

PROCUREMENT TALK, S8 E5

FRAUD – DON'T BE SILENT

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Welcome to Procurement Talk and this is your host David Byrne.

Procurement Talk is for procurement and business professionals where we provide insights and solutions to your procurement challenges.

Hello and welcome to Procurement Talk. This is your host David Byrne. It's great to be back for another episode. This episode is titled Fraud - Don't be Silent.

There is a saying, "Fraud thrives in Silence". Meaning, fraud is never obvious and is often hidden in plain sight. There are some common warning signs out there and they usually include things like unusual transactions or vendor behaviour, resistance to oversight or audits. I was working in an organisation once, there was really strong resistance to set up an assets register by the IT team. And sure enough, we kept digging and what did we find? We found fraud. The head of IT was buying in monitors and then shipping them off to another state and then selling them. No wonder he didn't want an assets register - there was some real pushback. I asked for an independent investigation anyway that didn't roll but we eventually moved that person on, and that explained the resistance to the oversights or an audit.

Sometimes there's a lack of segregation of duties, or sudden changes in financial patterns These are indicators that often point to deeper control issues. And it's those control issues that are really important in identifying and managing fraud within your organisation. There's some lead people here. Internal auditors can do something. External auditors can do things. But it's important to have strong systems, strong controls, and strong processes. Otherwise, you're going to have a vendor that always wins, or you're going to have a contract that keeps getting extended without competition. There's no transparency and the checks are left wide open. So that's why it's important to have those in place.

Because fraud is a threat that touches every department and prevention is everyone's responsibility, not just management. It's everyone within the organisation, because if the fraud is a significant event, well, it can lead to the downfall of the company and the loss of your job. So it's everyone's responsibility, not just management. And it's not just limited to the finance team or procurement. It can occur anywhere. HR can have ghost employees, payroll manipulation or falsifying credentials. IT can have data breaches, unauthorised access. And of course, procurement, we can have bid rigging, kickbacks, shell vendors. Finance can do embezzlement, false invoicing, misappropriation of funds. The list just goes on and on, but fraud is subtle, but it can have a massive impact on your organisation.

So you need to build a fraud-resistant culture, and that really starts with the right culture, which can be achieved by training staff to recognise and report fraud. Providing anonymous reporting options like whistleblower. We recently had David Morgan on talking about whistleblower and what he's doing - a great podcast if you want to research that one and have a listen. You need to have strong internal controls which enforce checks and balances, and leadership modelling which sets the tone from the top. It's important when an organisation identifies a fraud incident, they don't sweep it under the carpet. They don't call it a HR issue. They don't become silent about it. It's important to bring it out into the open, make sure it's identified, all employees are aware of it, and management correctly manages that issue. It sends a much stronger message to the wider company that the company is serious about fraud. They're willing to deal with it, and they're willing to fix the controls and systems so that it doesn't happen again. Procurement thresholds are a common one where minimum quoting requirements are an easy control. Delegations of authority of approval can go a long way in minimising the risk of fraud.

There are some useful resources out there, global standards on anti-bribery and the ISO for risk management offer frameworks for enterprise-wide reform. So the information's out there, but it continues to happen and it happens week in, week out.

Between 2013 and 2017, there was a couple, at a large Australian bank that submitted inflated invoices and the chief of staff approved them. The money funded a lavish lifestyle of holidays, helicopter rides, a seventy thousand dollar birthday party and, sure enough, what was the end result? Both women were sentenced to jail terms, which was a great thing to do by the bank because it was a right thing to do. They identified an issue, they took their perpetrators to court, and they got jail time. And that's important, that fraud doesn't thrive in silence. You can't have that. So don't be silent if you do identify a fraud. Give it the transparency, and make sure the checks are in place.

Well, there you have it - Fraud, don't be Silent. It's a really important subject and it's something that we're all responsible for.

So all the very best and bye for now.

This concludes this episode of Procurement Talk. Thank you for listening.

Procurement Talk is brought to you by David Byrne and BWD Consulting. We're helping organisations transform procurement. Talk to you again soon. Bye for now.