

CEP Magazine – July 2020

Fight corruption and fraud with data and technology

By Parth Chanda, Esq.

Parth Chanda (pchanda@lextegrity.com) is Founder and CEO of compliance software company Lextegrity, based in New York City. He is the former global anti-corruption lead counsel at Pfizer and Avon and a former white collar litigator at Shearman & Sterling.

Corruption and fraud cost companies dearly, upwards of 5% of annual revenue according to some estimates.^[1] Beyond monetary costs, corruption and fraud damage a company's brand, erode its organizational culture, and hurt the consumers and countries that a company strives to serve and support.

I was the lead global anti-corruption lawyer for several large multinational companies over the course of ten years. For me, ensuring that the compliance programs I ran were truly effective was a constant challenge. In-house compliance professionals face increasingly sophisticated fraud and corruption schemes, escalating regulator expectations, and businesses that are often expanding rapidly into new markets, whether organically or via acquisitions. I felt those pressures constantly as an in-house lawyer, and it was clear to me that my peers at other companies felt the same way.

Fortunately, new technologies now exist that enable compliance teams at companies of any size to implement next-generation controls to prevent and detect corruption and fraud far more effectively than ever before. Those technologies enable more end-to-end controls using data, so corrupt contracts are never signed, corrupt payments are never approved, and potentially problematic transactions are identified and remediated quickly. The need for such technologies has only accelerated with the disruption caused by COVID-19, as compliance teams face pressure to address mounting and varied risks with fewer resources and while working remotely.

Continuous spend monitoring

Corruption and fraud involve transfers of value from a company, directly or indirectly, to an employee in the case of embezzlement or to a government official or customer employee in the case of corruption. As a compliance practitioner for the last 15 years, the most glaring gap in current compliance programs remains, in my opinion, in the effective monitoring of company spend to detect such transfers.

Today, most organizations rely on audit to conduct reviews of spend on a periodic basis in high-risk countries by choosing a sample of transactions. For example, audit might visit a high-risk country once every three years and choose the top ten payments made to a sample of third parties identified as high-risk from the company's third-party due diligence process. The periodic nature of such audits as well as the lack of sophistication in the typical sample selection can mean that suspicious transactions may not be spotted and, if they are, corruption or fraud may have become systemic in the years between the previous and current audits.

The power of data analytics

Companies can replace the typical sample selection process with more sophisticated data analytics. Off-the-shelf software exists for companies to run spend data, from enterprise spend systems to libraries of fraud analytic tests that are typically used by forensic accountants during investigations. An algorithm might apply machine learning to identify statistical anomalies in a certain expense category to reveal invoices that may be fraudulent. Each invoice or expense report may be subjected to several dozen analytical tests running concurrently to provide an aggregate risk score for that invoice or expense.

Software tools exist today that enable companies to implement such cutting-edge data analytics without needing any data scientists or computer programmers on staff. Such tools allow any compliance professional to control those tests, turning them on or off or adjusting their strength level such that the resulting risk scores accurately reflect the unique risks of the company.

Use data analytics for continuous spend monitoring

Once the data analytics algorithm is implemented, software can process all spend from the company systems through that algorithm and escalate certain invoices or expenses to the audit, compliance, or investigations teams for follow-up. Financial systems can be connected to software via existing software connectors/application programming interfaces, or data can be imported through automated extracts with the help of the company's information technology and finance personnel.

While data analytics cannot determine for certain whether a transaction is fraudulent or corrupt, the combination of technology and human intervention by compliance and audit professionals can ensure that risks and issues are being appropriately identified and remediated. Software can also provide those teams with workflows to document the work they have done in responding to the flagged transactions.

Standard operating procedures should be created up front to govern these processes, such as how frequently data will be refreshed, who will control the risk algorithm, and who will follow up on tagged transactions. The software itself can make the monitoring effort fully auditable with metrics and dashboards of the process itself and full audit trails of follow-up and remediation.

By enabling teams to resolve escalated payments within a software system, a fraud analytics tool can apply machine learning to automatically improve the accuracy of the algorithm over time to further target risk.

Use data analytics to break down functional silos

When I was an in-house counsel, one of the most powerful benefits of using data analytics was that it allowed me to break down silos between compliance professionals and other functions. Once financial transactions are all continuously scored for risk, visualizations of data can be created to show the aggregated risk of the payments originating in different countries or the aggregated risk of third parties or employees. These visualizations can be shared with finance, audit, investigations colleagues, and even country-level management to provide 360-degree risk insights based on actual spend data.

Such tools can make the work of other company functions more efficient and data driven. For example, risk ranking and visualizations can help scope investigations and hotline complaints more quickly and zero in on the invoices or expenses that need to be reviewed with minimal effort. In my experience, efficiency gains across multiple functions in the company can also make the return on investment more compelling to management when the annual budget cycle begins.

Enhanced spend approval and due diligence

While data analytics and technology can revolutionize spend monitoring on the back end, similar tools can make front-end spend approval and due diligence processes more effective, such that high-risk transactions are avoided in the first place.

The challenge of process and data silos

It is a common refrain among my in-house peers that processes to manage spend approval and due diligence are often siloed and cumbersome for the business. A company might use multiple separate systems for third-party due diligence, gifts and hospitality, conflicts of interest, and sponsorships and donations that do not communicate with one another and maintain separate data. In such situations, compliance professionals must

operate with siloed risk information—for example, not being able to see how much support a government official has received from the company across employees, activities, and markets.

Such process and data silos are often very frustrating for the business as well, as they need to use multiple systems with different user experiences to support their day-to-day business activities and interact with the compliance function. This can sometimes lead to the business devising creative workarounds or avoiding processes entirely simply because they are clunky and not integrated with other systems—something every compliance professional dreads.

Technology's role in connecting processes and user experiences

Technology can help significantly on the front end. Software can unify front-end approval processes into one platform such that the business only needs to use one central system to seek their spend and due diligence approval. Approval logic can be configured to break down functional silos in workflows to include approvers across functions, such as compliance, legal, finance, procurement, and corporate communications. Once processes are unified, technology can provide holistic risk information across the enterprise, such as the amount of support provided to a specific counterparty (e.g., government official, charity, or third party).

Software tools exist today that can even provide data to approvers during an approval request so that they can understand the risks surrounding their approval. For example, if an approver is approving a gift to a government official, data can be provided to the approver showing whether the number of gifts provided to that government official or by that employee are anomalous. Accessing such data in the spend approval and due diligence process is the most effective first line of defense in avoiding corruption and fraud.

Connectivity with spend systems

Finally, technology can be used to connect preapproval processes with spend systems. For example, preapproval information on a gift can be connected with a travel and expense system, while third-party due diligence results can be connected with a vendor master file in a system. Such connectivity can provide additional payment controls and also allows the back-end spend monitoring tools to better validate whether an employee is seeking to spend more than their approved amount.

Conclusion

To effectively tackle corruption and fraud, today's compliance programs must include the use of data and technology. Unified spend approval processes, integration with spend systems, and continuous spend monitoring can provide end-to-end controls to prevent and detect illicit transfers of money and other benefits.

Fortunately, the future of compliance is already here, as software tools exist today for organizations of any size to implement such end-to-end controls. By using such tools, I believe that all of us as compliance professionals can contribute to a world of ever-diminishing fraud and corruption and greater economic and social progress while protecting the reputations and livelihoods of our companies and our employees globally.

Takeaways

- Legacy compliance approaches are often inadequate to prevent and detect corruption and fraud in multinational organizations.
- State-of-the-art technology can integrate spend approval and due diligence with continuous spend monitoring using data analytics.
- Technology can apply sophisticated data analytics to all enterprise spend in real time to detect high-risk spend more effectively and sooner.

- Technology can break down process, data, and functional silos in the due diligence process to prevent high-risk spend more effectively.
- The future of compliance, driven by sophisticated data and technology, is already here and accessible to every organization using off-the-shelf software tools.

1 Association of Certified Fraud Examiners, *Report to the Nations: 2020 Global Study on Occupational Fraud and Abuse*, accessed May, 15, 2020, <https://go.aws/3cBUP3l>.

This publication is only available to members. To view all documents, please log in or become a member.

[Become a Member Login](#)