Monitoring Group, 2020) which included the following [Auditor-General South Africa (AGSA), 2020a, p. 10]:

- (1) *Prevention*: The AGSA engaged with accounting officers/executive authorities to discuss the importance of implementing or strengthening preventative measures for managing growing risk and substantial changes in operations. It additionally assessed the execution of the aforementioned controls and communicated any remaining risks to the accounting officers/authorities, while offering suggestions on how to address them.
- (2) *Detection*: The AGSA highlighted high-risk transactions, payments, procurement and procedures by using data analytics and an in-depth knowledge of the environment. Additionally, the AGSA promptly communicated identified findings to accounting officers and authorities to enable them to address the issues and rectify control weaknesses before making any further payments or distributions.
- (3) *Reporting*: The AGSA reported their findings in three special reports.

4.3 *Multidisciplinary teams used during the Auditor-General of South Africa's real-time audit*

The AGSA furthermore made use of multidisciplinary teams to conduct its audit. The need for capacity-building became evident, as auditors traditionally conducted audits post-expenditure, within a pre-established internal framework (Parliamentary Monitoring Group, 2020). This need has however changed during the COVID-19 pandemic and consequently, the AGSA took proactive measures to familiarise its teams with the revised expectations and responsibilities during the lockdown to manage the associated risks (Parliamentary Monitoring Group, 2020).

These multidisciplinary teams included [Auditor-General South Africa (AGSA), 2020a, p. 10]:

- Supply chain audit experts who were responsible for examining payments made to suppliers, who provided COVID-19-related products and services, as well as certain high-risk contracts.
- Fraud specialists who evaluated the auditees' control procedures, as well as the efficiency of their fraud risk responses.
- Data and fraud experts to examine grant applications and payment data for underlying trends and patterns that indicate areas of risk.
- IT specialists to analyse whether the application processes used by auditees to handle grant applications and payments can be depended on.

- Cybersecurity experts who were responsible for evaluating the susceptibility of the auditees' information technology environments to cyberattacks and crimes.
- Health experts to address the risks and challenges associated with the supply of personal protective equipment (PPE) and ventilators, as well as the development of quarantine sites and temporary health facilities.

4.4 The Auditor-General of South Africa's process to identify COVID-19 fraud risks during their real-time audit

The pandemic has had a substantial influence on government institutions' working and control environments, which impacted their susceptibility to fraud [Auditor-General South Africa (AGSA), 2021, p. 16]. Under the recent COVID-19 circumstances, the expected risks of fraud greatly increased which includes the risk of fraud in procurement and contract management procedures, as well as the implementation of grants and benefits, especially in relation to their authorisation and payment [Auditor-General South Africa (AGSA), 2021, p. 16].

The AGSA selected 12 municipalities that constituted a higher risk of fraud [Auditor-General South Africa (AGSA), 2021, p. 16]. Furthermore, it selected all of the metros, in addition to several local and district municipalities, to guarantee that each province includes at least one significant municipality [Auditor-General South Africa (AGSA), 2021, p. 16]. The AGSA developed particular audit techniques to identify fraud risks and red flags, as well as reviewing municipalities' control environments to reduce the identified fraud risks, as demonstrated in Figure 1 below [Auditor-General South Africa (AGSA), 2021, p. 16].

Additionally, the AGSA and the Fusion Centre maintained their ongoing collaboration on areas of mutual interest [Auditor-General South Africa (AGSA), 2021, p. 16]. This collaboration was formed to avoid duplicate efforts and target their auditing efforts on areas with a high risk of fraud [Auditor-General South Africa (AGSA), 2021, p. 16]. The unique audit approach followed by the AGSA during the COVID-19 pandemic led to the detection various red-flags related to the R500 billion relief package that will be discussed in more detail below.

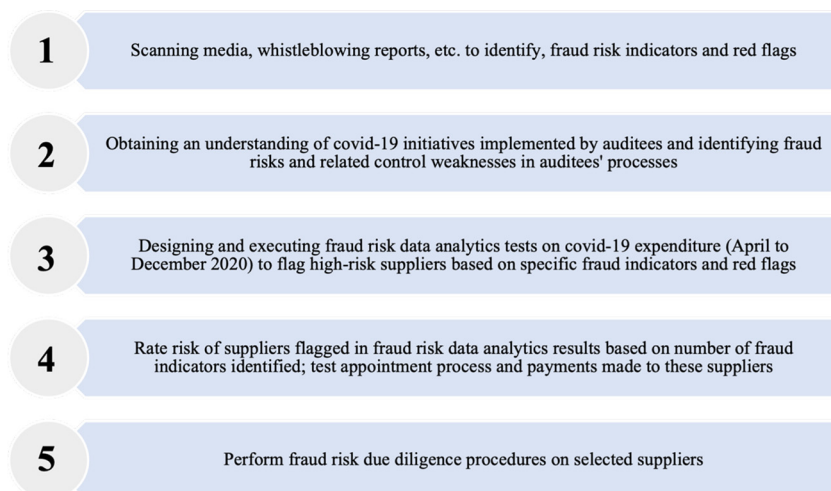


Figure 1.
AGSA audit procedures to identify fraud risks and red flags (Auditor-General South Africa (AGSA), 2021, p. 16)

5. The COVID-19 issues reported by the Auditor-General of South Africa

The COVID-19 pandemic served as a prominent example of the risk of economic crime associated with post-disaster funding. In an attempt to alleviate the social and economic challenges faced by the country during the pandemic, the South African government reallocated resources to fund an R500bn relief package [Auditor-General South Africa (AGSA), 2020a, p. 5]. The COVID-19 relief package was funded through various initiatives as illustrated in Figure 2 below.

The relief package was aimed at assisting the most vulnerable during the pandemic, but the AGSA’s report highlighted certain red flags related to the utilisation of these

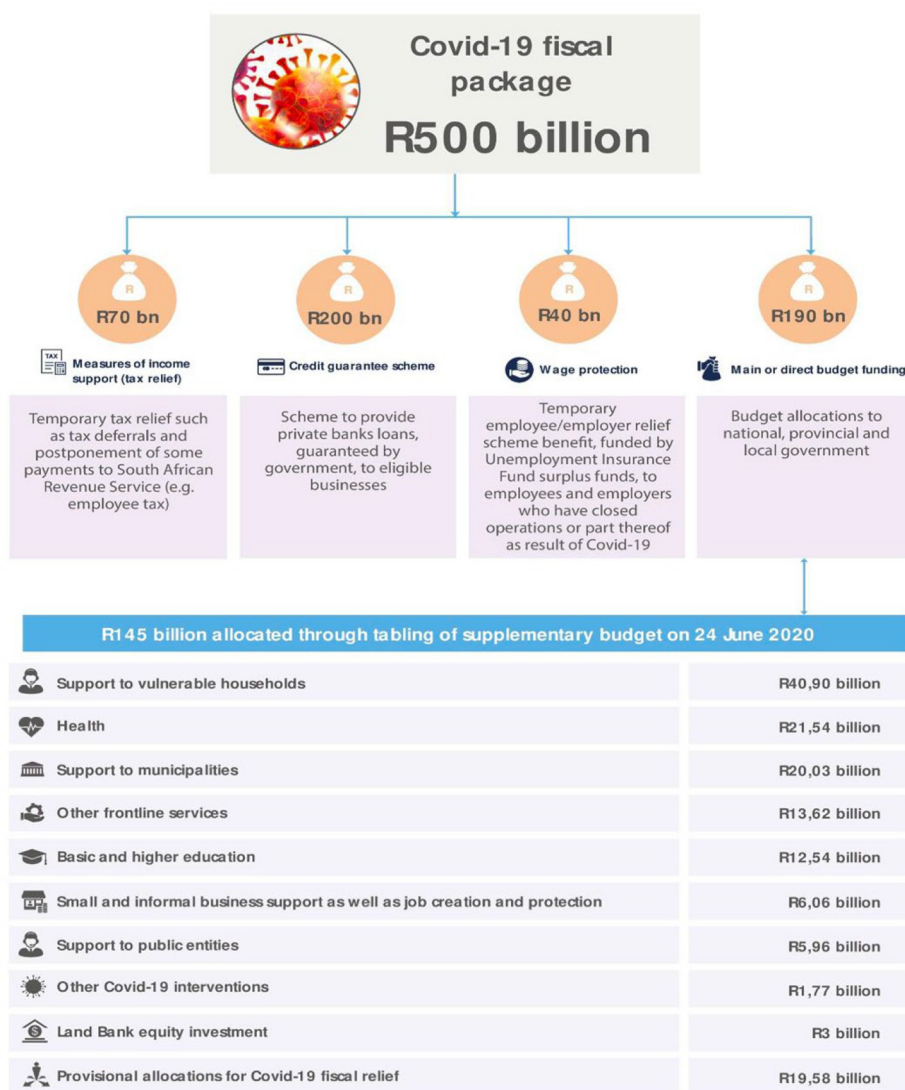


Figure 2.
Composition of
COVID-19 relief
package (AGSA,
2020a, p. 8)

funds. While immediate action is required in emergencies, relaxed controls and processes can expose the government to the risks of the misappropriation or abuse of public funds [Auditor-General South Africa (AGSA), 2020a, p. 5]. Economic crime allegations arose regarding, among others, the procurement of PPE, the incorrect distribution of food parcels and the use of grants for temporary employee/employer relief schemes.

5.1 *Personal protective equipment*

A competitive, fair and transparent procurement system is aimed at enabling the government to purchase the highest-quality goods and services at the lowest possible price while providing service providers an equal opportunity to obtain government contracts [Auditor-General South Africa (AGSA), 2020b, p. 15]. The South African government was authorised to exercise emergency procurement procedures during the pandemic due to the state of disaster, but it was only meant to be used in particular circumstances and did not provide a blanket exemption from all legislative requirements for an equal and transparent procurement process [Auditor-General South Africa (AGSA), 2020b, p. 15].

The AGSA's audit report highlighted several discrepancies related to the procurement of PPE which included, amongst others, the following:

5.1.1 Failure to declare conflict of interests. Effective controls were not in place to ensure that information presented by suppliers was accurate and that there was no conflict of interest between the suppliers and government personnel before a contract was granted. The AGSA identified 27 cases in Gauteng and two in KwaZulu-Natal, where the suppliers who obtained government contracts failed to declare their conflicts of interest. The total value of these contracts was R1,049.21m and R13.11m, respectively (AGSA, 2020b, p. 92).

5.1.2 Prices exceeding national treasury regulations. Inadequate measures were in place to ensure that the prices paid for PPE were within the price range established by the National Treasury. PPE was therefore purchased at excess prices. There were 18 cases in Gauteng, three in KwaZulu-Natal, eight in North-West and two in the Western Cape where government departments entered into contracts at prices higher than those established by National Treasury for the relevant supplies. Total potential losses in Gauteng were R231.24m, R10.23m in KwaZulu-Natal, R2.79m in North-West and R0.04m in the Western Cape (AGSA, 2020b, p. 93).

One example includes a case where the City of Tshwane Metro municipality ordered 3,000 pairs of goggles at a unit price of R552 for each pair. This was 675% higher than the National Treasury's authorised market-related price of R71.25 per pair, amounting to an overpayment of R1,442,250 (AGSA, 2021, p. 32). Furthermore, the eThekweni Metro municipality ordered 100,000 surgical face masks at a unit price of R22 (76% higher than the National Treasury's mandated market-related price of R12.48 per mask) which amounted to an excess payment of R952,000 (AGSA, 2021, p. 32).

5.1.3 Overordering PPE items. It was furthermore discovered that governments procured PPE items that exceeded their needs, which can increase the risk of potential of fraud and losses when these PPE products are not used (AGSA, 2021, p. 34).

One example includes the municipality of iLembe District which ordered 1,500 cloth masks for its staff and provided two cloth masks to each of the 750 staff members (AGSA, 2021, p. 34). The payroll report, however, indicated that the company only had 659 employees. In addition to the cloth masks, the municipality also purchased 19,600 surgical masks and 2,000 face shields/visors. Considering the number of staff members, the large quantities of masks and face shields cannot be justified. Furthermore, because the number of

masks and face shields purchased surpassed the total number of municipal personnel, an excess should have been identified. A site visit however revealed that there were no face shields/visors in the storage facility (AGSA, 2021, p. 34).

5.2 Incorrect food parcel distribution

The allocation of food parcels was a temporary measure established until the Social Relief of Distress Grant came into effect. The process entailed that once manual application forms were completed and approved, food parcels should be distributed to those in need (AGSA, 2020b, p. 25). The AGSA identified four specific control weaknesses in the distribution of food parcels which increased the risk of fraud, as demonstrated in Figure 3 below.

For example, the AGSA's report indicated that there was insufficient segregation of duties during the approval process with individuals who both completed and approved applications. This resulted in over 4,000 approved beneficiaries in the Northern Cape region not receiving food parcels (AGSA, 2020b, p. 31). Furthermore, because the standard operating procedure did not stipulate the amount of food packages that may be provided to a single individual, food parcels were distributed inconsistently. As a result, some beneficiaries obtained only one food parcel throughout the pandemic, while others received multiple food parcels (AGSA, 2020b, p. 31).

The AGSA identified that the Limpopo region, for example, spent R35.1m to purchase 29,250 food parcels (AGSA, 2020b, p. 33). A sample of the payments made to suppliers was required, because parcels may only be ordered based on an approved list of beneficiaries. However, no beneficiary lists were provided to support the requisitions. This practice was against the standard operating procedure, which stipulates that aid parcels should only be ordered according to an approved list of beneficiaries and ultimately increases the risk of fraud, because the need for food parcels could have been overstated (AGSA, 2020b, p. 33).

Finally, it was also indicated that insufficient controls had been established to prevent collusive bidding during the bid evaluation process (AGSA, 2020b, p. 35). The AGSA discovered potentially restrictive horizontal relationships between bidders, and it seems as though bidders misrepresented information on bid documents by declaring that they compiled their bids individually without any consultation, communication, agreement or arrangement with any competitor regarding the amount, quality, specifications and circumstances or delivery method of the goods or services (AGSA, 2020b, p. 34).

5.3 Abuse of social relief grants

The government implemented the COVID-19 temporary employee/employer relief scheme (TERS) through the Unemployment Insurance Fund (UIF) to assist individuals who lost their jobs during the pandemic (AGSA, 2020b, p. 39). The AGSA's report however

Not verifying identity numbers before awarding food parcel or voucher to ensure award to beneficiaries who meet set criteria

Not verifying that beneficiaries referred by ward councillors are eligible for food parcels

Not verifying residency of beneficiaries to ensure that they only registered at their respective wards and did not benefit from food parcels or vouchers more than once

Not being able to identify duplicates on list of beneficiaries from ward councillors before issuing food parcels or vouchers, as list was not analysed because beneficiaries were recorded manually

Figure 3.
Control weaknesses
in food parcel
distribution (AGSA,
2021, p. 19)

highlighted several red flags related to TERS payments that included the following (AGSA, 2020b, pp. 46–54):

- The TERS benefit was distributed to individuals who had been recorded as deceased on the Department of Home Affairs database. The AGSA discovered 15 141 claims amounting to R65,679,979.
- According to the AGSA’s computer-assisted audit tools (CAATs), individuals who had false identity numbers received TERS benefits. The audit revealed that a total of 1,607 claims were submitted by these individuals, amounting to R7,504,021.
- TERS benefits were paid to people who were in prison according to the Department of Correctional Services database. The CAATs testing revealed 29 claims totalling R120,395 that were transferred to these individuals.
- TERS benefits were also paid to 12 people who shared the same bank account information. It was discovered through CAAT testing that 19 claims totalling R79,665 were paid prior to these individuals.
- Individuals received payments in excess of the TERS fund’s maximum threshold. The AGSA found 842 claims totalling R6,261,051 in which payments exceeded the maximum threshold.
- There were claims that payments were made before the application date. CAATs testing revealed 746 claims were made prior to the application date which amounted to R1,199,106.
- Payments were provided to non-South African citizens whose employers had failed to contribute to UIF on their behalf over the previous 12 months. Testing also revealed that 290,411 claims totalling to R1,167,827,225 were paid to non-South African citizens.
- Finally, the AGSA visited companies’ sites to ensure the existence and legitimacy of employees and discovered that companies were unable to offer employment agreements or appointment letters, pay slips, identity documents or bank records to verify their staff members. Furthermore, employers were unable to confirm that TERS benefits had been paid to employees and there were also variations between the TERS benefit paid by the fund to the company and the benefit provided by the company to the employees. In several cases, employees were paid TERS benefits that were less than the R3,500 minimum wage.

The collaborative efforts of the AGSA and the Fusion Centre played a prominent role during the recovery of the misappropriated COVID-19 relief funds, as will be discussed below. It is important to understand the prospective role of these two entities in combatting economic crime in future disasters.

6. Collaboration between the AGSA and the Fusion Centre

6.1 Approach to investigations

Various discrepancies were identified during the real-time audit performed by the AGSA, as discussed above. Because the AGSA lacked the investigative and law-enforcement authority to further pursue these matters, the AGSA shared their findings, fraud risk indicators and data analysis with the Fusion Centre (AGSA, 2021, p. 5). The AGSA proactively handed over the findings from their COVID-19 special reports to the Fusion Centre that included possible economic crimes that required further investigation (AGSA, 2021, p. 16). This data equipped the Fusion Centre to evaluate the risk at government entities and collaborate with

the relevant law enforcement institutions to ensure they are taking the required measures or determine if investigations should commence into specific matters (AGSA, 2021, p. 16).

Additionally, the AGSA conducted workshops to assist the Fusion Centre in determining which exceptions and irregularities, highlighted by the COVID-19 audit, required criminal investigation and law enforcement involvement (AGSA, 2020b, p. 7).

6.2 Fusion Centre's prosecutions, recoveries of funds and freezing orders issued

The Fusion Centre was tasked with conducting investigations into various instances of corruption, including unauthorised procurement and misappropriation of funds by state entities relating to the procurement of PPE, as well as other COVID-19-related issues (SAPS, 2023). Other matters include TERS claims, distribution of food parcels to those in need and other social and economic relief initiatives (SAPS, 2023).

The Fusion Centre's collaborative efforts during the COVID-19 pandemic have resulted in various success stories, which include the recovery of tax income, the detection of fraud in temporary economic relief provided to employers, the detection of procurement fraud and the detection of other connected financial crimes (FIC, 2022, p. 2).

The Fusion Centre was instrumental in the recovery of R1.8bn in illegal assets related to the COVID-19 pandemic by using the public–public collaboration approach (FIC, 2023a, p. 2; 2022, p. 2). The Fusion Centre's collaboration efforts also resulted in the prosecution of the following cases (SAPS, 2023):

- 556 cases and incidents of fraud, maladministration, tax evasion and corruption involving 168 accused individuals were investigated;
- 51 individuals and 43 entities have been convicted of offences such as corruption, fraud, tax evasion and money laundering, among others; and
- 48 cases are still pending in court.

The following results were furthermore accomplished in terms of freezing orders and recoveries (SAPS, 2023):

- The FIC received 25 orders amounting to R274m;
- The asset forfeiture unit received 42 orders amounting to R331m;
- The SIU received 29 orders amounting to R465m; and
- South African Revenue Service received 22 freezing orders amounting to R740m.

6.3 Disciplinary actions against government employees

The Fusion Centre also engaged with agencies such as the Department of Public Service and Administration, that can determine whether to take disciplinary action against government personnel, based on its allocated mandate (AGSA, 2021, p. 16).

Some incidents of maladministration included government officials who failed to comply with the legislative frameworks in the appointment and payment of service providers and third parties (SAPS, 2023). Government employees and state-owned companies faced 97 referrals for disciplinary and executive actions. To date, a total of 11 public officials have been dismissed due to diverse instances of maladministration, fraud and corruption. Additionally, three individuals opted to resign, while eight were placed on suspension (SAPS, 2023). There are currently 71 cases pending investigation, and one official has been issued a written warning (SAPS, 2023).

6.4 Examples of Fusion Centre investigations

Several of the Fusion Centre's investigations included complicated commercial crimes using networks of organised criminal syndicates (SAPS, 2023). The Fusion Centre investigators were tasked with tracking down the networks and syndicates and finding proof of wrongdoing (SAPS, 2023).

In one case, an accountant engaged in fraudulent activities by illegally obtaining relief funds through the TERS system on behalf of multiple entities without their knowledge (SAPS, 2023). Investigators identified a network of 17 individuals, 26 businesses, 53 banking accounts and 993 transactions associated with the transfer of financial proceeds from the accountant (SAPS, 2023). The funds were used to acquire both immovable and mobile assets, which included a house and a car (SAPS, 2023).

As a result of the investigation, preservation orders were issued against two bank accounts amounting to R3,065,114.08 (SAPS, 2023). Furthermore, the investigation unveiled four immovable properties valued at R2,662,986.60 and a vehicle purchased for an amount of R665,000 (SAPS, 2023). Subsequently, the implicated accountant, Lindelani Bert Gumede, was arrested and later convicted for 135 years on charges of fraud, theft and money laundering (SAPS, 2023).

In another case, an accountant exploited the TERS scheme by fraudulently using the names of six companies, resulting in a total defrauded amount of R884,308.06 (SAPS, 2023). Subsequently, charges were filed against the accountant, and R482,258.71 was successfully retrieved from the accountant's First National Bank account (SAPS, 2023). The accountant (Mark Voster) was sentenced to six years in prison (SAPS, 2023).

In the third case, an Eastern Cape Taxi Association engaged in fraudulent activities by falsely claiming R220m from the TERS scheme through 66 accounts (SAPS, 2023). In response, the Fusion Centre initiated action by issuing section 34 directives on 26 bank accounts, resulting in the issuance of an R26.9m preservation order against the taxi association. Furthermore, the taxi association's PPE contract was also found to be irregular and unlawful (SAPS, 2023). This matter is now being tried in criminal court (SAPS, 2023).

6.5 Fusion Centre collaboration with SAMLIT

In addition to working alongside the AGSA, the Fusion Centre also received assistance from SAMLIT, a public-private financial information-sharing collaboration established to combat financial crime [South African Anti-Money Laundering Integrated Task Force (SAMLIT), 2020, p. 15]. SAMLIT is the first public-private partnership established between the South African government and the banking sector to combat financial crime which has improved cooperation and combined the resources of the banking industry and regulatory bodies [South African Anti-Money Laundering Integrated Task Force (SAMLIT), 2020, p. 6].

The formation of SAMLIT was a response to the international trend of fostering public-private information-sharing partnerships and its impact extends to the public-public cooperation platforms such as the Fusion Centre [South African Anti-Money Laundering Integrated Task Force (SAMLIT), 2020, p. 15]. Support from the banking industry is essential for exchanging transactional and financial information, which accelerates the process of identifying illegal activity and following the monetary trails associated with financial crimes (SAPS, 2023).

The collaboration between the Fusion Centre and SAMLIT resulted in the recovery of large sums of misappropriated COVID-19 payments. One example includes a case where the FIC received allegations that a payment amounting to R5.6m was fraudulently transferred from the UIF in relation to TERS funding for employees [South African Anti-Money Laundering Integrated Task Force (SAMLIT), 2020, p. 22]. Swift intervention by the Fusion

Centre, supported by SAMLIT, resulted in the freezing of 28 bank accounts, identification perpetrators and recovery of more than R² million in cash and assets [South African Anti-Money Laundering Integrated Task Force (SAMLIT), 2020, p. 22].

The Fusion Centre's successful combined efforts with its collaboration partners and the banking industry have prompted the exchange of information to combat financial crime and corruption, resulting in an accelerated investigation process (SAPS, 2023). This process allows for quick reaction and recovery operations, minimising the opportunities for criminals to launder and dispose of their illicit funds (SAPS, 2023).

7. Conclusion

The world is currently facing an increase in compounded disasters which can have far-reaching effects across regions and sectors. In addition to human, material, economic and environmental losses, disasters often result in allegations of fraud and corruption, leading to further consequences [Kratcoski and Edelbacher, 2018, p. 139; United Nations Office for Disaster Risk Reduction (UNDRR), 2022, p. 2].

This paper analysed the measures that could be taken to combat the risk of economic crime in the aftermath of South African disasters. The COVID-19 pandemic was used as an example to discuss the susceptibility of post-disaster funding to the risk of economic crime and to assess how the South African government attempted to combat this risk during the pandemic.

The AGSA conducted a real-time audit of the government's essential COVID-19 programs and initiatives in collaboration with the Fusion Centre and published its findings in three special reports (AGSA, 2020b, p. 7). Various instances of the risk of economic crime were highlighted in these reports including, among others, the irregular procurement of PPE, incorrect distribution of food parcels and the misuse of grants for temporary employee/ employer relief schemes as discussed earlier on in this study.

This paper highlighted the role that the AGSA and the newly established Fusion Centre played in identifying and recovering mismanaged funds during the COVID-19 pandemic, along with prosecuting those involved in these activities. Through collaborative efforts, these bodies successfully identified the mismanaged funds, facilitated the recovery of a substantial amount of funds and prosecuted individuals and entities involved in economic crime during the COVID-19 pandemic. This subsequently resulted in expanding the Fusion Centre's mandate in March 2023 to encompass organised crime, money laundering, fraud, maladministration, terrorist financing and other serious financial crimes in both the public and private sectors (SAPS, 2023).

To combat the occurrence of economic crime activities in future post-disaster events, the collaborative use of the AGSA and the Fusion Centre should be considered. Promoting the exchange of information and resources, shifting from isolated processes, using advanced data analytics and implementing real-time auditing are all essential components that could be used to combat economic crime.

While the DMA and NDMF have established well-defined post-disaster funding procedures and oversight bodies, such as the Inter-governmental Committee on Disaster Management, National Disaster Management Advisory Forum and National Disaster Management Centre, allegations of economic crime related to post-disaster funding persist. As a proactive approach to combat the economic crime risk in post-disaster funding, these bodies can consider the involvement of AGSA and Fusion Centre in future disasters which could contribute to increased transparency, accountability and the overall integrity of the post-disaster funding process.

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