

# Procurement Fraud

## What is procurement fraud?

Procurement fraud is any fraud relating to the purchase of goods, services or works or the commissioning of construction projects from third parties.

The scale of procurement fraud is vast and can encompass many forms of dishonest behaviour such as:

- the submission of false, exaggerated or duplicate invoices
- awarding contracts in exchange for bribes
- goods or services not being delivered or only partially delivered
- goods which are inferior to what was specified in the contract
- failing to declare an interest in a company which is subsequently awarded a contract
- creation of fictitious companies to facilitate fraud

## What is a conflict of interest?

A conflict of interest is a situation in which an individual has competing interests or loyalties. For example, a person who is responsible for awarding contracts for work or purchasing goods, owns or has a financial share in a company providing those same services or goods.

A conflict may also arise where the individual is related to, or has a relationship with, a person who owns or has a financial share in a company providing the goods or services.



## What is a bribe?

Bribery is defined in the Bribery Act 2010 in terms of both active and passive bribery.

Active bribery – where a person offers, promises or gives financial or other advantage, to another person, intending to induce them to perform improperly a relevant function or activity, or reward a person for such improper performance.

Passive bribery - where a person requests, agrees to receive or accepts a financial or other advantage intending that, in consequence, a relevant function or activity should be performed improperly by themselves or another.



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## CFS Informs

### What are the risks of procurement fraud?

#### Needs assessment

If a member of staff is being bribed or has a conflict of interest, they may invent or exaggerate a need for goods or a service. They may also tailor the need or timing of the tender process to suit a particular economic operator.

#### Pre-tendering

A member of staff who is being bribed or has a conflict of interest, may also manipulate the specification to suit a particular economic operator. Another risk arises when a contractor participates in drafting the specification.

Sometimes work requirements are split to circumvent approval thresholds, allowing an individual to approve multiple lots of work that should have been tendered for collectively and would have required higher level authorisation.

#### Tendering

A dishonest insider can influence the normal procurement process by only encouraging certain economic operators to bid, leaking confidential information or including fictitious companies in the process.

Cartel activity by economic operators, such as bid rigging, cover pricing, bid rotation and smear campaigns against competitors, is tackled by the Competitions and Markets Authority (CMA) but is included here for completeness.

#### Bid evaluation & award

At this stage of procurement, the scoring process can be manipulated by a dishonest insider and unfavourable contracts agreed or awarded. In extreme cases, a contractor may be forced through against legitimate concerns. This may happen if someone abuses a position of power, bypasses normal procedures and overrides staff objections.

#### Post tendering

The risks here involve

- claims for goods/services which are not received or for emergency works which are already covered
- products are substituted for inferior ones
- payments are made to staff or subcontractors hiding behind fictitious companies
- duplicate invoices are submitted
- overcharging
- bank mandate fraud (there is a separate CFS Informs guide on this topic).

#### Staff theft

One final area of concern is where staff purchase excess quantities of an item to facilitate theft, or where there are unexplained inventory shortages.

### How to manage the risks

Reduce the risk of procurement fraud by ensuring:

- proper segregation of duties and access to systems is restricted to appropriate levels to prevent individuals processing transactions all the way through the purchase/payment process
- effective reconciliation of systems e.g. PECOS to invoices to payment systems
- system documentation is maintained which details key controls to be carried out by staff
- budget monitoring is at a level which allows budget holders to identify irregular payments at an early stage
- your gifts & hospitality register is up to date and maintained
- your organisation has an effective policy on gifts and hospitality.

**If you would like to arrange a workshop about procurement fraud, contact us at [nss.cfscommunications@nhs.scot](mailto:nss.cfscommunications@nhs.scot)**

**Visit our website for more information on all of our services [www.cfs.scot.nhs.uk](http://www.cfs.scot.nhs.uk) and follow us on Twitter [@NHSSCFS](https://twitter.com/NHSSCFS)**