



By Jenny Reid, Managing Director of iFacts

Keeping the bad apples out of your Supply Chain: Why Vendor Verification is critical to Fraud Prevention

The critical importance of selecting and hiring the most suitable employee candidates can never be underestimated in an industry where the success of the business is based on customer satisfaction. In addition, the importance of selecting high-quality and reputable third party vendors and suppliers, should be held in equally high esteem, in an industry where significant financial and reputational aspects are at stake.

A recent global example of third party fraud took place in December 2014 when the US government fined Supreme Group, one of the largest suppliers to US troops in Afghanistan, \$434m for fraudulently overcharging the government for food and water. The Supreme Group pleaded guilty to criminal charges where a number of its subsidiaries had come up with a scheme to fraudulently add to the profits provided in the group's \$8.8bn contract to supply the US military in Afghanistan between 2005 and 2009. The companies fraudulently inflated the prices charged for local market ready goods and bottled water sold to the United States," costing the government an extra \$48m, the government said.

This scenario is by no means unique to the US, and over the years, South Africa has seen its own share of fraud, bribery and corruption cases by suppliers to the Hotel and Restaurant sector. Procuring the services of wide range of suppliers and vendors for some of an establishment's most critical operations does offer some significant opportunities, but also introduces a plethora of additional risks that may not only impact on the businesses' bottom-line but on its reputation in the marketplace as well.

Hotel and Restaurant establishments are responsible for managing the risks involved in supplier relationships and must make provision for a standard policy to remove the risk of theft, fraud, bribery, corruption and poor quality products and services.

Vendor Verification has become standard business practice across the globe. This mechanism manages the way in which businesses procure outsourced products and services. This can include anything from food supplies to stationary, bedding and kitchen equipment. This screening and monitoring process ensures that supplier individuals and companies meet the guidelines of vendor risk management through the collection, auditing and verifying of key information about the supplier, including: Contractor Screening, Vendor Verification, Non-Financial due diligence and Procurement Screening.

According to a study by Deloitte Financial Advisory Services, published in Forbes Magazine in April 2014 there are still a surprising number of company managers who are leaving their supply chains vulnerable to fraud. In the study that polled more than 2600 executives, it was found that less than a third of respondents were deploying the kind of tools that would detect fraud and waste by vendors.

According to the study by Deloitte, vendor fraud takes a number of forms, including collusion between company employees in a procurement role and third party suppliers. It can also include misconduct by the vendor, in the form of falsified labour, inflated invoices and pumped-up expense accounts.

However when it comes to supplier fraud, the key word here is prevention, and prevention is always better the cure. Unscrupulous vendors are far less likely to engage in any misconduct with customers who have a well-known verification policy already implemented. Company leaders in the sector need to ensure that they are keeping the bad apples out of their hotels and restaurants by managing their supplier relationships more proactively from the very start of the procurement process.

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About iFacts:

iFacts removes the people risk so that organisations can go about their business with employees they can trust. iFacts has a range of services that extend into every aspect of proactive and reactive security activity, which a company requires for optimum employee performance, loyalty and integrity. From people risk, ethics and integrity to safety and security and employee wellness, iFacts offers a full range of services to both individuals and employees that will ensure your organisation is achieving optimum performance.

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