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PROCUREMENT FRAUD: THE BITTER TRUTH

In many countries, government and large businesses is dependant upon suppliers and contractors to provide various services and products, as a critical support to their operations. Having a reliable and robust procurement system is therefore not only paramount for the organisation's good governance measures and smooth functioning of their internal operations, but indeed it is also the very 'food-chain' upon which many external businesses may depend upon for their own survival.

Needless to say, staying in a larger business' or government's procurement supply chain can become -- certainly for most smaller companies -- a matter of either making ends meet, or not, as the case may be. Clearly then, one assumes that those who remain in the corporate's supply chain, are those who are legitimately providing good services and or products? Moreover that the delivery and pricing of these services and products are above board, where the *rules of engagement* are fairly and transparently applied amongst all those who operate in the corporate's supply chain.

What would happen if the supplier was in cahoots with an insider of the corporate, and both parties could benefit by the same supplier who frequently wins the bids, by manipulating the procurement system and or its information? The response is quite obvious; the same supplier is then unfairly enriched, whilst someone on the inside -- who tweaked the system or undermined the information -- scores another secretive kickback from the devious supplier. Of course, the other suppliers are left in the cold.

Whilst there are varying opinions to the annual growth rate of an organisation's procurement spend, according to the Association of Certified Fraud Examiners (ACFE), a typical organisation may lose up to 6% of its annual revenue to occupational fraud, and much of this is directly related to procurement fraud. As the statistics relating to procurement fraud in South Africa are somewhat vague, there is little consolation for our local companies and their stakeholders especially when one considers that ACFE reported that corporate America had lost a whopping \$600bn in 2004¹ due to fraud.

As far as procurement fraud is concerned - it is an undeniable fact that not only is this white-collar crime perpetrated by mostly 'insiders' of the organisation, but it is also one of those crimes that is the least visible and most costly. There are many reasons why this type of crime can go by undetected. Simply put, it's not expected, neither are the procurement systems adequately protected (or managed) against unscrupulous operators. Gone are the days when thugs had to physically steal goods from a truck in transit to the customer. With the ever increasing and complex era of computing, it really has become a matter of pressing a few buttons, with perhaps a few 'copy', 'clicks', 'drops' or 'drags' on a keyboard.

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Moreover, an unsuspecting organisation transacting with its suppliers, may believe that all the necessary items are in place to facilitate a transaction, and technically everything at face value may appear legit. However various 'tweaks' to the procurement system or alterations made to the accompanying documents by its employees can provide various criminalist opportunities. Defrauding the procurement system could also occur where there is product substitution, cost mischarging, defective pricing, progress payment fraud, bid rigging and so forth.

Hardly surprising, organisations tend not to report procurement fraud, most likely because of the associated poor publicity, as well as the organisation's embarrassment behind what was considered -- and approved -- as a "legitimate transaction". Regrettably, employers tend to settle these matters privately.

1 - 2004 Report to the Nation on Occupational Fraud and Abuse (ACFE)

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