

protecting your supply chain from fraud

In times of emergency there is a need to respond quickly but to also ensure continued vigilance against the risks of fraud, bribery and corruption. The information below acts as a reminder of the continuing risks to supply chains posed by fraud and corruption, many of which are exacerbated by emergency circumstances.

Key points:

- If something looks too good to be true it probably is!
- Make sure that you document all decisions
- Not everything needs to be procured urgently – don't be pressurised

Don't forget the good habits you already have

What to look out for

How to protect your organisation

Remain alert to risks of **mandate fraud**.

Fraudsters purport to be from a supplier and request a change to a direct debit, standing order or bank account details to divert payments to themselves.

On receiving a request to change bank details:

- Contact the approved person at the supplier as recorded on your finance system.
- Use the contact details on finance system.
- Do not reply to the email you were sent, use the email on the finance system.
- Use the phone number on the system, not on the invoice or email received.

Guard against **fictitious and unqualified suppliers** by continuing **due diligence** on new suppliers.

Prior to approving a new supplier:

- Obtain Companies House verification.
- Perform VAT registration checks.
- Ensure bank details and registered office are independently verified.

Remain alert to collusion and cartel activity including:

- market sharing
- bid suppression
- price fixing
- provision of fraudulent information.

To guard against collusion:

- Include declarations of non-collusion in tender docs.
- Monitor which suppliers win tenders.
- Ensure fraud reporting mechanisms are in place and publicise these to the supplier.
- Ensure that you document all decisions.

In emergencies increased demand and accelerated timescales increase risk.

Do not forget about conflicts of interest: especially important given the likely increased use of single sourcing and direct awards.

To manage the impact of conflicts of interest:

- No one person should be responsible for procurement decisions.
- Document all decisions.
- Use conflict of interest registers to check known connections.

Purchasing goods, works or services that are not required can be motivated by a **personal connection** to the supplier or in exchange for **kickbacks**.

Look out for:

- Bids tailored to certain suppliers.
- Close relationships between staff and suppliers.
- Ask suppliers to provide conflicts of interest information.
- Check internal conflict of interest registers.

Contract splitting to avoid additional scrutiny can also be motivated by a **personal connection** to the supplier or in exchange for **kickbacks**.

To identify contract splitting/links to suppliers:

- Monitor spend with suppliers.
- Ask suppliers to provide conflicts of interest information.
- Check internal conflict of interest registers.

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Duplicate invoices submitted by suppliers.

To identify and prevent duplicate payments:

- Carry out spend analysis.
- Implement 'no purchase order, no pay' policies.
- Perform spot checks and post-implementation checks.

Inflated claims submitted by suppliers – greater risks given payment in advance, payment on order instead of receipt, and payment by results.

To identify and prevent inflated claims:

- Carry out spend analysis.
- Implement 'no purchase order, no pay' policies.
- Perform spot checks and post-implementation checks when feasible.

Product substitution – low quality goods or services are provided but the charge is for a higher quality product. Could be sub-standard, used, or counterfeit products.

This is a greater risk in an emergency given stretched resources and higher volume procurement.

To identify and prevent product substitution:

- Implement 'no purchase order, no pay' policies.
- Perform spot checks and post-implementation checks when feasible.
- Set up quality monitoring or customer feedback mechanisms where possible.

Fraudulent progress reports submitted by suppliers.

This poses a significant risk where past performance is used to determine future payments.

To guard against the submission of fraudulent information:

- Request information from third parties to reduce reliance on supplier-generated numbers/assurances.
- Carry out spot checks when feasible.
- Request supporting evidence.

Misappropriation of assets through delivering to a home address or fictitious address – by staff or suppliers.

Higher risk with many people working remotely and increased levels of procurement by new suppliers.

To guard against asset misappropriation:

- Notify suppliers of approved delivery addresses.
- Use inventory and asset registers.
- Monitor usage where feasible.
- Monitor purchase card spend.
- Monitor delivery addresses.
- Monitor use of third-party online shopping platforms.

What can you do to protect your organisation?

- Continue to raise awareness of fraud, bribery and corruption risks with your staff, suppliers and contractors – including when onboarding new starters and volunteers.
- Make a clear statement of ‘zero tolerance’ of fraud, bribery and corruption and include details of your fraud reporting mechanism in contracts and communications.
- Continue to conduct due diligence on new suppliers and contractors – including checking against the bank accounts of staff and existing suppliers for any matches, which could indicate payment diversion or fictitious suppliers.
- Continue to conduct due diligence on staff, contractors and volunteers – including verifying any necessary qualifications and that police checks are in place and up to date.
- Implement a robust verification process for bank account change requests, to protect your organisation from mandate fraud and fictitious suppliers used for payment diversion.
- Champion compliance through ‘no purchase order, no pay’ policies, supplier due diligence and up-to-date contract procedure rules.
- Use analysis of spend data to identify off-contract spend or duplicate invoices and monitor aggregate spend for contract splitting.
- Monitor purchase card spend – consider the additional risks as people work remotely, with reduced oversight.
- Continue to keep up-to-date inventory and asset registers and monitor usage levels where possible.
- Support the use and management of conflicts of interest policies and procedures, including registers.
- Make use of open book accounting and right to audit clauses where possible.



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