

How to be a Successful Frauditor

A Practical Guide to Investigating
Fraud in the Workplace for
Internal Auditors and Managers

PETER TICKNER

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Foreword

I first became aware of Peter Tickner when the Metropolitan Police Authority was created in June 2000 to take over responsibility from the Home Office for the budget, scrutiny and oversight of London's Metropolitan Police. I was elected as the first Chair of the MPA and soon found that we had a robust and tenacious chief internal auditor with a somewhat fearsome reputation as Scotland Yard's very own rottweiler. What is more, this attack dog was quick off the mark with a (gleeful) warning to the incoming Authority that the Metropolitan Police didn't have a system for telling whether it had paid a bill more than once and that we should get on with sorting this out.

Peter had already made his mark as Director of Internal Audit at the Metropolitan Police since 1995 where he had been involved in successfully investigating fraud and financial waste by, among others, works and maintenance contractors, IT consultants and police employees. Following the GLA elections in 2004, I stood down as Chair of the MPA, but was re-appointed to the Authority as the Home Secretary's representative. It was then that I joined the Corporate Governance Committee, to which Peter regularly reported. I took over as Chair in 2006 and with that found myself responsible during the next three years for trying to exercise a degree of control over Peter's activities as Director of Internal Audit. As anyone who knows Peter will appreciate, this was no mean task and, perhaps surprisingly for a relatively dry subject, Corporate Governance meetings were often lively. This was in no small degree due to the occasions where Peter would draw attention to matters of financial probity or fraud that had crossed his path since the Committee had last met.

I soon realised, as did fellow members of the Committee, that although Peter was a thorough audit professional he had a particular interest in the frauds and financial waste that came to light in his work. It was therefore no surprise when he announced that on his retirement he would be writing a book about how to investigate staff and contractor fraud.

I am delighted to be asked to write the foreword to this, Peter's first book—and one that focuses on his favourite area of business activity.

Right up until his retirement from the MPA in September 2009 I met regularly with Peter in private session to discuss, inevitably, some of his more sensitive investigations as well as progress with the audit programme. Some of these internal inquiries were very high profile and often ended up featured in national newspapers, with the inevitable pressure that the spotlight brought to bear on progress with his investigations.

I am sure that you will find Peter's professionalism and knowledge of the subject matter will shine through in this book. He has also written it in his own inimitable style—a style that I can confirm he also brought to the Committee table, although sadly the official minutes cannot reflect the wry sense of humour and the enthusiastic presentations when we strayed onto Peter's two-minute 'Mastermind' topic of fraud.

Lord Toby Harris

Preface

I've written this book for anyone who's either found themselves asked to investigate a fraud or has wanted to get involved with a fraud investigation at work but doesn't feel they know enough to go about it successfully. Whether you are an internal or external auditor, trainee investigator or line manager who finds they need to conduct a fraud investigation on behalf of your employer, or indeed just an employee or academic with an interest in the subject matter thinking of taking it further, then this book is intended for you.

The story of my own journey from auditor to 'frauditor' started in December 1971, when I was appointed as a trainee executive officer in the Department of Health's National Health Service Audit Branch.¹ In those days you started working life in NHS Audit straight into 'the field', reporting in my case for a first-day's duties to the Audit Room at a large psychiatric hospital in Kent. We had no permanent office, desk or telephone, as only the appointed Auditor for each NHS region had such luxuries. We were expected to be provided with temporary accommodation at each hospital group where the audit was taking place. Because of this nomadic lifestyle we were inevitably forced to get out and about in the NHS and see what went on in reality—and as such it was an excellent grounding for any auditor or would-be frauditor. We travelled from hospital group to hospital group conducting their external and operational audits, borrowing

¹ Technically the DHSS but Health and Social Security remained entirely separate, each with their own personnel, finance and audit departments, despite the years they were merged together.

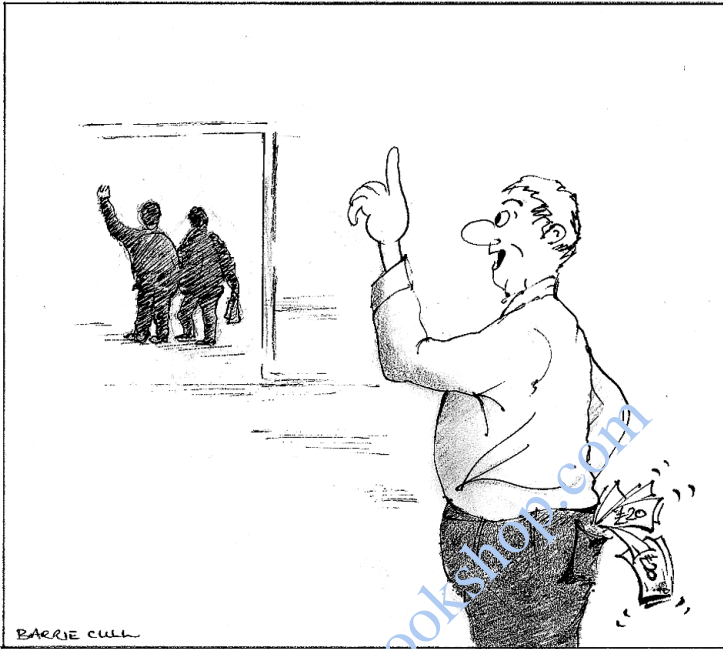
working accommodation and office supplies at each unit where we were auditing.

The first week into the new job, as a 19-year-old and still wet-behind-the-ears trainee NHS auditor, I was sent out with a more experienced colleague to observe the routine weekly 'pocket money' cash payments to the long-stay psychiatric patients at a large hospital in the southeast. I overheard one of the patients, after collecting his weekly cash, turn to the Charge Nurse and say 'Here's your cut, Bill.' The Charge Nurse turned bright red and said to the patient 'For Christ's sake not now, the auditors are here!' I was shocked, genuinely shocked. My more experienced colleague was not. He looked me up and down calmly, only the tiniest hint of sadness mixed with the cynicism borne of the 20 years more of life's twists and turns etched into his face. 'Peter, just think of anything in this world that a human being can do—and they will do it!'² These were wise words indeed and stayed with me throughout my career.

A few weeks after stumbling across the patient's money scam, at our next audit I was sent out with one of the other experienced auditors on the team to conduct a surprise visit and cash-up at the hospital offices. He wasn't so keen to have an inexperienced junior sent out with him and was very clear to me about it on the way to find the hospital cashier's office. 'Do as I say, don't touch anything, don't question anything I say and keep your ***** mouth shut until we have finished. Is that clear?' It certainly was and, considerably affronted, for once in my life I did exactly as I was told, even when behind my colleague's back I noticed the cashier slip a roll of notes into his back pocket before they had been counted. I had been told to keep my '***** mouth shut' so I was absolutely determined that it would stay shut while we were there.

Later, as we were driving away from the hospital in his two-seater sports car, I meekly asked if I could speak now. 'Of course,' came the somewhat irritated reply. I put on my most anxious-to-learn expression. 'Is it normal for the cashier to take a roll of notes out of the safe and put it in their back pocket before we have counted it?' He very nearly swerved off the road and then sharply pulled the car up to an immediate halt. 'What?' he screamed at me, 'why by all the thundering gods didn't you say anything back there about it?' I paused as innocently as I could. 'But you told me to keep my mouth shut until we had finished.' After the frisson that followed,

² Bernard Mensa Boateng, colleague, friend and 'personal tutor' during my 'field' years in NHS Audit, 1971–1978.



"GOODBYE. THANKS FOR THE AUDIT!"

I was, thankfully, given back to the cynical and worldly-wise Bernard to learn the ropes from then on!

What my NHS Audit experience did teach me over the years was that there was a lot of fraud going on out there and most of the bosses I worked for either couldn't see it or our lords and masters were less keen to pursue it than we were. The frauds and scams Bernard and I found being perpetrated on the NHS in the 1970s, long before the NHS Counter-Fraud Service came into being, are still around in modern variants today. It was very much where I cut my teeth, both learning from the experienced and cynical auditor alongside me and also learning by my mistakes, one of the best and most practical ways of becoming a successful frauditor.

After 12 years in NHS Audit I had a five-year spell teaching auditors from all parts of central government before I became Head of Internal Audit at Her Majesty's Treasury. While I was there I managed to keep up my track record by unearthing a few scandals, including sending an undersecretary who'd been in charge of a government agency to prison for fraud.

My track record and lucky timing (they had just had a major fraud!) got me the job that I did for the last 14 years of my career as the Director of

Internal Audit for the Metropolitan Police in London. I had only been there a few weeks when thanks to my usual luck I found myself on the trail of an armed robber who'd slipped under the radar and managed to get his company a works and maintenance contract with the police. Within a year I had so many fraud investigations on the go that my then bosses gave in and let me set up an internal fraud investigation team, headed by a retired detective superintendent who'd done several tours at various ranks in the Fraud Squad. His experience proved invaluable and filled in the blanks in my investigative education.

Eventually the investigative side of my work expanded to a branch headed by an experienced ex-head of internal investigations from HM Customs, nine investigators, a fraud prevention manager and two analysts in support. Over the years we were able to save Scotland Yard and the tax-payer millions of pounds as well as remove fraudulent contractors and staff from the organisation. We were also able to clear innocent people wrongly suspected of wrongdoing (an often forgotten benefit of doing an investigation thoroughly).

In this book I'm trying to pass on to you the accumulated experience of 38 years as an auditor and investigator – a frauditor—covering from the very basics of how you find and deal with cash frauds, through to investigative techniques, dealing with the police, the law, taking civil action, types of fraud that you're likely to come across and understanding the risks of fraud for your organisation. My style is conversational and wherever possible I've tried to give you real cases from my own experience as examples of what can go both right and wrong during fraud investigations and the ways in which you can ensure that you have the best chance of being a successful frauditor.

Do have fun reading this book, that way I can assure you that you will learn much more from it. All the case studies are from real life and there isn't anything in the book that hasn't actually happened.

Writing this book over the months that it has inevitably taken has brought back many fond memories for me of past cases and investigations, as well as painful reminders of times when I got it wrong, experiences that I hope will enable you to learn from my mistakes without finding the need to repeat them yourself, whether you are working on your own, as part of a small unit or as part of a larger team when the call comes to investigate a fraud at work.

Acknowledgements

First, I have to thank Elaine, my wife, who has had to put up with me at home far more frequently than she was expecting, following my decision to retire early and have a change of career. Since then I've written away obsessively, occasionally surfacing from the study to exclaim about some fraud I've remembered—or to give a few well-chosen expletives when a computer failure has just prevented me saving the latest version of the chapter I've been working on.

I must give a special mention to Spencer Pickett, who convinced me that I could and should write this book and then showed me how to get the project off the ground. Also my special thanks to Barrie Cull, former colleague and friend who has kindly provided the excellent cartoons that you will find in this book. And a thank you to Mike Comer, who to my mind wrote the seminal book on fraud investigation and who was generous enough both to encourage me that I could also write a book about fraud and to let me refer to one of his earlier cases.

I am grateful for advice and assistance from former colleagues and friends: in particular, Ken Gort, Assistant Director (Forensic Audit) at the Metropolitan Police Authority, without whose help I'd never have sorted out the structure and some of the investigative content of this book; ex-Detective Chief Superintendent Phil Flower, whose invaluable knowledge of both the law and the police were of great help; retired Fraud Squad Detective Superintendent Russ Allen, for friendship, encouragement and reality checks in equal quantities; Alan Wright, retired police intelligence officer, for his helpful views on the use of analysts and intelligence; Neville Dyckoff OBE, former Head of Catering at the Metropolitan Police, for letting

me take further advantage of his hospitality in using one of his cases from an earlier career; and Catherine Crawford, MPA Chief Executive, for kind comments on my early draft chapters.

I am also grateful for the comments and advice I have had from: Head of the Governance and Counter Fraud Practice Derek Elliot; Alan Bryce and staff in the Counter Fraud Practice of the Audit Commission; Greg Marks and his colleagues at CIPFA; Professor Alan Doig for forbearance and support (I will get back to the PhD one day Alan!); Richard Kusnierz of IDM Ltd—who reviewed the early draft of Chapter 7 and made some helpful suggestions; Alan McDonagh and Caroline Waddicor of Hibis Europe for their support and encouragement; and the Metropolitan Police Authority for permission to reproduce an extract from its 2009 *Fraud Risk Analysis*.

I am bound to have forgotten someone, but others who deserve thanks for their kindness and support when I first started on the journey that led to this book include: Joe Mensah for sticking by me when it really mattered; Steve Hutton for his cheery enjoyment of my bizarre sense of humour; Paul Randall for his friendship, remarkable intelligence and equally remarkable indifference; Julie Norgrove who cleared up behind me at the MPA and seamlessly took over as I approached retirement; Satya Minhas for a decade of loyalty and friendship; Pam Brar for more loyalty and for longer than anyone deserves; likewise Andy Dimon; Irene Lloyd for quiet yet effective support; Colin and Emma Durnford for their friendship and support; Mike S. Robinson for friendship and cynicism in equal measure; Frank Hailstones for sharing the passion; Linda Duncan for her advice and encouragement; Jim Scully and Gareth Oakland for sharing some of the frustrations in one of my longest and toughest investigations.

Last and not least I must thank Minnie, our 12-year-old tabby cat, who has spent many hours beside me when I've been busy on the book, occasionally waving a paw at the keyboard or indicating that she's concerned about what I've just written, but generally sitting patiently by my side and keeping me calm in my more excitable moments.