



“BS 10501 is a reliable, cost-effective solution that enables organizations to mitigate procurement fraud risk”

David Noble, Chartered Institute of Purchasing and Supply CEO

How a new British Standard could help to dramatically reduce the vast sums of money lost each year as a result of procurement fraud

“Many organizations understand the risk of expenses fraud and take steps to try to prevent it, but often that isn’t the case with procurement fraud, which can be much more costly,” says Paul Guile, Chartered Institute of Purchasing and Supply (CIPS) Global Procurement Fraud Advisor.

“Despite this, many organizations just don’t recognize the risk, while even some that do can often lack effective procurement fraud-prevention measures. All organizations involved in procurement need to be aware of the risks of fraud.”

Best solution

It’s been estimated that procurement fraud could be costing UK public sector organizations as much as £2.3bn a year. Guile adds: “The true extent of private sector losses caused by procurement fraud is tougher to calculate, because many companies don’t publicize instances for fear of reputational damage, but we’re probably talking about a similarly huge amount of money lost each year.”

The CIPS had been working with various organizations for many years to help them mitigate the risk of procurement fraud, but Guile says there was a need for something more widely available. “Creating a consensus British Standard offered the best solution, so we contacted BSI, who welcomed our approach, and soon a national consultation group was set up.”

Fraud controls

It featured stakeholder organizations such as the Serious Fraud Office, the Ministry of Defence, HSBC, BNP Paribas, Chevron, Raytheon, the NHS and Teesside University. “The group brought expertise from organizations operating globally, because the intention was to develop a standard that would be useful for UK-based organizations procuring at home and overseas,” Guile explains.

A draft version of the standard was released for consultation in November 2013, with Guile playing a lead role in its creation. The new procurement fraud control standard, BS 10501, is due to be published in March 2014.

“BS 10501 has been created to raise awareness of the problem of procurement fraud, enable organizations of all sizes and types to identify that it is occurring or has occurred, as well as put in place controls to mitigate risk.

“Recommended controls include ‘segregation of duty’, which simply means giving separate responsibility for raising orders, verifying work completion or supply and payment authorization. Giving one person responsibility for more than one of these tasks increases risk,” says Guile.

Procurement authority

Another recommendation is delegating procurement authority to the right people. “Basically, that means the higher the value of the order, the higher it needs to go for authorization,” explains Guile. “There also needs to be proper due diligence carried out before high-value orders are signed off.

“Such controls can help to mitigate risk and they can be applied to contractors and sub-contractors, not just your own organization. Even if your measures are robust, fraud can occur elsewhere in the chain.”

David Noble, CIPS Chief Executive Officer, summarizes: “BS 10501 is a reliable, cost-effective solution that enables organizations to mitigate procurement fraud risk. It has been designed to work with an organization’s existing processes and it could prove to be an effective way to identify historical and current procurement fraud, while granting better protection going forward.”

To find out more about procurement fraud please visit shop.bsigroup.com/bs10501

bsi.