

best practices



Procurement Practices

Corruption Prevention Department

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PROCUREMENT PRACTICES

Introduction

Procurement of goods and services is a recurrent activity which often costs a company or an organization huge expenditure every year. A sound procurement system is important because any abuse or corruption will bring on the company or organization serious losses, hurting both its profits and reputation.

This Best Practice Module aims to highlight the corruption risks and provide companies and organizations with a checklist of good practices in procurement.

Basic Principles

A prudent procurement system should ensure that:

- goods and services are purchased in a competitive and equitable way;
 - purchases represent value for money;
 - the process is transparent and accountable; and
 - the system is free from corruption and malpractice.
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Procurement Guidelines

The issue of written guidelines is an effective means to ensure consistency in procurement practices and to prevent abuse of authority. Guidelines should be issued to the staff concerned and reviewed periodically to incorporate any changes in practices. They should cover:

- the procurement methods for purchases of different values (e.g. by tender or quotation);
- the procedures for various types of procurement;

- the levels of procurement authority and their corresponding financial limits;
- the requirement for documentation (e.g. the tenders and quotations received, results of evaluation, approval authority);
- the provision for regular review of the authorization levels and financial limits;
- the time restriction on re-ordering of the same goods or service and the authority for approval of such procurement beyond the time restriction as a means to prevent split orders in attempts to circumvent the procurement guidelines;
- the procedures and approval authority for urgent purchases which may entail the waiver of certain procurement requirements;
- the requirement for random compliance checks; and
- a warning against bribery and the requirement for staff to declare any actual or perceived conflict of interest.

Segregation of Duties

To provide checks and balances, a clear segregation of staff functions is essential. The following functions should be handled by different personnel where feasible:

- sourcing of suppliers/contractors for tenders or quotations;
- issue of purchase orders;
- receipt of goods and certification of services; and
- certification of payment.

Requisitions

Requisitions should be raised in a standard form providing the following information:

- the description and quantity of goods or the specification of service;
- the quantity and time of the last purchase;
- the unit and total price of the last purchase;
- other terms and conditions (e.g. delivery and packaging mode);
- the recommended supplier(s) if any, or the sole supplier with justifications; and
- the name and telephone number of the user or contact person.

The requisition form should show the name, title and signature of the approval authority. A list of specimen signatures should be maintained for reference by the accounting and purchasing sections.

List of Suppliers

To prevent favouritism in the selection of suppliers, a list of suitable suppliers should be compiled. This practice ensures that only reliable suppliers are used and minimizes the overhead costs and time required for sourcing suppliers. Suppliers on the list should be invited to bid based on a fair share principle (e.g. by rotation).

The criteria and procedures for inclusion in the list should be defined and made known to suppliers. Admission to or deletion from any list of suppliers should follow established procedures and be approved by a senior staff member or a panel.

An appraisal system should be established to assess the performance of suppliers and these appraisal records should be taken into account in the periodic review of the suppliers list. For this purpose, a simple appraisal form could be used to collect feedback from users. Suppliers with adverse appraisal records should be duly informed or warned. Suppliers should be informed if they have been removed from the list.

Suppliers should be advised of the company or organization's procurement policies, including any prohibition for its employees to accept illegal fees or unauthorized commissions.

Direct Purchases

Goods of low value, for which detailed specifications are not required and where there is no bulk supply contract, are usually obtained by way of direct purchase. For control purposes, the financial limits and purchase authority for direct purchases must be clearly laid down.

Supervisors should conduct random checks to ensure that prices obtained are fair and reasonable and that no undue preference is given to a single supplier.

Supervisors should also be wary of split orders which could be used to circumvent the requirement for quotations or tenders for purchases above the financial limits.

Quotations

Competitive quotations are usually sought when the value of the goods or service does not justify a full tender exercise. The following measures could help minimize abuse:

- specify the nature and value of the goods/service which may be purchased by way of quotation;

- specify the level of the authorizing staff member;
- specify the minimum number of suppliers to be invited for quotation;
- record all verbal quotations in writing and ask suppliers to confirm verbal offers by facsimile as far as possible;
- record justifications if the minimum number of quotations cannot be met; and
- conduct spot checks to confirm with suppliers their quotations (including verbal ones) and to contact suppliers who do not respond to repeated invitations to bid with a view to detecting manipulation of quotations.

Security of Information

There should be adequate security measures and specified handling procedures to prevent leakage of quotation information or loss of quotations submitted by hand, facsimile or post.

For quotations submitted by facsimile, a facsimile machine placed in an enclosed area should be designated for the receipt of bids, and a responsible staff member (preferably one who is not involved in the procurement process) should be assigned to collect the quotations after the closing time to prevent leakage of information to unauthorized persons.

Electronic Purchasing

With the development of electronic commerce, procurement is sometimes made through electronic means. While the basic principles of control are the same as those for the conventional procurement process, other security measures should be adopted to ensure the integrity of the process.

Some basic security control measures are highlighted below:

- Use of unique user identity codes (IDs) and passwords to verify the authenticity of each authorized user.
- Well-defined levels of computer access right and procurement authority.
- Amendment to approved requisitions and purchase orders should be prohibited unless made by a more senior staff member with special authority.
- Use of input process control to restrict split orders and exception reports should be printed for management information.
- Keeping of system log records for monitoring and verification purposes. The records should be kept securely for a specified period and accessible only to senior system administrators or auditors.
- Confidential data transmitted should be encrypted to ensure integrity. If such data are transmitted to and from outside parties, encryption methods such as public and private keys could be used.
- Tenders submitted electronically should be safeguarded from access before the closing time and should only be retrieved after the closing time by at least two authorized users.
- The computer system should be able to reject late tenders automatically.

The above control measures are not exhaustive and further details on information security may be provided on request.

Tenders

Competitive tendering is usually required for procuring goods and services of a higher value. In the process, the drawing up of specifications, shortlisting of suppliers for tender invitation and tender assessment are prone to manipulation. Hence, there should be adequate control and security measures to ensure the tender process is fair and competitive.

Selection of Suppliers

While users may nominate their preferred suppliers for tender invitation, suppliers from the suppliers list should also be given a fair chance to compete in the tender exercise.

Tender Specifications

Drawing up tender specifications of the goods and services required often involve the users or the supply staff, or both. To prevent biased specifications which may favour particular suppliers, the staff involved should be asked to specify only the required functions and standards and to avoid brand names as far as practicable.

For high value purchases or purchases of special equipment, it is advisable to form a panel comprising staff with expertise to vet and approve the tender specifications before issue.

Tender Information

The tender documents issued to potential tenderers should provide full information on the procurement requirements, including the time and place for submission of tenders and a statement that late tenders will not be accepted. A realistic time limit should be specified to enable tenderers to prepare their tender submissions.

To avoid undue disclosure of the tenderers' identity before tender opening and to prevent tampering of tenders, tenderers should be advised to submit tenders in a plain envelope marked with the tender reference and the closing date and time. As a further safeguard, tenderers invited to bid should be asked to send a nil return if they decide not to bid.

To enhance fair competition, important tender information such as the marking scheme for tender evaluation, decisive factors for the award of the contract, any revision of tender requirements etc. should be made known to all bidders. Where briefing sessions or site visits are organized, all bidders should be invited to attend.

Tender Submission

Tenders should be submitted in duplicate and deposited in a double-locked tender box with the keys held separately by two staff members of the appropriate level. Tenders submitted by post should also be deposited in the box before the closing time.

At the closing time, a tender opening team comprising two or more staff should be formed to open the tenders and record the tender prices, including nil return as the case may be, in a tender summary.

Any amendment of the tender price made on the tender by the tenderer should be highlighted and initialled against by the tender opening team. While the original set of tender documents are used for evaluation, the duplicate copies should be kept securely by a staff member of the appropriate level.

Late tenders should be kept intact, marked “Late” and returned to the bidders concerned.

All tenders due for disposal after the retention period should be disposed of as confidential waste to prevent the leakage or misuse of any sensitive commercial information contained in the tenders.

Tender Evaluation

Tenders should be assessed in accordance with the criteria approved prior to the tender opening (e.g. compliance with specifications, lowest price offer, cost of after-sale service and suppliers’ past performance).

An evaluation report detailing the analysis and recommendation should be submitted to the approving staff member or the tender board for a decision. Where the lowest conforming tender is not recommended, full justification must be given.

If price is not the determining factor in the selection of tender, the use of a pre-approved marking scheme to evaluate the tenders may help to ensure objectivity and fairness in tender assessment. If the technical or service quality proposals of the tenders are given an important weighting, the bidders should be required to submit the technical/quality proposals and price offers in separate envelopes to facilitate evaluation of the proposals before the price offers are compared.

Notification

Upon the award of tender, all unsuccessful bidders should be notified of the outcome. To enhance transparency, it is advisable to disclose to the unsuccessful bidders on request the name of the successful supplier.

Waiver of Tender Process

In some cases it may be necessary to waive the tender or quotation process (e.g. urgent purchases, or the sole supplier situation, or system compatibility considerations). The waiver should be justified, approved by a senior staff member and properly documented.

Petty Cash Purchases

Imprest accounts may be maintained to pay for small and miscellaneous purchases. Such payments should only be made on a reimbursement basis against an invoice or a claim duly certified by a more senior staff member of the organization.

The use of innovative procurement methods such as a *Purchase Card* may be appropriate for certain types of goods and services. Before the adoption of the new method, a thorough study of the potential risks of manipulation and the adoption of appropriate measures to control the use of the card are recommended. The following are some recommended measures:

- limiting the use to purchases of specified items;
 - restricting the limits for expenditure on single items; and
 - limiting the collective expenditure over a given time period.
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Purchase Orders

A purchase order is an official document issued to the suppliers, demanding the delivery of the specified goods or services. It is not an internal purchase approval document and is different from a requisition, although sometimes the two functions are combined in one form. A purchase order should contain sufficient information to enable the supplier to deliver the goods/service of the correct description and quantity within the specified time. A clear and detailed purchase order could help avoid disputes over any non-compliance or short delivery afterwards. For accounting and control purposes, both requisitions and purchase orders should be serially numbered.

Receipt of Goods/Service

Before acknowledging receipt, the goods delivered should be inspected, counted, weighed or measured against the purchase order and the delivery invoice (in the case of goods). The standard of service provided should also be assessed and certified satisfactory.

Receipt of goods should preferably involve both the procurement staff and users to enhance checks and balances.

Payment Procedures

While payments usually follow established accounting procedures, it is important to ensure invoices are checked against the purchase orders before actual payment. To prevent undue withholding of payments by unscrupulous staff, it is advisable to make known to suppliers the payment period. Random supervisory checks on payments could help deter any malpractice in payments.

Exception reports highlighting discrepancies and abnormal trends of procurement (e.g. split orders) should be produced for management information.

Advisory Services Group

In addition to the series of Best Practice Modules, the ICAC maintains an **Advisory Services Group** to provide free and confidential corruption prevention advice to private organizations covering various aspects of their activities such as staff administration, stores management and administration of contracts. For further information, please contact the Advisory Services Group at telephone no. 2526 6363 or fax no. 2522 0505 or email address asg@cpd.icac.org.hk.



Corruption Prevention Department
Independent Commission Against Corruption
2003