



BARNOWL

## Information Sharing Session

# Managing Procurement Fraud Risk through Continuous Monitoring: A Case Study

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**IS PROCUREMENT  
FRAUD  
SIGNIFICANT?**

*The reality, unfortunately, is that no organisation is immune to fraud and corruption, particularly in its procurement cycles. The reputational and financial consequence is often disastrous.*

*Almost every survey conducted and statistical trend reported indicates that not only is the frequency of procurement fraud and corruption on the increase, but the quantum of losses is becoming significant enough to affect the sustainability of organisations.*

*“Deloitte. – Oct 2014”*

# WHAT IS CONTINUOUS FRAUD MONITORING ?

Continuous – **Without** interruption. Don't send the guard home. Ever.

FRAUD- **intentional** perversion of truth in order to induce another to part with something of value – *Merriam-Webster 2016*

ERROR - an act involving an **unintentional** deviation from truth or accuracy – *Merriam-Webster 2016*

Detection - the action or process of identifying the presence of something **concealed** - *Google*

# Procurement Business Processes

- Purchase Request
- Request for supplier quote
- Supplier quotes received
- Quote Adjudication
- Purchase order
- Goods Received
- Supplier Invoice Received
- Supplier payment

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- Not requested from valid suppliers
- Quote manipulation
- Unfair adjudication
- Unauthorised changes to PO
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# THE BIG QUESTION: WHAT TO MONITOR

All data tables contain the same building blocks

- Key / Unique identifiers
- Text fields
- Numeric fields
- Date fields

Determine what fields are available in your data

Link risk to data and decide what to monitor

## Data Building Block

## Quote manipulation

Key / Unique identifiers

- RFQ number
- Supplier quote number
- Supplier number
- Product code

Text fields

- Supplier name
- Product description

Numeric fields

- Quantity
- Price

Date fields

- Date of RFQ
- Date of quote
- Time of quote

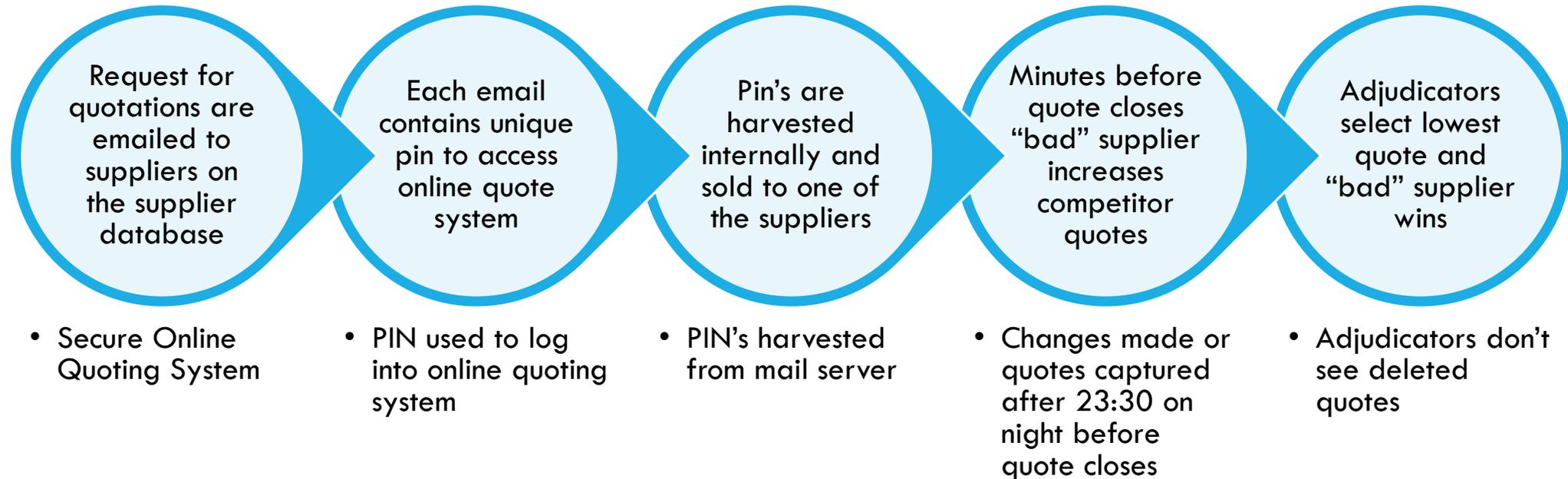
# SETTING THE SCENE

- ✓ Manufacturing industry
- ✓ Concern that supplier quotations are manipulated
- ✓ Potential financial loss due to uneconomical purchasing
- ✓ Evidence based upon rumours and tip offs
- ✓ Internal collaboration suspected
- ✓ Management needs to stop losses
- ✓ Forensic needs tool to support investigations

# CATCHING A THIEF



# SUSPECTED MODUS OPERANDI



# CHARACTERISTICS OF QUOTE TAMPERING (RISK RATING)

1

Quotes captured after 23:30 on night before closure

2

Multiple Quotes captured from same IP address

3

Winning quote higher than any deleted quote

4

Any quote increased by more than 50%

5

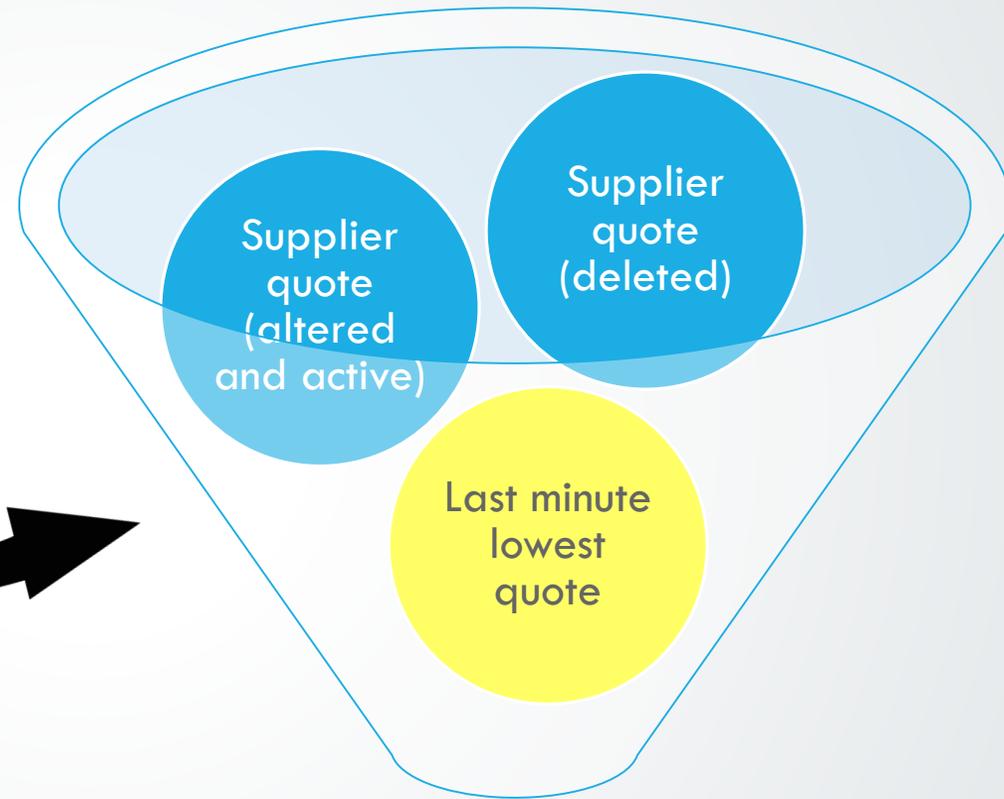
Quote from suspected "BAD" supplier (predictive analytics)

6

Lowest Price for item 50% higher than average 12 months

# MONITOR UNIVERSE- RFQ (NOT QUOTE)

## Data Elements



**HIGH RISK RFQ**



**YOU MUST VISUALISE !!!!!**

Mopani RFO Monitoring

Admin | Drill | KCC AP Data Quality | FACTA Reporting | AP Master Data (KCC, MUM, MOP)

Data refresh date

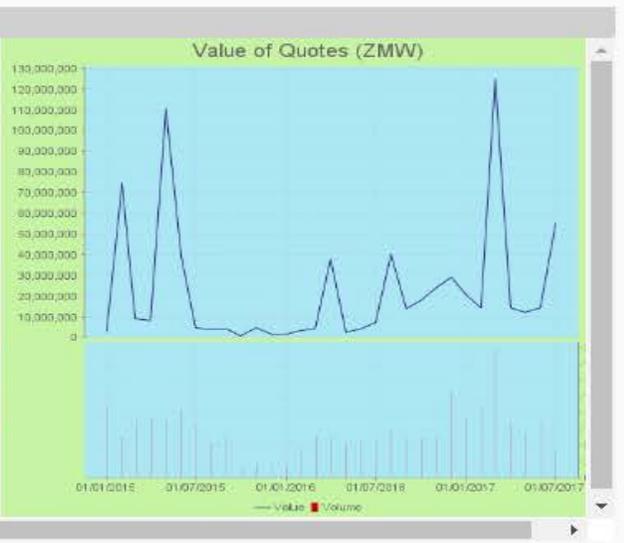
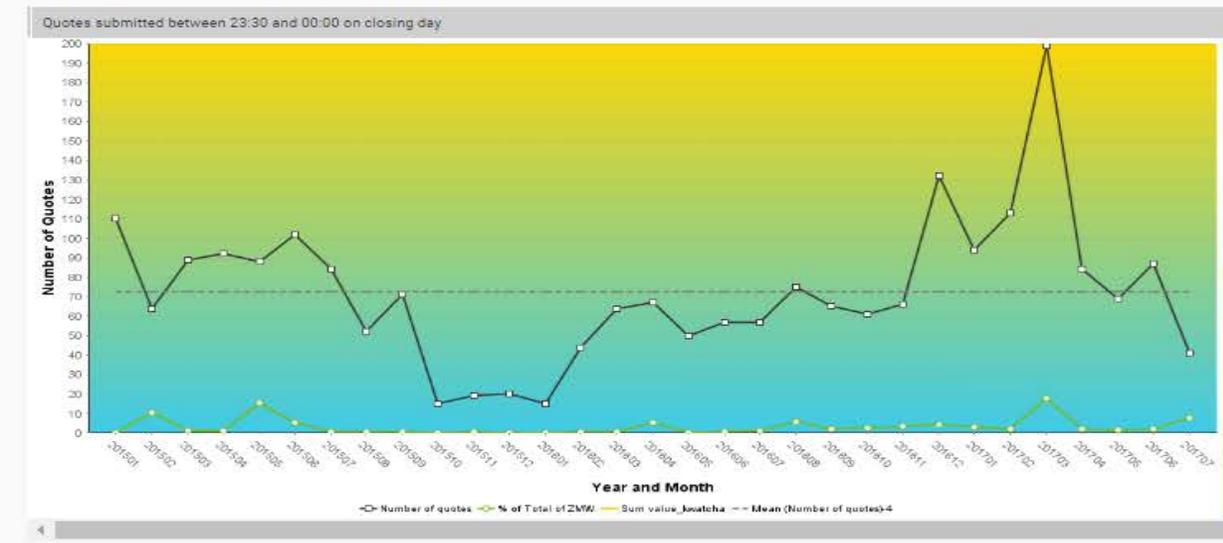
Last data load

25/07/2017 11:40 AM

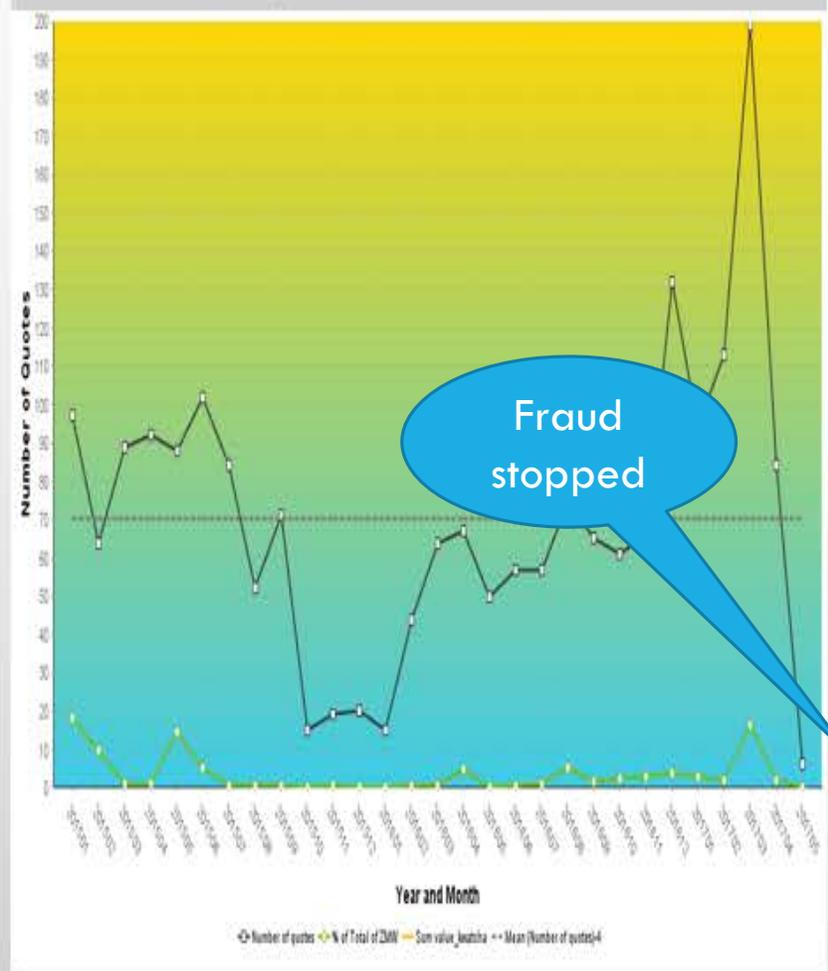
Multiple quotes; last increase more than 20% on closing day v3

Requisition	Supplier	SupplierName	FinalSupplier	Value (ZMW)	Increase	Deleted	QuoteDate	ClosingDate	DESCRIPTION
0001005190	SPE0123	Spekport Limited	BRO0043	33,900.00	0.00	0.00	17/07/2017 14:58	18/07/2017	RUBBER COUPLING BENONI GEARBOX
0001005190	SPE0123	Spekport Limited	BRO0043	52,500.00	0.55	0.00	17/07/2017 15:14	18/07/2017	RUBBER COUPLING BENONI GEARBOX
0001001875	EMC0013	E and M Contractors	WAS0013	116,700.00	0.00	0.00	13/07/2017 21:19	14/07/2017	HEATER HEATER ELEMENT SET MIST
0001001875	EMC0013	E and M Contractors	WAS0013	198,700.00	0.70	0.00	13/07/2017 21:59	14/07/2017	HEATER HEATER ELEMENT SET MIST
0000998056	HYP0013	Hypeb Invest	HYP0013	140.00	0.00	0.00	13/07/2017 13:51	14/07/2017	STANDARD MINITALK SHAFT PHONE
0000998056	HYP0013	Hypeb Invest	HYP0013	140,000.00	999.00	0.00	13/07/2017 13:54	14/07/2017	STANDARD MINITALK SHAFT PHONE
0000994132	VIN0023		FLA0013	106,500.00	0.00	0.00	13/07/2017 23:37	14/07/2017	Remove worn out and corroded I
0000994132	VIN0023		FLA0013	194,540.00	0.83	0.00	13/07/2017 23:48	14/07/2017	Remove worn out and corroded I
0000998370	IGN0013		IGN0013	40,700.00	0.00	0.00	12/07/2017 16:56	13/07/2017	TUBE ASSEMBLY- WATER INLET -
0000998370	IGN0013		IGN0013	62,700.00	0.54	0.00	12/07/2017 22:27	13/07/2017	TUBE ASSEMBLY- WATER INLET -
0000998370	MAS0103		MAS0103	33,000.00	0.00	0.00	11/07/2017 14:22	12/07/2017	Ratchet only 50mm long handle
0000998370	MAS0103		MAS0103	179,100.00	4.43	0.00	11/07/2017 16:38	12/07/2017	Ratchet only 50mm long handle
0000998370	WEL0013	Palmgrove Contractors (Z) Ltd	WEL0013	29,500.00	0.00	0.00	10/07/2017 16:33	11/07/2017	Resusc Anne First Aid Full Ba
0000998370	WEL0013	Palmgrove Contractors (Z) Ltd	WEL0013	44,900.00	0.82	0.00	10/07/2017 16:46	11/07/2017	Resusc Anne First Aid Full Ba
0000998370	MEL0043	Melna Management Services	PRO0221	3,900.00	0.00	0.00	07/07/2017 19:22	08/07/2017	CERTIFIED GEOCHEM BASE METAL R
0000998370	MEL0043	Melna Management Services	PRO0221	24,840.00	5.37	0.00	07/07/2017 20:03	08/07/2017	CERTIFIED GEOCHEM BASE METAL R
0000998370	ELE0023	Electrical Instrumentation Ser	ELE0023	28.64	0.00	0.00	30/06/2017 17:03	01/07/2017	Tag Center - Unfilled (code S1)

1 / 1808



Quotes submitted between 23:30 and 00:00 on closing day



Requisition	Supplier	SupplierName	FinalSupplier	Value (ZMW)	Increase	Deleted	QuoteDate	ClosingDate
0000976744	LCH0013	[Redacted]	KAT0083	190.00	0.00	X	03/05/2017 20:02	04/05/2017
0000976744	LCH0013	[Redacted]	KAT0083	190,000.00	999.00	0.00	03/05/2017 20:11	04/05/2017
0000976395	CUT0013	[Redacted]	WAS0013	38,651.08	0.00	X	02/05/2017 17:41	03/05/2017
0000976395	CUT0013	[Redacted]	WAS0013	76,584.30	0.98	0.00	02/05/2017 17:44	03/05/2017
0000976395	CUT0013	[Redacted]	WAS0013	76,584.30	0.00	0.00	02/05/2017 17:48	03/05/2017
0000973854	MAC0133	[Redacted]	EMC0013	19,321.95	0.00	X	02/05/2017 19:21	03/05/2017
0000973854	MAC0133	[Redacted]	EMC0013	181,359.65	8.39	0.00	02/05/2017 19:25	03/05/2017
0000972558	IGN0013	[Redacted]	EBJ0013	30.00	0.00	0.00	02/05/2017 17:32	03/05/2017
0000972558	IGN0013	[Redacted]	EBJ0013	40,000.00	0.00	0.00	02/05/2017 17:32	03/05/2017
0000970854	PHA0033	[Redacted]	PHA0033	150.00	0.00	0.00	18/04/2017 17:28	21/04/2017
0000970854	PHA0033	[Redacted]	PHA0033	1,500.00	0.00	0.00	18/04/2017 17:32	21/04/2017
0000969021	MAR0313	[Redacted]	MIT0033	0.00	0.00	X	20/04/2017 9:30	21/04/2017
0000969021	MAR0313	[Redacted]	MIT0033	9,000.00	3.74	0.00	20/04/2017 20:04	21/04/2017
0000969021	MAR0313	[Redacted]	MIT0033	2,000.00	-0.78	0.00	20/04/2017 23:54	21/04/2017
0000972273	TRI0103	[Redacted]	TRI0103	21,051.20	0.00	X	18/04/2017 17:00	19/04/2017
0000972273	TRI0103	[Redacted]	TRI0103	54,208.48	1.58	0.00	18/04/2017 17:08	19/04/2017

Forensic working tool

Requisition	QuoteID	Lines	Deleted	Supplier	SupplierName	FinalSupplier	DESCRIPTION	QuoteDate	ClosingDate	Amount
0000946613	216797	1	0	ZEM0013	[Redacted] tments Ltd	ZEM0013	Provide service to Supply, Ins	06/03/2017 17:49	07/03/2017	102,415.00
0000946613	216910	1	0	NEW0013	[Redacted] rprises	ZEM0013	Provide service to Supply, Ins	06/03/2017 22:20	07/03/2017	287,888.96
0000946613	216952	1	X	MET0013	[Redacted] ering Co. Ltd	ZEM0013	Provide service to Supply, Ins	06/03/2017 22:51	07/03/2017	47,108.54
0000946613	217019	1	0	MET0013	[Redacted] ering Co. Ltd	ZEM0013	Provide service to Supply, Ins	06/03/2017 23:55	07/03/2017	950,750.00

# RESULTS

1

Fraud stopped in its tracks

2

Projected excess of R 100m saved during next year

3

Various forensic investigations underway

4

Solution rolled out to 2 additional organisations in group

5

Monitoring across group in progress

# LEARNINGS

Speak to the man on the ground. Slowly 😊

Don't walk away until you understand the man (DO you understand????)

Data building blocks. They're always there!

Golden trends

Keep queries simple. Get there and improve as you go along

Know your user. Little more effort add many more users

Picture tells a 1000 words. Never been more true.

# RISKS OF FAILURE

**INTERRUPTIONS**!!!!!! (So unnecessary)

**WHAT** is hidden. You need to know your risks and your business!! Stay in control; Don't expect IT to do everything!

**EXPECT DISTRACTIONS.** Remember fraud will be concealed. Don't get distracted!

**HOW** to place a spotlight on the concealed (Data blocks!)

Failure to **PLAN MOMENTUM**!!!!!!

QUESTIONS?

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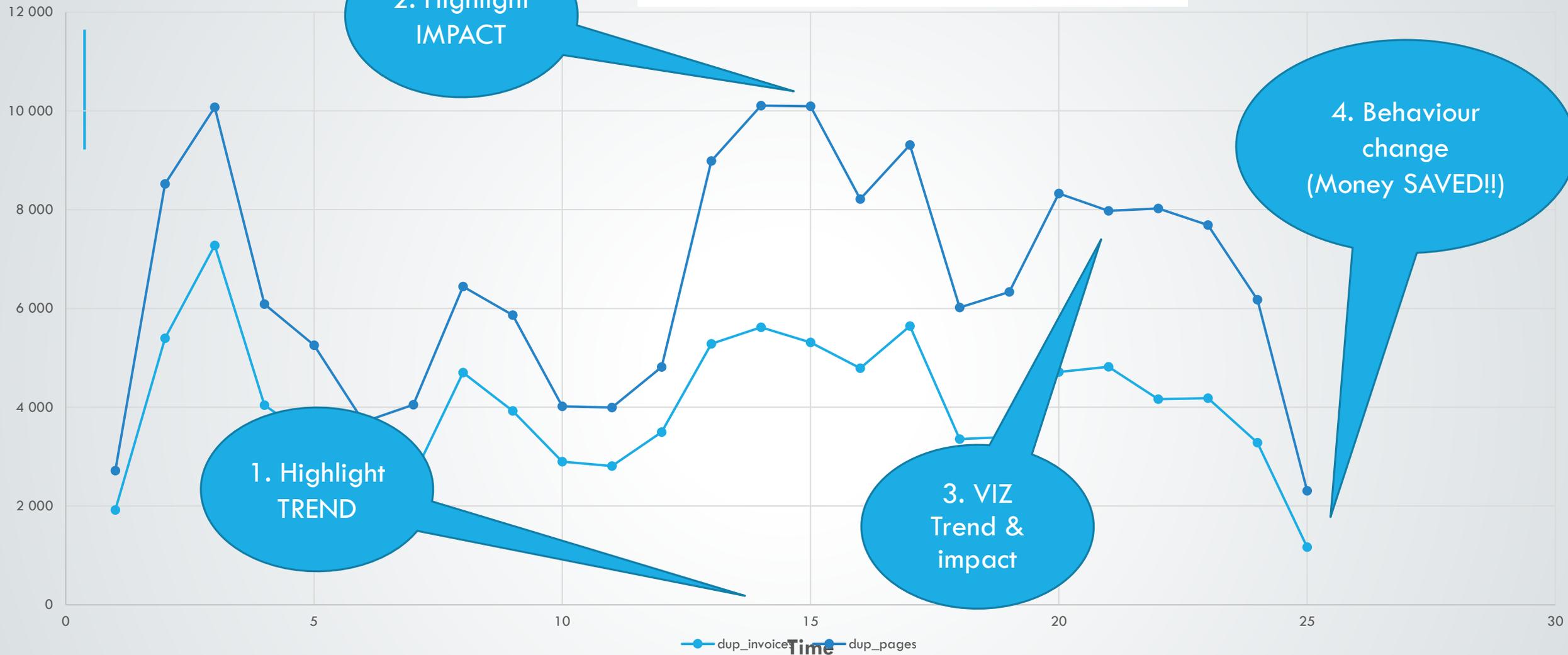
# Typical Procurement Fraud Red Flags

- Poor or non-existent record-keeping
- Higher-price, lower-quality goods
- Excessive entertaining of procurement staff by suppliers
- Deviations in communications between procurement staff and suppliers, such as calls or text messaging to mobile phones
- Procurement staff demanding extended periods of notice before they allow an audit to take place
- Inexperienced buyers dealing with overbearing suppliers
- Buyers not taking leave for extended periods
- “After-hours” transactions
- Matching employee and vendor details
- Short-term changes to employee or supplier accounts
- Inappropriate authority to transact deals
- Conflicts of interest
- EFT transactions conducted without the appropriate approval

# DESIGNING THE SOLUTION

Understand	Understand the risk
Analyse	Perform in-depth data analysis
Describe	Clearly describe the characteristics of the fraud
Map	Map key data elements to fraud characteristics
Design	Design continuous data queries
Implement	Implement concise, interactive, user friendly Visualisation

# INVOICE REPRINTS



Error rate

↑ 84%

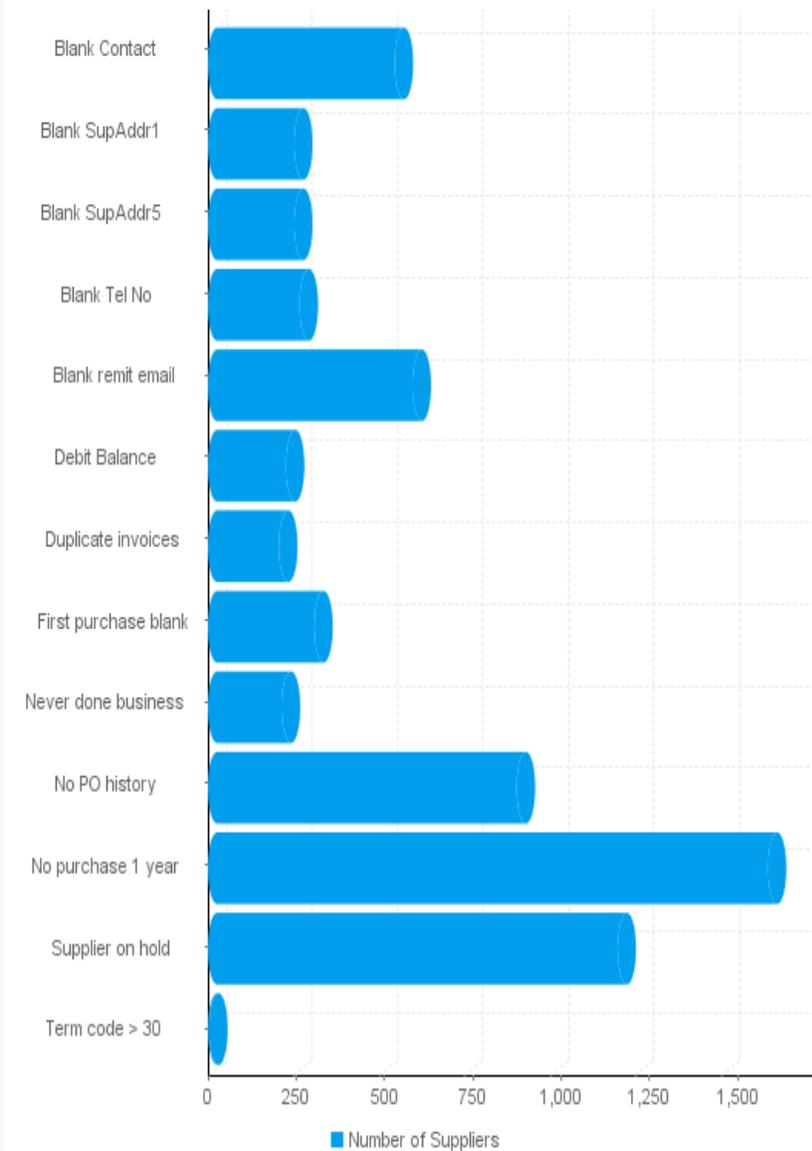
On hold

275  
Average

Target 150



### Company 1



Error rate

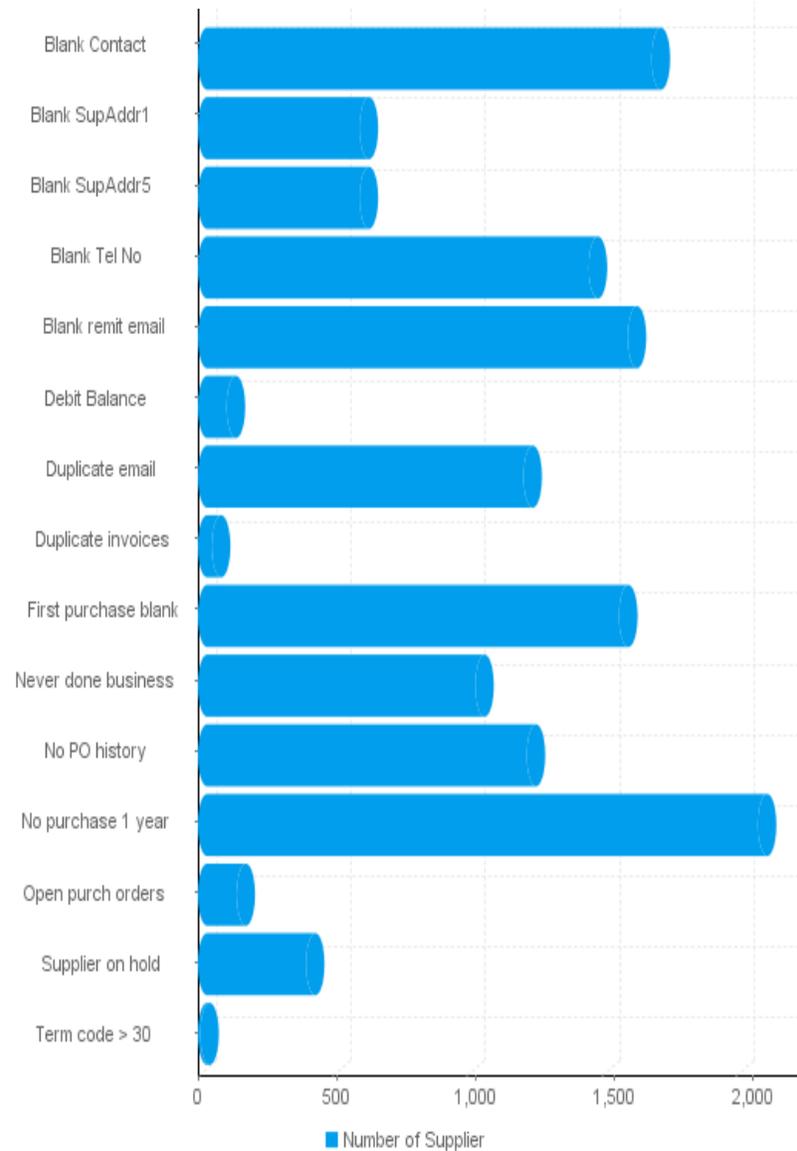
↑ 155%

On hold

# GROUP REPORTING

Average

### Company 2



Error Rate

↑ 1%

On hold

201  
Average

Target 200



### Company 3

