

Reducing wasteful expenditure in the supply chain

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The Auditor General of South Africa defines irregular, fruitless and wasteful expenditure (IFW) as 'expenditure that was made in vain and could have been avoided had reasonable care been taken'. In supply chain, wasteful expenditure occurs when hidden risks, particularly employees with conflicted interests or inappropriate suppliers, fly under the radar, thus enabling the mismanagement/abuse of buying power.

"Conflicted employees play a major role in wasteful expenditure as they often do not act in the best interests of their employer. In many instances, conflict of interest is able to thrive because of unregulated environments," says Rudi Kruger, General Manager of LexisNexis Data Services.

Common conflicts of interest include:

- employee involvement in fraudulent transaction.
- employees holding directorship or co-directorship of an active vendor.
- having direct ownership or shares in a business that the employer does business with.
- offering professional services to the employer's clients in a private capacity.
- accepting gifts, money in exchange for discounts, preferential treatment or goods/service.
- the use of company resources and commodities for personal enrichment.
- abuse of decision-making authority regarding purchases or supplier selection.

Wasteful expenditure can also occur when employees source from the wrong vendors, where transactions involve:

- pass-through schemes or counter bidding.
- fraudulent banking details.
- vendors that are no longer in business or have filed for liquidation.
- vendors that appear listed on restricted supplier databases.
- vendors that operate under another name after being placed on a restricted list.

While organisations can be exposed to the risk and impact of fraudulent activities within their procurement function, there are steps that can be taken to prevent opportunities. The first step, according to Kruger, is to build a comprehensive and up-to-date employee database, which provides a clear picture of the number of employees working for you, their business interests, and any relationships through property ownership, next of kin or business relationships they may have that could compromise your organisation.

Regarding vendors, Kruger also advocated the importance of a comprehensive vendor database as well as vetting to uncover valuable information such as fraudulent activities and judgements against suppliers. "Vet to verify your supplier's business registration status, SARS Vat Number and bank account numbers. Screen vendors against the South African Fraud Prevention Services and the National Treasury database for restricted suppliers and run credit checks," said Kruger. "Once screening and vetting are complete, cross match your employee and vendor databases to highlight any connections that may not have been detected."

Such data is valuable only if reported correctly, which is why results should be presented and analysed from high risk to low risk. "Database reporting can help you monitor the improvement in your risk level and keep track of your team's processing efficiency," said Kruger.

The correct handling and maintenance of these data sets are critical when addressing wasteful expenditure and a solution

like Lexis®ProcureCheck is fully capable of assisting every step of the way.

Leveraging LexisNexis' ability to develop quality information driven systems, Lexis®ProcureCheck uses advanced technology and a matrix of databases to highlight the conflicts of interest that exist in procurement environments. The solution's vetting ability includes access to third party datasets such as CIPC, Deeds Registrar, SAFPS, National Treasury for Restricted Suppliers. It is the first of its kind processing engine that facilitates the cross matching of data every 48 hours ensuring you are informed of conflicts well in advance. Comprehensive reporting comes standard with Lexis®ProcureCheck, and customised reports can be created to suit any business requirement.

For more information, visit <https://www.lexisnexis.co.za/lexisprocurecheck>.

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