30 minutes

425 years

2,500,000 years

How to be a Successful Frauditor

W Peter Tickner MSc CFIIA ICFS

(Peter Tickner Associates Ltd)

CIPFA CATS Seminar

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A Fraud

Its simplest definition

“A sophisticated sort of thieving”

(Detective Sergeant Terry Grant, circa 1980 at the Detective Training School Fraud Course)

A Frauditor

Its simplest definition

Me!

“Tickner was a famously zealous financial sleuth”

(Private Eye, issue 1294, 6 August 2011)

(or indeed anyone who has the nose, the experience, the luck and the skill to find frauds inside organisations)

Fraud or Corruption?

What do I mean?

Fraud – dishonest behaviour that intentionally allows the fraudster or a third party to gain financially, or cause a loss to an organisation.

Corruption – dishonest behaviour involving two or more individuals intended to result in a benefit to one or more of the participants or cause a loss to an organisation. This is often – but by no means always – achieved by committing fraud.

Fraud defined in UK Law

– Fraud Act 2006

(came into force in January 2007)

Conceptual in nature, describes behaviour and intent rather than the tools used to achieve the offence

‘Good’ parts of old Theft Acts retained (e.g. False Accounting) but most of relevant Theft Act offences repealed

Seen in conjunction with 2010 Bribery Act (which finally came into force on 1 July 2011)
– also conceptual and replaces old Prevention of Corruption Acts 1889–1916.

Fraud defined in UK Law

Relevant sections of the Fraud Act 2006

Section 2: by false representation

Section 3: by failing to disclose information

Section 4: by abuse of position

(Use of computers, other electronic devices or instruments instead of paper no longer any obstruction to the commission of the offence)

Corruption
– insidious and hard to prove

- Gang infiltration – the need for proper vetting controls on staff appointments
- Staff and the public
- Collusion between contractors (OFT Fines for companies involved in bid-rigging) – but last year’s UK court judgement sends the wrong message!
- Collusion between contractors and staff

Fraud is on the increase in the UK

- Anecdotally fraud has increased since the recession, reflected in 'Big 4' studies
- Fraudsters are targeting public authorities
- Procurement is the biggest risk area
- Staff will be tempted when times are hard
- **Latest estimates in the UK: fraud around £39 billion per annum, just over half of it in the wider public sector**

Tackling Fraud and Corruption when times are hard

Difficult to justify the resources for fraud investigations but it must be done!

Need to rely more on in-house professionals and existing skills in Internal Audit and the like

Inevitable cut back on usage of expensive ‘big four’ forensic services – but plenty of smaller specialist players available if you know where to look!

The benefits of proactive targeting for fraud investigation

Times are hard but please don’t throw the ‘frauditor’ out with the bath water!

- Use your fraud risk analysis to target areas of most risk

- Simple techniques can prove fruitful (e.g. Benford’s Law) to identify fraud, waste and mismanagement

Sources for finding the fraudulent and corrupt

- Referrals from Human Resources
- Line Manager reporting/requesting help
- Informants and anonymous tip-offs
- Analytical Review of Business Systems
- Routine audits
- Fraud Awareness training and seminars
- Internal and external ‘whistle-blowing’
- The National Fraud Initiative

I’ve found a fraud (or it has found me) – what next?

Start with the 6 Ps (Proper Planning Prevents…,etc.)

1. Initial Planning Meeting

   – Key players include:

- person reporting/making the allegation of fraud
- Chief Investigator or Chief Internal Auditor
- The individual who will lead the initial investigation
- Organisation’s internal legal adviser
- Organisation’s internal HR person
- A senior executive (but <u>not</u> the Chief Executive or equivalent)

I've found a fraud (or it has found me) – what next?

Establish the basis of the investigation

2. Sort out the protocols
   - If the organisation has a fraud response plan are you following it? If not, who will do what?
   - But don't forget the need to take urgent action if the fraud is still ongoing!

3. Get your terms of reference for the investigation agreed by senior management

4. Start investigating for the facts – not the rules!

I’ve found a fraud (or it has found me) – what next?

Managing the Investigation

5. Begin with the end in mind

6. Decisions, decisions – and their consequences later on!

7. Getting the balance right between feedback, control and clarity for the investigators.

Understanding and using Intelligence and Evidence

What is Intelligence?

What is Evidence?

How should they be gathered and used?

The role of the analyst on the team

Reporting to Management

1. Once the fraud has been clearly established and you know what you’ve found, prepare an interim report – a short sharp summary with limited supporting evidence and clear recommendations for the next steps.

2. At the end of the investigation produce the full report (and final record) with all relevant documentation and evidence

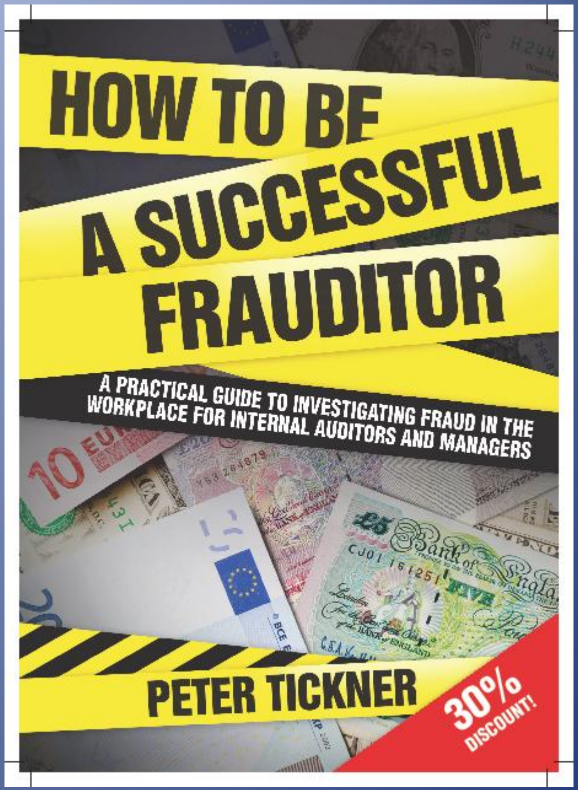
Dealing with the Law

- Civil versus Criminal
- Running cases in parallel
- Use of evidence
- To freeze or not to freeze

Priorities when you find a fraud

- Stop the fraud first!
- Next recover what can be recovered
- Then fix any system weaknesses
- Finally pursue and punish the guilty

The first priority before you find a fraud:



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Due out in Spring 2012: 'The Successful Frauditor's Casebook'

Any Questions?

To Contact me:

Email addresses:

info@peterttickner.co.uk

fraudfinder@themetaudit.freeserve.co.uk

Mobile:
07768 033821

Website: www.peterttickner.co.uk

Peter Tickner Associates Limited
200 Dukes Ride, Crowthorne, Berkshire