

The logo for CIPFA, consisting of the letters 'CIPFA' in a bold, purple, sans-serif font.

The Chartered Institute of  
Public Finance & Accountancy



# NW Audit, Risk and Governance Group

## Procurement Fraud Workshop 3 March 2018

Tom Powell, Head of Audit and Risk  
GMCA, Bolton Council and Manchester City Council



# Why are you here?

I don't know –  
please leave  
me alone and  
don't ask me  
anything else

I am in the  
wrong room

My manager  
made me  
come

Tom said I had  
to come

I want to be  
with my  
friends

Its cold outside and I  
was promised coffee

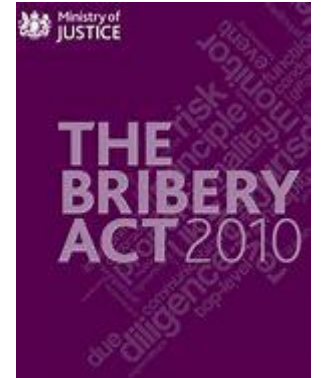
Sounds a lot easier  
than auditing ethics



Procurement fraud is a big risk and we  
really think there is more we can do to  
combat it and I am keen and eager to  
share my thoughts



1. Context
2. Defining Procurement
3. Defining Fraud Risk
4. Organisational Fraud Risk Management
5. Role of Internal Audit



# 1. Context

Public Profile

Value

Organisational Change

Skills and Capacity

**Fighting  
Fraud &  
Corruption**  
LOCALLY

News • Local News • Walsley

## Three council workers suspended after serious fraud corruption probe

Council complete internal audit investigation

CITYA.M. Latest news Most popular Opinion Podcast

## Fraud costs the UK economy £190bn as incidents soar

Share

Alys Key  
I report on vice, leisure, the creative industries, luxury and white collar crim  
[.] Show more

Follow Alys



The British economy is losing out on £190bn due to fraud (Source: Getty)

Fraud has become the most common criminal offence in the UK, as the country foots a £190bn bill for the crime every year.

This includes a cost to the economy of £140bn resulting from fraud in the private sector, according to a study by Crowe Clark Whitehill, Experian and the Centre for Counter Fraud Studies.

The public sector loses the country £40.3bn, while even charities are losing as much as £2.3bn a year.

HM Government

Serious and Organised  
Crime Strategy

BBC Sign in News Sport Weather iPlayer TV Radio

NEWS

Home UK World Business Politics Tech Science Health Family & Education

Wales Wales Politics North West North East Mid South West South East Cymru

## Two NHS contracts referred to fraud watchdog

© 25 September 2017

Share



Health board chair Maria Battle apologised to assembly members

Two contracts awarded by a health board have been referred to a fraud watchdog in the wake of a critical audit report.



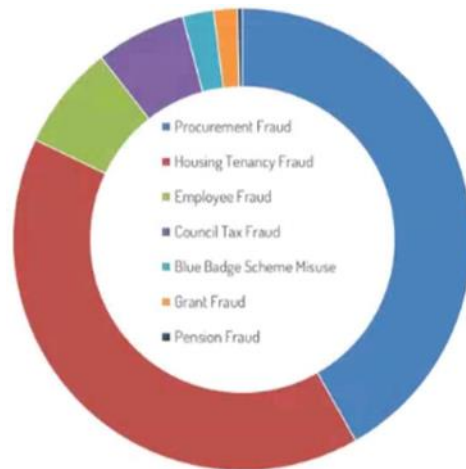
# 1. Context

Public Profile

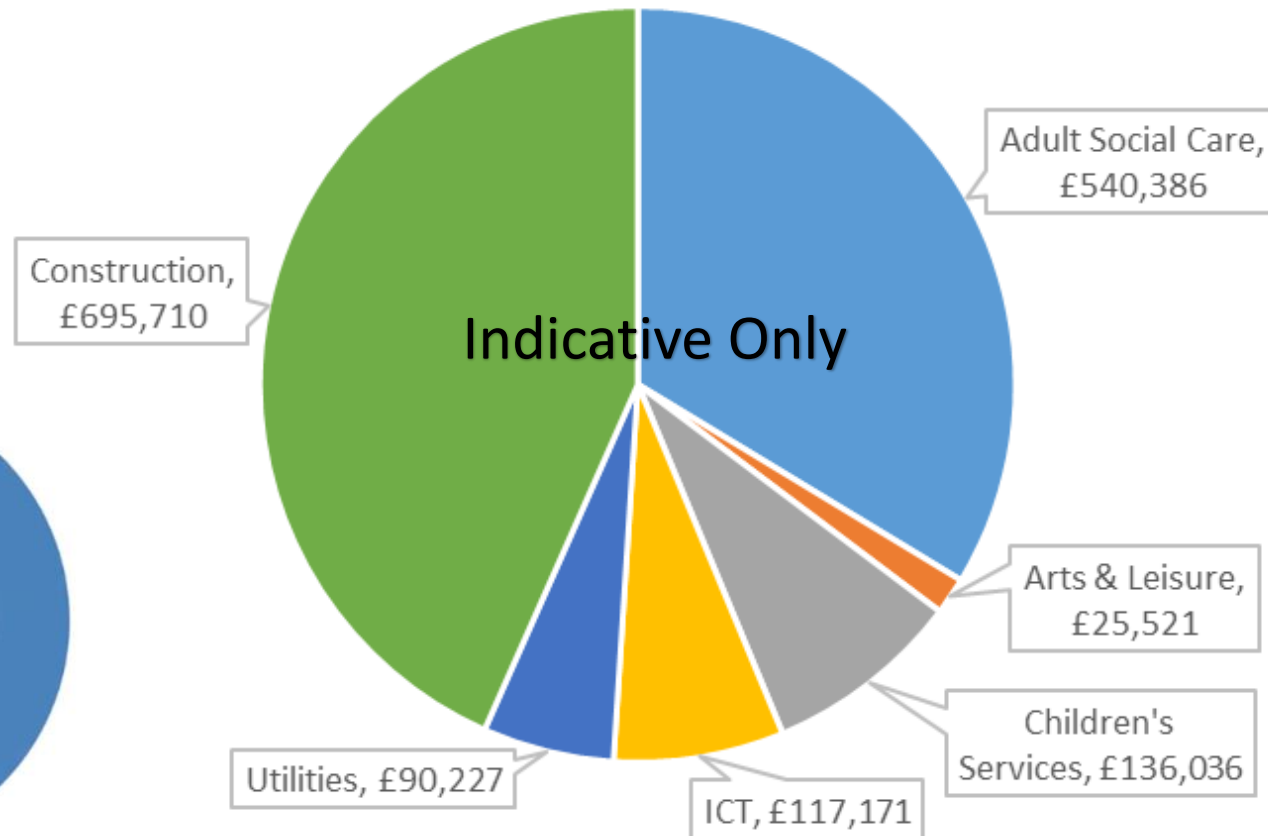
**Value**

Organisational Change

Skills and Capacity



Total GM Spend £000: 2016/17





# 1. Context

Public Profile  
Value

**Organisational Change  
Skills and Capacity**



Manchester  
Health & Care  
Commissioning

Councils 'at breaking point' due to  
budget cuts and rising social care bills



\*Here is Edward Bear, coming downstairs now, bump, bump, bump, on the back of his head, behind Christopher Robin. It is, as far as he knows, the only way of coming downstairs, but sometimes he feels there really is another way, if only he could stop bumping for a moment and think of it.



(A.A. Milne 1926; 15)

**Northamptonshire County Council  
faces "severe financial challenge"**



## 2. Defining Procurement

Needs Analysis
Options to Meet Needs
Specification
Contract Type
Procurement Route

Market Awareness
Pre Tender
Tender
Evaluation
Award
Sign Off / Approval

Monitoring: Performance
Monitoring: Finance
Variation and Change
Payments and Penalties
Contract Renewal / Extension
Contract End



## 3. Defining Fraud Risk

What are the main risks around procurement fraud?





## 3. Defining Fraud Risk– Workshop Feedback

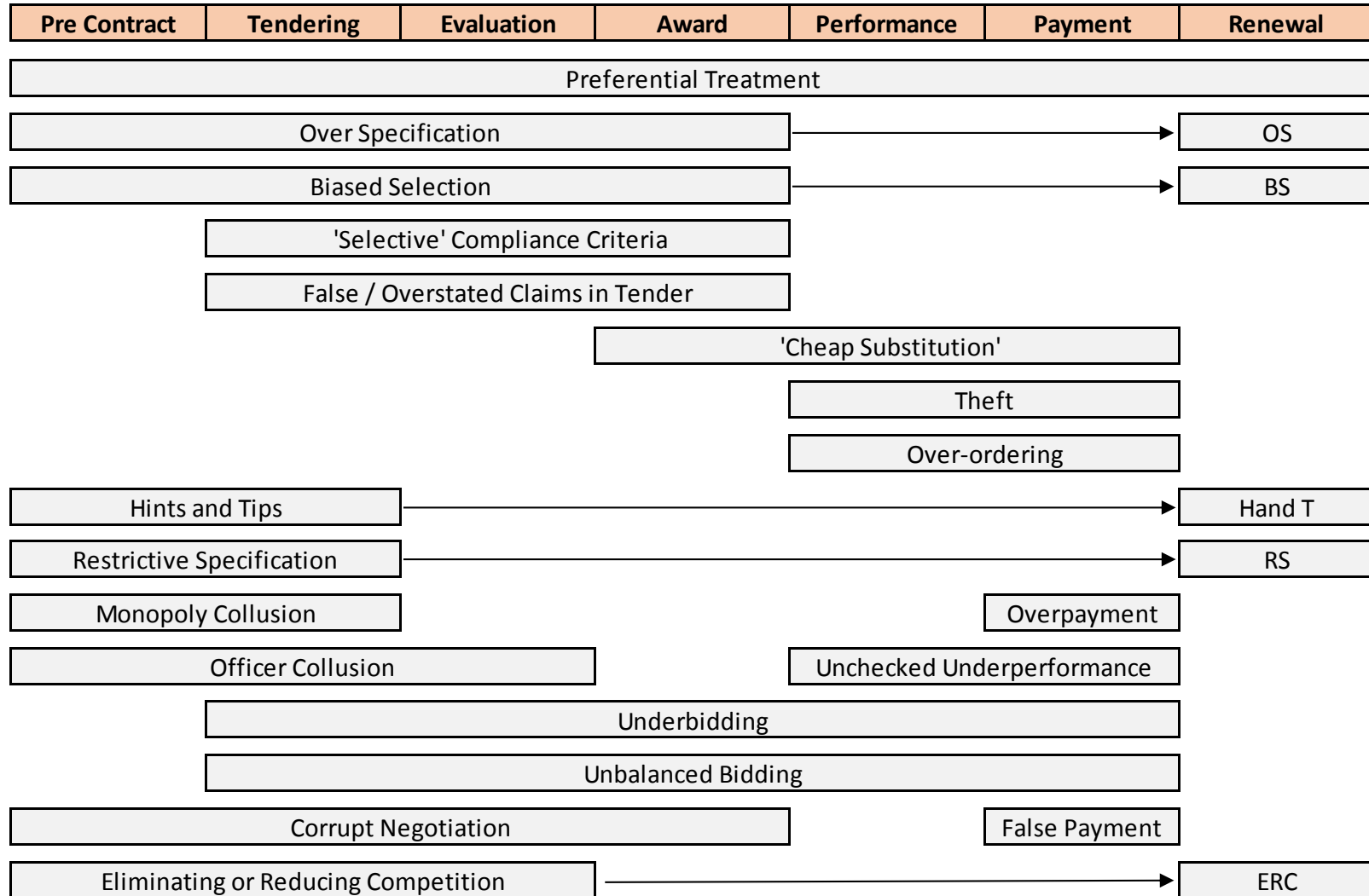
Manipulation – not getting what you need  
Inferior product or service provision  
Bid rigging  
Corruption, bribery and collusion  
Commercial confidence breaches and fraudulent tenders  
Overpayments for services not provided / duplicate payments  
Poor vfm (outcomes)  
Theft and over-ordering

Bid rigging / cartels  
Bribery  
Charging Differential on Schedule of Rates  
Waivers – bad planning or conflicts  
Invoice Fraud  
Staff Skills, Capability, Understanding of ‘what is being procured’  
Change to specification post tender

Bid rigging / cartels  
Collusion  
Artificial Bids  
Manipulation in Contracting Process  
Poor VFM  
Invoice Fraud  
Preferential Treatment of Contractors  
Lack of Clarity and Transparency  
Poor Change Management  
Bribery  
Legislative Risks Due to Non Compliance  
Back Handers



# 3. Defining Fraud Risk





## 4. Organisational Fraud Risk Management

What can be done in governance, risk and control arrangements to combat procurement fraud?



# 4. Orgn'l Fraud Risk Mment – Workshop Feedback

Strategic Risk Register  
Procurement Framework  
Training  
Whistleblowing policy  
Declarations of Interest  
Gifts and Hospitality Register  
Appropriate Use of Tender Waivers

Organisational anti fraud culture  
Policy and resource to prosecute fraud  
Due Diligence  
Goods Receipting / authorising  
Clear roles and segregation of duties  
Anti-fraud software / data analytics

Culture  
Awareness  
Prioritisation  
Knowledge  
Training / Coaching  
Transparency  
Accountability and Personal Responsibility

Clear Policies and Procedures  
Trained Officers  
Clear Delegations  
Controls and Responsibilities  
Specialist Teams – Advice and Guidance  
Steering Groups  
Monitoring and Reporting

Reporting of Decisions and Justifications  
Contracts Register  
Segregation of Duties  
Rotation of Roles  
Peer Review  
Legal Services Independent Advice  
Use frameworks

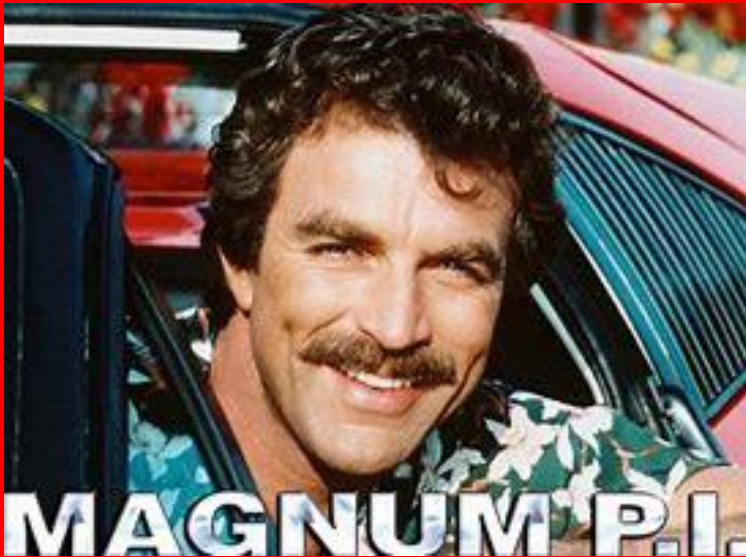


## 4. Organisational Procurement Fraud Risk Management

Contracts Register  
Acknowledge the Risk  
Monitoring Reviews  
Open Book Contracts  
Dec of Interest  
Clear Delegations  
Receipting  
Controlling Access  
Standard Ts and Cs  
Red Flags  
Simple Guidance  
Segregation of Duties  
Speak Up  
Specifications  
Training and Awareness  
Seg of Duties  
Transparency  
Spending Review and Data Analysis  
Cost Benchmarking  
Contract Risk Reviews



## 4. Organisational Fraud Risk Management





## 4. Organisational Fraud Risk Management

**Repeat Awards - Same  
Company**

Award to Non Lowest Bidder:  
But VFM is Unclear

**Quantity / Quality  
Complaints**

Prelims / Fees / Contingency

Questionable Bidder

**Bidder Complaints**

Abnormal Bid Patterns / Values

**Multi Contracts <  
Thresholds**

Scope /Rate Change Post Award

**Supplier 'Hosted' Events**

Scope Change Mid Award

**Urgent / Sole Source**

Lump Sum to Time and Materials



## 5. Role of Internal Audit

Ok Tom that's all well and good,  
but what should we be doing?





## 5. Role of Internal Audit – Workshop Feedback

Provide insight and assurance:

- Review / assure risk register / enterprise risk management
- Undertake continuous assessment (of procurement framework)
- Consider compliance
- Look at outcomes and departures from expectations / KPIs / contract management
- Consider reporting
- Audit organisation culture

Provide assurance and assess / advice on key risks:

- Specialist / trained auditors in procurement as a topic
- Workshops
- Provide Training / Advice and Guidance
- Include Days in Plan for responsive work
- Include Days in Plan for presence in 'front end' challenge
- Analysis of Data
- Random Sample Checks
- Auditing Key Controls – based on lifecycle / gateways

As part of planning – consider risks to objectives and audit control effectiveness to provide independent assurance of effectiveness of controls

Be involved in procurement planning process

Assurance compliance with internal framework

Analyse spend Vs limits (e.g. OJEU)

Consider Cumulative spend and impact on thresholds

Share best practice



## 5. Role of Internal Audit

### Governance

- Assess Roles & Responsibilities
- Assess Delegations & Regulations
- Review Monitoring & Reporting
- Briefings / Training
- Stay Close to Business Developments

### Risk

- Fraud Risk Assess Lifecycle with management / stakeholders
- Complaints Review
- Whistleblowing / Referrals
- Data and AR / Vendor Spend Analysis / Intelligence
- Red Flag Assessments

### Control

- Lifecycle stage audits
  - Specification
  - Evaluation
  - Award
  - Approval
  - Performance
  - Payments
- GRN reviews
- Expiring Contract Reviews
- Waiver Reviews



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## Procurement Fraud Workshop

### What Next?