



# PROCUREMENT FRAUD

## KAKAMEGA



**NASUMBA KIZITO KWATUKHA -**

**CPA, CIA, CISA, CFE, CISM, CISSP, CISI, CRM  
A, IIK**

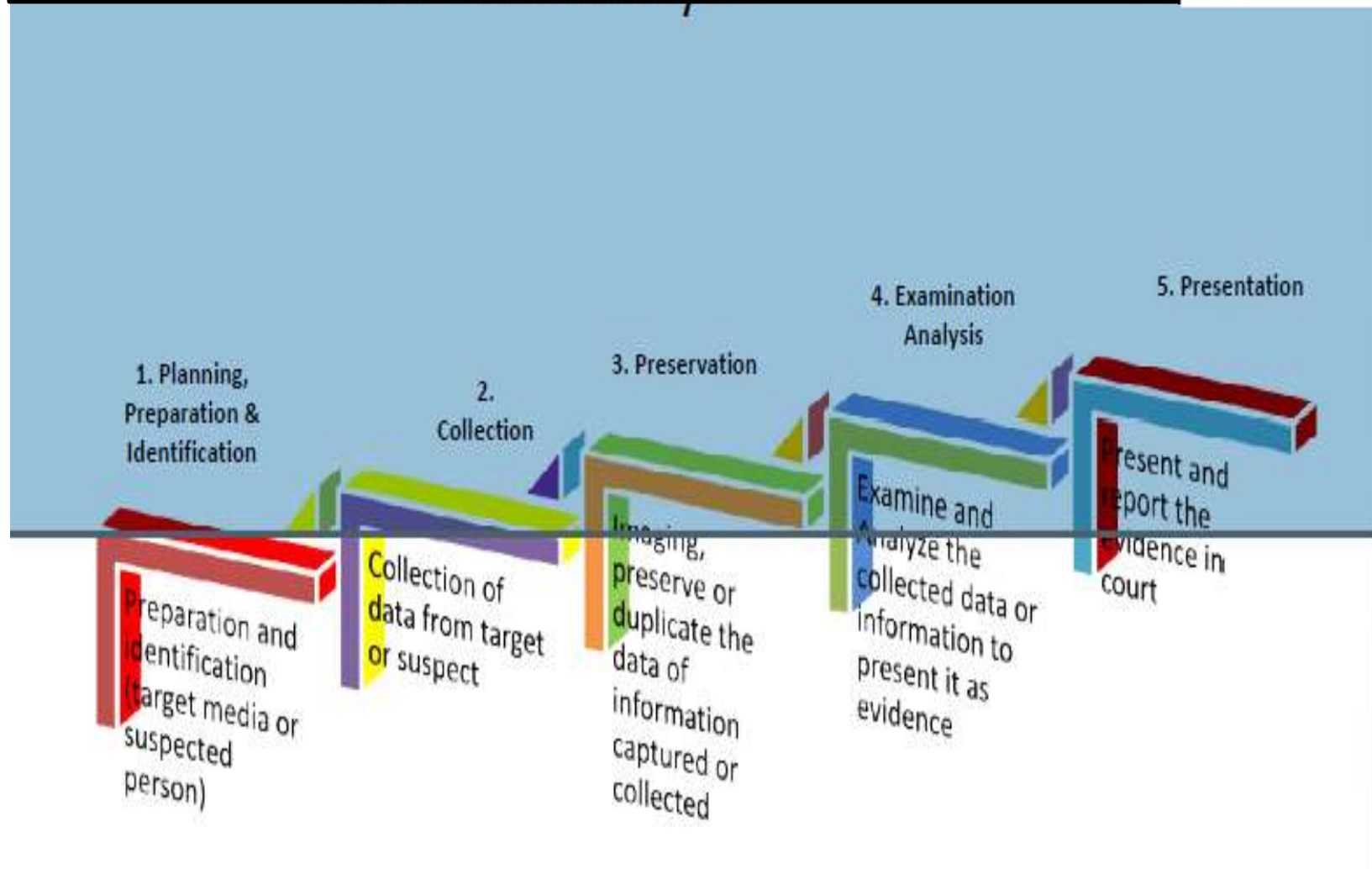
**Executive Director - IARC  
Strathmore University**

# Presentation agenda



- ☐ Introduction
- ☐ Procurement Process
- ☐ Procurement risks and Investigation
- ☐ Conclusion and Questions

# Investigation Cycle Risk



# Why Procurement



## Procurement

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

Complex and Difficult to Charge especially if it involves bribery and Illegal gratuity.

# Procurement methods



- ☐ Restricted Tendering
- ☐ Direct procurement
- ☐ Request for proposal
- ☐ Request for quotations
- ☐ specially permitted procurement procedure.

# Procurement Phases



Phases in the procurement process

# Phases using open tendering

Competitive bidding can be reduced to four phases;

1. Pre-solicitation phase
2. Solicitation phase
3. Bid evaluation and award phase
4. Post-award and administration phase

# Fraud

- Rationalization
- Pressure
- Opportunity

# Pre-solicitation Phase- Fraud

1. Need recognition
2. Bid tailoring
  - Narrow specifications
  - Broad specifications
  - Vague specifications
3. Bid splitting- Larger Contracts into smaller ones
4. Unjustified method of procurement
5. Change order abuse

# Solicitation Stage



- ☐ 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



- ☐ Bid manipulation
- ☐ Leaking data
- ☐ Compromising evaluators
- ☐ Involving Internal Auditors

# Post-award and Contracting Phase



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

# **Categories of procurement fraud schemes**

# Collision Among Contractors

Competitors in the same market collude to defeat competition or inflate prices.

- Complementary bidding
- This is also known as protective, shadow or cover bidding. Competitors submit token bids that are not serious to win a tender. The tricks involved are;
- Bids that are too high to be accepted.
- Competitive prices but intentional poor technical bids

# Collusion Among Contractors



Bids with special terms that are not acceptable with the buyer.

## **Bid rotation**

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

## **Market Division**

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

# Red-flags of Collusion

1. Industry has limited competition
2. The same contractors' bid each product or project
3. The winning bid appears too high
4. Qualified contractors do not submit bids
5. Winning contractors submits bids to losing bidders
6. When a new competitor enters the competition bid prices fall drastically
7. The last party to bid wins the contract
8. Bids that look similar on paper, font, color, spelling mistakes, printing etc.
9. Rotational pattern of winning bids

# Collusion between Contractors and Employees

- The perpetrated schemes depends with the employees influence. The more power a person has on the bidding process the more likely he can influence 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 Bid Tailoring

1. Bids tailored to meet specifications of a particular supplier.
2. Unreasonably narrow or broad specification.
3. No clear bid submission information.
4. Specification done together with supplier

# Why low chances of Detection

Procurement fraud is committed by employees who understand the procurement very well. It usually involves an insider and a supplier

- 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

# Q and A



- Nasumba Kizito Kwatukha-
- CPA,CIA,CISA,CISM,CISSP,CISI,CRMA,IIK
- Executive Director – IARC
- Strathmore University