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How Harnessing Data Analytics can reduce Procurement Fraud?

While procurement's main objective has and always will be to protect business and support growth through scouring the market for the best rates and products, compiling accurate, historic corporate data to conduct vital due diligence is time consuming, resource-heavy and cost-inefficient. As such, it is often all too easy to miss red flags and fail to properly conduct Know Your Supplier (KYS). In fact, a report released by Crowe LLP, in partnership with Experian and the University of Portsmouth, revealed the **annual cost of procurement fraud is estimated to be £121.4 billion each year**.

Research from PwC estimates that nearly **30% of organizations have been victim of procurement fraud in the last year**. Other industry reports show that **5% of total spend on average could be lost as a result of fraud** – whether internal or external. What's challenging for procurement leaders, is that this fraud could happen anywhere in the process, from bid to delivery of product or services.

As supply chains continue to grow in size and complexity, and increasingly include vendors based in higher-risk countries, the need to carry out deep-dive checks into existing and potential partners grows ever more essential. This is where data analytics can come really into the fore. The ability to analyze in real-time any changes in shareholder structure, country of operations or incorporation can help raise red flags in a timely fashion and so reduce the opportunity for fraud.

Harnessing data analytics will enable professionals to paint a clearer picture of where a potential supplier sits within a group structure. This can be particularly helpful when understanding whether your contract should be held further up the group structure or with the supplier itself. It can also provide clarity on who the suppliers' directors are, and where else they have been or currently are directors. Understanding how those companies trade, whether they are in similar or competing industries, or even in liquidation, will help mitigate against any issues further down the line. Further, analyzing both structured and unstructured data from within the company as well as externally could also help to reduce in-house fraudulent collusion, whether as part of bid rigging, bribery, phantom vendors or split purchases.

Having all the right data is just one half of the battle though. The importance of having the right people who can draw out these insights and then act on them to combat procurement fraud should not be underestimated. Experts in procurement are needed to consider whether there are any systematic problems that have been highlighted by the data that require addressing. Does the organizational structure lend itself to fraudulent cases? Are there any changes that could be made to counteract these issues? Analytics by itself cannot answer these questions nor implement the solutions – but it can point experts in the right direction to implement positive change.

Data analytics has been shown to be significantly more accurate than other fraud prevention methods such as user rights segregation, rotating staff and yearly or ad hoc auditing. Thanks to the automated ability to identify anomalies within the entire procurement supply chain, faster identification of fraud is possible for all companies.

Excerpts Taken From: https://spendmatters.com/uk/how-harnessing-data-analytics-can-reduce-procurement-fraud/