

# Perception versus reality, it's time to take a closer look...

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## Examples of Poor Control

The few recent public **examples** below would suggest that we do indeed need to sharpen up our governance and control environment.

2018	New Zealand Transport Authority	Fraud
2018	Waikato District Health Board CEO	Fraud
2016	Milford Asset Management	Market manipulation
2016	Victoria University	Fraud
2015	Immigration New Zealand	Bribery & corruption
2014	Dunedin City Council	Fraud
2013	Auckland Transport	Fraud
2013	Auckland District Health Board (ADHB)	Fraud

And let's not forget the RBNZ/FMA recent banking and insurance reviews; is our trust in these organisations who manage our assets or public funds misplaced? Where can we look for assurance and comfort? Who protects the public?

## Issues Raised

The above cases – in particular the Waikato and Auckland District Health Board's and Milford- raised issues that include:

- Too much reliance on internal policies and procedures with insufficient or no checking that these were effective (implemented, followed, reviewed).

- Poor or little reporting to Board / Board committees and no follow-up on initial concerns raised.
- Poor contract management and controls
- Weak control environment – responsibility to review budgets, re-assess delegated authorities and expenditure limits; acceptance of answers provided with little or no evidence in support.
- General arrogance by those in governance and leadership roles with a general lethargy to act when concerns are raised, and the whistle is blown.

## A Case study: Auckland District Health Board

*“A ‘Cocksure and arrogant’ ADHB manager stole taxpayer funds for daughter’s birthday”*

Stephen John Paterson was Commercial Services Manager at the ADHB who controlled millions of dollars in an annual budget and approved invoices for security work, colluded with a security guard to steal thousands of health funds.

He had worked at the ADHB for 21 years, breaking in as an orderly before being exposed by an internal audit investigation triggered by a whistleblower referral. Court documents show a number of fraudulent activities including approving invoices for security work to a company which was set up by the security guard.

Paterson was caught when the ADHB was conducting an internal audit and found the irregularities with invoicing and expenditure approvals.

The Judge in the case described Paterson as “quite cocksure and arrogant”; “He had become reckless as to his need to be diligent and extremely cautious when expending public money,” and “Like many fraudsters he had become over-confident about his position, his ability and entitlement to use this position.”

## Fraud Control

Organisations can reduce the risk of fraud by remembering these salient points.

1. Individuals in governance or leadership roles must be mindful of their role as stewards of the control environment, hold the organisation to account and seek and demand assurance on control effectiveness.
2. Internal auditors need to act with “healthy scepticism”. It is their role to ask questions, challenge and provide assurance.

3. Effective processes must be in place to deal productively with whistleblower calls.
4. Ensure there is transparency of supplier spend when there is limited segregation of duties,
5. Conduct effective independent management review of a contract's operational clauses.
6. Be prepared to invest in professional expertise when warranted (professional investigators, evident reporting to a high standard).
7. Don't underestimate the "red flags" such as:
  - o above norm good news on the results
  - o overly dominant managers
  - o working unnecessary long hours
  - o annual leave not taken
  - o receiving high levels of hospitality
  - o life style change, to name a few.

To conclude, sound governance and strong assurance and risk management functions are basic and fundamental essentials.

Transparency, disclosure and providing quality information are imperatives for creating and building trust between governors, managers, customers and the public.

To quote Steve Rubel – *"Trust is not self-evident – we must make it so"*.