Introduction

Procurement fraud can be one of the more complex frauds to investigate; there are numerous ways it can be committed and, when investigating it, all options need to be considered. A simple definition of procurement fraud would be ‘fraud within the procurement lifecycle of a product or service, not forgetting long-term maintenance contracts’. The Office of the Deputy Prime Minister (ODPM) defines procurement as the process of ‘acquiring goods, works and services, covering both the acquisition from third parties and from in-house providers. The process spans the whole life cycle from identification of needs, through to the end of a services contract or the end of the useful life of an asset. It involves options appraisal and the critical “make or buy” decision.’

The ‘make or buy’ decision is highlighted as this will be discussed later and can be an area of particular weakness.

Many frauds committed fall within the banner of procurement fraud as most companies obtain products or services through some form of procurement exercise. No one company can operate in isolation. Often when concerns are raised, products and services have already been procured and the contracts have been in place for some time. In this case, the fraud is often embedded in the contract and can be difficult to spot. It also presents a further difficulty as often contractual/supplier relationships have been long established and therefore caution is required when deciding who to approach for information or indeed who to appoint to investigate.

This chapter will use flow charts to suggest a methodology for investigators to follow and also discuss what paperwork needs to be examined during a procurement fraud investigation.

Types of Procurement Fraud

There are many ways that procurement fraud can be committed but the main types are:

- Bid rigging/bid splitting;
- Creation of shell companies to facilitate fraudulent payments;
- Collusion between suppliers;
- Purchase order and contract variation orders;
- Unjustified single source awards;
- False invoices for products and services for suppliers who do not exist.
The Law

There are many laws that apply to procurement fraud; the main law is the Fraud Act 2006 and the offences of (1) Fraud by misrepresentation; (2) Fraud by abuse of position; (3) Fraud by failing to disclose.1

When considering which of these laws or acts apply, the initial consideration would be given to the modus operandi. In other words how did it happen? Consider:

- Were the actions taken deliberate?
- Is the offence committed by an individual or a number of people acting as a collective or cartel? Is it corruption?
- At what stage within the contract has the fraud taken place?
- Have the individual/individuals concerned created fictitious paperwork to commit the fraud or have they simply taken advantage of poor processes and procedures within the organization?
- Has the potential for fraud been embedded in the set-up of the contract, further into the contract lifecycle or was the contract designed to facilitate fraud?

The Investigative Framework

While investigating procurement fraud has some unique characteristics, the basic investigative framework does not. Indeed, any investigation requires a number of steps that must be undertaken, some of which must be undertaken before any investigation begins.

**THE ALLEGATION AND ITS EVALUATION**

Before the information is processed, it should be considered how it is going to be recorded. To clarify, are you being approached by a whistleblower, in which case consideration has to be given to the Public Information Disclosure Act (PIDA) or is the person happy to disclose the information openly? Has the informant brought any information with them to reinforce their allegation?

Once you have checked and recorded the information, it is time to establish if it is credible. This should involve checks on any relevant company intelligence database, use of internal confidential sources of information and other external bodies to establish if any similar allegations have been reported previously. It is essential to check company investigation records to establish if the particular company or contractor has come to the attention of the fraud team previously (although when contacting outside agencies, caution should be used, as no decision has been made at this stage if the enquiry is either external or internal).

It can often be the case that individuals report what they consider suspicious behaviour with the best intentions but it can be simply a case of a situation being misinterpreted or a

---

1 For pre-Fraud Act offences, among other Acts, the 1969 Theft Act offences – deception, obtaining property/services by deception, false accounting, making/using a false instrument, conspiracy to defraud – and the 1981 Forgery and Counterfeiting Act (sections 1 & 3) applies.
half-heard conversation. If the information is able to be verified as having no foundation but it has been provided with the best intent then this should be recorded as such on the fraud investigation log along with justification of any decisions made.

INVESTIGATION

If following evaluation, an investigation is required at this stage, consideration should be given as to whether it should be undertaken by internal or external resources. It is always wise to approach the investigation in an ethical and proficient manner – that means that if it is referred externally, all procedures have been followed correctly and any handover is sufficient to ensure a successful prosecution. Often law enforcement agencies have a heavy workload and a detailed case file with an allegation can assist in the investigation and indeed support the agency’s decision of whether to prosecute. Even if it is not the intention to refer the matter to external law enforcement at the start of an enquiry, following ethical policies and guidelines will prevent procedural difficulties in the event that the decision is reversed later and indeed prevent investigators getting into trouble by taking shortcuts even if it is done with the best intentions.

When deciding which particular offence to investigate, the circumstances and method of the fraud will dictate this. The reasoning behind these will concern, for example, the position the person holds within the company, how long the fraud has been going on and who else is involved. Additionally, the type of company – whether public or private – and the amount involved will also be deciding factors. Cost–benefit analysis is also a consideration as to whether fraud investigations are progressed or not.

WHAT LAWS ARE INVOLVED?

From the information supplied, is there an allegation so far of criminal conduct or is it an internal disciplinary matter? In the event this is classified as an internal enquiry, it should be best practice to follow PACE best practice guidelines when evidence-gathering in addition to dealing with interviews of both witnesses and persons suspected of wrongdoing. It may be that during the enquiry, evidence is obtained that may force the company into referring the investigation to an external body.

When carrying out an investigation into procurement fraud the main points to prove this offence will uncover whether there is evidence of misconduct/inappropriate behaviour and support the assertion that the person knew that by following a particular course of conduct, they were acting dishonestly.

WHAT LAWS WOULD GOVERN YOUR INVESTIGATIONS?

When carrying out an investigation, in addition to criminal law consideration (i.e. points to prove), there are other laws that the investigator needs to consider and be fully aware of. These are often overlooked but the consequences of this can be immense because failure to follow these can lead to an investigation being discontinued. This may have a knock-on effect to either internal or external sanctions, which as a result may fail and the investigator themselves may face disciplinary procedures or expose the company to civil actions. The laws to consider include: The Human Rights Act 1988; The Police and Criminal Evidence Act (PACE) 1984; The Criminal Procedure and Evidence Act 1996;

In particular, all investigators need to ask if the nature of the investigation justifies the investigation methods, particularly in terms of whether they are: Justifiable, Accountable, Proportionate, and Necessary.

**WHO SHOULD BE INVOLVED IN THE INVESTIGATION?**

It is essential that prior to starting the investigation, careful consideration is given to who will be involved in the enquiry. This will vary from company to company and will also be determined by the extent of the seriousness of the allegation. Calling an initial case conference will not only determine who should be involved in the enquiry, but it will define the investigation strategy.

In writing the strategy, the investigator should ensure that the investigation procedures are referenced by the employment manual, and/or the employment contract. Remember to document the reasoning for choosing a particular investigation technique and explain why it is permitted by law. The strategy and the investigator’s approach have to be fully agreed by either the investigation manager or the senior management team who have overall responsibility. Short cuts will invariably come back to haunt any investigation.

**CONFLICTS OF INTEREST AMONG THOSE WHO MAY BE INVOLVED IN THE ENQUIRY**

The question of conflicts of interest should be addressed to the investigating team. Carrying out checks of all the individuals concerned in the enquiry will establish if they have any outside business interests that may impact on the enquiry. This line of enquiry although unlikely should also be applied to all persons connected to the investigation. This process is a simple way to detect any close relationships that may place people in compromising positions.

This process is also applicable to persons being investigated of wrongdoing. This will be discussed in more detail later.

**COMPANY POLICIES**

All the relevant company policies should be located as these will be required for report purposes to demonstrate any relevant breach of company policy. These should include the procurement policy to show whether or not an individual has followed the required protocols and the HR policy on declaring secondary lines of employment and whether conflicts of interest should be reported and to whom.

It is of note that often gaps are identified in company policy. Often the existence of these policies would have mitigated any risk or may or may not have prevented fraud. In this case, this should be flagged up at the earliest opportunity to the relevant authority so this can be addressed and any gaps closed with new policies being written and communicated. Even with robust policies, fraudsters will circumnavigate company policies but at least this can be managed by creating exception reporting. Quite often investigations can be long and protracted and if gaps are not addressed quickly, fraud can continue to occur whilst you are investigating.
<table>
<thead>
<tr>
<th>Table 12.1 Investigation strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investigation Considerations</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Who should be notified</th>
<th>HR to ensure company policies are followed. Decision taken regarding keeping staff at work/suspend.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Legal Department for possible financial recovery &amp; investigation implications.</td>
</tr>
<tr>
<td></td>
<td>Head of Internal Audit / Head of Fraud department.</td>
</tr>
<tr>
<td></td>
<td>Is this internal/external? Do the police need to be involved?</td>
</tr>
<tr>
<td></td>
<td>CEO, FD, Audit Commission or board</td>
</tr>
<tr>
<td></td>
<td>Are there any conflicts of interest? These should be recorded</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Who should lead</th>
<th>Head of Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Head of Fraud/Fraud investigations Manager</td>
</tr>
<tr>
<td></td>
<td>Should an external resource be considered for impartiality?</td>
</tr>
</tbody>
</table>

| Evidence                | Primary documentary evidence should be seized when examined to prevent destruction/tampering.       |
|                        | Electronic evidence of e-mails timely seized in line with DPA and Business Disclosures Act.        |
|                        | Ensure evidence is logged including date/time seized, from where and by whom. Ensure securely stored |
|                        | Ensure CCTV evidence is retained. Remember to investigate how long CCTV is kept.                    |

| Interviews              | Is there sufficient expertise internally to deal?                                                    |
|                        | Witness should be interviewed as soon as possible                                                   |
|                        | Potential suspects interviewed. Is this on tape, contemporaneously. With/without caution?          |
|                        | Ensure you have an interview plan. Know what you want to ask/prove. Consider at what point would you consider a caution |
|                        | Are there any conflicts of interest? These should be recorded                                      |

| Other Considerations    | Do you need external resources e.g. Commercial Procurement, independent Quantity surveyor?         |
|                        | Will there be any PR issues?                                                                      |
|                        | What are the timescales for the report. Is this historic/ongoing fraud?                            |
|                        | Costs. Is there budget for the enquiry? Is the enquiry cost effective?                             |
|                        | Ensure all decisions are recorded in a decision log to justify actions taken.                      |
|                        | Ensure that all process weaknesses are addressed as the enquiry progresses. Don't wait until the end |
To explain the approach to an investigation strategy, the following framework provides a good practice approach – see Table 12.1.

PRACTICALITIES – WHAT ARE THE DOS AND DON’TS?

- Always record any decisions that are made in a decisions log. This enquiry may seem fresh in your mind now, but often fraud investigations are both complex and lengthy and it is unlikely you will remember all details several months later. This will also help to justify your actions later either in court or any employment tribunals.
- Ensure that any risks identified as the enquiry progresses are addressed as soon as possible. Waiting until the end of an enquiry may mean that you are investigating fraud cases you could have prevented and the investigation circle will continue.
- Remember that your role is to gather the evidence and establish the truth. Personal agendas and pre-conceived ideas can divert you from potentially valuable investigation streams. The final outcome of an enquiry may differ substantially from when you started. Be open-minded and don’t try to fit the evidence to what you believe the outcome should be.
- A paperwork trail is essential and as such needs to be handled correctly. Document all decisions and actions taken and, more importantly, why they have been taken.
- When deciding whether or not to seize any specific paperwork consider this: would it affect the outcome of the enquiry if this evidence was lost or tampered with? If so, then it should be seized. In reality, paperwork should be seized as you find it. This would prevent tampering or a potential suspect analysing paperwork and realizing there is an issue. If this is not feasible because the paperwork is essential, then photocopy it before leaving it in place. An example of this would be next stage planning paperwork on an ongoing project.
- What type of procurement fraud does the information relate to? Do you have expertise in this area? It may be the case that external resources such as contract management, procurement agents or quantity surveyors may be required.
- There is no stigma attached to asking for additional resources or expertise. No one knows everything about everything.

Investigating Procurement

When looking at procurement fraud, there are various guises it can take and, although this list is not exclusive, there are a number of documents to be examined at the start of any investigation.

CONFlicts OF INterest аппliCable To Person/Persons being invesTiGaTed

These checks will supply a quick indicator of any business links between operating parties involved in the enquiry. There are a number of ways of doing this:

- First check to establish if any conflicts of interest have been declared by the person/company under investigation. Additionally establish if it is company policy to request them. If not, then this may be a process gap that will need to be addressed.
• When looking at undisclosed conflicts of interest, the following is a useful tool to help you discover previously unknown relationships.
• Companies House will supply lists of current and previous directorships including the company secretary. Check secondary directorships including those of dissolved or inactive companies.
• Carry out checks on previous directorships and cross-reference them with the individual/individuals concerned. This would include the person supplying the information.
• Ensure that checks are made of previous companies, if necessary using CV and web-based searches to establish a common link.

Quite often, previous directorships are overlooked but these searches can identify historical relationships in addition to other revelations of companies held within group structures that have been set up.

As you identify the information, putting together pictorial flow charts can be useful by using software such as i2, Visio or any other designated software. This may also help when presenting your findings. A picture can paint a thousand words and will also help if your decision audience (the exec) has little time to spare.

CONTRACTS

Reviewing the contract is necessary to establish if elements of fraudulent behaviour have been built into the contract. For example, NEC contracts can have clauses which may provide opportunities for fraud to take place. An example of this would be compensation events where there is a predetermined time limit to settle or dispute a claim. This may discourage senior management from carrying out a detailed review of paperwork owing to time constraints or the fear of causing delays. Often when contracts are written and negotiated, fraud is not considered. Weak clauses that can be later exploited can be built into a contract. These can put the company in a weak position in the event of any irregularities being identified. There is a fine line between sharp commercial practice and fraud. Check that the contract includes audit rights and whether these have been previously exercised. Is there an opportunity for a no notice audit? After all fraudsters may know what the audit department are looking for and will know how to prepare for an audit. If you have concerns take independent professional advice to confirm or dismiss concerns. This would be required later on in any case, should further action be considered.

BID RIGGING/BID SPLITTING

In relation to pre-tender situations (Pre-Qualification Questionnaires, Invitation to Tender etc.) there is a range of necessary questions to be asked and, if the answers are not as they should be, these may present avenues for further enquiry. While they may not point to fraud they all provide avenues that should not be overlooked, including:

• How was the tender works package put together?
• Was the scope sufficiently broad to allow a fair tender process? In other words are there many companies who could have been involved in this work but were not
included? Alternatively it could have been biased towards a particular supplier – for example, containing wording such as ‘the successful tender will need to have 20 years in a specific transport industry’.

- Were there specific contract requirements and were these necessary or could they have been inserted to provide a commercial advantage? Has it been written with a particular contractor in mind?
- Look at the requirement to tender and establish if this business need was identified from the board/designated business unit or was the concept/idea put through by a specific individual/team and the business supported this idea? If the proposal was outside of normal business operations then further checks will need to be carried out to establish information such as undisclosed business dealings, identify unknown companies with non-transparent financial and operational histories and historical business links within the organization. Remember, do not restrict your checks to junior management and look across the whole management structure in the body you are investigating.
- Examine whether the concept of the work was fully investigated. In other words, is the work likely to deliver the benefits stated in the business case? Are the financial forecasts accurate? And will any proposed business savings be delivered? Often, businesses are presented with business proposals which are seen as commercially viable, yet on occasions these proposals have not been thoroughly validated. Don’t assume that because the work has had senior sign off, it has been checked.
- Examine if there was a pre-agreed budget for this work or was it proposed outside of pre-empted work packages; establish whether this budget was followed or whether it was exceeded. Don’t assume that because a work package comes in under budget that there are no concerns and that it is legitimate. Individuals involved in fraud generally understand the company processes and therefore understand how to avoid flagging up concerns by side-stepping the flagging systems.
- Investigate how the invitations to tender were selected. This will establish if the companies were selected from a framework list where the companies have already been pre-qualified or whether there have been any new companies introduced who claim to be experts in this area and who have been supported by a member of staff.
- Do not ignore the pre-qualification list and assume it is legitimate. Often there are assumptions that companies that are pre-qualified require no further checks. This is not always the case. It could be that a genuine company has operated legitimately and individuals have taken an opportunity to commit fraud as opposed to a company being set up to facilitate fraud.

THE TENDER

Examining the tender process is necessary to ascertain if there have been any irregularities. When looking at the tender process, the following questions should be asked:

- Who selected the companies involved in the tender?
- Were the relevant financial background checks carried out?
• Was the due diligence robust?\(^2\)

• Do the financial amounts follow the expected format or have they been created. Are they too good to be true? Use a qualified accountant if you require further clarification.

• Visiting the tenderer’s premises is a good source of intelligence and is often missed. This would identify the true operating capabilities of the company and also verify that the company does exist. Professional web sites take hours to create. Don’t take it on face value.

• Examine the initial tender submission paperwork for the companies concerned and examine previous work packages of the companies to verify they have been involved in previous works they have claimed to be.

• Are the claims made in the tender submissions achievable and auditable? Often wild claims are made that can appear too good to be true. Sometimes they are.

• Were the companies involved in the tendering exercise realistically expected to be awarded the work or have some companies been included to ‘pad out’ the tender? If companies have not been involved in the type of work previously, bids can often appear excessive and therefore less favourable. Conversely, are the bids of newcomers very competitive? Consider the fact that as they have not been involved in the work type previously, is it possible they have had help putting the bid together?

• Examine the tender evaluation notes and note any comments made against the tender submissions as the scoring criteria is often a source of good information. These scores would vary between contracts but would include points for price, previous relevant works carried out, sustainability etc. Look out for additional scoring criteria not previously used, such as ‘must have worked in London for 20 years’ or ‘must have robust business continuity processes’. These are live examples which I have seen in tender submissions. These criteria may exclude some tender submissions and place others in a favourable position.

• Are there any reports/suggestions of any perceived or obvious attempts to influence/interfere with the process?

• Look at who made the final submissions and whether these names come up in your enquiry. Do the same names come up time and time again? If they do, this may require and indeed justify further investigation.

• Who was involved in the tender process? Were there people involved who should have been excluded, for example a consultant preparing the bid may work for one of the tenderers. It is also possible that any consultants may be doing other work around the business and there may be a conflict of interest. Many organizations use consultants to prepare bids.

\(^2\) The process of due diligence is often a paper-based verification exercise and some old-fashioned but essential basic considerations can be overlooked, including:

- Companies, when tendering, do not always go to the premises of a supplier to verify its existence and see it operating. Merely relying on a set of published accounts that have been signed off is a risky strategy. For example, if a storage firm claims to have in excess of £400,000 worth of stock at its premises yet operates in a rented office space above a shopping precinct, then there are further questions to be asked.

- As well as checking with Companies House for limited companies always check for non-limited companies. Remember, the reporting considerations are different for such companies where, for example, it is easier to hide transactions under the non-limited requirement of not submitting accounts.

- Companies mostly have websites which appear professional but technology means this work can be easily outsourced and does not take long to create.

- Check companies with multiple offices. If they are based overseas does it fall outside of your jurisdiction?
• Examine the requirement of the conflicts of interest declarations. Have they been requested and if so who controls the information submitted? Has the information been checked and verified? Even if there is a robust process in place, without an efficient monitoring system in place the process is weak.

• Are there identical bids with a large price discrepancy between different suppliers? Are there bids from, say, two companies who have worked in the same industry for some time but their bid submissions have substantial price discrepancies? A possible explanation in these circumstances is that there is a bid rotation or cover bidding arrangement. In this scenario, the company that has missed out on the bid may benefit from some other form of incentivization. The lower bid that was submitted, although it may appear attractive, may not be realistic and the price will increase through other revenue streams from either variations or ad hoc works.

• Examine any emails that have been sent as part of the tender submission. Read and digest the tone of the emails. Do they appear over friendly or allude to additional meetings either professionally or socially? Information is often exchanged or discussed during a visit to the pub or other organized social events such as a golf open day.

• Were all the bids submitted on time and delivered in the prescribed manner? Examples of bids being sent via a person within the company should cause concern if this is outside of the prescribed process.

• Were there any marks/indications on the bid boxes? For example, is there a cross on a box to indicate that a particular bid belongs to a particular supplier.

• Were any late bids disqualified? If not, why not? Were they allowed to submit late? This is useful information as most defined bidding processes don’t allow late submissions without written authority as this is in clear breach of the tender process. If late bids are present, it is worth examining them to see if there is any intelligence that can be obtained even if they are disqualified.

TENDER AWARD DOCUMENTS

In addition to the procedures, and independently of what they provide for the investigator, the tender award documentation should be treated as an entirely distinct route of enquiry, covering:

• Who was involved in the tender award process? Have there been any changes in staff from those involved during the tender evaluation?

• Have any decisions for supplier disqualification been fully documented and is that paperwork available for inspection? A note on the file saying the tender was disqualified owing to non-compliance without documentary supporting evidence should be treated as a matter of concern.

• Is the award document file complete? Examine if there is any missing documentation and additionally whether all the paperwork is legible and available.

• Did any of the bidders drop out of the process and decide not to proceed with the tender? Although there are often business reasons for this, there is a possibility of an agreement being made between suppliers or alternatively a supplier could have been disadvantaged and forced to withdraw.

• On the award paperwork, look at the list of suppliers/sub-contractors. Are they the same as the other companies involved in the tender process? Such circumstances can
lead to a predetermined outcome as it would be irrelevant of who was awarded the work. This may allude to cartel operating and open up the company to significant reputation/cost risks. If this is identified, it should be raised to the senior management co-ordinating the enquiry as soon as possible.

COLLUSION BETWEEN SUPPLIERS

As discussed in the tenders, investigators should seek to identify if there is information to suggest that there may be collusion between suppliers. This may add to the risk of external sanctions other than law enforcement such as the Office of Fair Trading (OFT). Fines from the regulator are often substantial and expose the company to adverse publicity.

Evidence of collusion can take many forms. An example of this would be similar or widely different prices on pricing for a piece of work. This may allude to a bow-out or a ‘bid rotation’ arrangement that allow collusive tenders to share contracts on a rotational basis. Another example of this would be the supplying of staff, i.e. contract staff. Are the prices very similar? Is there evidence of price pattern collusion? This type of operating can be very expensive to the company, as historical pricing is often used as benchmarking for future works. If the original pricing was artificially high owing to fraud, this in effect would keep prices artificially high in the long term.

The risk of cartel operating within contracts can be high, especially in markets where there is historically a close working relationship between suppliers. It is wise to look out for markers such as:

- **Bid Suppression**: This is where one or multiple competitors who can/ or who have previously bid, withdraws a previously submitted bid or fails to bid so that the ‘agreed’ bidder is successful.
- **Cover Bidding**: This is where bidders agree to submit bids that are too high. This ensures that the favoured bid looks even more attractive.
- **Bid Rotation**: This is where bidders submit costs but take turns being the lowest bidder. That way everyone gets a turn and no-one misses out.
- **Market Division**: This is where competitors divide markets among themselves. In such frauds, competing firms allocate specific customers, products, or territories among themselves
- **Bid or Price Patterns**: This is where certain patterns of bidding or pricing conduct seem at odds with the current market.

In reality, cartel operating is very complex and can be difficult to support. If you suspect that this is occurring, you must ensure that the senior management team/exec are fully aware of the risks.

PURCHASE ORDER AND CONTRACT VARIATION ORDERS

Examining purchase orders can be a valuable source of information. Thus investigators should check that purchase orders are being used for their primary purpose.

In other words, ensure that they are not being used instead of a contract. There are occasions where a contract has been set up for a specific piece of work and purchase orders are used to effectively add onto this contract for differing works. The reason for
this may be to hide the fact there are other works that are required to be tendered, in addition to hiding unknown/undisclosed costs.

Furthermore, the charging of these purchase orders may indicate that there has been a cost overrun. In these circumstances, a closer examination of the costs is always worthwhile. Are the cost overruns anticipated? Is the overrun legitimate or is it being used to fund any kickbacks?

On checking the variations, investigators should refer back to the main contract. There are instances where the work charged for in the variation is already covered in the contract. Not only is this not cost-efficient but it is an opportunity to remove funds from the company without creating counterfeit paperwork. There is also an opportunity for an individual to claim commercial naivety as opposed to fraudulent behaviour.

UNJUSTIFIED SINGLE SOURCE AWARDS³

If work has been single sourced, investigators should establish the reasons why the work was awarded without a tender or some form of a price check. Remember that the rules of tendering between a public and private company are completely different. Private companies don’t have to show the same level of transparency. So check:

• Is there any paperwork justifying why the work was single sourced? If so, then this should be checked to see if the reasons were valid. After all, a supplier being available and having previously carried out this work is not a valid reason for single sourcing.
• Has the work been single-sourced to the same supplier previously? This may provide another stream for the investigation in addition to demonstrating a historical relationship between individuals.
• Establish who requested this work and whether the work was necessary. Break down the reasoning and verify the information.
• Was any form of price checking carried out in the market place to see if the quote represented value for money? Although it was single sourced, the prices are usually based on some form of methodology.
• How was the work ordered? Was this requested by email, telephone or fax? From home or work? Establish if the order was placed in line with company policy and whether the order process is transparent and auditable.

FALSE INVOICES FOR PRODUCTS AND SERVICES FOR SUPPLIERS WHO DO NOT EXIST

Investigators should examine how the request for payment was made. If made by an invoice, examine for discrepancies as follows:

• Are the company number, address and VAT registration details present and correct?
• Do the dates on the invoice correspond to when the order was placed?
• How was the order placed? Was the order placed after the work had been started or completed?

³ Here, and for requirements for exercising emergency powers, standing orders and procurement policies should be checked.
• Has the work been signed off as completed, and if so, by whom?
• Look at the company registration numbers. On many websites linked to Companies House, PDF copies of documents are available, such as certificate of incorporation and company description code (SIC number) and accounts. Be cautious in the event of using different suppliers to obtain a company’s financial records. There are occasions when these providers have information that is not up to date.
• Are the numbers sequential? This may indicate that the organization is a sole supplier for a company. Does this company claim to be a global organization? This may indicate an issue that requires further investigation.
• Overall, Table 12.2 provides a good practice framework for a procurement fraud investigation.

MAKE OR BUY DECISION

This decision can be critical as part of the procurement process and is often overlooked. Companies will often bring in external resources to solve a problem they believe can’t be solved internally. It is wise to check any solution put forward by either internal or external parties. Questions such as, is this product available to buy? Although this is an obvious question, this can be overlooked and should be checked.

Any decision made should be thoroughly investigated. Poor decision-making at this stage can have a substantial impact on future costs.

FRAUD ANALYTICS

Analytics are a useful tool to help focus the investigation, but remember that analytical tools can not investigate for you. They are a tool. Once the data is collated, it will still have to be interrogated and understood. When putting together a spread sheet, the following should be considered:

There are various tools available such as SAS, i2,Visio and of course an Excel spreadsheet.

When populating a spreadsheet the following information should be recorded:

• Name of supplier
• Company registration number
• Bank account number / address / telephone numbers
• Company address
• Date the company was entered onto the system
• Who proposed the company?
• Who processes the requisitions?
• Product/service they supply
• Breaches/exception reporting against this company/person if applicable
• Level of spend.

What are you looking for:

• Cross refer details to company staff payroll including non permanent staff/consultants
• Check supplier details that look similar to other suppliers
### Table 12.2 Framework for investigation

<table>
<thead>
<tr>
<th>Paperwork to examine in investigating procurement fraud</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bid rigging</strong></td>
</tr>
<tr>
<td>Is the tender scope biased towards a particular tender/contractor? Did someone have inside information?</td>
</tr>
<tr>
<td>Are the tender scores consistent with the decision taken? Is the scoring mechanism company agreed or has it been devised for the works?</td>
</tr>
<tr>
<td>Is all the paperwork complete and available for inspection? Has it been tampered with or is paperwork missing/destroyed?</td>
</tr>
<tr>
<td>Due diligence carried out on the companies involved in the tender including visiting the premises?</td>
</tr>
<tr>
<td>Who selected the companies involved in the tender? Are all the companies equipped to be able to carry out the work?</td>
</tr>
<tr>
<td>Does anyone involved in the tender have an undisclosed directorship including family members?</td>
</tr>
<tr>
<td><strong>False invoices</strong></td>
</tr>
<tr>
<td>Has the work detailed in the invoice been carried out?</td>
</tr>
<tr>
<td>Is the invoice in the expected format? Is the information detailed correct?</td>
</tr>
<tr>
<td>Are there examples of repeat invoicing?</td>
</tr>
<tr>
<td>Are invoices numbered sequentially?</td>
</tr>
<tr>
<td>Has this service or product been purchased before? If so, what are price increases?</td>
</tr>
<tr>
<td><strong>Shell companies created to facilitate fraud</strong></td>
</tr>
<tr>
<td>Is the company listed on Companies House/Credit Safe/Company Watch, MINT?</td>
</tr>
<tr>
<td>Are any directors known to the business? Are there undeclared conflicts of interest?</td>
</tr>
<tr>
<td>Are the accounts audited and submitted on time? Do the accounts add up to the volume of work placed?</td>
</tr>
<tr>
<td>Is the name used similar to a more established company already used or about to be engaged?</td>
</tr>
<tr>
<td><strong>Purchase order/contract variation orders</strong></td>
</tr>
<tr>
<td>Was the work needed and if so who specified this requirement? Is work already covered in an existing operating contract within the business?</td>
</tr>
<tr>
<td>Did the work start before the order was raised?</td>
</tr>
<tr>
<td>Was order raised outside of procurement process? Has this happened before?</td>
</tr>
<tr>
<td>Is there a process for raising variations? Was this followed, and if not why? Have variations been used to cover invoices?</td>
</tr>
<tr>
<td>Does the volume of work equate to the number of invoices received?</td>
</tr>
<tr>
<td>Is the request for payment timely or was the product/service delivered some time ago?</td>
</tr>
<tr>
<td><strong>Unjustified single-source awards</strong></td>
</tr>
<tr>
<td>Was a single source justification form submitted and if so, was the information used accurate?</td>
</tr>
<tr>
<td>Could this work have been carried out by someone else and/or at reduced cost?</td>
</tr>
<tr>
<td>Should this work have been tendered or is it beneath thresholds?</td>
</tr>
<tr>
<td>Was the work carried out at all?</td>
</tr>
<tr>
<td>Is there evidence of an individual insistent on using a specific supplier regularly?</td>
</tr>
<tr>
<td>Are there any registered gifts and hospitality on a specific supplier or noted concerns?</td>
</tr>
</tbody>
</table>
• Look for duplicate addresses/ bank accounts/ telephone numbers
• Look at purchase orders and examine who raised them.
• Look who raised/ proposed the company. Are they part of your enquiry?
• Look out for sequential PO numbers
• Look at the time the orders were raised (in or out of office hours). If it is out of hours, is that normal protocol within the organization.
• Scrutinize companies who share offices with other suppliers you deal with.

What are the Options at the End of an Enquiry?

On conclusion of the enquiry, there are various options that can be taken. These in reality will vary according to company and the company policy. It is important to remember that an investigator's role is to gather evidence and present this in such a manner that a decision can be made with all the facts available.

The initial considerations are – what evidence do you have? Have you proved the evidence to a criminal standard or have you found breaches in weak or non-existent company policies?

The decision on whether to refer the results and findings to the police would depend on a number of factors. What is the strength of the evidence? What are the financial amounts involved? What was the level of premeditation? And what were the consequences? These facts in themselves may determine the position of the police to investigate if the decision is made to refer the enquiry to them. In reality, although the police have a duty to investigate any crime reported, they have a finite level of resource. Is there an opportunity for financial recovery? This should have been considered at the initial stages of the enquiry. A memorandum of understanding (MOU) with the police to recover monies under the Proceeds of Crime legislation should be considered. Remember compensation is paid out of confiscation. This should not be taken for granted as often fraudsters will have spent the proceeds of their crimes and there may be nothing to recover. Alternatively proceeds may have been hidden. This will require specialist investigators.

On occasions if the enquiry is going to be dealt with internally, there can be frustration for investigators who believe that the enquiry should be referred externally for investigation. In this case, remember both your and the company’s goals. Remember, your role as the investigator is to establish the truth. The company's focus may be on restitution and not retribution.

Although involving the police can be seen as a deterrent, in reality fraud investigations and trials are often lengthy, costly and have a reputation impact. These factors in reality can influence a company’s decision to refer any enquiry externally.