



ICPAK FORENSIC AUDIT CONFERENCE

“Combating Fraud in Contemporary Times”

Dealing with Contract & Procurement Fraud

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Date: Wednesday, 11th October, 2017

Venue: Pride Inn Paradise Beach Hotel, Mombasa

OUTLINE



- Background
- Generic Procurement Cycle
- Definition of procurement fraud
- Perceived causes of procurement and contract fraud
- How to detect procurement and contract fraud
- Strategies to prevent procurement and contract fraud

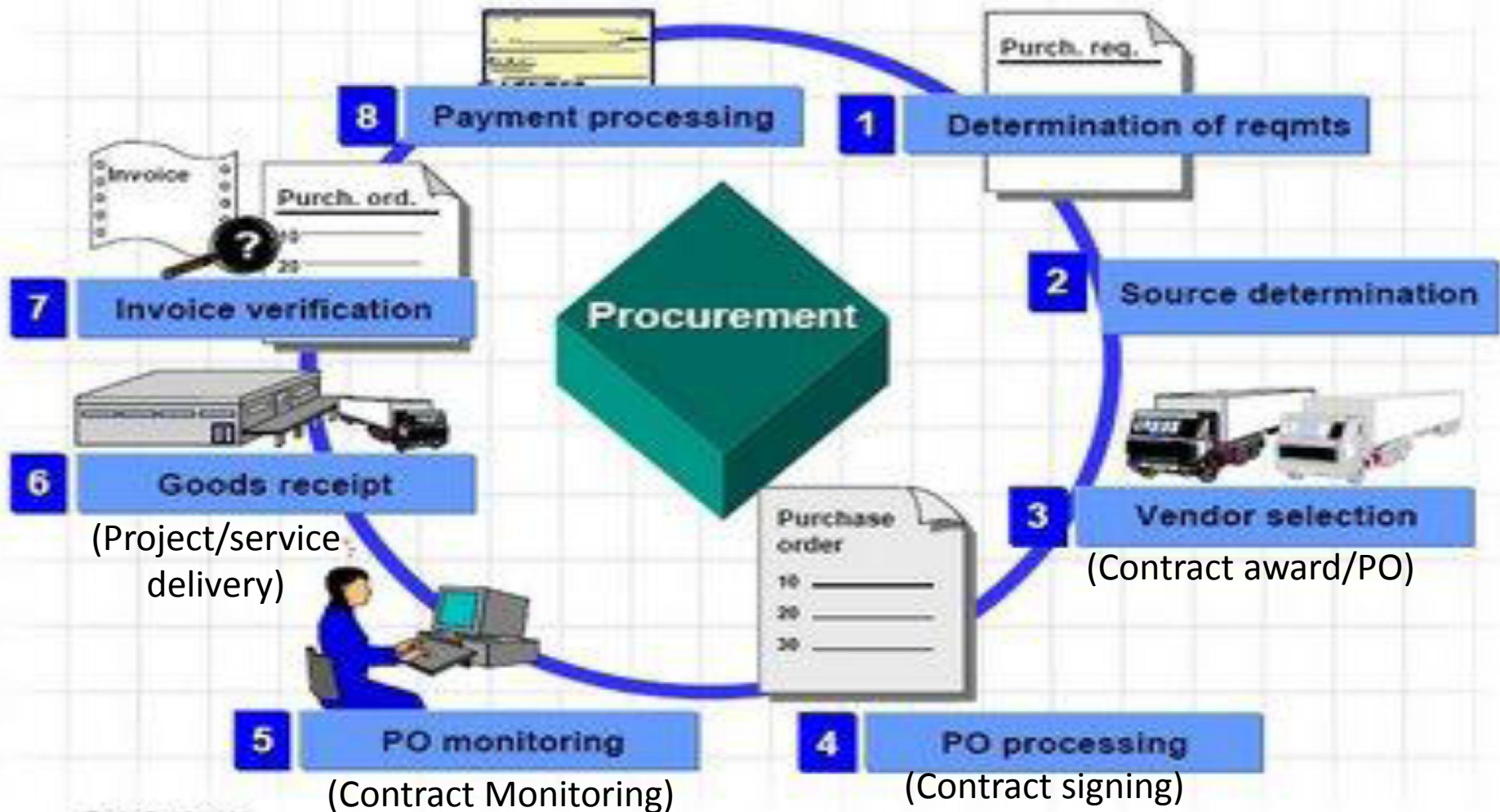
BACKGROUND



“World over, spectacular losses, corporate collapses and major scandals have become regular business news items. ...there is acceptance that unethical business behavior directly or indirectly accounts for major losses ... and severely damages the reputation and morale of companies.” (ICPAK 2017)

ACFE estimates global loss to procurement fraud=\$2.9 trillion

Generic Procurement Cycle

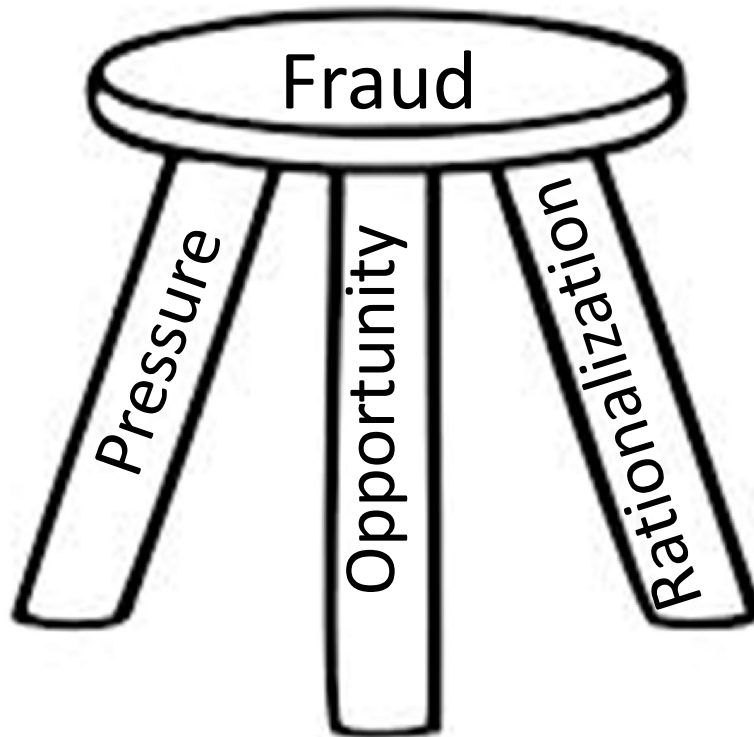


Procurement Fraud Defined



- Unlawful manipulation of the process to acquire goods or services to obtain an unfair advantage
(CPA Handbook on Fraud)
- Dishonesty by employees, contractors or any other person involved in the procurement process
- Causes loss to organization property

Fraud Stool



Pressure

- Political pressure
- To perform a small “favour” just this one-time
- Personal financial stress
- Desire to advance in career

Opportunity

- No one is watching
- Not caught first time
- Ability to “beat” the system
- Weaknesses in internal controls

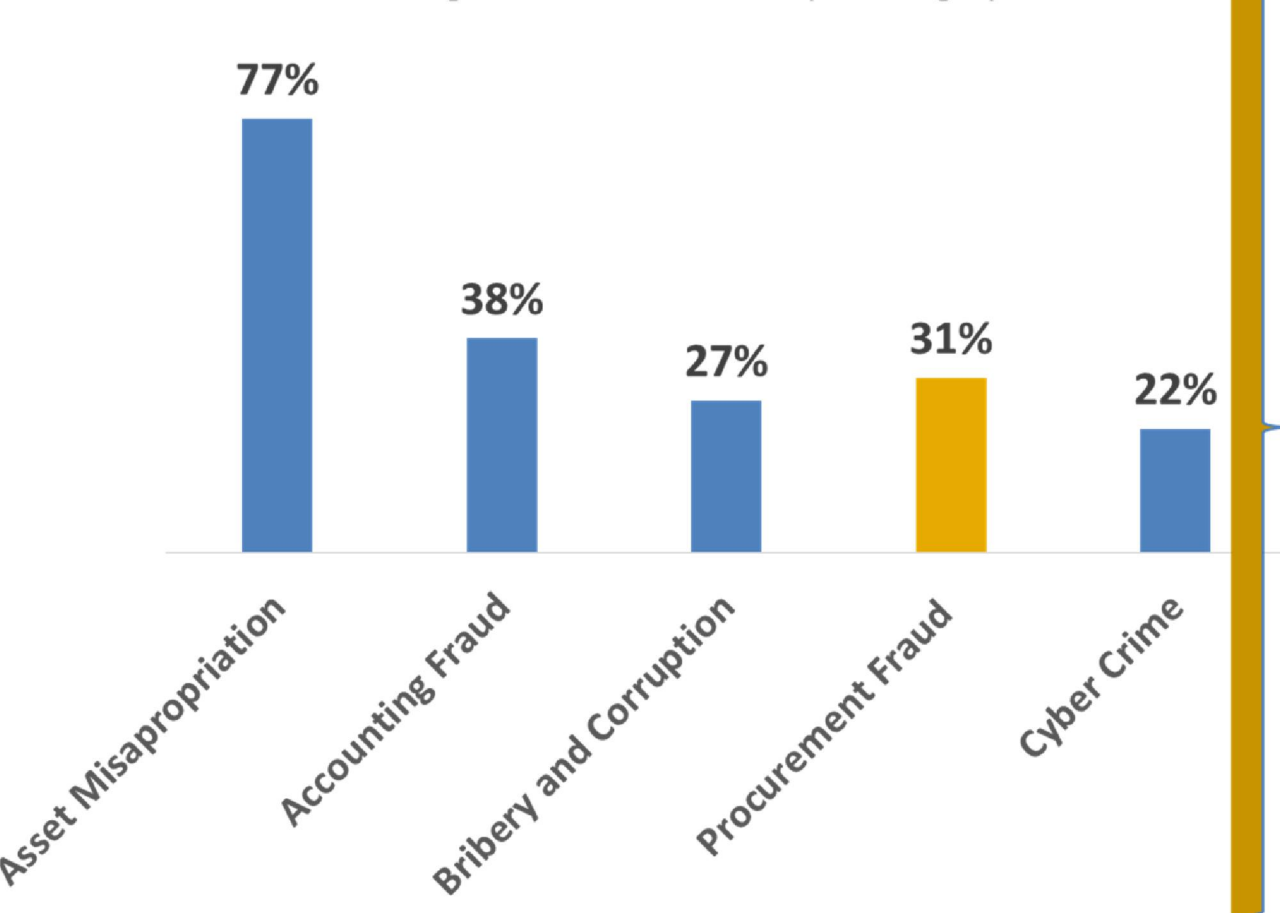
Rationalization

- Justification of action (after all: “I can repay the money before anyone notices”)
- “I am underpaid”
- Family obligations

Fraud is Pervasive



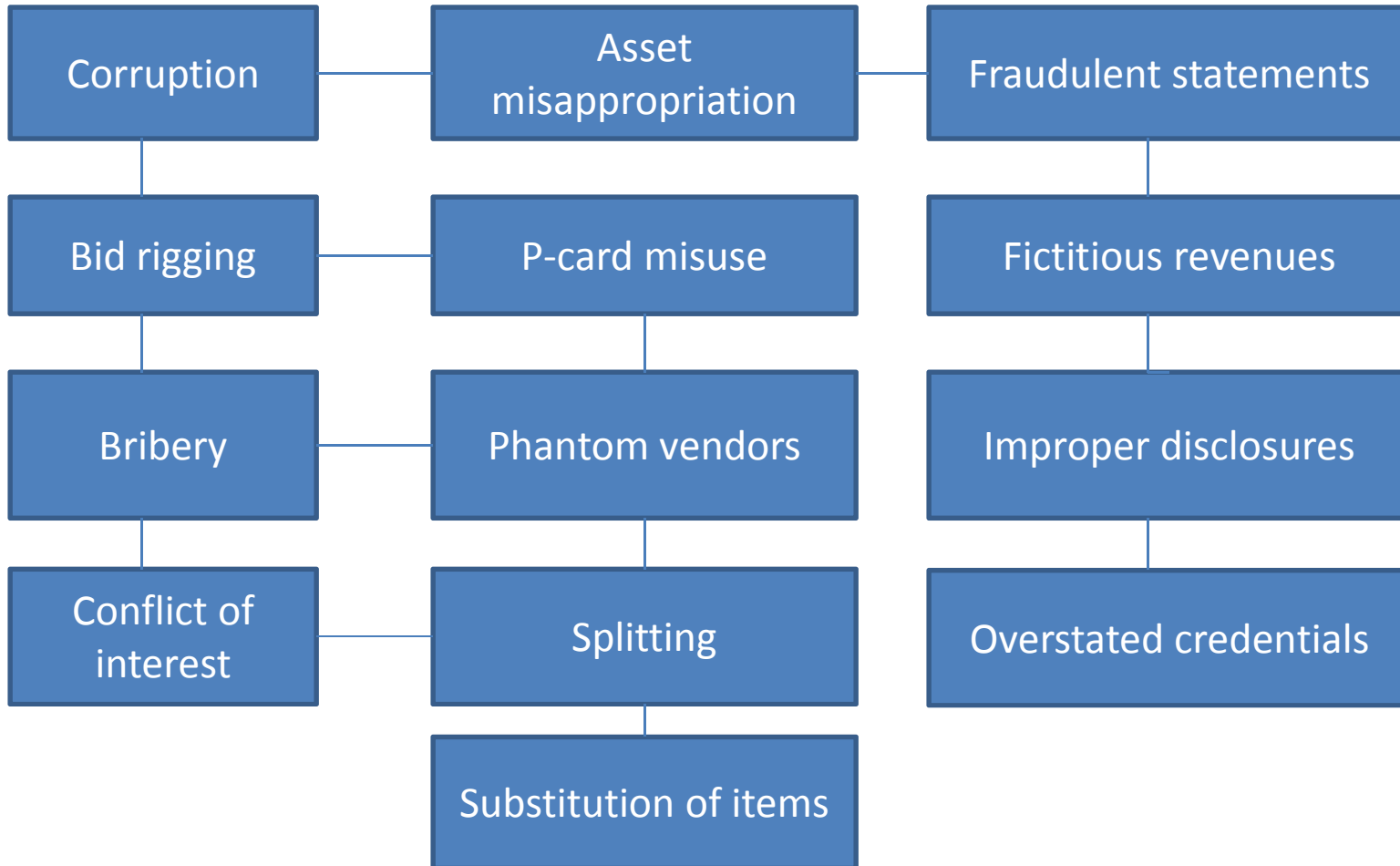
Global %age Fraud Incident Rates per Category



- Theft of assets
- Alteration/
presentation of
financial
statements
- Bribery
- Corruption

NB: Internal fraudster: Kenya - 61%, Africa-63% and Global - 56%

Red Flags of Procurement Fraud



Strategies for Preventing Procurement and Contract Fraud



- Establish culture free of fraudulent and unethical practices at management and operational levels
- Hire the right people to allow segregation of duties
- Assess internal controls – conduct regular reviews and assessments for relevance, adequacy and effectiveness
- Actively monitor controls
- Manage your sub-contractors

Strategies for Preventing Procurement and Contract Fraud Cont..



- Know your supplier - Performing background checks and integrity due diligence
- Supplier capacity and sub-contracting - ensure that the supplier has the required capacity
- Establish a well communicated organizational fraud response plan i.e. “expect the unexpected”
- Monitor the procurement process - “heaven is high and the Emperor is far away”
- Optimise the power of data – use data to detect fraud

Questions





**Thank
You!!!**