FRAUD PREVENTION GROUP

PROCUREMENT FRAUD THEMES AND CONTROL MEASURES

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1. INTRODUCTION

Fraud can manifest itself in many ways, but the procurement process presents a common risk area across almost all organisations, large or small.

This document has drawn on the experience of a number of organisations seeking to share and disseminate good practice. The Procurement Fraud themes outlined are accompanied by a menu of control measures that may assist in mitigating the risk of such events occurring.

Where there is evidence or suspicion of collusion, then other corrupt practice may feature as part of the fraudulent act. Accordingly, any investigation should be cognisant of the possibility of offences under the Bribery Act 2010.

In seeking to provide another tool in our efforts to deter, detect and minimise the impact of Procurement Fraud, this collection of good practice is commended to you as a dynamic document, enabling new fraud themes to be added, alongside a range of controls.

2. ACKNOWLEDGEMENT

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2   GENERAL PROCUREMENT ISSUES

2.1 Senior staff influencing junior staff involved in a selection process

Control Measures

Single contracted recruitment management service or limited number of approved recruitment agencies for contractor recruitment
Established clear recruitment / tender process with competitive interviews, two or more interviewers, rules on the composition of tender panels, scoring of bids; strict selection criteria against Job description
Training in fair selection procedures for interviewing managers
Board evaluation templates with scoring returned to HR/ Procurement Team therefore open to review with formal feedback to delegates
HR/ Procurement Team involved in recruitment to ensure fairness
Independent member on panel.
All communications provided through HR and/or Procurement.

2.2 Procurement staff being sidelined during initial commercial consultations and subsequently being presented with a 'done deal.'

Control Measures

All contracts subject to competitive tendering process
The Procurement Team appropriately trained and remunerated, providing input and advice during consultation
Contracts require joint technical/commercial appraisal so cannot be presented with 'done deal'
All contract awards to be ratified via Procurement Line Manager/Contracts Board/Committee depending on value
Standard procurement templates/ tools for transparency and consistency

2.3 Contracts signed by member of staff not authorised to do so

Control Measures

All contracts or at set thresholds receive procurement sign-off or other agreed level of authorisation with contract/category manager appointed
Procurement Scheme of Delegation for Contracts sign-off
Formalised process for approval in Procurement Standard Operating Procedures to include fraud / bribery risk assessment
Corporate approval process independent from Business Area.
Finance hold and maintain a register of authorised signatories

2.4 Diversion of funds; the risk that a member of staff diverts funds through the set up of a non-existent Supplier/Freelancer

Control Measures

Centralised vendor maintenance team for creation/reviewing new vendor set-up to ensure segregation of duties with validation of vendor 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 vendors
A whistle blowing procedure is in place.

2.5 Bogus vendor; the risk that an individual authorises the set up of a bogus vendor and raises and authorises a purchase order (excluding One Time Vendor)

Control Measures

Procedures in place to ensure segregation of duties to raise and authorise a requisition e.g.
- o Centralised vendor maintenance team
- o System access controlled segregation of duties
- o Scheme of delegation financial approval limits control

Appropriate financial limits on purchase order authorisation
Local financial review by cost centre
Local and/or central review of vendor list i.e. Internal Audit review annually with periodic / scheduled validity checks of existing and new vendors
Limited permissions in finance and procurement to set up suppliers

2.6 Sale of confidential information; the risk that a member of staff discloses information on bids to other contract bidders

Control Measures

Clear Procurement and Financial procedures and instruction for retention / disclosure tender information with Information Security Policy in place
Procurement are focal point for tendering process at every stage
Central retention / controlled access to bids / commercially sensitive information with audit trail. Formal templates used for supplier debriefs
During a tender all paperwork locked away – clear desk policy
Secure portals for electronic tendering, bids sealed until tender closes
Tendering information limited to selection panel

2.7 Fraudulent use of One Time Vendor; the risk that staff use the One Time Vendor process e.g. cheques sent to a bogus vendor/settlement of personal expenses

Control Measures

Regular review of One-Time Vendors
Purchase Order authorised before payment made (not on receipt of invoice)
Review by cost centre of expenses
No ability for One-time Vendor creation without reference to central Procurement department to establish segregation of duty
All payments authorised according to the Scheme of Delegation / authorised signatory list.
The main control against this is management scrutiny of budget reports
Segregation of duties Accounts Payable set up new vendors for procurement department

2.8 Lack of business interest registers (examples of there being no proper constraints, with no monitoring, which could lead to 'contract creep' where organisation gets further contracts on the back of being awarded previous contracts and thus further checks not done).

Control Measures

Contract monitoring programme.
Contract managers appointed for independent oversight and reporting
Risk registers and issue logs in place
Gifts & Hospitality policy / register
Declaration of interests protocol

2.9 Lack of awareness of risks and issues from all in the process; managers/procurement staff

Control Measures

Awareness training (targeted in certain areas of the business according to activity)
Fraud Control Officers embedded in various locations across the business
Risk registers and issue logs in place and are regularly reviewed/ updated
Regular internal audit reviews which highlight risks and recommendations

2.10 No anti-fraud culture in procurement departments – no due diligence/risk registers

Control Measures

Champions within Procurement charged with educating and monitoring to advance good practice and ensure understanding of fraud risk and control measures
Corporate Procurement Policy in place to reflect fraud risks within processes
All departments maintain risk registers, which are centrally monitored by the Assurance Department or similar
Fraud Management Framework / Policy /Guidelines in place
Bribery Policy /Guidelines in place

2.11 Contract awarded prior to specifications being fully agreed and developed; meaning organisation becomes responsible for additional development and training expenses.

Control Measures

All projects subject to business case including financial spend forecast.
All Contracts Awards subject to scrutiny from Scheme of Delegation approvers to ensure VFM and right solution has been sought
All contracts awarded should be subject to a formal authorisation process, in accordance with the organisations Scheme of Delegation
Training included as part of the contract terms;
Contract specification defined prior to being let;
Ensure there is a contract sponsor who is also member of Senior Management
Contract sponsor should be required to report progress to a committee that is made up of members and senior executives.
Comply with approved tendering procedures.
Procurement Policy – Business case to secure additional resource funding
No contract award may be made for which funding is not identified
In the event that no source of funding (in part or in total) has been identified the Director of Finance must authorise proceeding with the procurement.
All procurement above set limits e.g. £250,000 is subject to completion of a Tollgate document, reviewed and approved by a stringent governance process prior to procurement
Completion of an OJC Gateway Process is required to evidence implementation of recommendations identified at an earlier stage and achievement against set objectives including recommendation on award.

2.12 Manipulation of Preferred Bidders List

Control Measures

Preferred bidders/ short list of sub-contractors should be maintained by a Central Procurement Team.

Preferred bidder list is a control measure bidders having had prior approval

All contracts subject to competition via CompeteFor/OJEU/Framework Award process

Contracts can be let within framework agreements, with an effective selection process. Anything other than an open competition would need justification within an approval process

Standing Financial Instructions and procurement policy in place

Establish evaluation panel

2.13 Sometimes no formal contracts in place despite the organisation paying vendors regularly substantial amounts of money

Control Measures

Standing Financial Instructions in place

Non-compliant spend (spend without contract) monitored on a monthly basis with corrective action plan with Business/Procurement lead

No Purchase Order, No Pay policy

Audit reviews of spend/ contracts

Periodic reviews by Procurement and Internal Audit with a view to identifying large spend 'off contract'

Regular spend analysis undertaken to address spend categories with key stakeholders / budget holders

Category Management structure in place to spend portfolio

Supplier set up is controlled and monitored by Category Management team

3. TENDER PROCESS

3.1 Prices 'reworked' to enable the 'successful' bidder to move up the proposal list following initial bidding

Control Measures

Use open tendering process;

No reworking of tenders allowed unless sufficient evidence can be provided that a genuine mistake was made. (In such circumstances other tenders to be informed)

Partners in outsourced functions required, via contract, to adopt policies of organisation

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

Adequate segregation of duties (i.e. 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

There is a set 'scoring' system for financial and non-financial elements of bids. Any reworking would have to be applied to all tenders

Standing Financial Instructions - Formal tenders are sealed in the bidding process

All tenders to be treated as confidential and should be retained for inspection

All procurement above EU threshold is managed through Corporate Procurement including e-tendering system to ensure fair and transparent process

Clear whistleblowing and independent procedures

3.2 Value of contract disaggregated to circumvent Organisation/EU regulations

Control Measures

Annual (or more frequent) review by query to determine split payments (query parameters based upon risk exposure) whether pan-organisation or by Division/Department

Contract Usage/Spend monitored through monthly compliance reports

Reports on supplier spend by Contract/Department/Organisation

The contract tendering process should be based on the total value of the contract

Effective monitoring of budget adjustments

Procurement involved in process from the outset

Procurement policy implicit that there should be no disaggregation of purchases simply to avoid the application of the EU rules.

3.3 Inappropriate High Value Purchase; the risk that a senior individual makes a large value purchase e.g. £0.5m for an unauthorised purpose in which they approve the vendor account.

Control Measures

Top 100 suppliers high value reviewed by Procurement on a quarterly basis
For urgent payments financial director authority
Standard review of cost centres
No individual with authority over set limit i.e. £25k able to authorise lowering their own threshold
For raising and authorising purchase order sideways authorities removed
Non-approved suppliers blocked centrally
Periodic review of One-Time Vendors
Business case required for new goods/works/services
Segregation of duties in business case approval and procurement process
Separate financial budget approvals
Separate procurement route approval
Audit reviews of high value payments
A whistle blowing procedure is in place
System with financial hierarchy built into approval process so only authorised people can approve this spend
Authorisation limits require anything over a set limit to be signed off by the Chief Executive
Use a purchasing system which prevents requisitioning and approving by the same person

3.4 Inappropriate use of Single Tender Action (STA)

Control Measures

Single Tender Action (STA) only considered in exceptional cases
All STA's require legitimate reasoning and approval
All STA's subject to formalised approval and reporting process through Procurement Services and panel
Central procurement team involved in the tendering process
All tender exercises are conducted according to a corporate procurement policy
All tender waivers are sent to the audit committee and must be approved by relevant Director/Director of Finance.
All single tenders must be signed off by either DoF (under set limit e.g.£250K) or Chief Executive. Also, annual report required to the Audit Committee of all single tenders
All waivers regarding tendering procedures or OJEU Tenders must be reported monthly to Audit Committee.
Mini-tollgates to record and capture all procurement below EU threshold.

4. RELATIONSHIPS WITH CONTRACTORS

4.1 Directors of contract company members of particular associations (e.g. golf society) along with members of staff (Conflict of Interest)

Control Measures

Gifts and hospitality register circulated/published
Conflicts of Interests recorded at contract sourcing stage
All contracts above £1m scrutinised by Corporate Boards
Declarations of interest form signed by all involved in the process.
Undeclared interests that subsequently come to light should be treated as a breach of contract and a disciplinary offence
A whistle blowing policy communicated to all staff
Register of interests held centrally.
Conflict of interest policy and procedure

4.2 Members of staff forming too close a relationship with potential suppliers

Control Measures

Promote Whistleblowing Policy and respond with covert or overt investigation
Monitor pattern or spending with suppliers
Overt promotion of concerns in this area without being specific
Standards of Business Conduct provided to staff with promotion of gifts and hospitality policy
Minuted suppliers meetings including templates
Reporting procedure for staff being put under undue pressure
Register of personal/business interests

4.3 Conflict of interest/abuse of position; the risk that a contract is unfairly awarded to a company/supplier on the basis of personal acquaintance.

Control Measures

Joint/team decision to award for formal tenders (if managed centrally) i.e. no contract one person's authority

Tendering overseen by Procurement department

Purchase orders over set limits i.e. £50k reviewed each week

Independent oversight of supplier set up by Procurement

Set authority levels throughout the organisation

Established Preferred Supplier list

One-Time Vendors require set up by Procurement centrally

Index of fixed-price suppliers (catalogue)

Declaration of Personal Interest documents to be recorded subject of a review schedule

All contracts subject to competitive tendering process

Separate independent technical / commercial evaluations

Staff being subjected to pressure, escalation procedure via Procurement team

Periodic review of one-time vendors

Compliance with use of standard procurement templates/tools

Standards of Business Conduct / disclosure of interests / whistleblowing / value for money requirements

Pre-qualifications questionnaire for formal tenders over 50k

5 USE OF CONSULTANTS

5.1 Organisations employed senior consultants who could then affect established procurement procedures

Control Measures

All material changes to procurement standard operating processes subject to approval from the Director of Procurement Services prior to change.
Compliance with organisation contract regulations / procedures
Compliance with scheme of delegation for contract commencement/short-listing/awards/signature
Recruitment to engage on limited 'temporary' basis i.e. no more than 12 months
Vetting of consultants prior to appointment to establish what went well in their previous engagement as a consultant and establish any major changes that were subsequently reversed from their previous engagements. (NOTE: This information should also be established from previous employers); and
Ensuring that consultants report directly to a senior officer/executive within the procurement section who may also be the project sponsor
Declaration of Interest forms completed at Project Initiation
Decisions on high value procurement is subject to a gateway process and Procurement board approval

5.2 Consultants 'project hopping'; possibly involving nepotism, 'old boys' network

Control Measures

All requirements for staff resources and subsequent recommended appointments to be approved by an independent panel.
A consultant should only be employed where there is a clear business need with approval and sign off
Robust recruitment and vetting procedures;
Establish whether there are any patterns whereby the same consultants appear to always work together on projects
Required to sign a declaration, which includes identifying any previous projects worked on with consultants currently on the project
Restrictions on contractors as interim staff filling a permanently established post
Initial formal consultancy contract template

5.3 Consultants engaged for extensive periods (in excess of 3 years) in specialist and senior positions, making them effectively indispensible and in a position to recruit other consultants

Control Measures

Consultants only engaged for short periods (no longer than 12 months). All additional periods need approval

Adequate succession planning built in as part of the service continuity planning process;

Recruitment of consultants by other consultants should always be conducted in conjunction with officers from HR who also engage in the selection panel

Clear reporting lines (consultants in senior positions should always be required to report to a senior executive)

Any 'consultants' in management positions should be held against an established post. Their departmental manager (often director level for the most senior consultants) would have to account for any resulting adverse variance against their budget. In terms of hiring and firing, they are subject to the same disclosure of interest rules

Appointed via Corp Temp/Agency contract to provide visibility

Independent review (audit) of consultant staff and reported to committee/panel

5.4 Consultants being re-deployed - Contrived Tender Process.

Control Measures

All contract awards subject to approval in line with the scheme of delegation and VFM, competence against the evaluation criteria

Specification/evaluation criteria drawn up so that more than one consultant is capable of being the successful bidder

Procurement input into tender evaluation process

Requirement either for a minimum number of tenders, according to the estimated value of the contract, or a single tender/less than the required number of tenders authorisation

All new posts in need of panel approval

No re-deployment rights for consultants

Where tendering is necessary, an organisations standard tendering procedures should be applied

Use Formal Consultancy Contract Template as part of the initial process

Appointment of temporary consultants is subject to approval by appropriate Board

All temp staff including interim project staff procured via a Corporate Temporary Agency contract

Competitive tender process is subject to procurement procedures and sign off via appropriate Category Manager.

5.5 Inflated/fraudulent claims by Consultants

Control Measures

Independent review of project spend
Benchmarking with the market, costs in line with market rates, either ad hoc or as scheduled review
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 Committee by finance team
Adequate monitoring of budget adjustments (i.e. virements)
Responsibility of budget holder approving the invoice to check claims
Formal contracts with consultants

6 POST CONTRACT AND CONTRACT MANAGEMENT ISSUES

6.1 Contract being extended beyond the authorised value and term thus making it non-compliant

Control Measures

Contract managers in place with authority to question and escalate
Contract Usage/Spend monitored through monthly compliance reports
Standard operating procedures for granting contract extensions/variations
Contracts Manager escalates for appropriate action
Contract sponsor should be required to report progress to a committee that is made up of members and senior executives;
Significant overspends reported to Committee by finance team;
Adequate monitoring of budget adjustments (i.e. virements)
A formal process is in place to authorise significant budget virements.
Individual purchase orders being raised for contract would highlight once the authorised value had been exceeded. This would trigger another approval process.
This should become apparent through contract management (see earlier), either by responsible department or Procurement.
Standing Financial Instructions and contract register in place

6.2 Lack of on-going contract and supplier management

Control Measures

Freelance unit manage Temp/Consultants via managed Contract framework

Contract Management toolkit developed for Contract Managers

Regular suppliers meetings to maintain performance against KPI's

Formal contract meetings are held on a regular basis with the supplier

Performance against contract specifications should be evidence based or subject to compliance checks by contract management;

Contract performance is reported to Senior Management/ Contract Board

Annual contract review meetings are held

Fully staffed strategic procurement department

6.3 Inflated costs; the risk that a contractor/supplier overcharges or invoices for inflated time spent on a job

Control Measures

For some suppliers a framework contract or other agreement in place to include rates i.e. fixed priced catalogue

Higher value spend have contract managers to review invoices in detail

Purchase orders matched to invoice with a tolerance limit for difference in cost (lower of 10% or £200)

Improper behaviour by supplier – Procurement block vendor on system Blockage can only be removed by Procurement

All payments to contractors that are dependant on the time spent should be supported by a timesheets which have been authorised by an authorised officer

Benchmarks costs against framework rates/catalogues

High value invoices monitored by Finance/Procurement

Contract in place with supplier including schedule/rates

System controls for price discrepancies between invoices and purchase orders

Responsibility of budget approver/responsible line manager to check

Possibility of benchmarking hourly rates against national frameworks

Authorisation process. Budgetary control

Accounts payable challenge all invoices above a pre agreed variance threshold

6.4 Invoices not monitored and no supporting documentation

Control Measures

Invoices paid to properly authorised vendor accounts on computer system.
Full visibility of payments and access to invoices for audit and inspection.
Requisition to Pay System ensures invoices without a Purchase Order cannot be paid.
A budget monitoring system is in place
Electronic invoice management system in use
Invoices and supporting evidence is retained and accessible as an audit trail of the transaction
All invoices properly authorised – authoriser will require appropriate supporting documentation

6.5 Lack of Monitoring of contracts due to staff shortages

Control Measures

Allocated Contracts Manager for contracts including procurement/business lead on internal form
Category specific procurement structure
Budget allocation/ reviews takes into account key areas of risk
Resources allocated to key contract specifications
Level of contract monitoring specified on value/risk of contract

6.6 Purchase of goods for personal use

Control Measures

POs raised, authorised and subsequently matched to invoice (segregation of duties)
Financial management information produced by exception for analysis
Goods can only be delivered to an address predetermined in the system
Single point of purchase for IT.
Asset register for certain goods (especially IT)
Segregation of duties built into systems
Business case required for new goods/works/services
Separate financial budget/procurement route approvals
Non-approved suppliers blocked centrally
Periodic review of one-time vendors
Without evidence of receipt, the invoice will not be paid
Audit reviews of high value payments
Purchase to Pay system - senior line manager must approve orders
A whistle blowing procedure is in place

6.7 Fraudulent travel costs; the risk that an individual books travel through the organisation/separately for personal use paid for by the organisation

Control Measures

PIN required for transport bookings by agents
Separate PIN for each cost centre
Regular travel advice spreadsheets produced by Procurement for review monthly
Agency reports also available for review against internal systems
Exception reports to financial directors and controllers monthly
Travel via expenses authorised and itemised
Expenses independently checked
Non-approved suppliers blocked centrally
Periodic review of One-Time Vendors
All travel expenditure must be completed via travel application and authority form which requires both approval from the individuals line manager and counter approved by the travel services section
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

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6.8 Manipulation of costs; the risk that management record bogus discounts/rebates to suppress procurement spend in their area

Control Measures

Limited number of financial people can make annual journal entries system
Independent authorisers within Finance can raise and authorise
Report every month to the financial controller showing the level of journals at each month's end
Review of budget versus actual full management accounts
Year end audit
System controls for price discrepancies between invoices and purchase orders
Discounts visible on general ledger accounts and traceable to invoice posting
A reporting module highlighting all areas of spend which allows viewing individual invoices for further clarification