



Procurement Fraud: Your Hidden Foe

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Biography

Howard Frear has been at the forefront of major trends in the software industry for close to 18 years. He joined EASY Software (www.easysoftware.co.uk) in 2001 and during that time he has been instrumental in developing and overseeing a highly successful strategic partnership with SAP, a relationship that today accounts for more than 50% of EASY UK's software sales. Howard is also credited with many of EASY's largest customer wins including Serco Group, Cable & Wireless and Barclays Capital.

Howard is a very successful and experienced sales and marketing professional and is the driving force behind EASY Software UK's go-to-market and business development strategy. Day-to-day Howard is charged with managing the direct sales force, directing key marketing activities and overseeing strategic partner liaison.

Keywords Procurement fraud, Document Management (DM), Enterprise Content Management (ECM)
Paper type Opinion

Abstract

Procurement fraud is on the increase. It is a major challenge for companies as it is one of the most difficult and complex to investigate, warns the author of this article. But technology, and in particular Enterprise Content Management (ECM) systems are helping CEOs reduce the risks

Introduction

The growth in contract management and the outsourcing of goods and services is pushing up procurement fraud on a global scale, providing yet another headache for CEOs busy bolting down their security strategies.

Procurement fraud is basically any fraud linked to a company purchasing goods, services or commissioning construction projects from third parties.

Fraud can be down to discrepancies in the tender process such as taking a payment under the table to award a contract to a specific supplier or when payments are made for goods and services that were not actually delivered or were not as specified on the order. It can also involve collaborating with suppliers to charge an inflated price and then skimming off and pocketing the difference.

According to Experian, a global information group, procurement fraudsters scam an eye-watering £4,000 a second from the UK economy. This equates to nearly £346 million for every day of the year. This is based on a total procurement fraud of a staggering £127 billion a year in the UK alone.



Analysis

Experian maintains that procurement is now the largest source of fraud in the UK, accounting for almost 66% of total losses every year.

Most companies today are aware of procurement fraud. Big enterprises and public sector organizations generally have solid anti-fraud and governance procedures in place around procurement to deter fraudsters. The real issue is for small to medium companies who may not have cast-iron best practice established, leaving them vulnerable to deceitful people inside and outside the organization.

Technology can be pivotal in the fight against procurement fraud and not just from an Enterprise Content Management perspective. Accura, the data analysis arm of payments giant VocaLink, for example, uses smart back-end analytics and its parent company's massive store of payments data to identify and flag up fraudulent payments before the money is transferred, in much the same way credit card software protects us by spotting irregular activity.

But what you should be focusing on is putting in place best practice contract management disciplines as swiftly as possible. You need to look very carefully at your procurement process. Make a check list. Who is on the approved supplier list? Use IT to check your processes and pull out any rogue invoices or suspicious internal behaviours. What are the rules around invoicing with that core set of suppliers? Can you account for all your funds right now? Are your funds where they should be? These are all essential questions that need answers.

ECM in the fight against procurement fraud

Fraud prevention strategies, technology and security controls can all help in the fight against procurement fraud.

Technology teamed with some of the best practice guidance available from procurement membership organizations like the International Association for Contract and Commercial Management (IACCM) can help build a wall to keep fraudsters out. ECMs, incorporating data records, documents, forms and history, can give companies a 360-degree view of their business estate. Digital invoicing and contracts for example can be easily tagged and tracked.

In contrast, paper-based systems make it almost impossible to establish links between data. It is easy to conceal malpractices when it is impossible to join the dots and find a pattern. The audit trail is often hard to follow and is neither robust nor dependable.

A building sector client we were helping to digitize its finance processes, for example, stumbled on a substantial fraud when it was finally able to start matching delivery notes against physical goods coming in. In the end, £100,000 worth of fraudulent activity came to light, after we scanned all the paperwork and it became clear that items had been claimed for that had not been delivered.

This was only possible to uncover when the systems were automated, making the payment process more visible and transparent both internally and externally. In this case the fraud was eventually pinned against an ordering number disparity.



Specialized ECM technologies enable companies to harvest data and analyze it to highlight any trends that may indicate procurement fraud. ECM systems can provide a three-way match between orders-payments and delivery when Enterprise Resource Planning (ERP) is tied to all of the invoicing processes.

Despite procurement fraud being a growing threat to business, there are still many who have not taken any steps to combatting it. ECM is an effective tool in the fight against procurement fraud, and if you aren't leveraging it now you should be. There is little point in pulling up the drawbridge when your invaders are inside!