Te Kāwanatanga o Aotearoa
New Zealand Government

Procurement fraud and corruption risk

Building fraud and corruption prevention capability and culture in the public sector

SFO
SERIOUS FRAUD OFFICE
TE TARI HARA TĀWARE

Counter Fraud Centre
TAUĀRAI HARA TĀWARE

The Serious Fraud Office Te Tari Hara Tāware is the lead law enforcement agency for investigating and prosecuting serious or complex fraud, including bribery and corruption. It works to strengthen the public sector's resilience to fraud and corruption through its Counter Fraud Centre Tauārai Hara Tāware.

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Introduction

Procurement is the process that organisations use to get the goods and services they need. It can range from simple, low-risk transactions to complex, high-risk undertakings. Procurement starts by identifying a need and ends with either the completion of a service contract or the disposal of an asset. This is known as the procurement lifecycle.

A robust procurement process follows a set of rules and procedures to ensure a transparent, fair and efficient process that promotes good practices and mitigates fraud and corruption risks.

Procurement in the public sector

New Zealand's public sector spends over $51 billion on procurement annually, so efficient procurement of public goods and services is needed to support the nation's economy and wellbeing.[1]

Public procurement covers a wide range of acquisitions, from everyday items like office supplies and healthcare services to complex contracts for infrastructure projects, defence equipment and consulting services.

Strategic procurement approaches are crucial for high-risk or high-value public procurements. Alignment with agency goals, efficient planning, careful supplier selection and effective relationship management will ensure the best outcomes and ultimately lead to successful project delivery and creation of significant public value.

Public value in procurement – or social procurement – means maximising the impact of public funds when procuring goods, services or works. It does not necessarily mean selecting the lowest price but rather the best possible outcome for the total cost of ownership, over the whole-of-life of the goods, services or works. For example, delivering services while also promoting environmental sustainability or supporting Māori and Pasifika businesses.[2]

1 NZGP, 2025.

2 Ruckstuhl et al, 2021.

Agencies also have obligations under Te Tiriti o Waitangi. To honour these, procurement should actively incorporate strong fraud prevention measures to ensure public funds deliver equitable outcomes.[3]

In New Zealand, the Government Procurement Rules are the Government's good practice standards for procurement and are mandatory for specific agencies.[4] These rules should be read alongside the principles of government procurement,[5] the Government Procurement Charter,[6] and other best practice guides.

Risks to the procurement process

The procurement process – from the planning stages through to contract management – remains the government activity most vulnerable to waste, fraud and corruption due to the size of the financial flows involved.[7]

From poorly defined requirements and biased bid evaluations to inflated prices and non-compliance with contract terms, these risks can have significant financial implications. External factors like market instability, including supply chain disruptions, supplier failures and price volatility, can significantly increase the risks in public procurement.

Procurement is a prime target for fraud and corruption due to factors such as:

- the volume of transactions
- the significant financial interests at stake
- the process often being complex
- the close interaction between public sector employees and private sector businesses
- the involvement of multiple stakeholders
- the challenges associated with fraud and corruption detection
- a general lack of knowledge about fraud, corruption and prevention.

[3] Te Puni Kōkiri, 2021.
[4] NZGP, 2019; see https://www.procurement.govt.nz/about-us/mandate-and-eligibility.
[5] NZGP, no date. Principles, charter and rules.
[6] NZGP, no date. Government Procurement Charter.
[7] OECD, 2021.

Reducing the risk of procurement fraud and corruption

Organisations must prioritise fraud and corruption prevention to protect themselves from financial loss, reputational damage and legal consequences. By understanding the conditions that can lead to fraudulent or corrupt activities and implementing effective safeguards, organisations can protect public funds and maintain the integrity of their procurement processes.

A robust and well-structured procurement process is the first line of defence against procurement fraud and corruption. While a formal procurement process may be viewed as complex or administrative, it is essential to examine the entire procurement lifecycle and follow a series of fundamental steps during any procurement activity.

To raise awareness of procurement fraud and corruption risks in the public sector, this resource identifies procurement processes that are vulnerable to fraud and corruption and provides practical strategies to counter fraud and corruption risks.

Who this resource is for

This resource is intended for those with financial authority delegations, those in charge of procurement, decision makers, project managers, contract supervisors and any employee involved at any stage of procurement. It is also useful for risk management, fraud and corruption risk, and procurement professionals who want to learn more about implementing fraud and corruption risk management in procurement.

Auditors reviewing procurement processes and spending will also find it helpful for identifying warning signs or red flags of potential fraud or corruption. The internal audit function within organisations will have a key role in ensuring that robust controls are in place across the procurement lifecycle.

What is procurement fraud and corruption?

Fraud and corruption in the procurement process each involve criminal behaviour. Sometimes this criminal behaviour is both fraudulent and corrupt, for example where a public sector employee accepts kickbacks or bribes in return for approving false invoices. However, while the acts of fraud and corruption can be similar, not all fraudulent acts involve corruption and vice versa.

Procurement fraud is deliberate, dishonest behaviour that exploits one or more stages of the procurement process to secure unfair or unlawful financial gain or cause losses. It can be carried out by suppliers, vendors, subcontractors or internal employees.

Procurement fraud takes many forms. It can include false invoicing or overbilling, submitting fake documents or product substitution. For example, a contractor submits invoices for equipment that was never delivered or inflates the cost of services. No public sector employee was involved in the fraud, the contractor simply manipulated the documentation to receive more money.

Procurement corruption involves the abuse of power for personal gain. It typically involves unethical behaviour by public sector employees with decision-making power. For example, a public sector employee awards procurement contracts to companies they have a link to, in exchange for a personal benefit.

Challenges of procurement fraud and corruption

Difficult to detect

Identifying fraud and corruption in the procurement lifecycle can be challenging due to the complexity of the procurement process and involvement of multiple stakeholders. Most fraud and corruption cases are discovered through tip-offs by employees about unusual behaviour.[8]

Difficult to measure

Measuring the true cost of procurement fraud and corruption presents a complex challenge. Unlike other financial losses, procurement fraud and corruption is often hidden, unreported and unquantified. This lack of visibility makes it difficult to determine the exact scale of financial losses incurred.

Difficult to address

Traditionally, public sector fraud and corruption has been addressed through reactive measures such as investigations, prosecutions and penalties. While holding fraudsters and corrupt actors accountable remains essential, it can be a slow and costly approach and may not lead to the recovery of lost funds or achieve convictions.

Lack of awareness

A major obstacle to preventing procurement fraud and corruption is the lack of focus on fraud risks during the planning stages. Many projects lack a risk assessment for procurement fraud and corruption, leading to a neglect of fraud and corruption controls and risk mitigation strategies.

8 ACFE, 2024.

Impacts of procurement fraud and corruption

Procurement fraud and corruption is not just a financial crime, it creates a ripple effect of negative consequences, posing a serious risk to the public sector, economy, people and the environment.

Strained service delivery

In the public sector, procurement fraud and corruption can potentially act as a double blow, draining public funds and delaying progress. When public funds are illegally diverted from crucial areas such as welfare, health and infrastructure it leads to a decline in the quality of services and hampers the ability of government agencies to deliver vital services to citizens who need them most. Organisations face the additional burden of investigating and prosecuting fraud and corruption, which further compromises efficiency.

Reputational damage and loss of public confidence

Fraud and corruption can damage the reputation of New Zealand's public institutions, leading to a loss of public trust and international standing. Fraud and corruption scandals erode public confidence in government and its ability to manage public funds effectively, which can have political and economic consequences.

Human and environmental impacts

Public sector fraud and corruption is not a victimless crime. It can cause trauma, with real and irreversible impacts for victims and their whānau. Such crimes can also lead to a sense of betrayal and loss of trust for those close to the offender.

Fraud and corruption in public sector procurement can lead to immediate and long-term environmental harm through pollution and damage to ecosystems. This poses risks to our cultural values, natural resources and agricultural industry.

Threats to security and industry

Fraud and corruption in public sector procurement can compromise national defence and security and put New Zealanders at risk from organised crime and terrorist groups. Such crimes can result in distorted markets where fraudsters obtain a competitive advantage and drive out legitimate business. Fraud and corruption can also compromise border security, resulting in biosecurity risks and trafficking of illegal goods.

Procurement fraud and corruption risks

Different types of fraud and corruption can happen at different stages of the procurement lifecycle, and each stage carries its own unique risks. Understanding the risks and red flags at each stage is key to effectively preventing them.

Fraud and corruption can happen even with initial safeguards in place, regardless of the procurement method. Whether it is an open competitive procurement process, closed competitive process or direct sourcing, fraudsters can exploit weaknesses in the system. By recognising the diverse nature of procurement fraud and corruption, organisations can implement effective prevention and mitigation measures at every stage of the procurement process.

The following sections outline different types of fraud and corruption at different stages of procurement. Each stage has red flags of unusual or suspicious behaviour or circumstances that should be checked more closely for potentially fraudulent activity, along with a short scenario of how this might look in real life.

Employee fraud and corruption

Employee fraud and corruption occurs when an employee manipulates the procurement process for financial gain, often through deceptive practices and misrepresentation.

Needs recognition

An employee manipulates the procurement process to create a false need for goods or service, often in exchange for personal gain or kickbacks.

Tactics include:

- **Unnecessary purchases**

  Goods or services are bought that are not actually needed by the organisation.

- **Excessive purchases**

  Goods or services are bought in quantities much more than what is reasonably needed by the organisation.

Red flags

- Unusual or excessive requirements for specialised goods or services.
- Lack of clear project objectives, timelines or deliverables.
- Lack of detailed cost breakdowns or justifications.
- Resistance to budget scrutiny or questioning.
- Unusual or excessive pricing from the selected supplier.
- Lack of competitive bidding or price comparisons.
- Lack of evidence of project progress or deliverables.

Scenario

A manager, aiming to steal funds, creates a fictitious project that requires specialised software and hardware. By exaggerating the department's forecast budget, the manager secures additional funding. Once approved, they purchase the necessary items but divert them for personal use or sell them for profit.

Asset misappropriation

Asset misappropriation occurs when an employee unlawfully takes or uses an organisation's assets for personal gain or benefit. Suppliers can also misappropriate assets.

Tactics include:

- **Fraudulent disbursements**

  Making unauthorised payments or disbursements from company funds.

- **Theft**

  Directly stealing assets, such as cash, inventory or equipment.

Red flags

- Higher expenses than expected under cost centres.
- Goods or services that were never delivered.
- Signs of increased financial resources or lavish spending habits, such as expensive purchases or frequent vacations.
- Delayed payments or confusion in the accounting records to hide fraudulent transactions.

Scenario

An accounting administrator unlawfully uses the company's accounting software to create a fictitious vendor and submits invoices for services that were never performed. The administrator approves the invoices for payment and directs the funds to a personal bank account.

Collusion between employees and suppliers

This type of procurement fraud and corruption can happen when an employee works with a supplier to manipulate the procurement process. This means they misuse their position to unfairly advantage that supplier for a contract, often for personal gain. There are several common types of schemes involving collusion between employees and suppliers.

Unjustified sole source

This fraud and corruption scheme occurs when a contract is awarded to a single supplier without fair competition, despite suitable alternatives being available.

Tactics include:

- **Abuse of urgency**

  Claiming an urgent need for a product or service to bypass a competitive bidding process.

- **Inflating costs**

  Exaggerating the cost of alternative options to justify a sole source award.

- **Unique product or service claims**

  Claiming that only one supplier can meet specific requirements when comparable alternatives are available.

- **Misuse of authority**

  Using a position of authority to override competitive bidding requirements.

Red flags

- Sudden or unexpected urgency for a product or service.
- Lack of documentation or justification for the urgent need.
- Limited or no evaluation of alternative options.
- Close relationship between an internal employee and a favoured supplier.

Scenario

A procurement manager claims that a new software system is urgently needed to address a critical business issue. They bypass the competitive bidding process and award the contract to a favoured supplier to receive a kickback.

Bid tailoring

Bid tailoring is when an employee involved in the procurement process manipulates bid specifications or evaluation criteria to favour a particular supplier or contractor, often in exchange for personal gain or kickbacks. This occurs before bids are submitted and involves the employee writing bid specifications that intentionally favour a specific supplier or eliminate competition.

Tactics include:

- **Drafting narrow specifications**

  Creating overly restrictive requirements or unnecessary requirements to disqualify potential bidders, which effectively guarantees the win for a favoured contractor.

- **Drafting broad specifications**

  Writing general or flexible specifications that favour a supplier with insider knowledge, who might otherwise not qualify for the contract.

- **Drafting vague specifications**

  Leaving room for interpretation allows a supplier to influence the final requirements, enabling subsequent contract amendments that raise the contract price.

Red flags

- Overly specific or restrictive requirements in bid specifications.
- Vague or ambiguous language in the bid specifications.
- Limited number of bidders responding to a request for proposal.
- A tendency to favour particular suppliers or brands in procurement documents, rather than specifying generic requirements.
- Significant cost increases or unnecessary upgrades after a contract is awarded.
- Unusual or overly close relationship between an employee and a specific vendor.

Scenario

An IT manager tailors bid specifications for a new office network. They draft narrow requirements, demanding a specific brand of router that only one vendor supplies, which eliminates competitors. They also use broad, vague language, allowing the favoured vendor to inflate costs with unnecessary upgrades.

Bid splitting

This fraud or corruption scheme occurs when a large contract is deliberately broken down into smaller, separate contracts to avoid a formal bid process or favour a specific supplier. It encourages corrupt and fraudulent activities such as favouritism, kickbacks and inflated pricing.

Tactics include:

- **Breaking down large contracts**

  Intentionally dividing a large contract into smaller, separate contracts to avoid competitive bidding thresholds.

- **Creating unnecessary work orders**

  Generating multiple work orders for a single project to keep contract amounts below competitive bidding requirements.

Red flags

- Numerous small contracts instead of a single large contract.
- Absence of any justifiable reason for breaking down the contract into smaller pieces.
- Suspiciously small individual contract amounts to avoid competitive bidding or favour specific vendors.
- Individual transactions fall just within a specific person's delegated financial authority.
- Requirements that should be standard are absent or vary across similar contract types.

Scenario

A company needs to replace its entire fleet of vehicles. Instead of issuing one large contract, a procurement employee issues several smaller ones to the same supplier. These smaller contracts are categorised by vehicle type, e.g. sedans, SUVs, trucks or vans. They are also for specific departments like sales, operations or facilities.

Bid manipulation

This fraud and corruption scheme involves various tactics designed to influence the bidding process to ensure a desired outcome, such as awarding a contract to a favoured bidder or rigging the price of a contract.

Tactics include:

- **Accepting late proposals**

  Accepting late proposals can give late bidders an unfair advantage, as they may have access to information unavailable to others, potentially exposing the process to improper influences like bribery or corruption.

- **Phantom bids**

  Fictitious companies submit phantom or ghost bids to artificially inflate competition, allowing collusion or predetermined winners to manipulate procurement outcomes.

- **Leaking bid data**

  The unauthorised disclosure of confidential bid information, including details of other bids, evaluation criteria and budget limits, can give favoured bidders an unfair advantage.

- **Unnecessary rebidding**

  To favour specific bidders or delay projects, this involves cancelling a bid and reissuing a new one with altered terms.

- **Manipulating bid evaluations**

  - Altering evaluation criteria after bids have been submitted to favour a specific bidder.
  - Intentionally disqualifying or excluding qualified bidders to favour specific or colluding bidders.
  - Adjusting different evaluation criteria to favour a specific bidder by assigning higher weights to their strengths and lower weights to their weaknesses to skew the evaluation process.
  - Tampering with bids to favour specific bidders, changing pricing or technical specifications, creating fake documents or altering documents to achieve a predetermined outcome.
  - Influencing or bribing panel members to favour a specific bidder.

Red flags

- A company's low bid may mean it lacks the experience or expertise to complete the project efficiently.
- A company's lack of experience in completing projects of this scale or complexity suggests it may not have the necessary resources or expertise.
- An agency fails to provide a transparent explanation for its decision to award a contract to a company, raising concerns about favouritism or corruption.
- A company was recently incorporated, which could indicate it was created specifically for this bid.
- A company has a limited or no online or market presence, such as a website or social media accounts.
- A company is unable to provide references from previous clients or projects, suggesting that it may be a front company or have a history of failed projects.

Scenario

A government agency is seeking bids for a large infrastructure project. A recently incorporated company, with limited market presence and track record, submits a bid that is significantly less than the other bids. Despite the company's lack of experience or financial stability, the agency awards the contract to the company.

Supplier fraud and corruption

Supplier fraud occurs when a supplier manipulates the procurement process for financial gain, often through deceptive practices and misrepresentation. There are several common schemes designed to exploit weaknesses in an organisation's procurement controls.

Non-conforming goods or services

A supplier intentionally provides goods or services that do not meet the specified quality or performance standards, while still receiving full payment. This can involve delivering substandard products, using inferior materials or failing to meet agreed-upon deadlines.

Tactics include:

- **Falsification of qualifications or experience**

  Intentionally providing false or misleading information about education, skills or work history.

- **Product substitution**

  When a supplier switches out a product with a cheaper, inferior substitute.

- **Delivery manipulation**

  Includes intentionally delaying or diverting shipments, tampering with goods or falsely claiming delivery of goods or services.

- **Unusual delivery addresses**

  Diverts goods or services intended for an organisation to a different location controlled by the fraudster or their accomplice.

Red flags

- A supplier is unable to provide adequate documentation to support their claimed qualifications, certifications or experience.
- There are discrepancies or inconsistencies in a supplier's information, such as conflicting dates or qualifications.
- A supplier has a history of complaints, lawsuits or negative reviews related to their performance or business practices.
- A supplier's bid is significantly less than other bids, suggesting they may be willing to compromise quality or ethical standards to win the contract.

Scenario

A supplier submits a bid for a government contract, claiming to possess specific qualifications, certifications or experience that are essential for the project. However, the supplier has falsified or exaggerated their credentials to secure the contract.

Change order abuse

This fraud and corruption scheme occurs when a supplier requests or makes changes to a contract or project that are unnecessary, excessive or unjustified to increase their profits.

Tactics include:

- **Inflated change order costs**

  The supplier deliberately overstates the costs associated with a change order to maximise their profits.

- **Unnecessary changes**

  A supplier deliberately introduces unnecessary changes to a project to increase their profit, such as additional work or features.

- **Hidden costs**

  Additional costs are added that are not explicitly stated or disclosed in the original contract or change order, such as contingency fees, overhead costs and administrative fees.

- **Delay tactics**

  Actions taken by a supplier to intentionally delay the completion of a project, causing extensions to contract deadlines, which can lead to increased costs.

Red flags

- Intentionally vague contract specifications that allow for later change orders.
- A frequent and high volume of change orders, especially those with significant costs.
- Bundling unrelated changes into a single order, obscuring individual costs.
- Insufficient documentation to support the claimed costs of changes.
- A pattern of change orders just below the approval threshold to avoid increased scrutiny.

Scenario

A supplier inflates the costs of change orders on a construction project, claiming excessive labour hours, material costs and overhead expenses. The contractor also bundles unrelated changes into a single change order, which increases the overall cost.

False claims or statements

This fraud and corruption scheme occurs when a supplier or vendor intentionally misrepresents information about their goods, services or business practices to deceive clients or customers for personal gain.

Tactics include:

- **Misleading information**

  Making exaggerated claims about goods or services that are not supported by evidence or testing.

- **Misleading comparisons**

  Comparing goods or services to competitors in a way that is unfair or distorted.

- **Deceptive marketing**

  Using a bait-and-switch approach to attract customers with a low price then try to upsell them a more expensive product or service.

- **False testimonials or endorsements**

  Featuring testimonials or endorsements from people who are not genuine or who have not actually used the product or service.

- **Misrepresenting business practices**

  Representing the company as being ethical or sustainable when it is not.

Red flags

- Testimonials are overly generic or lack specific details about the product or service.
- Multiple reviews or testimonials use identical or very similar language, suggesting they may be fabricated.
- Exaggerated or unrealistic claims that seem too good to be true.
- Testimonials do not include contact information for the reviewer, making it difficult to verify their authenticity.
- Testimonials appear immediately after a product launch or negative review, suggesting they may be orchestrated.
- Contradictions or inconsistencies between different testimonials or between the testimonials and other information about the product or service.

Scenario

A company submits a bid for a government contract, including glowing testimonials from purported clients. These testimonials praise the company's products or services, claiming exceptional performance and customer satisfaction. However, these testimonials are fabricated or exaggerated, and the individuals named have not actually used the products or services. The company hopes to leverage these false endorsements to secure the contract, as they create the illusion of strong customer satisfaction and credibility.

Invoice manipulation

This fraud and corruption scheme occurs when a supplier or vendor intentionally submits fraudulent invoices to a client or customer. The supplier then seeks payment for goods or services that were never provided or were provided in a lesser quantity than claimed or at a higher price than agreed upon.

Tactics include:

- **Duplicate invoices**

  Repeatedly billing for the same work under the same and/or different invoice numbers.

- **Manipulated invoices**
  - Inflating the quantity, price or value of goods or services on invoices to receive excessive payments.
  - Splitting a single invoice into multiple smaller invoices to avoid detection or to bypass approval thresholds.

- **Fictitious invoices**
  - Creating and submitting false invoices for goods or services that were never provided or delivered.
  - Creating invoices for fictitious or phantom companies or individuals to divert funds.

- **Mandate fraud**

  When individuals or organisations are deceived into changing payment details relating to a one-off or regular payments (such as direct debit, standing order or bank transfer), so future deposits are diverted to a fraudulent bank account. Also known as payment diversion fraud or business email compromise.

Red flags

- A telephone request is received suggesting an urgent change to the supplier's bank account details.
- A letter or invoice is received that does not contain the supplier's logo or the logo is slightly blurred, which could indicate the document is a copy of an original document that has been tampered with.
- Unusual language phrasing style and errors in spelling or grammar can indicate a fake request.

Scenario

A fraudster, posing as a legitimate supplier, convinces a local council to change the bank account details for a recurring payment, claiming that the previous account number is no longer valid and that the situation is urgent. The fraudster provides a different bank account number and the local council unknowingly updates their records. As a result, future payments for goods or services are diverted to the fraudulent account.

Collusion between suppliers

Commerce Act 1986 and anti-competitive behaviour

The Commerce Act 1986 promotes competition in markets for the long-term benefit of New Zealand consumers.[9] By preventing anti-competitive practices, this act ensures that markets are fair and efficient, which leads to lower prices, better quality products and services, and a more dynamic economy.

Key provisions and objectives of the Commerce Act

The act prohibits a range of restrictive trade practices, such as:

- **Cartels**

  Agreements between competitors to fix prices, restrict output or allocate markets.

- **Abuse of market power**

  Using a dominant position in a market to unfairly exclude competitors or exploit consumers.

- **Anti-competitive agreements**

  Arrangements between businesses that substantially lessen competition in a market.

The Commerce Commission is responsible for enforcing the Commerce Act.[10] It has the power to investigate suspected breaches of the act and take enforcement action.

Cartel conduct

The Commerce Act prohibits bid rigging, market allocation, price fixing and output restriction. The threshold for what constitutes a cartel agreement is low. It requires communication between two or more competing suppliers resulting in a shared expectation about how at least one of them will act or refrain from acting. This is also known as a meeting of the minds.

[9] Commerce Act 1986. https://www.legislation.govt.nz/act/public/1986/0005/latest/DLM87623.html.

[10] See https://comcom.govt.nz/business/avoiding-anti-competitive-behaviour.

Bid rigging

Bid rigging, or collusive tendering, occurs when competitors conspire to determine the winner of a bidding process. It involves an agreement among bidders to manipulate the outcome of a bid, ensuring that one specific bidder among them will emerge as the winner.

For example, a purchaser seeks bids for goods or services and the bidders secretly agree on who will submit the winning bid. This agreement can be explicit or implicit. The agreed-upon winner submits the lowest bid of those involved and the others bid in ways to support the agreed winner. The purchaser, believing they have received competitive bids, awards the contract to the lowest bidder. Due to the collusion, the 'lowest' bid is higher than it would be in a truly competitive market, resulting in the purchaser paying an inflated price.

There are several different types of bid-rigging schemes.

- **Bid suppression**

  A form of collusion where competitors deliberately agree to manipulate the bidding process to favour a predetermined bidder. This is achieved by one or more competitors abstaining from bidding or withdrawing previously submitted bids or submitting deliberately non-confirming bids, so they are effectively a withdrawal, helping to ensure the designated winner's bid is the only one considered.

- **Bid rotation**

  A form of systemic collusion where competitors coordinate their bidding strategies to rotate as the winning bidder on a series of contracts.

- **Cover bidding**

  A form of collusion where competitors deliberately submit non-competitive bids to ensure the success of a predetermined bidder. Also known as cover, courtesy, symbolic or token bids. These bids typically:

  - are too expensive to be accepted but not so high they stand out as abnormal
  - seem competitive but are intentionally flawed to avoid winning
  - contain special terms that will be unacceptable to the buyer.

Red flags

- A limited number of bidders or lack of competition compared to typical levels in the bidding process.
- A bidder suddenly withdraws their bid without a clear or valid explanation.
- A recurring pattern where the same group of companies consistently win bids in a cyclical sequence.
- Qualified suppliers invited or expected to participate fail to submit bids for a tender.

Scenario

A government agency is seeking bids for the construction of a new railway line, which is a major infrastructure project. Three bidders secretly decide that one company will be the designated winner of the contract. To ensure this outcome, the other two companies agree to withhold bids or withdraw their bid before the bidding deadline. The bidding process commences. The first company submits a bid that is reasonably priced but not necessarily its most competitive offer or the lowest possible price. Knowing that they have no competition, this company is confident of securing the contract.

Market allocation

This is a form of collusion where competitors agree to divide up markets among themselves. This can involve allocating customers, contracts, products or geographic regions to specific members of the cartel. It is also known as customer allocation or market division.

Red flags

- The same company consistently wins contracts in a particular region, while other companies rarely bid or win in that area.
- Qualified companies avoid bidding on projects outside certain regions, which could indicate that they have agreed to divide the market.
- The same group of competitors consistently bid against each other on projects in a particular region, which could suggest that other companies have been excluded from that market or have agreed not to enter it.

Scenario

A government agency in New Zealand is responsible for awarding contracts for road construction projects. Three bidders have colluded to allocate the road construction market among themselves. They divide the country into regions and agree that each company will focus on bidding for projects within their assigned region.

Price fixing

A form of collusion where competitors agree to set or manipulate the price of goods or services. Competitors may agree to establish minimum prices, increase prices, use a pricing algorithm or avoid price competition.

Red flags

- Prices consistently increase over time, even without changes in market conditions or material or other input costs.
- Multiple bidders submit bids that are very close in price or even identical.
- There is little or no variation in the prices submitted by different bidders over time. If the price is queried, bidders refuse to negotiate, or any discounts offered are low and similar.
- There is a sharp decline in prices after a new supplier enters the market.

Scenario

A government agency in New Zealand is responsible for awarding contracts for office supplies to various suppliers. Three bidders secretly agree on a minimum pricing structure and coordinate their bids to ensure that no company submits a bid significantly lower than the agreed-upon price.

Output restriction

Output restriction is a form of collusion where competitors agree to reduce or limit the supply of goods or services. This is typically done to create scarcity and increase prices, or to protect less efficient suppliers.

Red flags

- Multiple bidders' proposals contain similar limitations or constraints on the amount of product they are willing or able to supply.
- There are frequent shortages or delays in deliveries, especially without credible reasons being given.
- Competitors consistently raise or lower prices by similar amounts at approximately the same time.

Scenario

A government agency in New Zealand is responsible for awarding contracts for the supply of office paper to various government departments. Three bidders collude to restrict the supply. They agree to reduce their production levels and limit the amount of paper available for government contracts.

Procurement fraud and corruption countermeasures

Mitigating procurement fraud and corruption requires a multi-layered approach that addresses the opportunities for fraudulent activity, establishes robust controls and fosters a culture of integrity. A strong ethical culture is crucial to deterring and preventing fraud and corruption risks and should be the foundation of an organisation's counter fraud and corruption approach.

This section will explore a range of countermeasures designed to prevent, detect and deter procurement fraud and corruption. By implementing these measures, organisations can significantly reduce their exposure to procurement fraud and corruption and enhance the integrity of their procurement processes.

This section will cover:

- policies and procedures
- employee training and awareness
- fraud awareness for suppliers and contractors
- checks and balances
- systems
- reporting mechanisms.

Policies and procedures

Organisational policies and procedures are the formal guidelines that govern how an organisation operates. They provide a framework for decision making and action.

Policies are broad statements outlining principles and values, while procedures are detailed step-by-step instructions for specific tasks in accordance with established policies, ensuring consistency in operations. They provide clarity and consistency in operations.

Together, policies and procedures create a structured environment where everyone understands their roles, responsibilities and the expected course of action. This minimises risks, improves efficiency and promotes a consistent and ethical approach to all aspects of the organisation's operations.

By establishing clear guidelines for decision making and behaviour, policies and procedures provide a roadmap to navigate complex situations and ensure that actions align with organisational goals and values. Without this crucial link between policy, design and implementation, risk management efforts become fragmented and ineffective, leaving the organisation vulnerable to potential threats, including fraud and corruption.

The following are some key policies and procedures that help manage the risk of procurement fraud and corruption within an organisation (this list is not exhaustive):

- risk management policy
- fraud and corruption policy
- procurement policy and procedures
- conflicts of interest policy
- gifts and hospitality policy and register
- records policy
- supplier contract management.

Risk management policy

A risk management policy is a formal document that outlines an organisation's approach to proactively identify, assess and mitigate potential threats that could impact its operations, objectives and success. It establishes a consistent and structured framework for risk management across the entire organisation.

Risk identification and assessment

A structured and systematic risk analysis of organisational processes will help to identify potential vulnerabilities, including those related to fraud and corruption. For example:

- a lack of transparency in supplier selection or contract terms
- poor controls, such as inadequate segregation of duties or weak approval processes
- data breaches due to insufficient cybersecurity measures to protect sensitive information.

Controls design and implementation

Effective risk management hinges on a strong connection between risk policy, control design and implementation. Controls or countermeasures are the specific actions and processes put in place to mitigate identified risks. For example:

- mandating open and competitive bidding processes reduces opportunities for collusion or favouritism
- proper supplier due diligence involves rigorous background checks on potential suppliers, including financial stability and reputation checks
- segregation of duties ensures different individuals are responsible for distinct phases of the procurement process (e.g., requisition, purchase order, payment).

Monitoring and response

Policies should encourage regular audits and monitoring of procurement activities to detect anomalies and suspicious patterns. For example:

- analysing procurement data to identify unusual spending patterns or outliers
- providing safe and confidential channels, such as whistleblower hotlines, for employees to report suspected fraud and corruption.

Fraud and corruption policy

A fraud and corruption policy is a formal document that outlines an organisation's commitment to preventing and detecting fraud and corruption within its operations. It guides employees and stakeholders by clearly defining prohibited behaviours like bribery, kickbacks and undeclared conflicts of interest. Furthermore, it empowers employees to report suspected wrongdoing through confidential channels, such as whistleblowing hotlines. This framework establishes ethical standards and violations can result in serious disciplinary action.

A fraud and corruption policy framework may also be used to manage procurement fraud risks.

Procurement policy and procedures

A procurement policy provides clear, standardised procedures for all stages of the procurement process, from needs assessment to contract management. This reduces ambiguity, minimises discretion and can help to clarify the process employees should follow if fraudulent activity is identified.

Robust procurement policies and procedures are the cornerstone of fraud and corruption prevention. They establish a clear framework of rules, processes and guidelines, and set strong ethical standards and codes of conduct.

Key internal controls, such as segregating duties related to purchasing, receiving and payment, are implemented to minimise opportunities for fraud and corruption. These core controls are further reinforced by specific policy provisions such as:

- mandatory purchase orders that require preapproval for all spending
- three-way matching of purchase orders, receiving reports and invoices to prevent payment of fraudulent or inflated bills
- independent bid evaluation to ensure fairness and transparency.

Together, these measures ensure resources are used efficiently, ethically and with minimal exposure to fraudulent activity.

Conflicts of interest policy

A conflicts of interest policy helps to manage procurement fraud by mitigating the risk that personal gain influences decisions, which can lead to fraud, waste or abuse. It reduces the risk of undue influence by requiring disclosure of interests, such as financial interests, personal relationships with vendors, or outside activities that might compete with the organisation's interests. This promotes objectivity in procurement decisions by ensuring they are based on merit rather than bias.

A conflicts of interest policy mandates disclosure of any actual, perceived or potential conflicts. Disclosed conflicts may be handled by removing the employee from the procurement activities, creating a written plan to manage the conflict, replacing the employee with another or having an independent party review or monitor the procurement process. By requiring disclosure and outlining consequences, conflicts of interest policies help to mitigate the risk of bribery, favouritism and bid manipulation.

Gifts and hospitality policy and register

Gifts and hospitality policies help to prevent undue influence by suppliers in procurement decisions by establishing clear boundaries for acceptable gifts and hospitality. This helps prevent situations where lavish gifts or favours could sway procurement decisions. By tracking gifts and hospitality, a register may identify potential conflicts of interest that could arise from excessive or inappropriate interactions with suppliers.

A gifts and hospitality policy defines acceptable and unacceptable gifts and hospitality, often setting limits on value and prohibiting certain items like cash. Mandatory disclosure and registration of *all* gifts and hospitality, regardless of value, creates a transparent record accessible to relevant personnel. This transparency, coupled with regular oversight of the register, helps identify patterns of excessive gift-giving or potential links between gifts and procurement decisions. By clearly stating consequences for violations the policy can also act as a deterrent.

Koha is the Māori customary practice of giving something of value as a token of respect or appreciation. Koha is a gift that is not exchanged for goods, services or work. Each organisation needs its own koha policy that sets out how to determine the appropriate amount of koha that respects the mana of the kaupapa, occasion and its recipients.[11]

[11] See https://www.ldc.govt.nz/public-service-core-learning-hub/system-capability/financial-capability for more information on a koha policy template.

Records policy

A records policy is the foundation for managing an organisation's information assets, encouraging efficiency, compliance and risk mitigation. It establishes a structured framework of procedures for record creation, maintenance, use, retention and disposal. This can address legal and regulatory obligations, streamline operations and safeguard sensitive data.

A robust records policy plays an important role in fraud prevention and detection. It fosters transparency and accountability by mandating proper documentation at every stage from needs assessment to payment. Measures to protect data integrity help to prevent manipulation of records to conceal illicit activities and a strong records policy facilitates monitoring and analysis of procurement data to detect suspicious patterns.

By mandating accurate and complete record keeping, it also creates a transparent and comprehensive audit trail, which could provide crucial evidence for organisations to investigate fraud and corruption and recover potential losses.

Supplier contract management

Supplier contract management processes help to ensure oversight across all stages of supplier contracting – from negotiation and creation to performance monitoring, renewal and termination. This process aims to maximise value and minimise risks by controlling costs, ensuring compliance with legal and regulatory obligations, and effectively managing supplier performance.

A robust supplier contract management process is a useful tool to reduce the risk of procurement fraud. It establishes a framework of checks and balances, transparency and accountability throughout the procurement lifecycle. Suppliers are expected to adhere to agreed-upon terms and conditions, which minimises opportunities for price inflation, substandard goods or services or non-performance.

Rigorous supplier selection, including due diligence and documented evaluation, supports the fair awarding of contracts. Detailed contract terms that specify pricing, delivery and quality, combined with anti-bribery clauses, minimise opportunities for supplier misconduct.

Regular performance monitoring and audits help to detect irregularities and identify vulnerabilities. Any concerns triggered by performance deviations, potential fraud indicators or audit findings can lead to a structured investigation process. Formal investigation procedures may be clearly defined within the contract and internal policies, and be conducted impartially and documented thoroughly.

By implementing these measures, organisations encourage a transparent and controlled procurement environment, with options for investigation and recourse that can reduce their exposure to fraud and maximise value from supplier relationships.

Employee counter fraud training and awareness

Robust training and communication programmes will assist an organisation to combat fraud and corruption by raising awareness of the risks.

The covert nature of fraud and corruption makes it challenging to detect. Employees are in the best position to notice suspicious activity among colleagues or raise concerns regarding external parties like contractors and suppliers. While training requires an initial investment, the long-term benefits of reduced fraud losses and improved efficiency outweigh the costs.

Training plays a crucial role in helping to prevent procurement fraud by equipping employees with the knowledge and skills to identify, prevent and report suspicious activities. Fraud and corruption can go undetected for some time because employees do not recognise red flags, are uncertain about reporting procedures or lack confidence in existing reporting systems. This underscores the significance of training, not only as a preventive measure, but as a means of early detection should fraud or corruption occur.

Empowering employees to play a role in protecting the organisation can also boost morale and engagement. A transparent and ethical work environment fosters a positive and productive atmosphere, and a strong counter fraud culture demonstrates ethical behaviour and responsible business practices. This helps to build trust with stakeholders, including customers, suppliers and the public.

Equip employees with knowledge and skills

Employees involved procurement activities have a vital role to play in ensuring the integrity of the process and identifying areas for improvement. Training that explains how procurement decisions impact the entire contract lifecycle will support employees to understand the importance of each stage in the process.

By routinely sharing cases studies, lessons learned, reports and analytics, employees are encouraged to participate in a culture of continuous improvement, effectively oversee the procurement process and identify red flags early.

Provide real-life examples

Fraud and corruption awareness training can include topics such as understanding fraud, the fraud triangle, red flags of fraudulent or corrupt activities, and internal controls that can reduce the opportunity for fraud and corruption.[12] Real-life examples and case studies can be used to connect abstract concepts to concrete situations.[13] The seven common methods or personas that fraudsters adopt when committing financial crimes can be examined to help employees recognise the various tactics that fraudsters use to target government programmes and functions.[14]

Explain policies and procedures

Ensure all employees understand and adhere to the organisation's rules for bidding, contracting and purchasing, including proper authorisation levels and documentation requirements. Employees should be encouraged to learn to effectively monitor supplier performance to minimise risk and maximise benefits. Reinforce the importance of strong internal controls such as segregation of duties, proper authorisation levels and detailed documentation.

[12] Find out more about the fraud triangle and why someone might participate in fraudulent or corrupt activities at https://www.sfo.govt.nz/counterfraud/cfc/resources/guides-and-factsheets/the-basics.

[13] The Counter Fraud Centre has a range of case studies that tell the stories of New Zealand organisations who were victims of fraud. See https://www.sfo.govt.nz/counterfraud/cfc/resources/casestudies.

[14] Find out more about fraudster personas at https://www.sfo.govt.nz/counterfraud/cfc/resources/guides-and-factsheets/fraudster-personas.

Share responsibility

Ideally, procurement and contract management teams will share the responsibility of identifying and mitigating fraud risks. Clearly define the roles and responsibilities of each employee involved in procurement, emphasising their role in identifying and preventing potential fraud. Involve employees responsible for auditing and assuring procurement processes in training programmes to foster a collaborative approach to countering fraud within the organisation.

Cultivate a culture of organisational integrity

Emphasise transparency, fairness and how to avoid unmanaged conflicts of interest throughout the entire procurement process. Leaders should model ethical conduct and help to create an environment where employees feel comfortable raising concerns without fear of retaliation. Encourage open communication, collaboration and a shared commitment to ethical principles. Regularly reinforce the company's code of conduct and ethical guidelines through training and communication initiatives.

Establish clear and confidential communication channels

Encourage open communication and use diverse training channels, such as presentations, workshops, e-learning modules and intranet resources, to effectively share knowledge.[15] Clearly communicate the importance of reporting any suspected fraudulent activity. Establish clear and confidential reporting channels and assure employees that their reports will be taken seriously and investigated promptly. Emphasise the importance of protecting whistleblowers from retaliation and ensuring that their concerns are addressed appropriately.

[15] The Counter Fraud Centre offers a range of workshops and presentations. See https://www.sfo.govt.nz/counterfraud/workshops-and-presentations.

Supplier counter fraud awareness

Healthy and ethical relationships with suppliers and contractors are foundational to the success of any organisation. However, blind reliance on third parties can expose organisations to significant risks, including misconduct and fraud. Even reputable suppliers can be vulnerable to internal breaches, and collusion between their employees and those within an organisation can create significant vulnerabilities. To help mitigate these risks, establish clear expectations and cultivate a culture of trust and transparency throughout the entire supplier engagement process.

Clearly define ethical standards

By informing suppliers and contractors about the organisation's stance on fraud and corruption, it sets clear expectations about the way the organisation conducts business and promotes a shared responsibility for maintaining ethical business practices. Organisations can incorporate their code of conduct as part of all contracts and agreements with third parties, requiring suppliers to certify compliance with it and, ideally, demonstrate a commitment to their own internal ethical standards.

Finalise clear and comprehensive agreements

Ensure all procurement variables, including specifications, pricing and payment terms, are clearly defined and agreed upon before contracts are signed. Avoid ambiguity that could create opportunities for misinterpretation or exploitation.

Maintain zero tolerance for misconduct

Implement a clear and consistent policy of zero tolerance for any form of misconduct or fraud and corruption within the supply chain. Include provisions in all contracts that allow for immediate termination of the agreement in the event of suspected wrongdoing.

Cultivate trust and transparency

Prioritise building strong, trusting relationships with suppliers based on open communication and mutual respect. Be willing to walk away from potential partnerships if there is a lack of trust or concerns about the supplier's ethical practices.

Checks and balances

Supplier selection due diligence

Thorough due diligence on potential suppliers can help organisations to identify and prevent fraudulent activities such as bribery, kickbacks and collusion. Robust financial checks can reveal potential red flags like insolvency, high debt levels or a history of financial irregularities before a contract is agreed.

Examining a supplier's past performance, legal history and media coverage can uncover potential legal violations or a history of fraudulent behaviour. A supplier's operational capabilities should be assessed, including their quality control systems, delivery track record and safety practices, to help minimise the risk of substandard goods or services.

Segregation of duties

Segregation of duties in procurement, particularly for purchasing, approval and payments, aims to reduce the risk of fraud and corruption by limiting the ability of any single individual to control and manipulate the entire procurement process. When one employee handles all stages of a transaction (e.g., selecting a supplier, ordering goods, approving invoices and authorising payment), it creates an opportunity for them to manipulate the system for personal gain.

Segregation of duties makes it harder for individuals to collude with suppliers or other employees to defraud the organisation. For example, the employee who selects a supplier should not also authorise payment, as they could potentially steer business towards a preferred supplier in exchange for kickbacks.

Multiple individuals should review different aspects of a transaction to increase the likelihood of detecting errors or inconsistencies that may indicate fraudulent activity. For example, one employee may undertake purchasing or invoicing, while a different employee reviews and approves the purchase order or payment.

Segregation of duties acts as an inherent control mechanism, forcing individuals to rely on others for verification and approval. When responsibilities are clearly defined and separated, it is easier to identify and hold individuals accountable for their actions. By distributing responsibilities, it helps to minimise the risk of human error or deliberate misconduct and ensure that transactions are processed accurately.

Contract management

Contract transparency

Publicly disclosing contract information, such as supplier details, award criteria or contract awards, discourages bribery and favouritism, enhances public scrutiny and ensures all eligible suppliers have a fair chance to compete.

Transparent processes increase accountability by stakeholders, including the public, media and oversight bodies, and ensures that all eligible suppliers have equal access and a fair chance to compete, reducing the risk of collusion or favouritism towards specific suppliers.

Performance monitoring

By regularly tracking supplier performance, organisations may be able to identify and address performance issues early, hold suppliers accountable and ensure they are receiving the best value for their investment. This proactive approach minimises potential losses, prevents fraudulent activities from escalating and ultimately protects the organisation's financial interests.

Close monitoring of supplier performance against agreed-upon terms can quickly identify deviations that may signal fraudulent activity. For example, inconsistencies in delivery schedules, unexplained price increases, or substandard quality of goods or services could indicate potential delivery issues, including fraud and corruption. Early detection allows for prompt investigation and corrective action, helping to minimise potential losses and prevent the escalation of fraudulent schemes.

Regular performance monitoring also holds suppliers accountable for their actions and ensures they adhere to the terms of the contract. This scrutiny deters fraudulent behaviour as suppliers understand that their performance is being closely monitored and any deviations will be investigated.

Pattern recognition

By analysing historical procurement data, organisations can detect anomalies that may indicate fraudulent activity. Unusual patterns that deviate from expected norms can include:

- recurring payments to the same vendors for seemingly identical goods or services at inflated prices
- sudden and unexplained increases in spending with specific suppliers
- frequent contract amendments that favour certain vendors
- patterns of collusion between employees and suppliers.

Pattern recognition can provide valuable insights into procurement trends and supplier behaviour. These data can be used to inform risk assessments, refine procurement strategies and implement targeted controls to mitigate fraud and corruption risks. For example, if the system detects an unusual pattern of payments to a particular vendor, it can trigger a closer examination of that vendor's activities.

Audits

Internal auditors independently assess the procurement process. They examine transactions, contracts and supplier relationships for any irregularities or signs of fraud and corruption, such as duplicate payments, payments to unauthorised suppliers or overpayments exceeding contract terms. These discrepancies often signal fraudulent or corrupt activity.

Internal audits provide management and stakeholders with assurance that the procurement process is operating effectively and ethically, and that risks of fraud are being adequately addressed. Regular audits also promote accountability among employees involved in the payment process, deterring potential fraudulent behaviour.

By examining payment records and assessing the effectiveness of existing controls, such as segregation of duties, authorisation procedures and supplier due diligence, audits may pinpoint weaknesses that could be exploited by fraudsters, and improvements to strengthen the overall control framework can be put in place.

Random checks

Random checks help uncover fraudulent activities that may not be apparent through routine audits or reviews. By selecting transactions or suppliers randomly, auditors may identify irregularities that could otherwise go unnoticed, such as fictitious vendors, inflated prices or kickbacks.

The unpredictability of random checks can also discourage fraudulent behaviour, as individuals may be less likely to engage in illicit activities if they believe their actions could be unexpectedly scrutinised. Random checks can expose vulnerabilities in internal controls and reinforce the importance of adhering to procurement policies and regulations.

Probity review

Probity reviews assess the ethical and fair conduct of the entire procurement process. This type of review examines whether decisions were made objectively, free from bias and in the best interests of the organisation.

Probity reviews scrutinise potential conflicts of interest among decision makers, suppliers and other stakeholders, and help to ensure that ethical guidelines, codes of conduct and relevant legislation are adhered to. By identifying and mitigating conflicts of interest and ensuring compliance with ethical standards, probity reviews reduce the risk of fraud and corruption and help to ensure that public funds are used effectively, efficiently and ethically.

Probity principles require clear and transparent documentation of all procurement decisions and activities, which enhances accountability and makes it easier to identify and investigate any irregularities or potential wrongdoing. Probity principles also ensure all suppliers have a fair and equal opportunity to participate in the procurement process, reducing the risk of collusion or bid rigging.

Systems

Automated systems

Automated systems can reduce the risk of procurement fraud and corruption by enabling real-time monitoring, advanced data analysis and automated processes. This may lead to early detection of anomalies, reduces reliance on manual processes prone to error and can improve overall efficiency and accuracy.

Automated systems can continuously monitor procurement activities and analyse vast amounts of data in real time. By automating routine tasks like invoice processing, data entry and supplier onboarding, automated systems help to minimise the risk of manual intervention and opportunities for human error or manipulation. These systems can be configured with built-in controls and checks, such as automated approval workflows, duplicate invoice detection and supplier blacklists.

By leveraging technologies like machine learning and artificial intelligence, automated systems can also identify complex fraud patterns, predict potential risks and proactively mitigate threats to an organisation's financial integrity.

Audit trails

Audit trails are an important record-keeping mechanism in procurement, tracking every action taken within a system, including user logins, data entry, approvals and modifications, and providing a complete history of all transactions.

Audit trails enhance accountability by making it clear that all actions within the procurement process are subject to scrutiny. By analysing audit trails, auditors may identify suspicious activity such as unauthorised access, data manipulation or unusual patterns of behaviour.

The records can also provide crucial evidence for investigating suspected fraud and corruption cases. By tracing the history of a specific transaction, auditors may be able to pinpoint the individuals involved, identify the source of the irregularity, reconstruct the sequence of events and gather the necessary information to take appropriate action.

Data analytics

Data analytics empowers organisations to proactively manage procurement fraud and corruption by analysing large volumes of data to draw actionable conclusions. By providing data-driven insights, analytics supports organisations to make more informed procurement decisions, for example, to identify reliable and trustworthy suppliers, negotiate better terms and conditions with suppliers, or allocate resources effectively to mitigate identified risks.

Data analytics can leverage historical data and current trends to develop predictive models that help to identify potential fraud and corruption vulnerabilities and high-risk areas within the procurement process. Procurement activities can be continually monitored to identify unusual patterns or anomalies, and analytics may provide valuable insights during fraud and corruption investigations by helping to identify key individuals, reconstruct the sequence of events and gather evidence to support legal action.

Reporting mechanisms

Whistleblower hotlines

Employees are your best asset for detection. Confidential and secure channels for individuals to anonymously report suspected or actual instances of fraud, corruption, misconduct or unethical behaviour are an important feature of a robust compliance programme. Whistleblowers are entitled to confidentiality and protection from retaliation or other adverse consequences for disclosing information about wrongdoing.

Confidential avenues for reporting, such as hotlines or other channels, support early detection of potential fraud and corruption, and allow organisations to investigate and address issues before they escalate and cause significant financial damage. By analysing reported concerns, organisations may identify weaknesses in their internal controls and implement measures to mitigate risks and prevent future fraud or corruption.

Effective reporting includes robust protections for whistleblowers

The Protected Disclosures (Protection of Whistleblowers) Act 2022 mandates that all public sector organisations establish clear procedures for handling protected disclosures. This includes guidance for identifying responsible parties, outlining available protections for whistleblowers and providing practical assistance.

The Protected Disclosures Act protects individuals who disclose serious wrongdoing, which encompasses a wide range of illegal, unethical or improper conduct, including procurement fraud and corruption. This protection extends to employees, contractors and other individuals associated with the organisation.

Given their direct involvement and access to sensitive information, employees directly engaged in the procurement process are crucial whistleblowers. Their expertise and knowledge within the procurement domain make them uniquely positioned to help identify and report instances of fraud and corruption.

Capability and culture

A robust procurement process is comprehensive, transparent and adhered to. There is no single solution to managing fraud and corruption risks, and processes need to continually adapt to effectively mitigate rapidly evolving fraud and corruption threats. Although there will always be fraud and corruption, prevention is the most cost-effective way to reduce the risk of it occurring.

Organisations can considerably reduce and manage their risk of procurement fraud and corruption by:

- implementing a suite of robust policies and procedures
- training employees in counter fraud approaches
- closely monitoring suppliers and contractors
- putting in place effective checks and balances
- providing secure fraud and corruption reporting channels
- fostering a culture of organisational integrity.

The Serious Fraud Office Te Tari Hara Tāware is the lead law enforcement agency for investigating and prosecuting serious or complex fraud, including bribery and corruption. It works to strengthen the public sector's resilience to fraud and corruption through its Counter Fraud Centre Tauārai Hara Tāware.

The Counter Fraud Centre offers a range of resources, webinars, workshops and services free to public sector organisations to help build their counter fraud capability and create an effective counter fraud culture. Find out more at sfo.govt.nz/counterfraud/cfc.

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