

Procurement Fraud and Corruption

PRESENTED BY

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Procurement fraud



Definitions

aud

raud is generally defined in the law as an <u>intentional misrepresentation</u> of a <u>aterial existing fact</u> made by one person to another <u>with knowledge of its falsity</u> and for the purpose of inducing the other person to act, and upon which the other person relies with resulting injury or damage.

aud may also be made by <u>an omission or purposeful failure</u> to <u>state material fact</u> hich nondisclosure makes other statements misleading.

ocurement

ocurement refers to those processes, procedures and entities involved in the archase of goods and services by public and private entities.

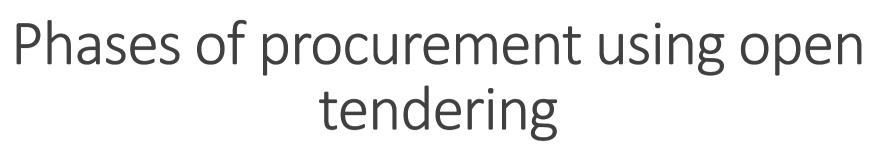


Procurement methods as per PPDA of 2005

- Section 73 Restricted Tendering
- Section 74 Direct procurement
- Section 76 request for proposal
- Section 88 Request for quotations
- Section 92 specially permitted procurement procedure.



Phases in the procurement process





- Procurement process that employ competitive bidding can be reduced to four phases;
- 1. Presolicitation phase
- 2. Solicitation phase
- 3. Bid evaluation and award phase
- 4. Post-award and administration phase



Presolicitation phase - frauds

- Need recognition
- Bid tailoring
 - Narrow specifications
 - Broad specifications
 - Vague specifications
- 3. Bid splitting
- 4. Unjustified method of procurement
- 5. Change order abuse



Solicitation phase-frauds

Bid manipulation

Leaking bid data

Collusion among contractors

- Complementary bids
- Bid rotation
- Bid suppression
- Market division

Defective pricing schemes

Inflating costs



Bid evaluation and award - frauds

Bid manipulation Leaking data Compromising evaluators



Post-award and administration phase

- .Non conforming goods or services
- .Change order abuse
- .Cost mischarging
- Accounting mischarges
- Labour cost mischarges
- Material mischarges



Categories of procurement fraud schemes



Collusion among contractors

mpetitors in the same market collude to defeat competition or inflate prices. The schemes are;

mplementary bidding

is is also known as protective, shadow or cover bidding. Competitors submit token bids that are not rious to win a tender. The tricks involved are;

- Bids that are too high to be accepted.
- Competitive prices but intentional poor technical bids
- Bids with special terms that are not acceptable with the buyer.

id rotation

nis is also known as bid pooling. Two or more suppliers conspire to rotate the bid among themselves. Bid winners also award subcontracts to loosing bidders.

larket Division

ompetitors divide the market according to geographic region or customers. Competing firms will not bid against each other in those regions.



Red flags of Collusion

Industry has limited competition

The same contractors' bid each product or project

The winning bid appears too high

Qualified contractors do not submit bids

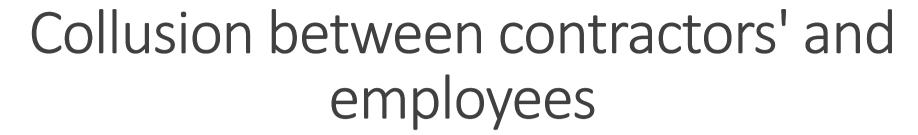
Winning contractors submits bids to loosing bidders

When anew competitor enter the competition bid prices fall drastically

The last party to bid wins the contract

Bids that look similar on paper, font ,colour, spelling mistakes, printing etc.

Rotational pattern of winning bids





The perpetrated schemes depends with the employees influence. The nore power a person has on the bidding process the more likely he can affluence the tender award. Procurement scheme included are;

- Need recognition
- Bid tailoring
- Bid manipulation
- Leaking bid data
- Bid splitting
- Unjustified sole source awards or other noncompetitive methods of procuring



Red flags of need recognition

- n employee convinces his employer of a need to procure excessive good or ervices. Purchasing entity employee receives a bribe or a kickback. Red flags are;
- Materials not procured at the optimal reorder level
- Huge write offs as scrap or obsoletes
- Need that can only be met by a certain manufacturer or supplier
- Failure to develop a list of back-up suppliers
- A certain employee life style
- Multiple purchase that fall below the legal threshold are present
- Purchases with missing GRNs and other receiving reports



Bid tailoring red flags

Bids tailored to meet specifications of a particular supplier.

Unreasonably narrow or broad specification No clear bid submission information.

Specification done together with supplier



Corruption



Corruption

Corruption schemes make up 37% of the reported fraud cases, with a median loss of \$200,000, according to the 2014 Report to the Nations on Occupational Fraud and Abuse. Those often devastating effects, combined with a dramatic increase in the number of enforcements, have made bribery and corruption a key issue for many global organizations.



Corruption - definition

erruption refers to the wrongful use of influence to procure a enefit for the actor or another person, contrary to the right or aty of others.

orruption takes the following forms;

- Bribery
- Kickbacks
- Illegal Gratuities
- Economic extortion and
- Collusion

NOTICE



IF YOU FAIL TO BRIBE THE RIGHT PERSON, YOU WILL BE PROSECUTED IN A COURT OF LAW.

No one is above the law.*

*Unless otherwise specified.

Propaganda Times'



Forms of corruption

bery

bery constitutes a crime and is defined by *Black's Law Dictionary* as the offering, giving, receiving, or iciting of any item of value to influence the actions of an official or other person in charge of a public legal duty.

k Back

ckback is a form of negotiated bribery in which a commission is paid to the bribe-taker as a quid pro o for services rendered. Generally speaking, the remuneration (money, goods, or services handed over) gotiated ahead of time. The kickback varies from other kinds of bribes in that there is plied collusion between agents of the two parties, rather than one party extorting the bribe from the ner. The purpose of the kickback is usually to encourage the other party to cooperate in the illegal neme.



Forms of corruption

egal Gratuities

nese are items of value given to reward a decision after it has been made. The gift is usually made as thank you for something that has been done.

onomic extortion

his is obtaining of property from another, with the other party's consent induced by wrongful use of actual or threatened force or fear. The official demands money or some other consideration to make a business decision.

Collusion

n agreement between two or more individuals to commit an act designed to deceive or gain an unfair livantage.

Definition of corruption as per the economic crimes act



orruption means

- (a) an offence under any of the provisions of sections 39 to 44, 46 and 47;
- (b) bribery;
- (c) fraud;
- (d) embezzlement or misappropriation of public funds;
- (e) abuse of office;
- (f) breach of trust; or
- (g) an offence involving dishonesty;
 - i) in connection with any tax, rate or impost levied under any Act; or
 - (ii) under any written law relating to the elections of persons to public office;

Methods of making corrupt payment encourage corrupt encourage enco

- Gifts travel and entertainment
- Wine liquor
- Clothes and jewellery
- Sexual favours
- Lavish entertainment
- Paid holidays
- Cash payments
- Cheques and other financial instruments
- Hidden interest eg. In a joint venture or other corporation, through straw nominee or individual agreement.

Methods of making corrupt payment encourage corrupt encourage encourag

- Loans in the following forms;
- A legitimate loan guaranteed by a corrupt third party
- A legitimate loan made on favourable terms e.g. interest free, no collateral etc.
- An outright payment falsely classified as a loan
- Use of credit card or payment of credit card debt.
- Transfers at values lower than the market value.
- Promises of favourable treatment. Examples are;
- Promise of future employment.
- Employment of immediate family members

Why is it difficult to detect procurement fraud?

rocurement fraud is committed by employees who understand ne procurement very well. It usually involves an insider and a upplier

- Signing off duplicate or inflated invoices and taking a cut
- Accepting goods below the required standards
- Purchasing goods for personal use
- Related-party transactions
- "Commission" payments and bribery
- Conflict of interest





Contracts involve a purchaser and a seller. Each has nany ways of corrupting the procurement process at any tage. Suppliers can;

- Collude to fix bid prices;
- Promote discriminatory technical standards;
- ► Interfere improperly in the work of evaluators; and
- Offer bribes.





Before contracts are awarded, the purchaser can:

- Tailor specifications to favour particular suppliers;
- Restrict information about contracting opportunities;
- Claim urgency as an excuse to award to a single contractor without competition;
- Breach the confidentiality of supplier offers;
- Disqualify potential suppliers through improper prequalification; and
- **Take** bribes.



Questions



Thankyou





nal audit

d Risk Assessment

nsic Investigations

d Training & Awareness Programs

money Laundering

mployment Integrity interviews

Prevention Consulting

ite Advisory

Diligence Investigations

ground Screenings

aimed Financial Assets compliance and ting audits

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