Why Segregation of Duties Is the Backbone of Fraud Prevention

I have spent over fifteen years working inside corporate purchasing departments, and I can tell you that nothing keeps a procurement manager awake at night quite like the question of who is watching the watcher. The purchasing process is the bloodstream of any organisation - money flows in, supplies flow out, and somewhere in between lies a vast, tempting space for fraud. The most effective guard against that temptation is not a bigger security budget or a fancier software suite. It is a straightforward, old-fashioned principle called segregation of duties.

Segregation of duties means breaking a single process into pieces and assigning each piece to a different person. It sounds simple, and it is. But enforcing it properly takes discipline, especially when headcount is tight and everyone is already stretched thin. I have seen companies with twenty employees try to run a purchasing function with two people. Those are the places where fraud is not a matter of if but when.

The Anatomy of a Fraud-Proof Purchasing Process

Let me walk you through how a typical purchasing process should look when segregation of duties is working well. The first step is the requisition. A department identifies a need - say, fifty boxes of printer toner. Someone fills out a request and sends it to the purchasing team. That person should never be the same person who approves the request. If they are, you have just handed an employee the ability to order anything they want, at any price, and charge it to the company.

The second step is the purchase order. A buyer in the purchasing department creates the order, negotiates with the supplier, and agrees on price and delivery terms. That buyer should not be the same person who approves the purchase order. Why? Because a buyer who can approve their own orders can collude with a supplier to inflate prices, split orders to stay under approval thresholds, or order goods that never arrive. I once investigated a case where a buyer approved her own orders for "office furniture" that turned out to be a hot tub delivered to her home. The company lost thirty thousand dollars before anyone noticed.

Receiving and Payment: Where the Real Risk Lives

The third step is receiving. Someone must physically check that the goods arrived, that they match the purchase order, and that they are in acceptable condition. That person should never be the buyer or the person who approves payment. If they are, fake shipments can be recorded as received, and the company pays for goods it never sees.

The fourth step is invoice processing and payment. The accounts payable team matches the invoice to the purchase order and the receiving report. If all three documents line up, they cut a cheque or initiate a wire transfer. The person who processes the invoice should not be the buyer, the receiver, or the person who approves the payment. I have seen a single accounts payable clerk, trusted and long-tenured, create fake vendor accounts and pay herself for years. The only thing that stopped her was a mandatory vacation, during which her replacement found a stack of invoices for a company that did not exist.

When segregation of duties is applied correctly across these four steps, a single person cannot complete a fraudulent transaction from start to finish. They need a collaborator, and collaboration leaves a trail. That is the whole point. You are not trying to eliminate fraud entirely - that is impossible. You are trying to make fraud so difficult and so risky that a rational person will not attempt it.

Small Teams, Big Challenges

I have worked with small non-profits where the entire finance team is one person. In those cases, perfect segregation of duties is not realistic. You cannot ask a team of two to divide a process into four roles. But you can still apply the principle in creative ways. The executive director, for example, can review and approve all purchase orders above a modest threshold. A board member can review monthly purchasing reports. An external accountant can perform surprise audits of the purchasing log. The idea is to inject independent eyes into the process at unpredictable points.

I have also seen companies try to solve the problem with technology alone. They buy an expensive procurement system that automates approvals and flags anomalies. That helps, but it is not a substitute for human oversight. The person who configures the system can also override it. The person who enters vendor data can create a fake vendor. Technology without segregation of duties is like a lock that the burglar installed himself.

Practical Steps to Strengthen Your Controls

If you are responsible for purchasing in your organisation, here are a few concrete steps you can take this week to improve your segregation of duties:

- Map out your current purchasing process from start to finish. Write down every step and who performs it. Look for any step where the same person appears twice.
- Identify the highest-risk transaction types - those with large dollar values, new vendors, or rush orders. Apply extra scrutiny there. For example, require two approvals for any new vendor setup.

- Rotate duties among team members periodically. A buyer who has handled the same suppliers for five years is harder to audit than one who changes assignments every year.
- Create a simple approval matrix that shows who can approve what, up to which dollar amount. Post it where everyone can see it. Transparency discourages shortcuts.
- Conduct random spot checks on a small sample of transactions each month. Do not announce which ones. The possibility of being caught is often a stronger deterrent than the certainty of punishment.

None of these steps require a huge budget. They require a willingness to admit that trust is not a control. I have never met a fraudster who looked untrustworthy. They are often the most reliable, longest-serving employees in the organisation. That is exactly why their schemes go undetected for years.

When Segregation of Duties Fails

Let me give you a real example from my own files. A mid-sized manufacturer had a purchasing manager who had been with the company for twelve years. He was universally described as "the guy who keeps things running." He handled everything - requisition, purchase order, receiving, and invoice approval. The owner trusted him completely. Over five years, that manager created a shell company, submitted invoices for materials that were never delivered, and pocketed nearly two million dollars. The fraud was discovered only when the manager took a two-week vacation and the temporary replacement could not find any receiving reports for the invoices that had been paid.

The owner told me later that he had considered segregation of duties but decided it would slow down the purchasing process. He was right - it would have added a day or two to each transaction. But a day of delay is a small price to pay for avoiding a two-million-dollar loss. The real cost of weak controls is not the slower process. It is the fraud you never see coming.

Building a Culture of Accountability

Segregation of duties works best when it is understood as a form of protection for everyone involved, not as a sign of distrust. When I train purchasing teams, I frame it this way: we are all human, and humans make mistakes. Sometimes those mistakes are honest - a misplaced decimal point, a forgotten receiving report. Sometimes they are not. Segregation of duties catches both kinds before they become expensive problems. It protects the employee from being tempted, and it protects the company from losing money.

The teams that adopt this mindset tend to have fewer control failures and higher morale. People feel less pressure to be perfect because they know the system has checks that will

catch errors. That is a far healthier environment than one where a single person is expected to be infallible.

Final Thoughts

If you take away one thing from this article, let it be this: segregation of duties is not an administrative nuisance. It is a strategic investment in the integrity of your purchasing process. It costs almost nothing to implement, and it prevents losses that can cripple a business. In my experience, the organisations that take it seriously are the ones that survive and grow. The ones that treat it as optional are the ones that end up with a fraud investigation, a police report, and a very difficult conversation with the board.

Start small if you have to. Pick one high-risk area - vendor setup, for example - and apply the principle there. Once you see how well it works, you will want to apply it everywhere. That is how you build a purchasing operation that is not just efficient but trustworthy.