

**SFO Presentation  
Audit New Zealand  
Update for Government Departments  
22-23 March 2017**

Today I'm talking about Fraud, Bribery and Corruption and in particular some of what we have learned about detection and prevention in the course of our investigations and prosecutions.

**SLIDE 2**

Does your organisation have a risk of fraud - internal or external - or corruption?

**SLIDE 3**

**Almost certainly**

I would say, almost certainly.

To assist me in illustrating this point I would like to refer to the results of the PWC Global Economic Crime Survey 2016.

This is a biennial survey with the previous survey being conducted in 2014.

PWC also provides results for New Zealand. There was a relatively small sample of 85 respondents from New Zealand.

40% experienced economic crime. To that number you would need to add a percentage for those that aren't aware that they have been victims and those who would prefer not to admit that they were victims.

42% of detections came from a tip-off (up from 37%). 33% were accidental or 'don't know'. (About half each). A grand total of 75% of crime which had not been detected by management controls.

Management controls detection has decreased since 2014 from 56% to 24%. Internal audit (down from 11% to 9%), suspicious transaction reporting (down from 15% to 6%), fraud risk management (down from 11% to 3%), corporate security (down a modest 1%

from 4% to 3%) and rotation of personnel (also down to 3% from 4%) have all lost ground in terms of mechanisms for detecting economic crime.

Perhaps the most important question here is not whether these mechanisms have any value in preventing and detecting fraud and corruption but why they fail. I'll touch on that later.

The bottom line is that money is attractive and many agencies represented here deal with significant sums of money. And significant sums of money are both a temptation and a target.

## **SLIDE 4**

### **And so are 'gifts'**

Gifts are also attractive - it can be hard to draw the line when you have lots of stuff on offer - anything from a free pen to a bottle of wine - to an iPhone.

Overall, our experience in New Zealand of bribery and corruption is low (3% in the PWC report) but bribery and corruption is much higher in our three main trading partners:

China 46%

Australia 28%

USA 14%

So we would be foolish to discount the threat.

Globally, government and state-owned enterprises reported the second highest experience of economic crime (at 44%); second only to financial services (at 48%) in the PWC survey.

## **SLIDE 5**

### **What should you do?**

#### **Tone at the top**

We know that our people are passionate about what they do. They strive to ensure that they provide the best service they can to their customers. In my case, the members of the SFO are passionate about bringing economic criminals to justice. It can sometimes be

assumed that this passion translates in every case into some sort of immunity from economic crime.

And we think long and hard about how we procure services, how we make grants of public funds to individuals and organisations and ensure that we do our best to serve the policy objectives of the government of the day. It can also be assumed that this translates into processes which are protected from economic crime.

Experience and research shows that neither is true. It shows that organisations need to be express about their expectations in relation to honesty, corruption and the use of public money.

And this starts at the top. If you are a CE or a GM, the reality is that many of your staff will not see the long days away from home and family, they will see a travel allowance bonanza, they will not see the preparation and personal time put into attending dinners and other events, they will see perks that they don't have access to. If they see that the CE receives gifts that are retained, they will talk about it and make sure that everyone knows.

CEs and GMs need to be express about their expectations of all staff and demonstrate that they apply those expectations to themselves. Otherwise, why should our staff feel constrained by the rules?

### **Know your risks**

You need to consider where your risks lie. Do you have valuable equipment which is portable (by far the largest type of economic crime in the private sector is asset misappropriation)? Is your agency involved in large scale or ongoing procurements?

### **Have systems in place**

Ensure that you have good systems that provide appropriate controls – for example, authentication of suppliers, cross checks on change of supplier details (eg new bank accounts) and approval and processing of invoices for payment.

I said earlier when I was talking about the dismal rates of detection by controls reported in the PWC survey that the important question was not whether these mechanisms had any value but why they failed.

In many of the cases we see at the SFO, where these controls exist they are not being followed and checks are rarely performed. People become blasé about the processes and 'trust' each other. They share passwords, they sign without checking, they ignore the bypassing of system controls. It is critically important that the systems are enforced, that you remind people about what is required regularly. There is a significant risk that breaches of systems will otherwise come to be seen as appropriate process. Mighty River - procurement limits, disclosure of conflicts. Trust is not a control, it can't be used in the place of your systems to prevent fraud and corruption. This doesn't mean you shouldn't have any trust in your fellow workers, just that trust is not, of itself, a control mechanism or a reason not to follow correct processes.

If the controls are regularly tested and enforced, many prospective fraudsters would think twice about committing fraud.

Treat whistleblowers with respect. Some are undoubtedly compensating for some imagined mistreatment, but you only have to look at history to see that many whistleblowers represent a lost opportunity for employers.

## **SLIDE 7**

### **Unexplained wealth**

There are lots of things you can look for – including circumvention of controls but some of the most obvious are the various ways in which unexplained wealth may become apparent. This is where culture is so important.

This can include the receipt of lavish gifts – lunches, phones, overseas trips.

More generally, a lifestyle at odds with the known level of income should raise questions – expensive and frequent overseas trips, watches etc. Perhaps even paying off a mortgage.

## **SLIDE 8**

### **Keeping it to themselves**

Another general sign of a problem may be employees who keep information to themselves, act unilaterally and look to get around usual procedures.



This would include people who:

- > Have private meetings with contractors or companies looking to tender for contracts
- > have unexplained payments or authorisation of invoices
- > avoid decision processes or delegations
- > raise barriers around roles or departments key to procurement
- > avoid independent checks on processes
- > isolate responsibility to themselves
- > by-pass normal procedures
- > circumvent processes or argue special cases

## **SLIDE 9**

### **Other signs**

Internal fraud is more likely to be committed by someone you trust – and they are generally very competent at their job. Unless it is straight out theft, a person has to be both competent and trusted to have the sort of role which gives the access required to circumvent financial systems. Trust is not a control system.

If someone shows an unusual interest in a particular contract or contractor or a preference for a particular contractor this should trigger a red flag.

People who are committing systemic fraud often don't take time off – they need to be in the office to keep the systems, which hide their fraud, going. They won't want to be seconded to another department or job either, as that would involve another person having access to their work.

Unexpected or illogical decisions on particular contracts should give rise to questions as should missing documents or records (including where documents are simply not created when they should be).

A lack of detail in invoices might also suggest that the invoice is not genuine – for example, ‘consulting’ in the AT case.

**And...**

While I have your attention, there are a couple of other things that I would like to mention.

We often hear that someone is delaying a referral of a matter to the SFO as the employers want to complete employment investigations first. Professional services firms are employed and it is thought that their report, in addition to providing advice on employment issues, will be definitive in terms of whether there has been fraud or not. In reality, this is not always the case. There have often been circumstances where a report provides an insufficient basis for our investigation and this work has to be revisited.

I wouldn't want to give the impression that we have no time for the professional services firms - to the contrary, particularly when we work in partnership with those firms, a lot can be achieved which progresses both the employment side of things and the criminal investigation.

We sometimes hear that there is concern that the subject of the investigation might be on the payroll for years while the investigation and any prosecution are completed. If this is your concern, we would strongly encourage you to come and talk to us.

We can be quite flexible about how we proceed and we have a range of options which can ensure that employment issues can be dealt with expeditiously.

Some employers, both those from the public and private sector, never get to the point of making the referral to us – they just dismiss the perpetrator leaving them free to go on and be another employer's problem.

The public service should not be a place where this happens.

This is not to suggest that all matters have to be prosecuted if they are referred to the SFO or other law enforcement agency. That is not the law and has never been the law. However, a referral allows consideration to be given to this question by the agencies charged with making that decision and this course is perhaps less likely to lead to ongoing offending.

All complaints are welcome. It's not always obvious if a matter is serious or complex. There are a range of factors that we take into account to help us determine whether a matter is one which comes within our jurisdiction. If we think there is an offence but not one which falls within our jurisdiction, we will refer it to the appropriate agency.

**Thank you for listening.**