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ICAC

# Training Package on Corruption Prevention in Procurement

Procurement of goods and services, essential to the operation of a company, often involves substantial expenditure. From ICAC's experience, it is one of the most vulnerable business functions susceptible to corrupt manipulation and malpractice. Any corruption in procurement would not only bring financial losses upon a company, but also adversely affect its reputation as a trustworthy partner for business. To help managerial and procurement staff of private sector companies mitigate the risks of corruption and malpractices when purchasing goods and services for their organization, the ICAC has produced a Training Package on Corruption Prevention in Procurement for their reference.

This pamphlet provides a gist of the package to enable users to have a quick grasp of the key corruption loopholes and the recommended control measures.

## Five Key Risks and Shields

The key risk areas of corruption and abuse in procurement activities, as well as the recommended safeguards, are highlighted in the following table.

| Key Risks | Recommended Safeguards |
|---|---|
| **Unclear policy ⇨ acceptance of illegal kickbacks from business partners** | ☑ Set out the company's probity requirements for staff, including policy on acceptance of advantages and entertainment, conflict of interest, etc. |
| **Conflict of interest ⇨ incentive for staff to exploit the system for personal gain** | ☑ Devise a mechanism for declaration and handling of conflict of interest<br>☑ Instruct staff to avoid over-socializing with, and accepting excessive or lavish entertainment from, bidders, suppliers and contractors |
| **Lack of guidelines ⇨ inconsistent practices and opportunity for staff manipulation** | ☑ Lay down clear procurement policy and guidelines, covering purchase requisition, procurement methods and approving authorities for different values of purchases, procedures for handling special circumstances (e.g. waiver for urgent purchase), etc.<br>☑ Require justification, proper approval and documentation for deviation from the guidelines |
| **Inadequate segregation of duties ⇨ easier for staff to cover up misdeeds** | ☑ As far as practicable, assign different staff to source suppliers, assess bids, place orders, receive goods/ services and certify payments<br>☑ Appoint staff independent of the procurement process or engage auditor to conduct regular audits |

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| **Insufficient management oversight ⇨ difficult to detect irregularities** | ☑ Require supervisors to enhance accountability by giving proper guidance and exercising appropriate control on the work of subordinates<br>☑ Compile management and/or exception reports to facilitate detection of irregularities<br>☑ Conduct random checks on procurement activities |

## Vulnerable Areas and Recommended Preventive Measures in the Procurement Process

While the above provides an overview of the common risk areas and the corresponding safeguards in the procurement function, companies are also advised to pay attention to the possible corruption loopholes in each key stage of the procurement process and put in place corresponding control measures to mitigate the risks.

### Key Stages in Procurement of Goods and Services

| Common Corruption Loopholes | Recommended Preventive Measures |
|---|---|
| **Drafting of quotation/tender documents** | |
| Unclear specifications and lack of probity requirements | ☑ Draw up clear specifications based on the required functions/standards<br>☑ Disclose the evaluation criteria if price is not the only selection criterion<br>☑ Include an anti-bribery clause<br>☑ Specify the deadline and mode of submission of bids |
| Use of brand names | ☑ Avoid stipulating brand names/models or over-restrictive specifications |
| **Sourcing of suppliers/contractors** | |
| Mismanagement of suppliers' list | ☑ Maintain an approved suppliers' list for frequently purchased goods<br>☑ Lay down and disclose the criteria and procedures for inclusion and deletion of suppliers on the list |
| Favouritism in inviting suppliers to bid | ☑ Invite the listed suppliers to bid on a fair share basis (e.g. by rotation) |
| **Receipt of quotations/tenders** | |
| Leakage of quotation/ tender information | ☑ Prohibit the opening of bids before deadline<br>☑ Adopt security measures to prevent tampering with the received bids |
| **Evaluation of bids** | |
| Biased assessment | ☑ Pre-determine the evaluation criteria, their relative weightings and the marking scheme before quotation/ tender invitation<br>☑ If a two-envelope approach is adopted, open the price offer only after the technical proposal has been assessed |
| Excessive influence by one staff member | ☑ For high-value purchases or goods/services involving subjective elements, set up an assessment panel (e.g. comprising the user, technical experts and procurement staff) to evaluate the bids |

| Acceptance of goods/services | |
|---|---|
| Absence of checks and balances | ☑ Assign more than one staff, or a staff not involved in the procurement process, to receive goods/services |
| Short delivery and substandard goods/services | ☑ Inspect the quantity and quality of goods/services received against the purchase order/service contract; use a checklist if necessary<br>☑ Record the deficiencies noted and follow up with the supplier/contractor concerned |
| **Performance monitoring of suppliers/contractors** | |
| Lack of performance monitoring system | ☑ Devise a mechanism to assess the performance of suppliers/contractors (e.g. adverse reporting, periodic performance appraisal using a standard form) |
| Discretion in handling under-performed suppliers/contractors | ☑ Establish procedures to handle cases of unsatisfactory performance (e.g. issue of warnings, suspension from bidding for a specified period) |

For more information on the corruption prevention safeguards and other good practices in procurement, please refer to the **Best Practice Checklist on Procurement** published by the ICAC, which could be downloaded from the ICAC website: *http://www.icac.org.hk/en/home/index.html*

The Training Package, including this pamphlet and a training video DVD, is designed to be used for either self-learning or staff training. Interested parties can obtain a copy from the Advisory Services Group of the Corruption Prevention Department of the ICAC (☎**2526 6363 or** ✉**asg@cpd.icac.org.hk**). You may also contact the Group for tailor-made corruption prevention service/advice on procurement or other business functions in your organization. The advisory service is provided free of charge and in strict confidence.

*Supporting organizations*

The Chartered Institute of Purchasing and Supply – Hong Kong Branch

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