

# TOP 5

# THREATS TO GOVERNMENT PROCUREMENT INTEGRITY

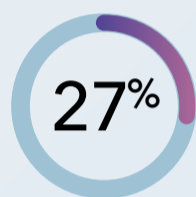
Government procurement teams are responsible for managing billions of pounds of public expenditure, and taxpayers want more transparency on how their money is being spent.



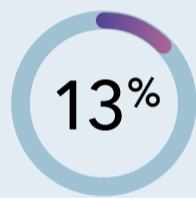
Experts estimate that procurement errors, waste and abuse can cost central government up to **4.7% of procurement spend**.<sup>1</sup> And when government procurement fraud scandals hit the press, the damage to public trust can be severe.

To ensure integrity and prevent losses before they happen, **government procurement** teams must be able to monitor and detect any red flags and anomalies in real time.

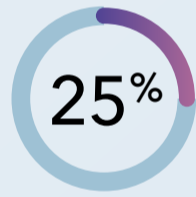
That's difficult because integrity violations can take many forms. **A robust government procurement strategy must be able to detect and mitigate all five of the following threats.**



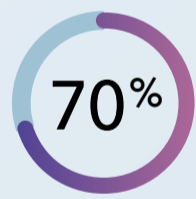
27% of organisations received duplicate invoices from suppliers



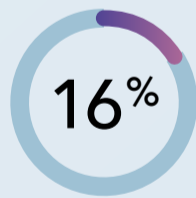
13% had made payments to "ghost vendors" – companies that don't exist.<sup>2</sup>



25% of organisations surveyed have encountered bid rigging



70% higher price charging in some cases identified in work by SAS



16% of organisations surveyed report collusion problems

<sup>1</sup> University of Portsmouth Centre for Counter Fraud Studies, "Annual Fraud Indicator" (2017), p. 16, [https://researchportal.port.ac.uk/portal/en/publications/annual-fraud-indicator-2017/\(f86a88eb-c38b-4754-9790-d16c9b91ca5d\).html](https://researchportal.port.ac.uk/portal/en/publications/annual-fraud-indicator-2017/(f86a88eb-c38b-4754-9790-d16c9b91ca5d).html)

<sup>2</sup> SAS Institute, "Unmasking the Enemy Within" (2019), p. 8, <https://www.sas.com/sas/offers/19/procurement-integrity-research-report.html>

<sup>3</sup> SAS Institute, "Unmasking the Enemy Within" (2019), p. 8, <https://www.sas.com/sas/offers/19/procurement-integrity-research-report.html>

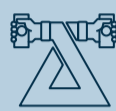
<sup>4</sup> 'A Vision for Competition. Competition Policy towards 2020', Report from the Nordic Competition Authorities <https://www.en.kfst.dk/media/3304/a-vision-for-competition-competition-policy-towards-2020-05032013.pdf>

<sup>5</sup> Millionbøder til virksomheder i byggekartel. State Prosecutor for Serious Economic and International Crime, Denmark <https://anklagemyndigheden.dk/da/millionboeder-til-virksomheder-i-byggekartel>

## 1

### IRREGULAR PAYMENTS

According to a SAS survey, payment irregularities are one of the most common procurement integrity issues: 27% of organisations received duplicate invoices from suppliers, and 13% had made payments to "ghost vendors"—companies that do not exist



In a recent project with a government agency, analysis by SAS revealed a rate of irregular payments **38 times higher** than the procurement team expected.

## 2

### BID RIGGING

25% of organisations have encountered bid rigging, where suppliers conspire to subvert procurement auctions and set prices artificially high.



In Nordics, **severe fraud** found in supplies of power pipes, lab testing services, asphalt.<sup>4</sup> And in 2015, **25 construction companies** were charged for rigging bids.<sup>5</sup>

## 3

### EMPLOYEE COLLUSION

16% of organisations report problems with collusion, ranging from employees sharing confidential information with suppliers, to situations where employees are owners or shareholders of supplier companies.



For one European government client, SAS uncovered links between employees and suppliers that raised question marks over more than **£10 million—nearly 1% of the total spend we analysed.**

## 4

### PROCESS BREACHES

Government organisations expect procurement processes to follow best practices, such as "no PO, no Pay" (no payment without a purchase order) but there are always exceptions. However, if procurement teams don't keep a sharp eye on process compliance, the exception can become the rule and dishonest people exploit control weaknesses.



In one recent engagement with a large government agency, SAS identified **1,500 process breaches** in a one-year period—a significant red flag for potential procurement integrity issues.

## 5

### CONTRACTUAL NON-COMPLIANCE

Carefully negotiating contracts is no good if suppliers can simply ignore or circumvent the terms they've agreed to. Delivering products that don't meet specifications, charging a higher price than the contract stipulates, or even claiming payment for goods that don't exist are all major problems for procurement teams that lack visibility of what has been delivered.



In its work with one government department, SAS detected significant variances in contract compliance—in some cases, prices charged were up to **70% higher** than the agreed contract rates.

## HOW SAS CAN HELP

By applying a combination of business rules, outlier analysis, social network analysis, predictive models, machine learning and neural networks, the solution provides real-time insight and **actionable government analytics** helping to minimise false positives and provide a solid trail of evidence to support forensic investigation and assist in prosecutions.

For general inspiration on use of analytics, AI and more in public sector: [www.sas.com/nordicgovernment](http://www.sas.com/nordicgovernment) or [www.sas.com/nordichealthcare](http://www.sas.com/nordichealthcare)

To learn more about how SAS Continuous Monitoring for Procurement Integrity can help your agency's procurement and audit teams identify errors, avoid waste and prevent abuse, visit [sas.com/nordicpublicprocurement](http://sas.com/nordicpublicprocurement)

