

Tool: Indicators of procurement risk

Purpose

- To provide procurement agencies with a guide to detect corruption risks at every stage of the cycle.
- To equip procurement practitioners with an understanding of the type of risks they may face throughout the procurement cycle.

Public Procurement
Principle: **Integrity, Risk
Management**

Procurement Stage:
All phases

Audience: **Procuring Entity**

Description

Risk or red flag indicators raise awareness among procurement practitioners of key points to be verified throughout the procurement process. Preventing the risks of fraud and corruption requires an understanding of those risks. With that understanding, the necessary steps can be taken to limit the possibilities for fraud and corruption, to detect possible irregularities in advance, to exclude corrupt suppliers/bidders, and to take action against dishonest procurement practitioners.

Each procuring authority will have to develop its own risk indicators as detecting corruption and fraud may vary depending on the procurement stage and nature and complexity of the purchase.

Processing information on perceived risks and reporting the evidence is equally crucial. An investigation is easily launched if a complaint is filed. Establishing procedures to encourage whistle-blowers or additional mechanisms to allow stakeholders to alert authorities about potential wrongdoing is the most effective means to detect corruption and fraud.

Enabling procurement practitioners and other public officials to understand their duties to report irregularities is also a crucial tool to combat bias, fraud and corruption. Equally, enabling procurement practitioners through training opportunities will enhance their capacity to prevent and detect wrongdoing throughout the procurement cycle.

Another effective means to detect and report fraud and corruption is through the establishment of appeal mechanisms whereby suppliers can issue a formal complaint to the competent procuring authority to report irregularities.

Box: Generic list of procurement risk indicators

Pre-tendering

1. Needs assessment

- Commission of studies below the national regulatory threshold: Use of “friendly consultancies”, contracting an entity that belongs to the decision-maker;
- Studies that are never delivered; and
- Altering the outcome of the selection process by: asking a commission from successful tender or successful tender was forewarned about commission and builds amount in the tender

2. Planning & budgeting

- Lack of an annual procurement plan tied to long-term strategic objectives or overall investment decision-making process;
- Cost estimates are inconsistent with market rates; and
- Government does have the capacity to monitor decentralised units responsible for conducting procurement.

3. Definition of requirements

- Technical requirements not based on clear requirements or with an unnecessary number of restrictions aiming at reducing competition;
- Unjustified constraints hindering foreign participation;
- Selection and award criteria not clearly defined or disclosed in advance;
- Tender requirements prepared by a service-provider who belongs to a wider group including numerous subsidiaries or affiliated entities;
- Anonymity of suppliers/bidders and confidential information on suppliers/bidders records is not properly guarded; and
- Licensing of unqualified companies through the provision of fraudulent quality assurance certificates.

4. Choice of procedure

- Lack of procurement strategy and criteria for the use of non-competitive tenders;
- Misuse of exception procedures on the basis of legal exceptions: contract splitting; extreme urgency or protection of national security interests; unjustified continuation of existing contracts; and
- Timeframe not consistently applied to all suppliers/bidders.

Tendering

1. Invitation to tender

- Absence of public notice or insufficient time to receive invitations to bid;
- Invitation to bid is advertised on a restricted basis (e.g. advertisement only available in province or in limited media outlets);
- Sensitive, non-public or confidential information is disclosed;
- Public notice contains insufficient information and instructions to help suppliers/bidders prepare their bids, including pricing instructions; and
- Bids envelopes are unsealed or opened before opening session.

2. Evaluation & analysis of bids

- Limited number of bid received;
- Strong similarities between bids;
- Unreasonable delays in evaluating bids and selecting winner; and
- Vested interests are identified amongst members of the evaluation committee.

3. Award

- Failure to verify the lists of firms excluded from procurement;
- Weighting factors altered during examination of proposals;
- Criteria used to select suppliers/bidders is different from public notice;
- Failure to verify certificates submitted; and
- Lack of access to records and minutes on procedure.

Post-award

1. Contract management

- Change in contract conditions to allow more time and/or higher prices for the supplier/bidder;
- Product substitution or sub-standard work or service not meeting contract requirements;
- Penalty clauses missing from contract; and
- Lack of proper reporting and recordkeeping of changes in contract.

2. Order payment

- Lack of adequate controls of works, supplies and services provided by either internal or external audit;
- False accounting and cost misallocation between contracts;
- Late payments and invoices; and
- False or duplicate invoicing for goods and services not supplied.

Further Resources

OECD (2009), [Guidelines for Fighting Bid Rigging](#) (available in 15 languages).

U.S. Department of Defence, [General Fraud Indicators](#).