The red flags of corruption: Procurement

• Procurement is vulnerable to being corrupted because it can involve large sums of public money, and be impacted by highly devolved decision-making, limited oversight and inadequate staff training.

• Employees and suppliers are all well placed to identify red flags during tendering, evaluation, invoicing and delivery.

• Public sector agencies can put in place control strategies to mitigate risks: clear policies and procedures, staff training, regular and random audits, risk management processes, and avenues for staff to report suspicions.

Vulnerability: the bidding process

<table>
<thead>
<tr>
<th>Red flags</th>
<th>Suggested control measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employees</strong></td>
<td>• Conducting due diligence to establish legitimacy of suppliers (eg checking details on tenders and quotes, conducting ASIC searches to identify possible links between prospective suppliers and employees, or whether entities have appropriate assets or business facilities)</td>
</tr>
<tr>
<td></td>
<td>• Conducting regular and random audits to look for trends and patterns, especially in approvals of exemptions from competitive processes</td>
</tr>
<tr>
<td></td>
<td>• Securing sensitive tender information, and auditing employee access</td>
</tr>
<tr>
<td></td>
<td>• Establishing framework for employees to manage conflicts of interest, including declaring then reviewing identified conflicts at each relevant stage of the procurement process</td>
</tr>
<tr>
<td></td>
<td>• Plan for probity</td>
</tr>
<tr>
<td></td>
<td>• Developing a statement of business ethics for suppliers</td>
</tr>
<tr>
<td></td>
<td>• Conducting regular training and staff development</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>• Submitting suspicious bids (eg fake companies, subsidiaries, shell companies or affiliates) to give the appearance of competition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Not declaring connections with another bidder (eg same names, contact details)</td>
</tr>
<tr>
<td></td>
<td>• Submitting bids that vary significantly from others</td>
</tr>
<tr>
<td></td>
<td>• Offering gifts, benefits or hospitality</td>
</tr>
</tbody>
</table>
Vulnerability: picking the preferred supplier

**Red flags**

**Employees**
- Selecting a supplier who bid well above the expected cost
- Repeatedly awarding contracts to the same suppliers
- Not declaring a conflict of interest in tender/quote evaluation process
- Favouring getting procurement done quickly over following proper process
- Not maintaining appropriate paperwork, including documentation of decisions
- Not submitting the appropriate paperwork to support approval of supplier
- Undertaking all duties by themselves (i.e., one person determines tender requirements, selects supplier, raises purchase order and approves payments)

**Suppliers**
- Hiring a losing bidder as sub-contractors
- Complaining about selection process or lack of competition

**Suggested control measures**
- Ensuring staff involved in the procurement process are familiar with the concept of total cost of ownership
- Conducting regular and random risk and audit reviews to look for trends and patterns
- Controlling sub-contracting processes
- Establishing framework for employees to manage conflicts of interest, including declaring then reviewing identified conflicts
- Checking financial delegate paperwork is complete before approving expenditure
- Encouraging reporting of suspicious activities among staff and suppliers
- Investigating complaints and expanding investigations to look for other suspicious activities
- Segregating duties to ensure one person does not have control over multiple steps in the procurement process
- Rotating employees in high-risk positions
- Ensuring the evaluation framework is established as part of the procurement planning process

Vulnerability: paying for goods and services

**Red flags**

Employees raising purchase orders after invoices have been received, or not at all

Suppliers submitting false, inflated or duplicate invoices, or sloppy invoices with insufficient detail or obvious mistakes

**Suggested control measures**
- Conducting regular and random audits to look for trends, patterns and unusual transactions
- Conducting sample audits to check veracity of invoices
- Checking invoices against prices in the contract
- Ensuring controls exist in payment systems to detect duplicate invoices
- Raising purchase orders before procurement occurs
- Checking to ensure goods and services have been ordered, delivered and invoiced
- Segregating duties at various stages of the procurement process – e.g., use different people to approve and receive goods/services
Vulnerability: delivery of goods and services

Red flags
- Not receiving goods and services
- Receiving poor quality goods and services
- Receiving community/staff complaints about the quality of goods and services

Suggested control measures
- Conducting sample audits to check that goods and services have been delivered
- Checking quality of goods and services
- Investigating complaints appropriately
- Requiring staff to sign invoices to verify goods and services have been received

Vulnerability: contract management

Red flags
- Employees
  - Splitting contracts to avoid the need for a certain number of quotes or a tender process, or to keep purchases within a particular financial delegation
  - Varying contracts, eg expanding projects to go well above expenditure thresholds

Suggested control measures
- Maintaining robust contract management and oversight to enforce contractual terms, milestones and deliverables
- Monitoring tenders and contracts to detect contract splitting
- Ensuring variations are approved by appropriate financial delegate
- Monitoring variations in contracts and project scope after approval
- Requiring robust reporting on contracts

Useful resources

**Victorian Government Purchasing Board**
The Victorian Government Purchasing Board (VGPB) sets the policies that govern procurement of non-construction goods and services across all Victorian Government departments and some public bodies. It provides guidance on ensuring probity in procurement. [www.procurement.vic.gov.au](http://www.procurement.vic.gov.au)

**Health Purchasing Victoria**
Health Purchasing Victoria is responsible for supplying and facilitating access to the supply of goods and services to public hospitals and other health services, based on best value. It provides tools and guidelines for best practice in procurement in the health sector. [www.hpv.org.au](http://www.hpv.org.au)

**Local Government Victoria**

**Victorian Public Sector Commission**


Level 1, North Tower
459 Collins Street,
Melbourne VIC 3000
GPO Box 24234,
Melbourne, VIC 3001
T 1300 735 135
F (03) 8635 6444

November 2015

IBAC is Victoria’s anti-corruption agency responsible for preventing and exposing public sector corruption and police misconduct. We do this by:
- investigating serious corruption and police misconduct
- informing the public sector, police and the community about the risks and impacts of corruption and police misconduct, and ways in which it can be prevented.

To report corruption phone 1300 735 135 or visit [www.ibac.vic.gov.au](http://www.ibac.vic.gov.au)

This sheet is for informational purposes only and should not be considered a substitute for legal advice.