

Fraud – it's criminal!

Fraud is a crime committed in order to deliberately deceive or damage. In the corporate world, fraud is an undeniable fact of life. It's also on the increase. Business functions at risk of fraud include purchasing, sales, payroll, staff-related claims, banking and inventory.

You can run but you can't hide. Fraud is likely to affect the majority of small- to medium-sized businesses at some stage. Talk to Active Cost Management's consultants about minimising your risk.

**Yours in good business!
The Active Cost Management Team**

Back to basics

Securing and maintaining a competitive edge is a never-ending quest. Many companies usually respond to competitive pressures by doing the simpler, more obvious things such as cutting back output, reducing prices or laying off a few staff. Most companies do not look deeper for solutions or identify functional areas where cost adjustments could be made that could add significantly to its competitiveness and profitability without spending any more. Purchasing is one such major functional area.

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Dealing with fraud risk

What motivates an employee to commit fraud? For some it's greed and lifestyle; for others it's gambling. There are also those who simply enjoy the thrill that comes with committing a crime.

KPMG reported that 47 per cent of the 465 Australian organisations that participated in their Fraud Survey in 2006 had experienced at least one case of fraud during the survey period. The average value of the fraud reached \$714,000 per organisation.

PricewaterhouseCoopers suggests that purchasing and expense-related fraud is probably the most common fraud encountered. Whatever the motivation behind it, it's clear that this procurement fraud is widespread.

The Independent Commission Against Corruption (ICAC) in New South Wales is currently investigating allegations that RailCorp employees acted fraudulently and/or engaged in bribery in relation to the procurement of goods and services.

The ICAC also recently found that a former council officer engaged in corrupt conduct by manipulating procurement procedures during his period of employment with Bankstown and Strathfield Councils. The council officer arranged for a supplier to submit dummy quotes and he also forged quotes.

Acts of fraud are not just restricted to large corporations or governments. The director of a nursing home for ex-psychiatric patients falsified records and used money for his own purposes. An employee of a hardware store ordered timber in the name of a customer and delivered it to a building site where he had a contract. Another employee stole fuel from an employer over a period of four months.

Major forms of procurement fraud include:

- collusion between suppliers and procurement staff to inflate prices
- fake supplies and suppliers
- fraudulent payments for accounts payable.

There is no foolproof method of preventing procurement fraud but it is possible to manage the risk. In doing this, it's important to consider that most procurement fraud is committed by or with the assistance of a staff member, often in the procurement department.

Watch for:

- staff who don't take holidays
- lack of competing quotes on file
- previously unknown firms repeatedly winning bids in competitive areas
- close relationships between staff and suppliers
- unexpected lifestyle changes by staff members
- indications of gambling problems in staff
- excessive procurement costs when benchmarked against other firms
- problems with debtors, and customers claiming non-delivery or inaction on product shortages
- duplicate payments for the same type of products or the same supplier.

Perhaps it's time you invited Active Cost Management to undertake an independent assessment of your company's procurement policies and practices. Your most significant cost after staff is procurement of goods and services. Engage Active Cost Management to ensure you're getting it right.



Back to basics (continued...)

According to McKinsey & Company, some companies need to rethink their purchasing function. In a recent article, McKinsey analysts observed the following: “[...]goods and services can represent 70 per cent of all a company’s costs. Yet many companies treat purchasing as a backwater; pay little attention to securing the best talent for the job; cling to a traditional mind-set that focuses on saving money for specific items rather than on overall costs; and mostly ignore the potentially large role of procurement in implementing strategies, innovating, and improving performance. Top performers, by contrast, view purchasing not only as the commercial conscience of the organisation but also as its competitive eyes and ears.”

When did your company last roll up its sleeves and get back to basics? Call us today for a no-obligation discussion about how Active Cost Management can help your company improve its competitiveness through reviewing your purchasing function.

\$150,000 lost over three years

An Active Cost Management consultant was engaged by a medium-sized business in Canberra to review its advertising expenditures. The client was stunned by what our consultant uncovered.

The consultants revealed that the client had been overcharged by its advertising agency for radio advertising expenditure. The agency had been a trusted advisor, and the deception and fraud was unearthed after the agency was reluctant to supply details of advertising rates and billings from a local radio network. When copies of the original invoices were obtained from the radio station and analysed, it became apparent that significantly overloaded advertising rates, service fees and commissions were being charged.

In addition, the client missed out on retaining major sponsorship rights for

an annual public festival for a third successive year due to the agency missing the nominated deadline for acceptances. The agency claimed it was holding out for a better deal, and it had lied about the actual cost of sponsorship. It turned out the agency also lied about the cost of sponsorship in the two previous years.

The total cost of fraud uncovered by Active Cost Management’s consultant was in excess of \$150,000 over three years.



Snapshot: printing services

- Virtually every company in Australia uses external printing services.
- Printing is a highly fragmented industry: 70 per cent of printers have an annual turnover of less than \$1million.
- Print services are typically purchased on a quick “get two or three quotes” basis, not under more structured contract arrangements.
- Corporate printing is mostly transacted at retail, not wholesale, prices.
- The majority of businesses have used the same printer for more than 10 years.

- Most companies actually pay far too much for printing services by as much as 70 per cent.

Active Cost Management specialists continually reduce printing costs for their clients.

When did your company last thoroughly review its printing expenditure?

Be as cost effective as you can be

Contact us to find out how Active Cost Management’s advisors and consultants can help you reach your cost management goals in: telecoms and data, freight and couriers, office supplies, printing, catering, energy, advertising, packaging, cleaning, waste management, document storage.

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