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# Guide for Corruption Risk Assessment and Mitigation in Public Procurement

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## Introduction

This Guide provides an approach to assess corruption risks in public procurement within public institutions, to develop corruption mitigation plans, and to target strategies and plans for monitoring and auditing procurements.

The methodology provided, by this Guide, is derived from the International Standard ISO/IEC 31000:2009 “Risk management — Principles and guidelines” and international experience of corruption risk assessment methodologies in other countries. The methodology presented uses a streamlined approach that allows for relatively quick and cost-efficient assessments. It is implemented through a facilitated participatory approach that engages an institution’s leadership and personnel involved in procurement and internal control. The process should be led by an independent impartial expert or a team of experts knowledgeable in procurement and anticorruption. At a minimum, the process includes a survey of the personnel involved in procurements and internal controls, with a group analysis and discussion with selected managers. The process results in a list of priority corruption risks, a plan for risk mitigation, and a plan for improving monitoring of corruption in procurement and auditing.

Furthermore, the methodology provided in this document was customized for conducting corruption risk assessment of the procurement processes of the Kyiv City State Administration (KMDA), under the USAID project Technical Assistance for eTender Initiative in Kyiv, Ukraine (Phase II).

## Corruption in Public

**Procurement**<sup>1</sup>The procurement cycle consists of three main parts: pre-tendering, tendering and post-award. During the pre-tendering phase, the government’s need for goods and/or services is assessed, a decision on what to purchase is made, and a budget for the planned purchase is prepared. In addition, the tender documents are prepared with all the necessary requirements defined. During the tender phase, a procurement notice is published, the bidding documents are issued and proposals are requested. Then bidders submit a proposal to the procurement officer who will evaluate the proposals and decide on the award of a contract. During the post-award phase, the winning bidder must provide a procurement officer with the agreed goods and services, according to the conditions and timing stipulated in the contract.

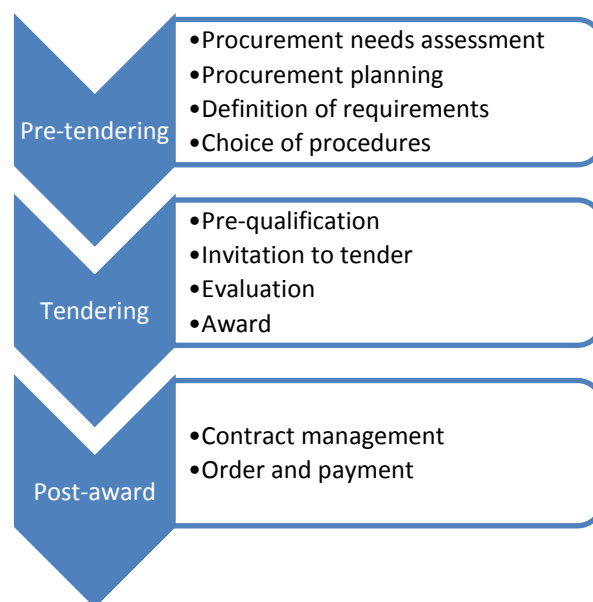


Figure I. Source: OECD Principles for Integrity in Public Procurement, 2009

<sup>1</sup> OECD (2007). *Bribery in Public Procurement. Methods, actors and counter-measures*. We have drawn extensively on this document in this section of the Guide.

## How does corruption occur in different stages of procurement?

Each stage in the procurement process is potentially vulnerable to corruption in some form.

**Identification of needs and design of tenders:** The identification of needs and the design of a tender are known to be vulnerable to corruption, as there are many opportunities for manipulation. Furthermore, corrupt acts can be planned at this stage. For instance, exchanges and discussions at the initial stage may lead to the disclosure of confidential bid information. Exchanges between project designers and intermediaries, involving the public bodies which provide or obtain funds for the project(s), may have an impact on the planning of public works *per se* and can lead to the introduction of inaccurate policy requirements. During the planning period, hidden mistakes and fictitious positions can be built into the project calculation and design, affecting the terms of reference, which leaves openings that can later be used to conveniently account for increased costs, influence the selection process or the selection procedure (see bidding procedure below). The briber and the bribee may, for instance, decide to: (i) limit the time frame for the tendering process, (ii) use specifications that preclude competitive bidding, (iii) select additional fictitious bidders or ones unlikely to submit competitive bids, (iv) plan a very low bid price and include "hidden" possibilities to expand the contract at a later stage to recover the economies for the vendor, etc.

**Selecting a business:** Fraud in the selection of tenderers may occur, with unqualified or untested companies being licensed to be a vendor or a bidder. This may result from various shortcomings. The participation criteria may be excessively selective, specifying features that are provided by only a few businesses. These features may or may not be relevant to the project. Unclear or ambiguous clauses may be included, or insufficient explanations given as to the tendering arrangements. Any of these defects could result in the exclusion of a large number of bidders; the contract can then be awarded to those familiar with the clauses and conditions. When no tenders have been made in the public procedure, due to various types of built-in subterfuges, tendering authorities will resort to a private treaty, which provides a greater discretion.

**The bidding procedure:** Certain bidding procedures lend themselves more easily to hiding bribery and corruption. The procurement process may be more vulnerable to corruption when non-competitive procurement has become the norm. Although this kind of contract is not in itself proof of corruption, opportunities and inducements for corruption may increase. Similarly, competitive procurement cannot be a guarantee of integrity.

*Non-competitive procurement* contracts are awarded by the government to a company without competitive process. Such contracts, also referred to as sole-source, single-source, or no-bid, and are justified by reasons of expediency in emergencies or when national security interests are at stake. Non-competitive procurement contracts have been identified as a source of concern for reasons of transparency, democratic oversight, value for money and corruption risks.

Procurement officials authorized to make single-source decisions have great power over which companies receive the most lucrative contracts. Without evaluative guidance and oversight, individual preference can easily become part of their decision. Receiving lucrative contracts

without facing competition is highly desirable from the vendor's point of view. Companies can see the benefit of cutting out the risk of losing a bid by influencing and/or bribing key officials to obtain a non-competitive contract. Ongoing, long-term relations between a vendor and a procurement official may provide for a continual award of such contracts in exchange for personal gain.

*Framework contracts* are standing agreements used as a basis for goods and services purchases, as needs arise. Such agreements can save time and money by eliminating numerous bidding processes. However, some experts are concerned that they may represent "a huge growing wedge of contract dollars" that lack transparency and are unaccountable regarding competition. Prices are often not fixed before frameworks are drawn up, leaving the agreements open to corruption risk. However, it was noted that electronic reverse auctions based on price may only cure problems that framework agreements are supposed to address.

*Competitive bidding* or restrictive competitive bidding involve prequalification of vendors and are considered to offer fewer chances to favor a company seeking to influence the right people. Usually, competitive processes also include various levels of supervision, with expert bodies evaluating bids for quality, specificity and value for money. Furthermore, companies that are not awarded a contract theoretically have the opportunity to call public and judicial attention to their concerns about potential irregularities. Due to the different layers of appraisal, corruption is considered more difficult to conceal. However, diverse sets of corruption risks remain at the various stages of the procurement process and integrity depends on the application and objectivity of the selection criteria. Furthermore, this does not prevent accomplices within the procuring entity calling for tenders. Nor can agreements between the different bidders, with a view to reciprocating benefits in the framework of the public works, be excluded either.

Experts shared a view that competitiveness, notably by means of advertising and opening markets, as well as transparency through clear and foreseeable contract conditions, should be promoted as best practice and a means of achieving value for your money. However, they suggested that further attention should be paid to newly established areas, such as e-procurement and competitive bidding dialogue. Technological sophistication, on which these techniques are based, may not be sufficient to counter potential corruption.

**Contract award:** This is the phase during which the winner of a contract is determined. Ineffective control structures during the process provide opportunity for frequent manipulations. Lack of transparency in the attribution of a contract may also occur, as all bids may not be publicly opened or their content may be subject to manipulation. Inadequate communication with participants is another widespread feature. The absence of objective decision criteria (see above) or the inadequate weighting of the various criteria are further ways to influence the awarding process. For instance, costs are only one among a number of components to be considered. It is often found that technical features of a proposal, the fact that it meets community requirements or the time required for its implementation, are given excessive, poor or no consideration, as the case may be. The fact is that the evaluation is being left to the individual discretion of the official.

Some models have been moving towards dispersing the authority, including by committees, so that there is not a single person taking the decision. In this case, attention needs to be paid to the composition of the committee and how effectively it carries out its duties.

Experts suggested that transparency is absolutely indispensable in preventing corruption. The decision criteria and objectives should be known and communicated to all bidders. This means that all bids are opened publicly, with their content registered immediately, to prevent them from being manipulated.

**Contract execution:** This phase is less susceptible to regulation. Techniques to hide bribes during the execution of a contract are manifold. Rendering of fictitious work, inflating the work volume, changing orders, using lower-quality materials than specified in the contract, supplying goods of a lower price and quality than quoted, and rendering contracted services in an improper way are some of the most common ways of defrauding the public budget. Alterations between the decisions made and the conclusion of a contract may also go unnoticed and provide ample opportunities for bribery and corruption.

In addition, flaws in the technical and administrative supervision of the works may be exploited. Interventions by the public service to control the quality of the materials, the completion of deadlines, the quality of the services, the financial accuracy and the full execution of a contract may be insufficient. Certification of the execution of the works may not correspond to the real supply.

In the execution phase, new corruption challenges may emerge with officials threatening to withhold payments unless they are remunerated a certain percentage of a contract. In such cases, officials delay due payments in view of bribe payments, creating serious liquidity problems for the companies that have adequately executed the contract (this qualifies as 'solicitation'; if in addition the supplier is physically threatened it qualifies as 'extortion').

Experts recommended focusing on the contract-execution phase to prevent and detect corruption. Effective internal controls during the period following the award of a contract could discourage the bribee from choosing manipulative techniques during the execution phase. Detection during the contract-execution phase is easier, as it is possible to look back over all the previous stages of the procurement process and analyze departures from the rules, or unusual events, in the course of the process. Finally, it was recommended to: (1) use standard contract specifications and conditions; and (2) involve the final user of the facility services or supplies as much as possible.

Box below provides some most common types of fraud and corruption in public procurement.

### **Common Procurement Fraud and Corruption<sup>2</sup>**

#### **Bid Rigging**

- The agreement of multiple bidders to manipulate the procurement process
- Bidders agree to rotate bidding, bid high process, or participate in anticompetitive practices

<sup>2</sup> Baker Tilly, Preventing procurement fraud in the public sector

**Bribery**

- Vendors provide kickbacks to purchasers and authority makers in exchange for contracts
- The bribe can be monetary, tickets to sporting events or work on personal property

**Conflict of Interest**

- A person with fiduciary responsibility to the institution exploits their position for personal benefit
- An example is a Project Manager for the installation of a new soccer field who fails to disclose that he has particle ownership in the selected firm competing the work

**Procurement Card Misuse**

- Employees use their Procurement Card to purchase personal items
- Employees purchase restricted items, e.g. alcohol

**Phantom Vendors**

- Fictitious vendors are established as reputable firms
- Payments are made to these vendors even though work was never performed

**Splitting**

- In order to avoid the threshold for competitively procuring goods and services, the request is split into small purchases
- The cumulative amount of the purchase order is well over the bid threshold

**Substitution**

- Suppliers submit substitute items without prior approval
- The substitute items are inferior to the specifications and can be either of lesser cost of lesser quality while higher cost is billed.

**Asset Misappropriation**

- Suppliers intentionally ship an incomplete order, but the receiving slip states that a full order was delivered
- Employees steal inventory
- Good inventory is marked as scrap so that it can be discarded and then resold

**Fictitious Revenues**

- Firms overstate their revenue to appear more financially solvent than they really are
- Institutions believe that the firm is in good financial health, but the firm may be on the brink of bankruptcy or not in a position to complete the work

**Improper Disclosures**

- Firms fail to disclose their full ownership structure, which may lead to doing business with debarred or decertified firms
- Firms fail to state any current or legal issues that may impact the award of their contract

**Overstated Credentials**

- Firms provided inflated qualifications for their company and staff performing the work
- They may overstate their success rate with past projects or experience performing comparable projects

***What is the motivation of the public officials to become engaged in bribery?***

*Greed.* - Officials may perceive their remuneration as insufficient for the job they do. They may also feel that their salary does not meet their personal consumption needs. An official may also encounter financial difficulties and believe that bribery is a solution. The enrichment component entails preference for money that is relatively easy to obtain, transferrable and disguisable.

*Politics within the public administration.* - Civil servants may wish to improve their personal position within the administration's hierarchy. Aspirations to increase influence, power and authority will determine agents' acts.

*Higher appreciation of his or her own job than the recognition of supervisors.* - The "frustrated" official who believes he or she is doing a good job and deserves a salary increase or a

promotion may be tempted to seek recognition outside the administration. The official may feel appreciated by a supplier, not seeing that his/her professional position is the basis for the supplier to engage in that relationship.

*Connection to suppliers.* - There are a number of situations where officials have a connection to suppliers through their common interests and private activities, their friendships, family bonds, etc. These private connections may be strong and have an influence on the officials' acts.

*Confidence to carry out the corrupt acts* - Insatiability, aspirations for promotions, self-indulgence, or strong personal relations may be initial driving forces. However, they are themselves insufficient for the official to engage in corrupt acts. The official must also have the confidence to carry out corrupt acts. The official may base this confidence in his/her technical skills and the exploitation of information asymmetries. Indeed, the bribe will often have an excellent knowledge of the procurement rules and regulations, allowing him/her to engage in corrupt acts which he/she knows are unlikely to be uncovered. The official may also be aware of the administration's limited knowledge of either the exact costs or the precise technicalities of a project. In which case, it may be difficult for the procurement body to verify the applicable regulation, and the official may use discretion in the application of procurement rules.

## **KMDA Procurement Monitoring and Audit System**

Department of Internal Financial Control and Audit (KyivAudit) is in charge of monitoring procurement by all KMDA entities.

According to the Standards approved by the Ministry of Finance,<sup>3</sup> the internal audit plan must be based on a documented risk assessment and undertaken at least once annually. This requirement is also in line with the International Standards for the Professional Practice of Internal Auditing (Standards).<sup>4</sup> Every public institution in Ukraine is required to have a risk management system or, if such system is not in place, "auditors apply their own opinion about risks upon consultations with the organization leadership who directly responsible for functions and processes that are subject to an audit."

The organization risks are evaluated based on their likelihood and impact on the achievement of strategic goals, effectiveness of planning and implementation of the budgetary programs, quality of the public services and implementation of the oversight functions and tasks of an agency; preserving assets and information; management of property; and accuracy of accounting and reliability of financial reporting and budget.

Corruption risk assessment is required by the Law of Ukraine «On Prevention of Corruption» of 14 October 2014 № 1700-VII. Article 61 of the law provides all public institutions, conducting a regular basis corruption risk assessment, in their activities and implement appropriate anticorruption measures.

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<sup>3</sup> Стандарти внутрішнього аудиту, затверджені наказом Міністерства фінансів України від 04.10.2011 №1247, зареєстрованих у Міністерстві юстиції України 20.10.2011 за №1219/19957: <http://zakon3.rada.gov.ua/laws/show/z1219-11>

<sup>4</sup> <https://na.theia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>



The articles 62 and 63 of the above law provide the detailed description of anticorruption program content that should be developed based on corruption risk assessment and should include “guidelines, standards and procedures on corruption risk management within the organization.”

## **Assessing KMDA System for Monitoring and Detecting Corruption and Fraud in Procurement**

The assessment focused on corruption risks in the procurement in each stage starting from procurement needs analysis and planning to implement contracts and payments. The assessment includes several stages:

1. Through interviews with the KA staff assess policies and practices of the KA in conducting monitoring and audit of procurement
2. Identify key corruption vulnerabilities in procurement processes through a survey of the personnel involved in procurement
3. Identify, analyze, assess, and prioritize corruption risks through group discussion and individual rating
4. Develop corruption risk mitigation plan, and
5. Develop a plan for enhancing procurement monitoring and audit systems.

### **Assess KA Procurement Audit Policies and Procedures**

Through interviews with KA personnel, find answers to the following questions:

- Does KA conduct an audit of procurements only as part of a general audit, or can it be a separate subject of an audit?
- How significant the audit of a procurement within the overall audit?
- What risk factors in procurement does KA use to plan audits? (cost, complexity, long-term contracts, etc.)
- Does KA have a system of “red flags” for procurements? (non-competitive bids, the same contractor or rotation of contractors, bidders dropping from competition, winners dropped during negotiations or signing contract, etc.)
- Does KA initiate unplanned audits based on complaints, media reporting, or any other sources of information?
- Does KA require its auditors to disclose their conflict of interest (Col) or its appearance before assigning them to conduct audits? Does KA conduct verification if their auditors have or don’t have Col before assigning them to conduct audits?
- Does KA maintain a database of audits, including recommendations and actions taken?
- What is the percent of the audits that have reviewed procurements of the audited units?
- What are the most frequent types of fraud and corruption uncovered by the audits? Does KA maintain statistics and analysis of the cases?
- Does KA maintain a database of all procurements by all entities? Does this database track key information about procurement (subject, planned price, bidders and their

offers, winners and their offers, contract TOR and price, amendments of the contracts, deliverables, invoicing and payments)? Is this database searchable? Is this database linked to the audit database?

- Does KA conduct audits on timely basis to ensure that actions are taken promptly?
- Do audit reports have sufficient quality and have constructive recommendations to guide actions that need to be taken?
- Are recommendations of the KA audits implemented properly? What percentage of the recommendations is implemented? What actions were taken against those who committed fraud and corruption?
- Are the results of the audits publicized within organization? Is information about punishment and reprimands publicized within organization?
- Does KA have sufficient instructions and manuals for conducting audits of procurements?
- Do auditors have sufficient qualification and experience to conduct audits of procurements?
- Does KA have effective mechanisms for personnel and citizens to report corruption and fraud?
- Does audit analyze procurement at each step (assessing procurement needs, procurement planning, developing procurement requirements, selecting procurement procedure, advertising procurement, evaluating proposals, negotiating and signing contracts, modifications to contracts, implementing contracts, contract delivery, invoicing and payments)?
- Does and to what extent KA uses the ProZorro Business Intelligence (BI) module for planning or performing audits?

## **Identify key corruption vulnerabilities in procurement processes**

Conduct a survey among personnel involved in procurement using a questionnaire provided in the Annex I.<sup>5</sup> The questionnaire lists 10-20 key vulnerabilities of corruption in pre-tendering and tendering phases of procurement. The vulnerabilities are formulated as statements. The respondents are asked to select one out of four response options that describe the level s/he agrees with the statement (1- completely disagree; 2-more disagree than agree; 3-more agree than disagree; 4- completely agree; option “No answer” should be included but not scored).

The survey should be administered anonymously on paper or electronically. While names of the respondents should not be disclosed, the affiliation (particular the division within the institution, etc.) would be helpful, in order to establish differences among entities conducting procurements.

Data collected through this interview is aggregated and an average score is calculated for each vulnerability (sum of all scores divided by number of valid responses, e.g. all responses but “no answer”).

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<sup>5</sup> Alternatively, the survey can be administered among personnel of an internal control/audit department if there is a time constraint or difficulty with reaching out to the procurement personnel.

Figure 2 below provides an example of several statements for corruption vulnerabilities' related to the bid evaluation process with collected responses and calculated average score for each vulnerability.

Figure 2. Sample corruption vulnerabilities statements with scores and calculated average for 25 valid responses

Corruption vulnerability - Bid Evaluation	Complet ely disagree	More disagree than agree	More agree than disagree	Fully agree	Average
	1	2	3	4	
Criteria for evaluating bids typically unclear	0	0	12	13	3.5
Evaluation often impacted by a single person dominant decision	0	1	11	13	3.5
Evaluation criteria are frequently amended after receipt of bids	10	4	6	5	2.2
Qualified bidders often drop out voluntarily as the bidding process progresses	6	8	6	5	2.4
Col is not regulated and enforced during the proposal evaluation process	0	0	8	17	3.7
...					

## Define, analyze, assess, and prioritize corruption risks

This step is implemented through a facilitated group discussion with representatives of internal control and anticorruption departments and selected managers engaged in procurement. The objective of the discussion is to analyze, assess and prioritize corruption risks using data collected through the survey. The group may decide to focus on those vulnerabilities that received the highest average scores (for example, 3.3 and higher) or on the entire list that will require more time.

The group work includes the following:

1. **Understanding corruption in procurement.** The group facilitator starts the sessions with brief presentation and discussion of corruption occurrences at different stages of procurement, using the materials provided in the *Corruption in Public Procurement* section of this Guide.
2. **Identify and analyze corruption risks.** The group should discuss each procurement stage one step at a time and identify and describe how corruption can occur within each vulnerability selected for the assessment. For example, the group should discuss the vulnerability "Bid evaluation is not done in writing with detailed justification" that had an average score 3.7 and identify how this can lead to corruption. This will result in the description of the corruption risk. To assist the discussion, the group should be presented the list of the corruption risks for each vulnerability as provided in the Annex 2. Each risk is described using the "because..." formula. For example, "Because criteria for evaluating bids is typically unclear, this will allow for manipulating the selection of a favored bidder." See Figure 3 for sample description of the risks.

Figure 3. Corruption Risk Description

Corruption Risk			Average Score
	Vulnerability		
Because	Criteria for evaluating bids typically unclear	it allow for manipulating the selection of a favored bidder	3.5
Because	Evaluation often impacted by a single person dominant decision	it allows for personal interest to influence procurement	3.5
Because	Evaluation criteria are frequently amended after receipt of bids	it can fraudulently provide advantage to a favored bidder	2.2
Because	Qualified bidders often drop out voluntarily as the bidding process progresses	it may indicate a bid rigging to favor a particular bidder	2.4
Because	Col is not regulated and enforced during the proposal evaluation process	it allows for personal interest to influence procurement	3.7

3. **Assess and rate corruption risks.** Risks are typically rated from the point of view of how likely that it will occur (LIKELIHOOD) and what impact it could have (IMPACT). Likelihood refers to a probability and a frequency for corruption to occur. The survey result could be interpreted, as rating the LIKELIHOOD of the corruption risk. (see Figure 4)

Figure 4. Aligning vulnerability scoring with risk LIKELIHOOD rating

Corruption vulnerability scoring		Corruption risk LIKELIHOOD rating
1 – Completely disagree	=	1 – Very unlikely
2 - More disagree than agree	=	2 - Unlikely
3 - More agree than disagree	=	3 - Likely
4 - Fully agree	=	4 - Certain

The group task is to provide their expert opinion about the potential IMPACT of each risk. Each member of the group should be asked to individually rate the IMPACT of corruption for each risk using the following rating system:

Figure 5. Corruption risk IMPACT rating

Corruption Risk – IMPACT	1 – Very insignificant
	2 - Low
	3 - Medium
	4 - High

The members of the group should rate the IMPACT of corruption risks using their expert opinion, based on their experience and knowledge. For rating IMPACT, they should think about potential reputational or financial impact on the organization if corruption occurs. Each member of the group should be provided with an individual rating template, sample of which is provided on Figure 6.

Assessment should continue for each procurement stage until it is completed. And the groups should adjourn until the next session.

Figure 6. Corruption IMPACT rating template

Corruption Risk			Likelihood	Impact
	Vulnerability			
Because	Criteria for evaluating bids typically unclear	it allow for manipulating the selection of a favored bidder	3.5	
Because	Evaluation often impacted by a single person dominant decision	it allows for personal interest to influence procurement	3.5	
Because	Evaluation criteria are frequently amended after receipt of bids	it can fraudulently provide advantage to a favored bidder		
Because	Qualified bidders often drop out voluntarily as the bidding process progresses	it may indicate a bid rigging to favor a particular bidder		
Because	Col is not regulated and enforced during the proposal evaluation process	it allows for personal interest to influence procurement	3.7	

4. **Prioritize corruption risks.** After assessment is completed, the group facilitator collects assessment forms, enters data into the spreadsheet, calculates average scores for IMPACT for each corruption risk, and calculates overall rating of each corruption risk by multiplying scores for Impact and LIKELIHOOD. Figure 7 below demonstrates a sample of the filled out spreadsheet with calculated rating of corruption.

Figure 7. Corruption Risk Rating

Corruption Risk			Likelihood	Impact	RATING
	Vulnerability				
Because	Criteria for evaluating bids typically unclear	it allow for manipulating the selection of a favored bidder	3.5	3.5	12
Because	Evaluation often impacted by a single person dominant decision	it allows for personal interest to influence procurement	3.5	3.2	11
Because	Evaluation criteria are frequently amended after receipt of bids	it can fraudulently provide advantage to a favored bidder			
Because	Qualified bidders often drop out voluntarily as the bidding process progresses	it may indicate a bid rigging to favor a particular bidder			
Because	Col is not regulated and enforced during the proposal evaluation process	it allows for personal interest to influence procurement	3.7	2.5	9

## Develop corruption risk mitigation plan

The working group then convenes and reviews the results. The facilitator provides participants with a spreadsheet, detailing calculated levels of corruption risks and also presents a “heat map” (see Figure 8) to

facilitate discussion on prioritizing corruption risks and identifying mitigation measures. If there is a significant disagreement among members of the group about the results, then the disagreement should be resolved through further discussion with the goal of finding consensus.

The next step is to develop a Corruption Mitigation Plan (CMP). Specifically, for each risk the group must identify mitigation measures, establish targets including anticipated reduced risks, set timeframe for implementing measures, and assign responsible persons. Figure 9 below provides an example of such Plan.

Figure 8. Risk "Heat Map"

Likelihood	4-Certain	3-Likely	2-Unlikely	1-Very unlikely
	4	8	12	16
	3	6	9	12
	2	4	6	8
	1	2	3	4
	1-Very insignificant	2-Low	3-Medium	4-High
Impact				

## Develop KA Procurement Monitoring and Audit Improvement Plan

Based on the information collected through interviews with the KA personnel, and identified priority risks to develop a plan for improving monitoring and auditing that address those risks, in particular, but also improve overall monitoring and auditing practices. This will likely include:

1. Identify “red flags” for monitoring procurements at all stages (non-competitive bids, the same contractor or rotation of contractors, bidders dropping from competition, winners dropped during negotiations or signing contract, frequent modifications to the contracts, etc.);
2. Develop procedures for monitoring procurement through ProZorro BI using “red flags” and to react promptly;
3. Develop or improve complaint system to encourage people to report fraud & corruption and for KA to act accordingly;

4. Develop or improve linkages between a database of audits and the procurement database;
5. Develop or enhance manual guiding monitoring and audit planning, implementing, developing recommendations, and monitoring implementation of the recommendations;
6. Establish effective mechanisms (Standard Operating Procedures – SOP) for enforcing recommendations through recording fraud and corruption, notification to the senior management, and imposing fines, suspension and debarment, or criminal charges;
7. Implement Col policy and procedures within, requiring auditors to disclose prior to their assignment to a task, as well as Col verification policy and procedures;
8. Strengthen skills of the auditors in detecting fraud and corruption in procurement through monitoring and auditing.

Finally, KA should identify approaches for specifically monitoring activities identified in the Corruption Risk Mitigation Plan.

### **Communicate, implement and monitor**

The CMP must be endorsed by the leadership of the organization. Additionally, the CMP must be communicated to the entire organization, and particularly to those involved in the procurement, to ensure that everybody is aware of the measures that will be taken to reduce corruption risks. Furthermore, the implementation should be closely monitored and regularly reported to the leadership of an organization. The assessment should be conducted annually or within any other timeframe, if prescribed by the law.

Figure 9. Corruption Risk Mitigation Plan

			Corruption Risk			Corruption Mitigation Plan						
			L	I	R	Measure	Target	Residual Risk			Time	Responsible
Corruption Vulnerabilities - Bid Evaluation	Corruption Risk Description							L	I	R		
Because	Criteria for evaluating bids typically unclear	it allow for manipulating the selection of a favored bidder	3.5	3.5	12	Draft guidance for developing evaluation criteria; train personnel; conduct review of the criteria	Review of the evaluation criteria give positive results	1	2	3	1-Jun-16	Ivanko
Because	Evaluation often impacted by a single person dominant decision	it allows for personal interest to influence procurement	3.5	3.2	11	Implement policy for preventing single person dominance (for example, by empowering individual evaluation, documenting decision making process)	80% surveyed reported removed single person domination in decision making process	2	2	4	1-Jul-16	Khomin
Because	Col is not regulated and enforced during the proposal evaluation process	it allows for personal interest to influence procurement	3.7	2.5	9	Introduce Col procedures	Col is disclosed & random check implemented	1	2	3	1-Jun-16	Petrenko

## ANNEX I – Corruption Vulnerabilities

<b>Needs assessment &amp; procurement planning</b>	
1.	Regulations do not clearly define how to conduct procurement needs assessments and planning
2.	Staff involved in procurement planning does not have sufficient competencies
3.	There is no clarity about who is responsible for needs assessment and procurement planning
4.	Procurement plan is not aligned with the budget
5.	Procurement plans often include unnecessary or inappropriate items
6.	Procurement planning process is not sufficiently documented or justified
7.	Procurement plan is typically developed or approved by a single person and/or with no check and balances
8.	Analysis of the supply market is not adequate
9.	Budgets for procurement are set artificially high
10.	Political/higherup pressure influences the procurement planning
11.	Col is not regulated and enforced during procurement planning (staff are not required to disclose COI; and COI is not mitigated)
12.	Audit does not sufficiently review adequacy of the procurement planning
<b>Definition of requirements &amp; choice of procurement procedure</b>	
1.	Bidding documents or terms of reference are frequently unnecessarily specific, or too broad, or too complex
2.	Unreasonable pre-qualification/qualification requirements are frequent
3.	Technical requirements are unreasonable specific or vague
4.	Evaluation criteria are often unjustified and unreasonably specific or vague
5.	Special rules, including emergency, are used frequently and unjustifiably
6.	Deadlines for submitting proposal are frequently unjustifiably short
7.	The timeframe often is not consistently applied for all bidders
8.	Non-competitive procedures are used frequently without proper justification
9.	Procurements are frequently split in several smaller procurements unjustifiably
10.	Justification and the process for selecting procedures are typically not sufficiently documented (for example for emergency procurement)
11.	Regulations do not clearly define how to set requirements for procurement and choose procurement procedures
12.	Staff involved in defining requirements and choosing procedures does not have sufficient competencies
13.	There is no clarity about who is responsible for defining requirements and choosing procedures
14.	Political/higherup pressure often influences the process of defining requirements and choosing procurement procedures
15.	Col is not regulated and enforced during the process of defining requirements and choosing procurement procedure (staff are not required to disclose COI; and COI is not mitigated)
16.	Requirements are typically developed or approved and procedure chosen by a single person and/or with no check and balances
17.	Audit typically does not sufficiently review adequacy of the procurement requirements and choosing procurement procedures
<b>Invitation to tender</b>	
1.	Invitations to bids frequently are not publicly available
2.	Relevant information typically is not shared consistently to all bidders
3.	The criteria for selecting the winner are typically not made public
4.	Confidential available pertaining procurements is often leaked to favor a particular bidder



5. Criteria for pre-qualification/qualification is not typically publicly available
6. Procedure for submittal of bids is often unclear
7. Publication dates/channels are typically chosen or approved by a single person and/or with no check and balances
8. Regulations do not clearly define the process of the publication of the bids
9. Staff involved in the bid invitation typically does not have sufficient competencies
10. Political/higherup pressure often influences publication of the bids
11. Col is not regulated and enforced during publication of the bids ( staff are not required to disclose COI; and COI is not mitigated)
12. Audit typically does not sufficiently review invitation to tender process
<b>Evaluation</b>
1. Bid evaluation and decision making process is not documented in details
2. Bid-opening procedures are not transparent
3. Disqualifications are poorly supported
4. Confidentiality is available during evaluation, but leaked to favor a particular bidder
5. Criteria for evaluating bids is typically unclear
6. Timeframe for evaluation is often insufficient for a thorough review of the bids
7. Evaluation often impacted by a dominant decision by a single person
8. Evaluation criteria are frequently amended after receipt of bids
9. The lowest bidder is often disqualified, without an explanation or with an inadequate explanation
10. Winning bid is often very close to a budget or an estimate
11. Qualified bidders often drop out voluntarily, as the bidding process progresses
12. All or majority of bids are frequently of the same or similar price
13. Regulations do not clearly define the process of the proposal evaluation
14. Staff involved in this process does not typically have sufficient competencies
15. There is no rotation of the members on the tender committee
16. Political/higherup pressure frequently influences proposal evaluation process
17. Col is not regulated and enforced during the proposal evaluation process (staff are not required to disclose COI; and COI is not mitigated)
18. Audit typically does not sufficiently review the evaluation of the proposal
<b>Award</b>
1. Contract awards are frequently done to the same company
2. There is an obvious rotation of winning bidders
3. Contract requirements for bidders awarded the contract are not clear
4. Negotiations and award process is not properly documented
5. Negotiations allow for/lead to increased costs or changes to SoW
6. Contract is not in conformity with bid documents (e.g. specification, quantities, level of effort, delivery schedule and payment terms)
7. Manipulation of supporting documentation is frequently overlooked
8. Bidder complaint mechanisms are not sufficient
9. Regulations do not clearly define the process of conducting negotiations and making awards
10. Staff involved in this process does not have sufficient competencies
11. Political/higherup pressure influences the award process
12. Col is not regulated and enforced (personnel involved is not required to disclose Col in writing; and measures

are not taken to minimize the conflict)
13. Award process is handled by a single person and/or with no check and balances
14. Audit typically does not sufficiently review the negotiations and the award process
<b>Contract Management</b>
1. Regulations do not clearly define contract management
2. Responsibilities and authority of contract managers are not clearly defined
3. Staff managing contracts or proving oversight does not have sufficient competencies
4. Political/higherup pressure influences contract implementation
5. Col is not regulated and enforced (personnel with Col are allowed manage contracts)
6. Contract management is handled by a single person and/or with no check and balances
7. Contract management is not sufficiently documented in writing
8. Oversight and reporting requirements minimized in contract
9. Instructions are not given in writing to contractors
10. Reporting requirements are unreasonably burdensome or unclear
11. Contract extension or substantial changes to the contract are frequent
12. Frequent delays in the delivery of goods or services
13. Frequent cost overruns
14. Goods or services are not being used, or being used for purposes inconsistent with intended purposes.
15. Audit typically does not sufficiently reviews the implementation of contracts
<b>Order and payment</b>
1. Regulations do not clearly define financial oversight, invoicing and payment processes
2. Responsibilities and authority for financial oversight, invoicing and payment processes are not clearly defined
3. Staff engaged in financial oversight, invoicing and payment processes does not have sufficient competencies
4. Political/higherup pressure influences contract financial oversight and payment
5. Col is not regulated and enforced (personnel with Col are engage in financial oversight and payment process)
6. Financial oversight, invoicing and payments are handled by a single person and/or with no check and balances
7. Financial reporting and invoicing requirements are unreasonably burdensome or unclear
8. Client frequently fail to pay progress payments and invoices on a timely basis
9. False claims/invoices are frequently accepted
10. Poor quality goods, works or services are frequently accepted/approved
11. Claims for goods and services not supplied are filed frequently
12. Invoicing and payment is insufficiently documented
13. Audit typically does not sufficiently review the invoicing and payments
<b>Complain Management &amp; Enforcement</b>
1. There is no effective mechanisms for reporting corruption in procurement
2. Reports on corruption are not investigated
3. Those found to be involved in corruption are not properly punished