

# global experts on procurement fraud

## CIPFA Counter Fraud Centre

**‘Individuals can experience financial loss which can also have a significant emotional cost, especially for vulnerable victims. Private sector businesses suffer the highest levels of loss and can also suffer other impacts like reputational damage. Loss to smaller businesses can even put their future at risk.’**

**Annual Fraud Indicator, Home Office UK, 2013.**

The CIPFA Counter Fraud Centre was launched in 2014 to lead and coordinate the fight against fraud and corruption across local and central government, the health, education and charity sectors.

Headed up Rachael Tiffen, former Deputy Director of the National Fraud Authority, we are committed to helping you:

- **prevent, detect and recover financial loss**
- **protect your organisation’s reputation**
- **develop your team’s counter fraud skills**

This guide focuses on procurement fraud, also known as contract fraud.

Procurement fraud is prevalent across the globe and can pose a significant threat to an organisation’s reputation, potentially its future. By taking certain steps, implementing policies and raising awareness, it can be prevented.



Below is a selection of situations or issues that often lead to procurement fraud together with some of the control measures organisations may wish to introduce to lower the risk of fraud occurring.

## General procurement issues

- Senior staff influencing junior staff involved in a selection process
- Procurement staff being presented with 'done deals'
- Contracts signed by staff who are not authorised
- Bogus supplier
- Sale of confidential information
- Fraudulent use of one time supplier
- Contract awarded prior to specifications being fully agreed
- Manipulation of preferred bidders
- No formal contract in place
- **Diversion of funds**

### Control measures for diversion of funds

There is a risk that a member of staff might divert funds through the set-up of a non-existent supplier or freelancer. Control measures that would reduce the risk of this occurring include:

- A centralised supplier maintenance team that is responsible for creating, validating and reviewing new supplier set-up.
- Purchasing permission levels to raise purchase orders.
- Realistic and manageable financial authority limits.
- Strict controls over authority to set up new suppliers.
- Internal Audit review creditor payments annually with periodic/scheduled validity checks of existing and new suppliers.
- A whistleblowing procedure is in place.

## Issues related to the tender process

During the tender process or when letting a contract, fraud can happen during the pricing stage, to get around formal rules or by seeking special reasons for letting a contract without going through the proper routes. For example:

- Value of contract disaggregated to circumvent EU Regulations
- Inappropriate high value purchase by senior staff member
- Inappropriate use of Single Tender Action (STA)

### Control measures for the tender process

- Use an open tendering process.
- No reworking of tenders allowed unless sufficient evidence can be provided that a genuine mistake was made.
- All evaluation criteria presented prior to tender submissions to maintain fairness and transparency in the procurement process.
- Suppliers have access to debriefs and tender feedback.
- There is no single officer with overall control of supplier selection, tendering and approval.
- Tender registration forms clearly highlight initial bid price. Any post tender negotiation should be carried out in conjunction with procurement team.
- Standing Financial Instructions - formal tenders are sealed in the bidding process.
- All tenders to be treated as confidential and should be retained for inspection.

## Relationships with contractors

Examining contractor relationships may reveal links between staff and contractors. Though these links may not mean fraud has occurred, they may highlight areas where controls or transparency are needed.

- Directors who are members of particular associations (eg golf clubs)
- Members of staff relationships with potential suppliers
- **Conflict of interest/abuse of position**

### Control measures for conflict of interest/abuse of position

It is very hard to detect relationships that are not in the workplace but there are ways to lower the risk, increase the chances of identification and raise awareness of improper behaviour.

- Promote a Whistleblowing Policy and respond with covert or overt investigation.
- Monitor patterns of spending with suppliers.
- Standards of business conduct provided to staff with promotion of gifts and hospitality policy.
- Minute supplier meetings and use standard templates.
- Reporting procedure for staff being put under undue pressure.
- Register of personal/business interests.

## Using agency staff or consultants

As organisations move further into areas where they use more temporary staff or consultants, the risks increase and controls should be put in place to mitigate fraud risks.

- Employment of senior consultants who influence the process to favour themselves or linked interest
- Consultants engaged for extensive periods (in excess of 3 years)
- Consultants leave and join the company that has won the contract
- Contrived tender process
- **Inflated/fraudulent claims by consultants**

### Control measures for inflated/fraudulent claims by consultants

- Independent review of project spend.
- Benchmarking costs with market rates.
- Consultant spend monitored by project lead.
- Countersigned timesheets.
- Expenses require line manager approval.
- Senior officer responsible for authorising and reviewing claims.
- Significant overspends reported to audit committee/board by finance team.
- Responsibility of budget holder approving the invoice to check claims.
- Formal contracts with consultants.

## Post contract and contract management issues

Procurement fraud covers the whole lifespan of a contract, from purchase to pay and that includes post letting. Some of the areas to look for are:

- Contract extended beyond the authorised value and term
- Lack of on-going contract and supplier management
- Inflated costs
- Invoices not monitored
- Lack of monitoring of contracts
- Purchase of goods for personal use
- Manipulation of costs
- **Fraudulent travel costs**

### Control measures for fraudulent travel costs

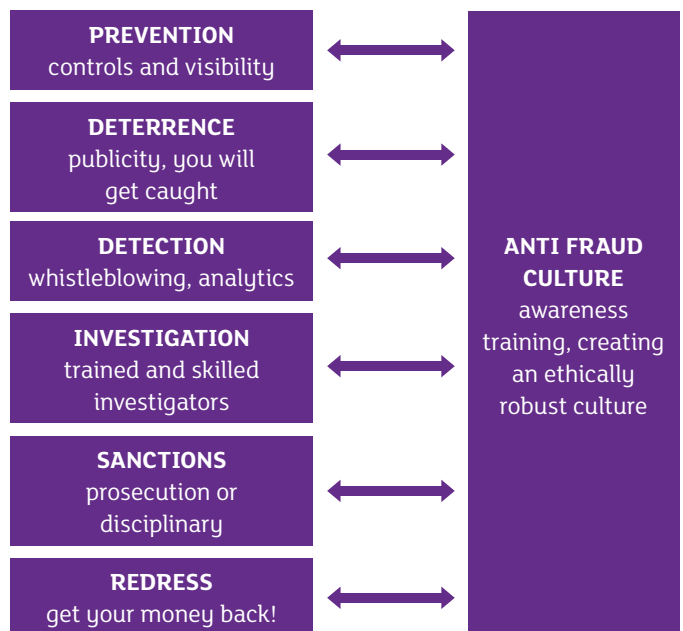
- Regular travel advice spreadsheets produced by procurement team for monthly review.
- Travel via expenses authorised and itemised.
- Expenses independently checked.
- Non-approved suppliers blocked centrally.
- Expenses/business card spend monitored on a monthly basis.
- Strict travel policy covering what can be claimed and by what process. Travel must be authorised in advance by the budget holder (or next manager up if the budget holder is the traveller).
- Checks are performed for any home to base mileage.
- Checks are made if distances or the mileage looks incorrect/over inflated.
- Authoriser/manager to check if the journey was valid and for work business.

## Conclusion

A number of measures can be introduced to reduce the risk of procurement fraud occurring in specific areas. However, steps can also be undertaken across the whole organisation to support all areas of counter fraud activity. These include:

Creating an anti-fraud culture, encouraging whistleblowing and reducing the fear of reprisal, increasing transparency, putting in place proper controls and demonstrating that those controls are checked and that action is taken against those who break the rules or commit a fraud.

The elements of a strong system to tackle fraud across all areas:



This short guide is based on our work with the London Counter Fraud Partnership. To request a full version of the document, please contact [counterfraudcentre@cipfa.org](mailto:counterfraudcentre@cipfa.org).

## How you can get involved

To make sure you benefit from the work that we do:

- sign up to our mailing list by completing a short form at:  
[cipfa.org/contactthecentre](http://cipfa.org/contactthecentre)
- visit: [cipfa.org/fightingfraudlocally](http://cipfa.org/fightingfraudlocally) to register for free access to the Fighting Fraud Locally online resources
- visit: [cipfa.org/counterfraudevents](http://cipfa.org/counterfraudevents) to find out where and when you can next meet the team
- visit: [cipfa.org/joincounterfraud](http://cipfa.org/joincounterfraud) to join the Centre and receive regular newsletters and alerts plus discounts off our qualifications, tools, selected publications and more

### Find out more

For more information on the CIPFA Counter Fraud Centre and how we can help you, please contact:

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