



Fraud detectives – Deceit in the procurement process

Legal consultant of fraud detection company Alchemy Consultants, Nico Theron, explains one of their recent busts, which was the result of an anonymous tip-off.

“The informer reported misconduct in the purchasing process, and a forensic audit was immediately undertaken. It turned out that an employee, who was involved in ordering high volumes of goods, was defrauding the company. The volumes reflected on the orders were twice the quantity required, and only the required goods were delivered.”

Further investigation revealed that the procurement officer was colluding with the supplier. “The supplier was paid for double the amount that was delivered, and the fraudster got a kickback.”

The scheme works like this. If a company needs 50 items of stock, the procurement officer fraudulently fills in an order for 100. The supplier, in collusion with the procurement officer, delivers only 50. The supplier is paid for 100 and splits the excess money with the procurement officer.

Theron stresses that companies need stringent procurement procedures to prevent this kind of fraud. “A request needs to be placed, and a senior person other than the procurement officer needs to sign that request. Once the order has been approved, the procurement officer can go ahead and place it. A third person should sign for the delivery of the goods.”

He points out that to streamline this process, it would be prudent to put good accounting software in place. “SAP is probably the best application, because it tracks the whole process,” he says. “It must not, however, replace physical signed approval from separate people. Most situations involving fraud arise when there is no segregation of duties.”

The company in this example lost approximately R5 million over a year. The paper trail only went back that far, so it is possible that it was more. “Prosecutions are currently under way, and there are likely to be some lengthy jail terms in the pipeline.” **S**

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Nico Theron

Failing businesses are good for the economy



According to a study done by Professor Posen at the University of Michigan it is a good thing for new businesses to enter the market, even if they end up failing. The reason being that the more businesses that enter the market, the more likely it is for the underperforming established businesses to close down. This means that the superior firms are the businesses left standing.

With new businesses comes innovation and efficiency gains, which influences the entire market.

As such the professor believes that new business should be encouraged and given government incentives. •