

The United Republic of Tanzania: Ministry of Finance and Planning



**INNOVATION AND TRANSFORMATION
OF PROCUREMENT AND SUPPLY FOR
INFRASTRUCTURE DEVELOPMENT**

DODOMA



5TH
DECEMBER
TO
6TH
DECEMBER
2018

Shakibu M Nsekela



He is Executive Director of Perterms Consultancy Ltd, a private anti-corruption firm based in Dar es Salaam Tanzania

Mr Shakibu has more than 27 years of experience providing fraud prevention, detection and deterrence services as well as Corporate fraud risk assessment, risk Management, special investigations and LSA services

He also designs fraud awareness training programs for Organisation and evaluates corporate anti-fraud programs. His experience also includes numerous financial statement, compliance, internal, and vendor audits

He has worked with various businesses organisation in many industries including nonprofit organizations, and government agencies throughout Africa, Europe, Asia and America.

While providing assurance services to various organizations, he also served as a Director of Finance and Planning at Mbeya Zonal Consultant Hospital

Mr Nsekela hold several certifications including: Association of Certified Fraud Examiners (CFE), American Board of Forensic Accountant (ABFA) and Institute of Certified Forensic Practitioners

Currently he is serving as Secretary of the Association of Certified Fraud Examiners Tanzania (ACFE) Chapter #166

COVERAGE

- What is e-procurement?
- Drivers of e-procurement
- The benefits of e-procurement
- The current state of e-procurement initiatives
- The barriers of adoption
- Measuring the benefits of e-procurement
- E-Business applications
- Fraud Risk red flags and mitigation
- Combating e-procurement fraud

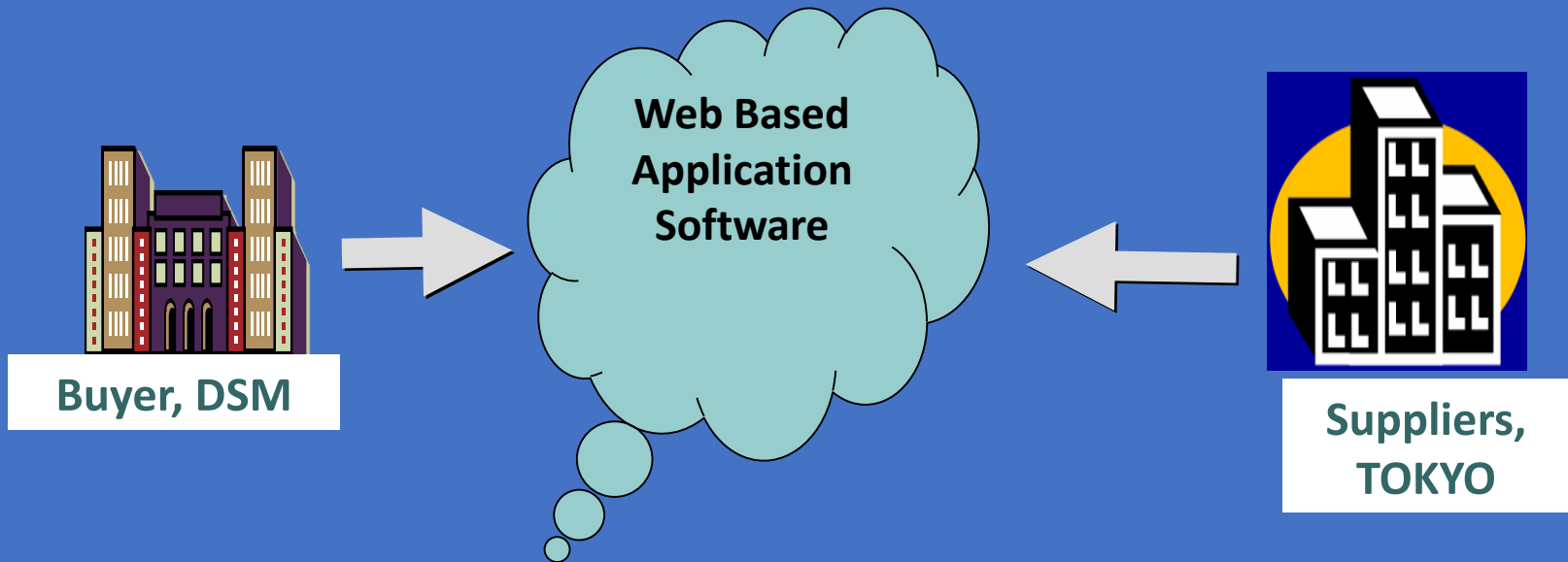
WORKSHOP OBJECTIVE

- Understand the concept of e-procurement
- Identify the benefits and potential barriers to the successful adoption of e-procurement
- Identify potential fraud risks in e-procurement and prevention measures
- Explain the applications of e-procurement
- Fraud deterrence global perspective
- Understanding how fighting procurement fraud enhance efficiency, effectiveness

Overview on e-Procurement

- E-Procurement: Is the acquisition of direct and indirect products and services using the internet and new technologies to facilitate seamless end-to-end stream of strategic procurement activity by connecting Buyer and Supplier
- Is the inclusion of Tools and Business Intelligence System that enable responsiveness and analysis within the procurement organisation

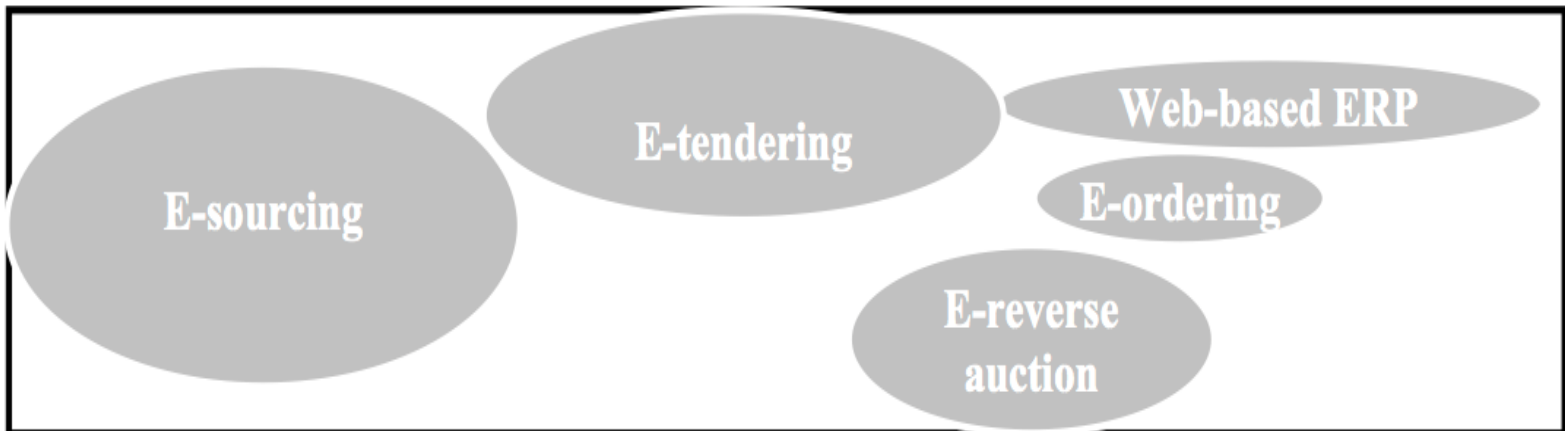
Overview on e-Procurement



Overview on e-Procurement

- An important part of many B2B sites. Typically, e-procurement Web sites allow qualified and registered users to look for buyers or sellers of goods and services
- Depending on the approach, buyers or sellers may specify prices or invite bids.
- Ongoing purchases may qualify customers for volume discounts or special offers

e~Procurement Process



E's in Procurement process

- **E-sourcing** supports the specification phase; it identifies suppliers that can be used in the selection phase.
- **E-tendering** supports the selection phase; it facilitates the REOI and ITB activities, usually including support for the analysis and assessment activities.
- **E-reverse auctioning** supports the contract phase; it enables closing a deal with a supplier

E's in Procurement process

- **E-ordering and web-based ERP** is the process of creating and approving procurement requisitions, placing purchase orders, as well as receiving goods and services ordered, by using a software system based on the Internet.
- **E-informing** is not directly associated with a phase in the procurement process; it is the process of gathering and distributing procurement information both from and to internal and external parties using Internet technology.

Drivers of e-Procurement

- Internal and external strategic integration
- Globalisation and communication
- Improved visibility of customer demand
- Data information management
- New business processes
- Replacement of legacy systems
- Strategic cost management

Benefits of e-Procurement

- Reducing purchasing cycle time
- Improved visibility of customer demand
- Enhancing budgetary control
- Administrative costs reduced
- Eliminating administrative errors
- Improved market intelligence
- Increasing buyer's productivity
- Enhanced decision making
- Lowering prices through product standardisation and consolidation of purchasing power
- Improved contract compliance
- Improved transparency and reduce fraud risk
- Increased accuracy of production capacity
- Better information management

Benefits of e-Procurement

Value drivers

Improved process efficiency

Reduced costs

Improved compliance

Reduced off-contract spend

Reduced inventory

Pain points

Long lead times from manual processing, time-intensive

High transaction costs, long supplier negotiations and non-contract compliance drive up price

Fragmented and inaccurate

Off-contract spend (approx 27% of indirect spend)

Long lead times result in purchase of large safety stocks

Mitigation/savings estimate

Requisition processing time reduction of 70–80%, e.g. a week faster

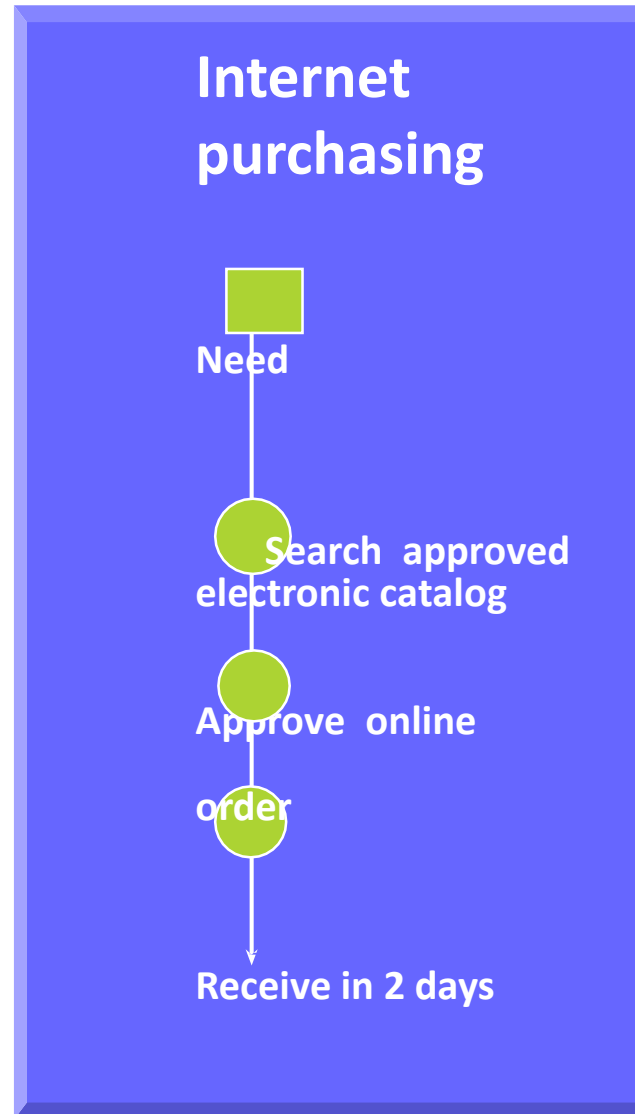
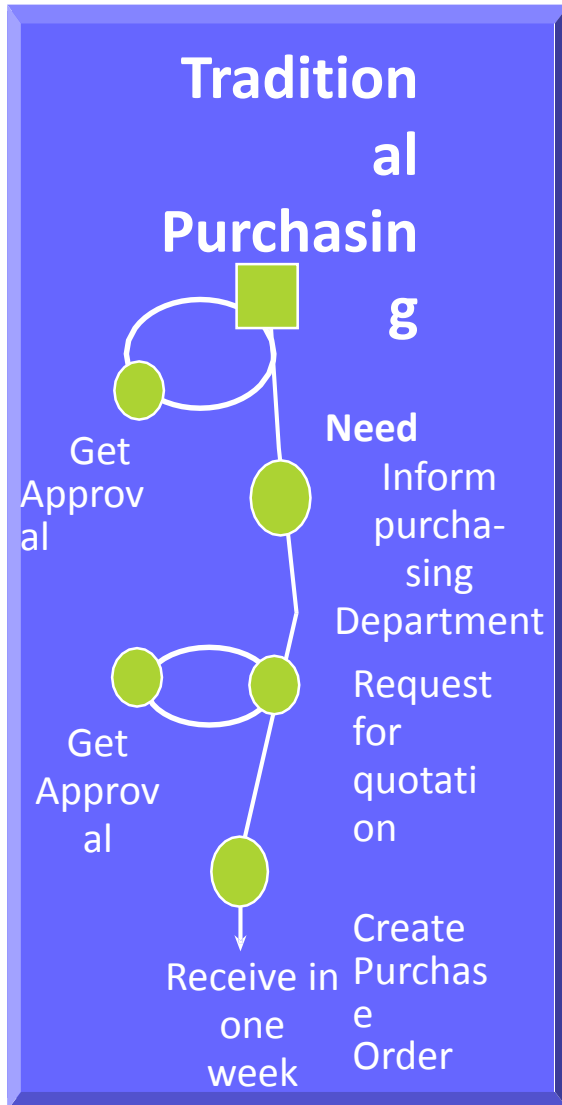
Requisition process reduction up to 73%, price of goods 5–10% less

Data improved via contract compliance improves leverage

Off-contract spending decreases by 50%

Inventory expense reduction by 25%–50%

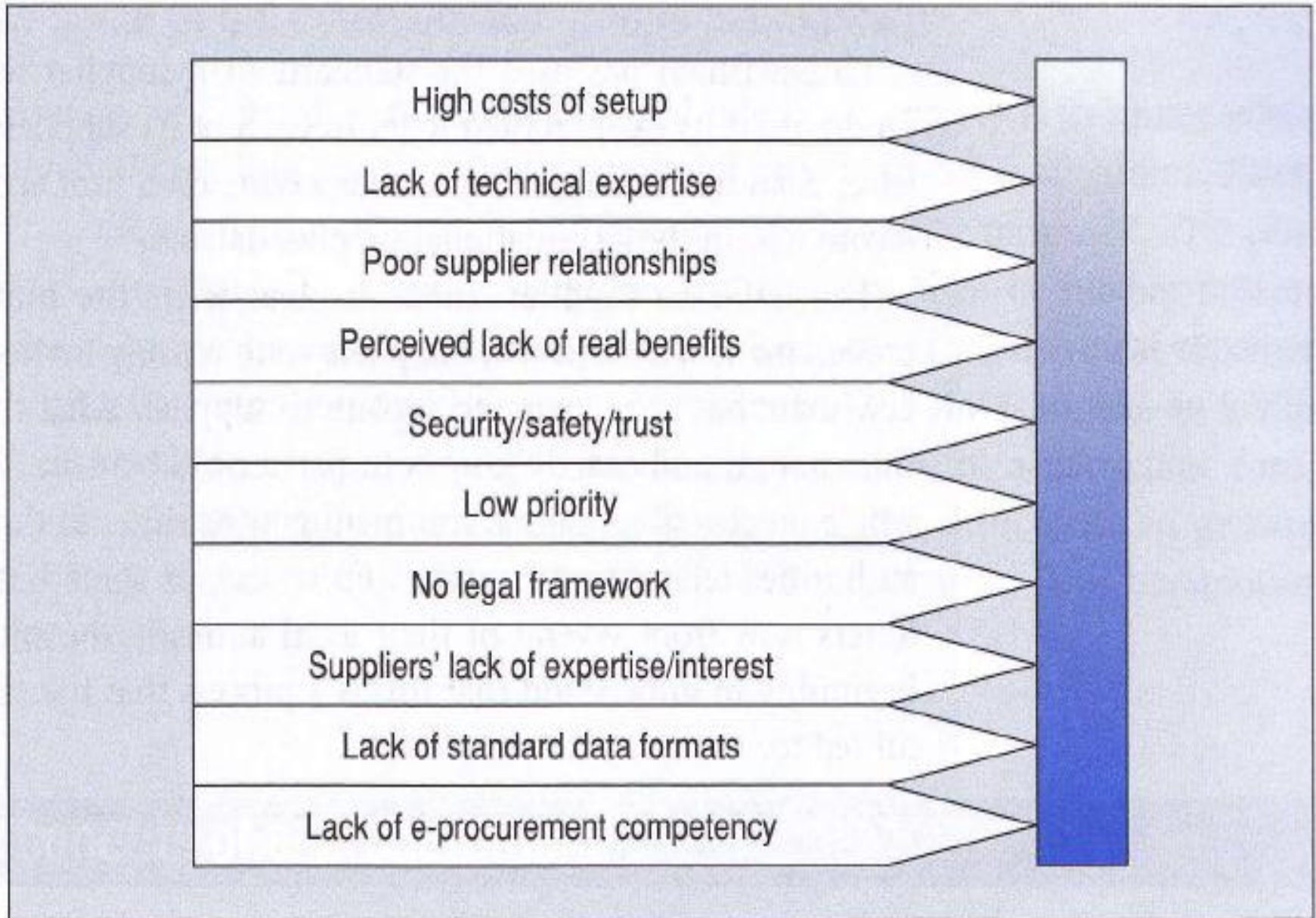
E-Procurement Vs Traditional Procurement



Barriers of Adoption

- Inadequate Technological Infrastructure
- Inadequate Technological Infrastructure of Business partners
- Lack of Integration with Business Partner
- Implementation costs
- Organisation cultures
- Inadequate Business Processing to support e-procurement
- Regulatory and legal controls
- Security issues
- Inadequate e-procurement solutions
- Lack of skilled personnel
- Co-operation of business partner
- Upper Management support

Barriers of Adoption



Issues on Buyer Side

Issue	Approach
Complexity of Procurement Procedures	Procurement Reforms
Wide Range of items to be procured -Goods -Works -Services	<ul style="list-style-type: none"> •Conduct an ABC Analysis •Select 'A' items initially
Organizational Resistance	Change Management
Lack of IT Skills among employees	Training
Lack of resources with Government	Public-Private-Partnership

Issues on Seller's Side

Issue	Approach
Difficulties in changing over to new systems of tendering	Supplier adoption
Low levels of technological skills	<ul style="list-style-type: none">• Training• Help Desk
Difficulties in access to site	E-Procurement help canthers
Resistance to change	Change Management

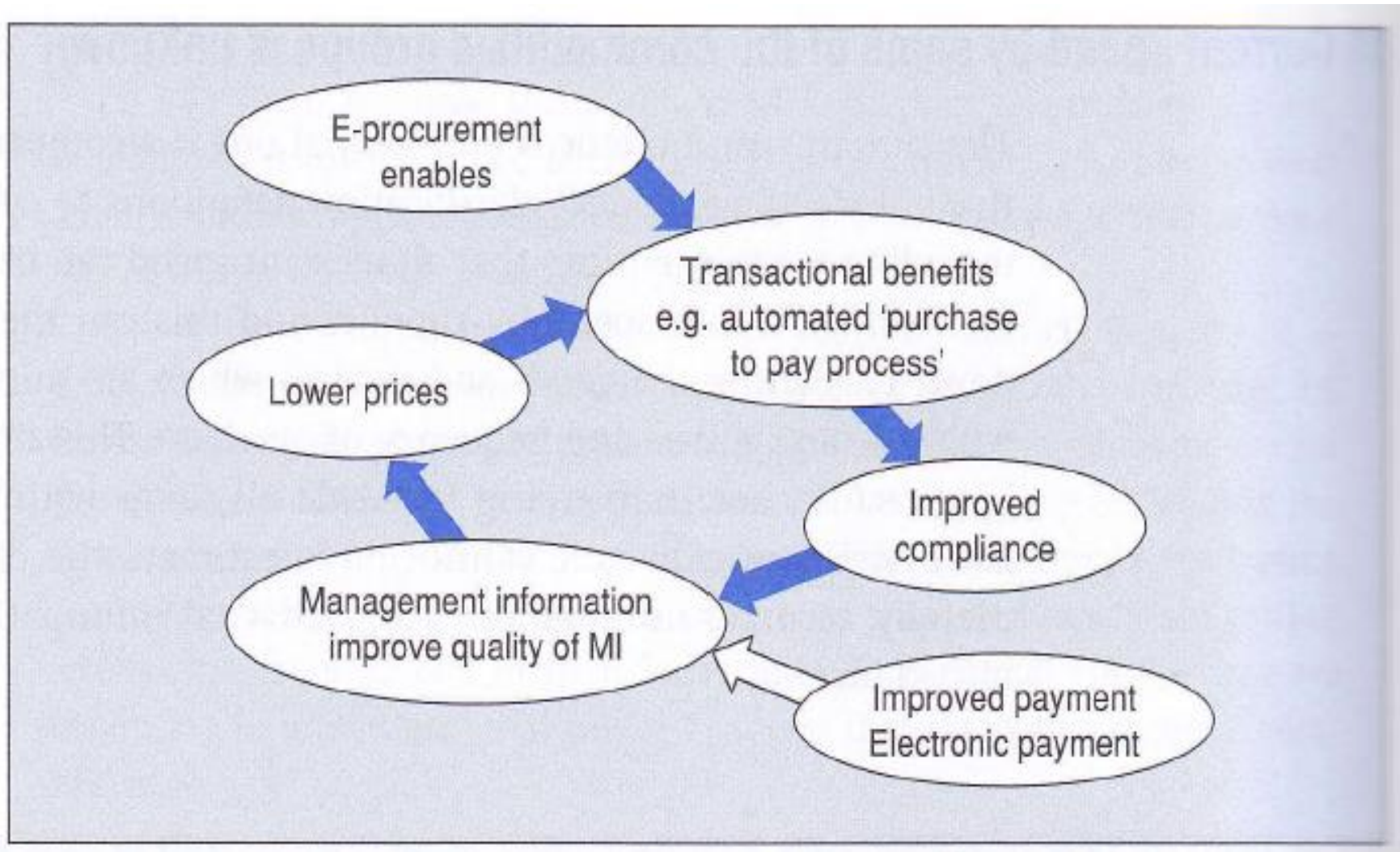
E-Procurement Side

Issue	Approach
Difficulties in establishing & maintaining the system	By sharing responsibility through PPP
Lack of Financial resources for maintenance & transaction handling	<ul style="list-style-type: none"> • Designing appropriate business model • Levy of service charges
Concerns of <ul style="list-style-type: none"> • Confidentiality of bids • Authenticity of bids 	Digital Signature Certificates
Varying requirements of Multiple Departments	<ul style="list-style-type: none"> • Process Reforms • Standards-based system

Measuring the benefits

- Principal metrics that will demonstrate a return of investment in e-procurement are:
 1. Hard (direct measurable) benefits:
 - price savings
 - process cost reduction
 - reduction in cycle times (days / weeks)
 - consequent reductions in inventory holdings (value / stock turnover ratios)
 2. Soft (indirectly measurable) benefits
 - increase individual time freed up through more efficient processes
 - enabling staff to spend more time on value added aspects such as supplier development or contract management

Measuring the benefits cont...

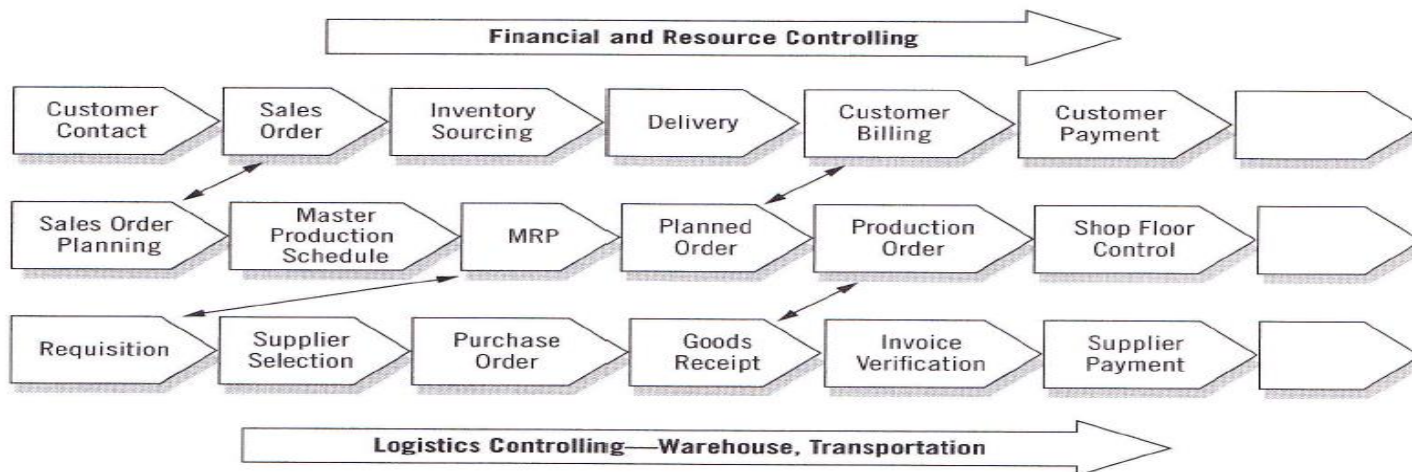
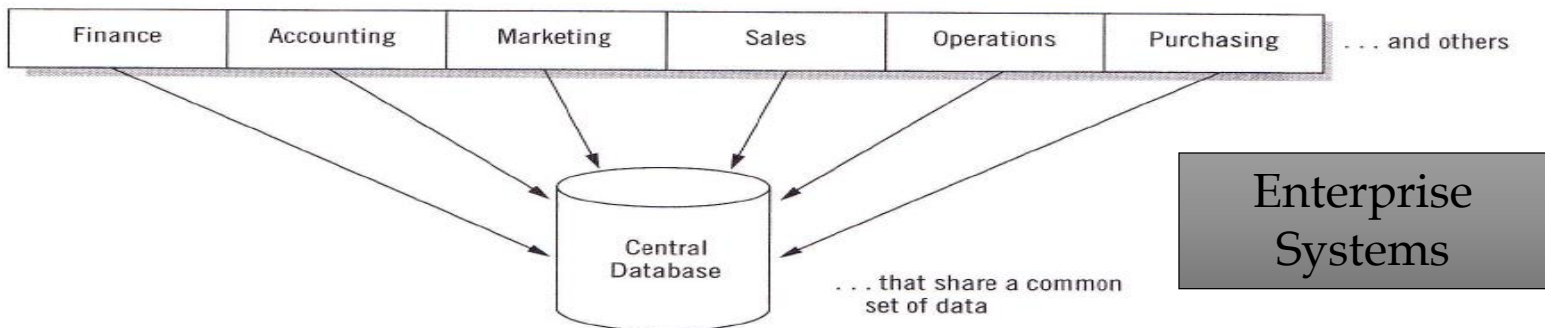


E~Business Application

- Integrate suppliers and distributors
- Share information
- Link ERP systems to sales personnel in the field
- Outsource manufacturing and logistics systems
- Facilitate supplier, on-site engineering and maintenance activities.

E-Business Application

Applications with a common technological platform and built-in integration . . .



ERP Systems

Managing Fraud Risks in e-Procurement

- Whether an organisation uses a paper or electronic based procurement system, does not impact the risk fraud schemes
- Fraud risks are in a perpetual state of change, and fraud risk assessments and mitigation strategies have to keep at pace
- Some of the key drivers of change that impact fraud risks are in e-procurement
 - People and Strategy
 - Competition
 - Economic conditions
 - Regulatory framework

Fraud schemes in procurement Cycle

- Pre-solicitation Phase
 - Need recognition schemes
 - Bid specification schemes
 - Unjustified sole sourcing
 - Bid splitting schemes
 - Bidder pre-qualification schemes
- Solicitation Phase
 - Liking of information
 - Inappropriate Q&A communication
 - Manipulation of bid receipt
 - Back-dating receipts of bid
 - Collusion among bidders

Fraud schemes in procurement Cycle

- Evaluation and Award Phase
 - Bid manipulation schemes
 - Improper disqualification schemes
 - Unjustified changes in bid specifications or award criteria
- Post-Award and Performance Phase
 - Change order abuse
 - False billings
 - Product substitution
 - Non-conforming goods or services
 - Costs mischarging

Potential fraud risks in e~ procurements

- Requiring registration to gain access to tender notifications
- Charging fee to enroll in the bid notification or registration system
- Posting bid notification/advertisement to a difficult to access website
- Requiring unnecessary information to register to receive tender notifications, such as information preferred vendors might have but that others might not have

Potential fraud risks in e-procurements

- System does not allow resubmission of bids even if deadline has not yet passed
- Posting notices of changes to call for tender without an easy way of identifying where the changes were made (usually done in conjunction with leaking the changed information to preferred bidders)
- Blocking access for submission of bid during normal business hours and granting limited access to preferred bidders during unusual hrs
- Deleting a bid that has been submitted , claiming it never was received

Mitigating Fraud Schemes

Fraud Scheme or Technique	Required Controls/Prevention
Requiring registration to gain access to tender notification	Registration should not be required for supplier to view upcoming tenders
Charging fee to enroll in the bid notification or registration system	Online registration should be free
Posting bid notification/advertisement to a difficult to access website	Post all notices on a publicly available website that is easy to locate
Requiring unnecessary information to register to receive tender notifications, such as information preferred vendors might have but that others might not have	Limit the required information to only most essential
System does not allow resubmission of bids even if deadline has not yet passed	Users should be allowed to correct errors by resubmitting the bid

Mitigating Fraud cont....

Fraud Scheme or Technique	Required Controls/Prevention
Posting notices of changes to call for tender without an easy way of identifying where the changes were made (usually done in conjunction with leaking the changed information to preferred bidders)	Include an index to all changes and clear detailed information about changes
Blocking access for submission of bid during normal business hours and granting limited access to preferred bidders during unusual hrs	Data mining associated with system access to detect unusual times and dates of access
Utilising an overly complicated system for registering or submitting data for prequalification	<ul style="list-style-type: none"> •Provide a clear and readily available instructions •Make training available to users
Using complicated language	Consider use of multiple language
Deleting a bid that has been submitted , claiming it never was received	Strong audit trail in the application involved in the receipt of bids

Why should we care?

- We're all taxpayers and fraud means less of our money going towards programs to improve and maintain our **quality of life**
- **Fraud** provide for a loss of revenue which is less money for government agencies to use for pay rise, providing training for personnel development, or new technology and other infrastructure to make our work more efficient
- Our professional reputations are tarnished, directly or by association
- If fraud is found in your organisation or your particular division, you could have more work to do outside your normal duties (e.g. researching transactions, revising procedures, implementing preventative/corrective internal controls, and responding to auditors, investigators, law enforcement authorities, media, and press).

Global Trends

- Over the last two decades fraud has evolved and resulted in far more sophisticated complex schemes that involve a variety of technologies. The most recent Global Fraud Study released by the Association of Certified Fraud Examiners determined businesses can lose on average 5 percent of revenue each year to fraud, which amounts to nearly \$3.7 trillion across the globe
- Massive data breaches have caused serious damage, including a \$146 million loss for Target and an estimated \$200 million for Sony. Although high-profile technology breaches of consumer data dominate the news, your company's financial data and assets could also be at risk.

Global Trends

- With technology providing a "faceless enemy", the theft of identities has exponentially increased. Identity theft is linked to credit card theft and can involve more sophisticated syndicate operations such as health care fraud, social welfare fraud, procurement fraud and more that can leave organisations and governments with billions of tax payers money lost.
- A review of internal controls is not sufficient to combat fraud and corruption. A professional fraud examiner or auditor needs to understand the variety of fraud schemes that, on face value, may pass all internal controls, but fails when the strength or authenticity of the evidence is tested. Coupled with the sophisticated fraud schemes, financial statement fraud has also proven to more far more sophisticated than two or three decades ago

Combating Procurement Fraud

- Fraud and corruption continues to plague countries and companies globally. Its impact is significant and results in substantial losses both in monetary and reputation. It affects the livelihoods of the employees, their families, the companies, government and the global economy.
- Although fraud causes long lasting damage on organisations and governments, there is reluctance to report fraud. Thus, the exact impact of fraud and corruption in financial terms, due to the low level of reporting, is likely to be understated
- Asset misappropriation schemes were by far the most common type of occupational fraud, comprising 87% of the cases reported to us; they were also the least costly form of fraud, with a median loss of \$120,000.

Combating Procurement Fraud

- Financial statement fraud schemes made up just 8% of the cases in our study, but caused the greatest median loss at \$1 million. Corruption schemes fell in the middle, occurring in just over one-third of reported cases and causing a median loss of \$250,000.
- Corruption and billing schemes pose the greatest risks to organizations throughout the world. For all geographic regions, these two scheme types comprised more than 50% of the frauds reported to us.
- Due to its significant impact of fraud and corruption the UN adopted article 68 (1) on **31 October 2003**. This gave birth to **UNCAC**
- In the private sector the demand for specialist forensic investigation skills gave rise to the **Association of Certified Forensic Examiners**.

Who commit fraud?

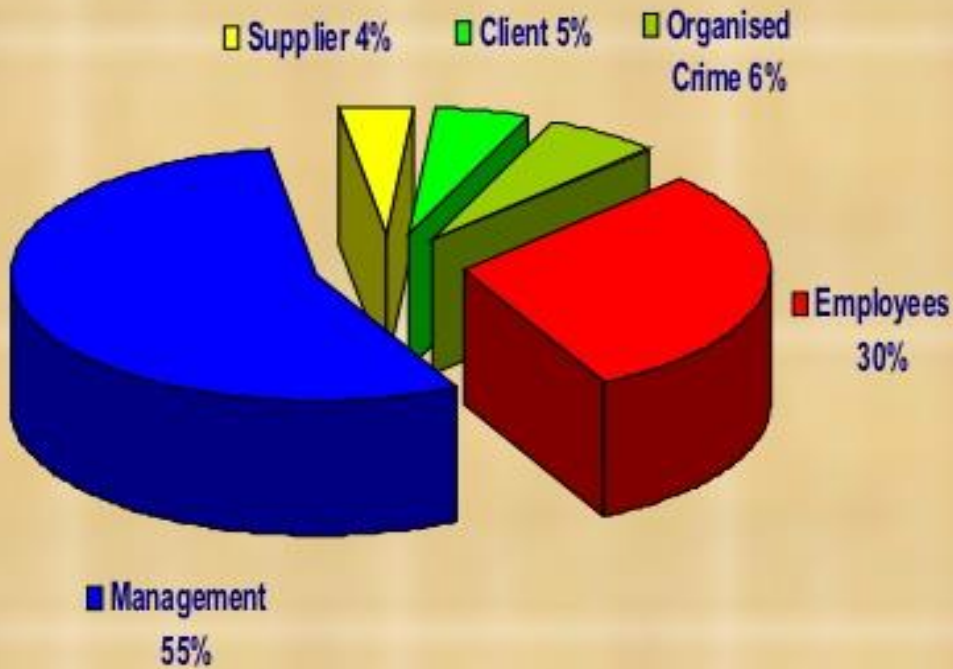


Most Fraud is committed by:

- Executive / Top Management
- Employees
- Organised Employees
- Clients
- suppliers

Most Fraud is committed by:

Who commits fraud?



Conclusion

- Though evidence shows that e-procurement Improved transparency and reduce fraud risk, however In today's digitized world it is important than over to take every precaution possible to reduce exposure financial loss, reputation damage and service interruption so that organisation achieve its main objective of efficient and effective service delivery



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THANK YOU FOR YOUR VALUABLE TIME!

CLARIFYING THE UNKNOWN BY PROVIDING PRACTICAL
SOLUTIONS THAT ADD VALUE

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FORENSIC INVESTIGATIONS
GOVERNANCE ASSESSMENTS
INTERNAL AUDIT
INTERNAL FINANCIAL CONTROLS
RISK MATURITY ASSESSMENTS
SECURITY VETTING

STRATEGIC CONSULTING

BENCHMARKING
BUSINESS PLANS
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DATA ANALYTICS
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DEVELOPMENT

SPECIALISED TRAINING

EFFECTIVE REPORT WRITING
FRAUD AWARENESS
GOVERNANCE AND ETHICS
IDENTITY FRAUD
MEDICAL FRAUD
PROCUREMENT FRAUD
SOCIAL WELFARE/GRANT FRAUD