



# Corruption Prevention in *Public Procurement*

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Independent Commission Against Corruption  
Hong Kong, China



# Outline



Public Procurement  
in Hong Kong

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Guiding Principles  
for Procurement

2

Corruption Risks and  
Preventive Measures

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Corruption Prevention  
Services in Public  
Procurement

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# Independent Commission Against Corruption, Hong Kong



ICAC Commissioner



Operations  
Department

Law enforcement



Corruption Prevention  
Department

Prevention



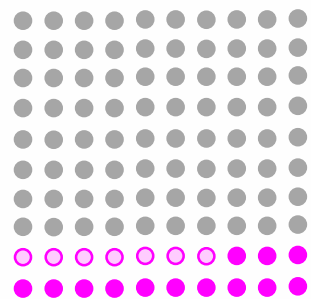
Community Relations  
Department

Education

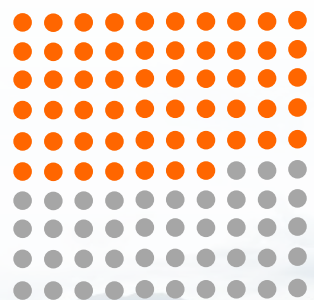


# Corruption in Public Procurement

OECD Members -  
spend about 13-20%  
of their GDPs on  
procurement (2017)



OECD



57% of all foreign  
bribery cases are related  
to procurement



# Impact of Corruption in Public Procurement

Corruption will ...





# Corruption Prevention – **Why ?**

What do you think ...

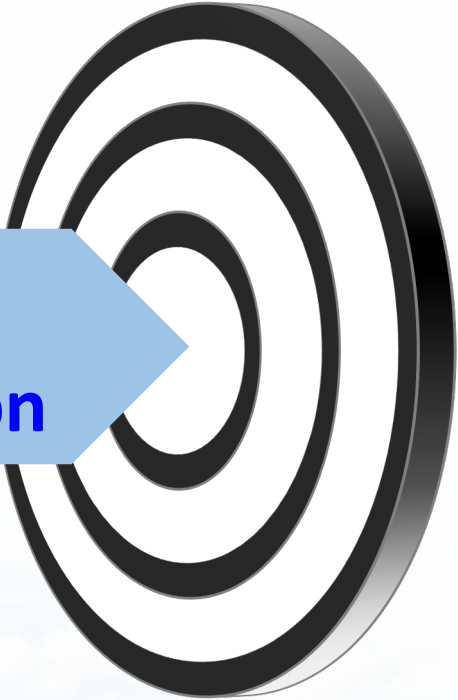


Does your country / place  
allocate resources to  
prevent corruption in  
public procurement?

# Corruption Prevention in Procurement



**Objective** of  
preventing corruption



safeguarding  
public funds and  
using tax payers'  
money judiciously



# Public Procurement in Hong Kong



# Guiding Principles for Public Procurement



Open and fair competition



Value for money



Public accountability



# Corruption Risks in Procurement





# Governance Framework in Procurement

## Integrity Management System (IMS)

- Legal Requirements
- Integrity Requirements



## Internal Control System (ICS)

- Policies and Operational Procedures
- Checks and Balances
- Transparency
- Information Security
- Accountability and Management Oversight

# Integrity Management System (IMS)

**Legal Requirements**

**Integrity Requirements**

## Stakeholders

- **Public officials**

e.g. staff preparing tender documents  
tender assessment panel members

- **Potential bidders**

- **Successful bidders**

- Laws prohibiting corruption
- Ensure all stakeholders are aware of the legal requirements



# Integrity Management System (IMS)

## Public officials

Legal Requirements

Integrity Requirements

- **Anti-corruption**
  - Reminded **not** to **solicit / accept** any **advantages**
  - **Avoid overs-socialising** with or accepting **excessive/lavish entertainment** from bidders
- **Confidential Information**
  - **Prohibited from disclosing confidential information**
- **Conflict of interest**
  - **Avoid** as far as practicable
  - Make a **positive declaration** - declare whether or not they have any **actual**, **potential** or **perceived** conflict of interest
  - Take **mitigating measures** as appropriate

# Integrity Management System (IMS)

## Potential bidders & successful bidders - Tender documents /contracts

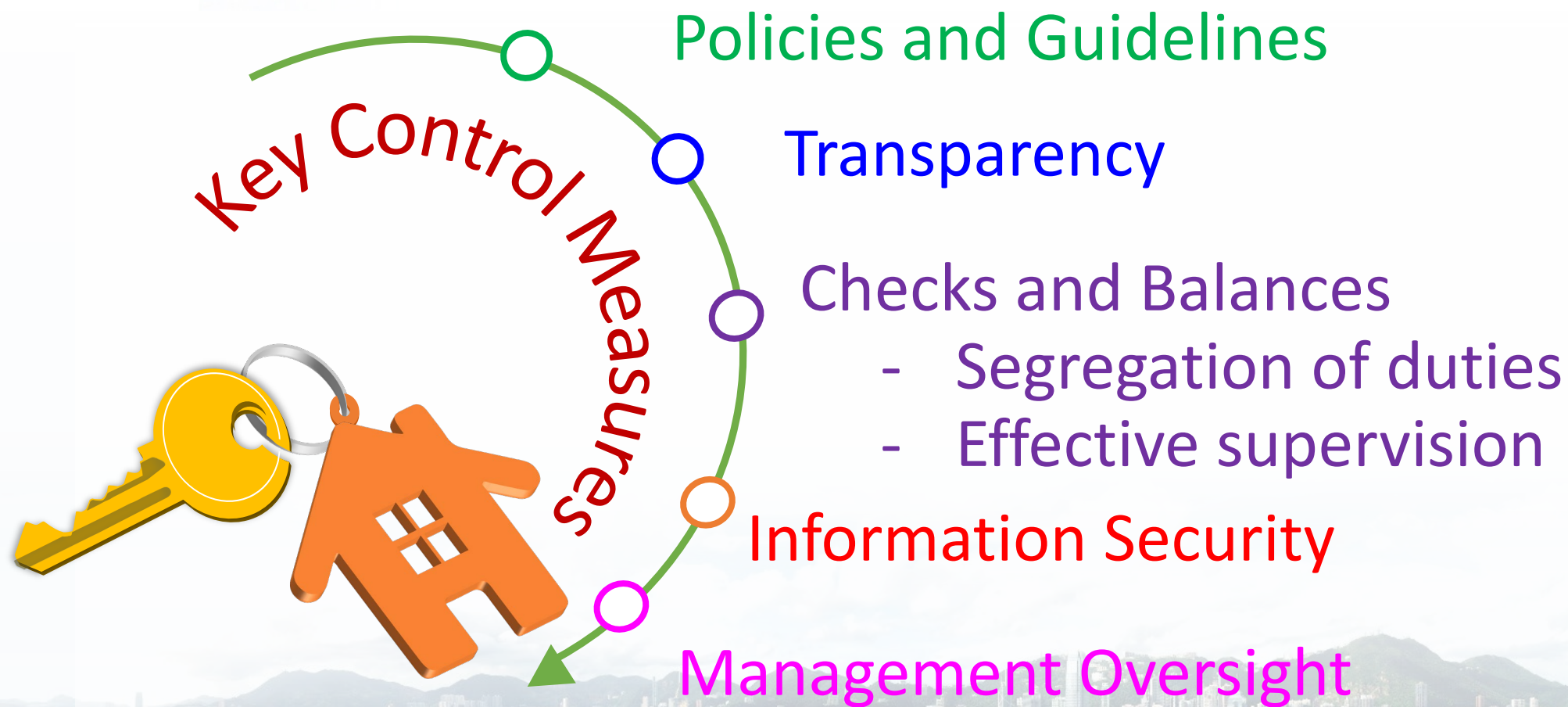
Legal Requirements

Integrity Requirements

- **Anti-corruption**
  - not to solicit, accept or offer any advantages regarding the procurement exercise and execution of the contract
- **Handling of Confidential Information**
  - not to disclose any confidential information
- **Managing of Conflict of interest**
  - declare any conflict of interest



# Internal Control System (ICS)



# Procurement Regime in Hong Kong

## World Trade Organization's Agreement on Government Procurement (WTO GPA)

- A binding international agreement based on the principles of non-discrimination, transparency and procedural fairness
- Covered the Government's procurement for goods and services of  $\geq$  US\$204,100
- Governed 47 members of different countries/jurisdictions
- Objective - provide open and fair competition among bidders





# Procurement Regime in Hong Kong

## Local Guidelines

- Stores and Procurement Regulations (SPR)
- Financial Circulars
- Financial Services and the Treasury Bureau (FSTB) Circular Memoranda
- Government Logistics Department (GLD) Circulars
- Departmental procurement manuals/instructions



# Procurement Methods – Public Procurement in Hong Kong

Value		Method	Requirements
≤HK\$5,000	≤US\$641	Urgent Minor Purchase	<ul style="list-style-type: none"> <li>1 quotation</li> <li>Reimbursement</li> </ul>
>HK\$5,000 - ≤HK\$50,000	>US\$641 - ≤US\$6,410	Quotation	<ul style="list-style-type: none"> <li>More than 1 quotation</li> </ul>
>HK\$50,000 - ≤HK\$1.4 million	>US\$6,410 - ≤US\$179,500	Quotation	<ul style="list-style-type: none"> <li>At least 5 written quotations</li> </ul>
>HK\$1.4 million	>US\$179,500	Tender	<ul style="list-style-type: none"> <li>Tender exercise*</li> </ul>

\* **Tender Exercise:** usually open tender, unless well justified



# Procurement Methods & Approving Authorities

Value		Method	Approving Authorities
<HK\$5,000	<US\$641	Urgent Minor Purchases	<ul style="list-style-type: none"> <li>Designated rank of staff under SPR Chapter II</li> </ul>
>HK\$5,000 - ≤HK\$1.43 million	>US\$641 - ≤US\$183,000	Quotation	<ul style="list-style-type: none"> <li>Designated authorities under SPR Chapter II, depending on values of contract</li> </ul>
>HK\$1.43 million - ≤\$5 million	>US\$183,000 - ≤US\$641,000	Tender	<ul style="list-style-type: none"> <li>Departmental Tender Committee (DTC)</li> </ul>
>HK\$5 million - ≤HK\$30 million	>US\$641,000 - ≤US\$3,846,000	Tender	<ul style="list-style-type: none"> <li>GLD Tender Board</li> </ul>
> HK\$30 million	> US\$3,846,000	Tender	<ul style="list-style-type: none"> <li>Central Tender Board</li> </ul>

# Tender Assessment Panel (TAP)

- NOT less than 2 government officials
- Declaration of conflict of interest
- Assessment made in accordance with laid-down assessment criteria
- Individual scoring
- Tender report signed by TAP Chairman

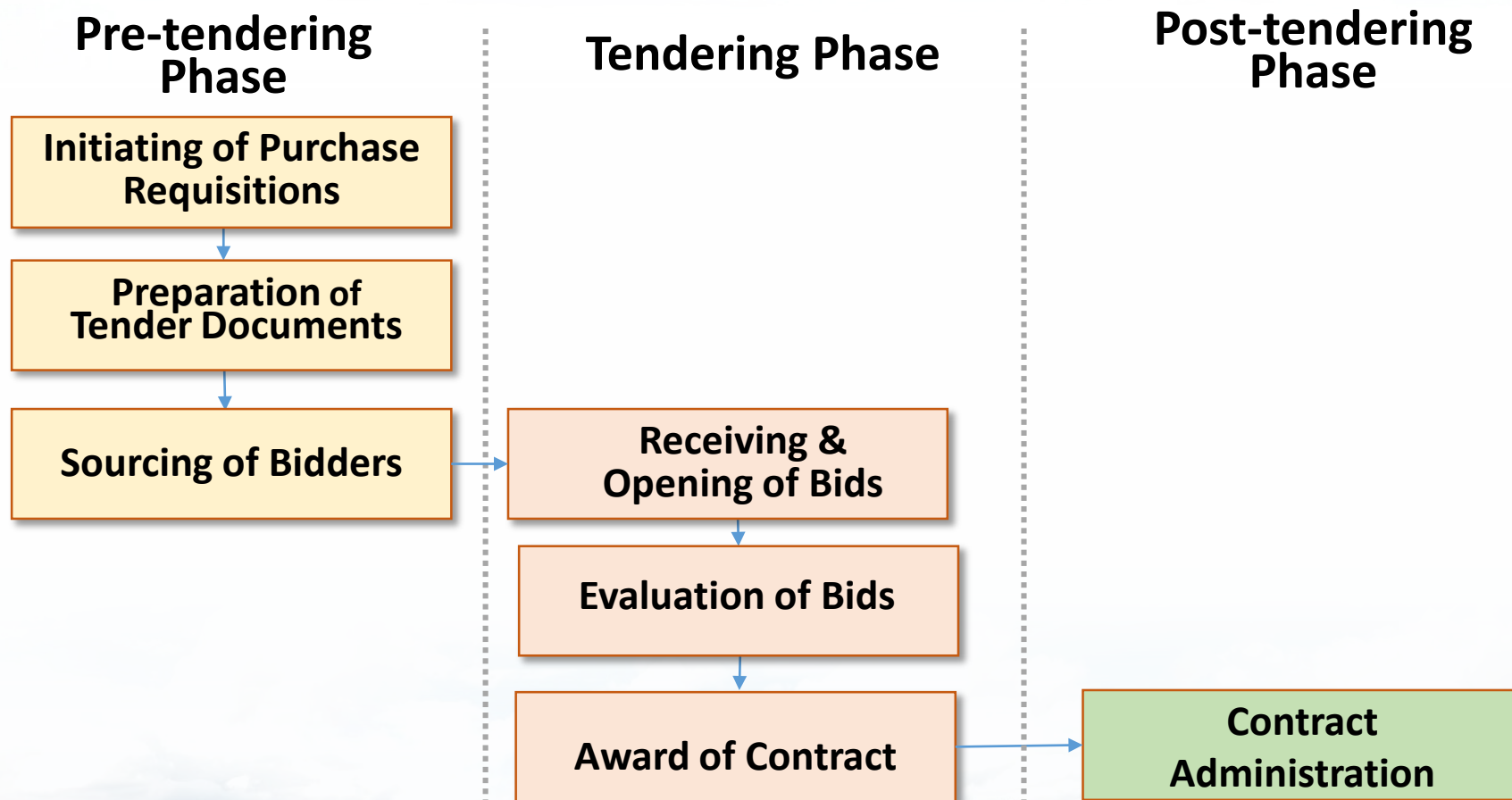




An aerial photograph of Hong Kong, showing the dense urban landscape of the island, the surrounding water, and the mountains in the background. The sky is blue with scattered white clouds. The text is overlaid on the upper half of the image.

# **Corruption Risks and Preventive Measures - Contract Letting**

# Key Processes of Procurement





# Video Show – “Value for Money”

## Background

- Appointing a contractor selected through a tendering exercise for the IT system



## Persons Involved



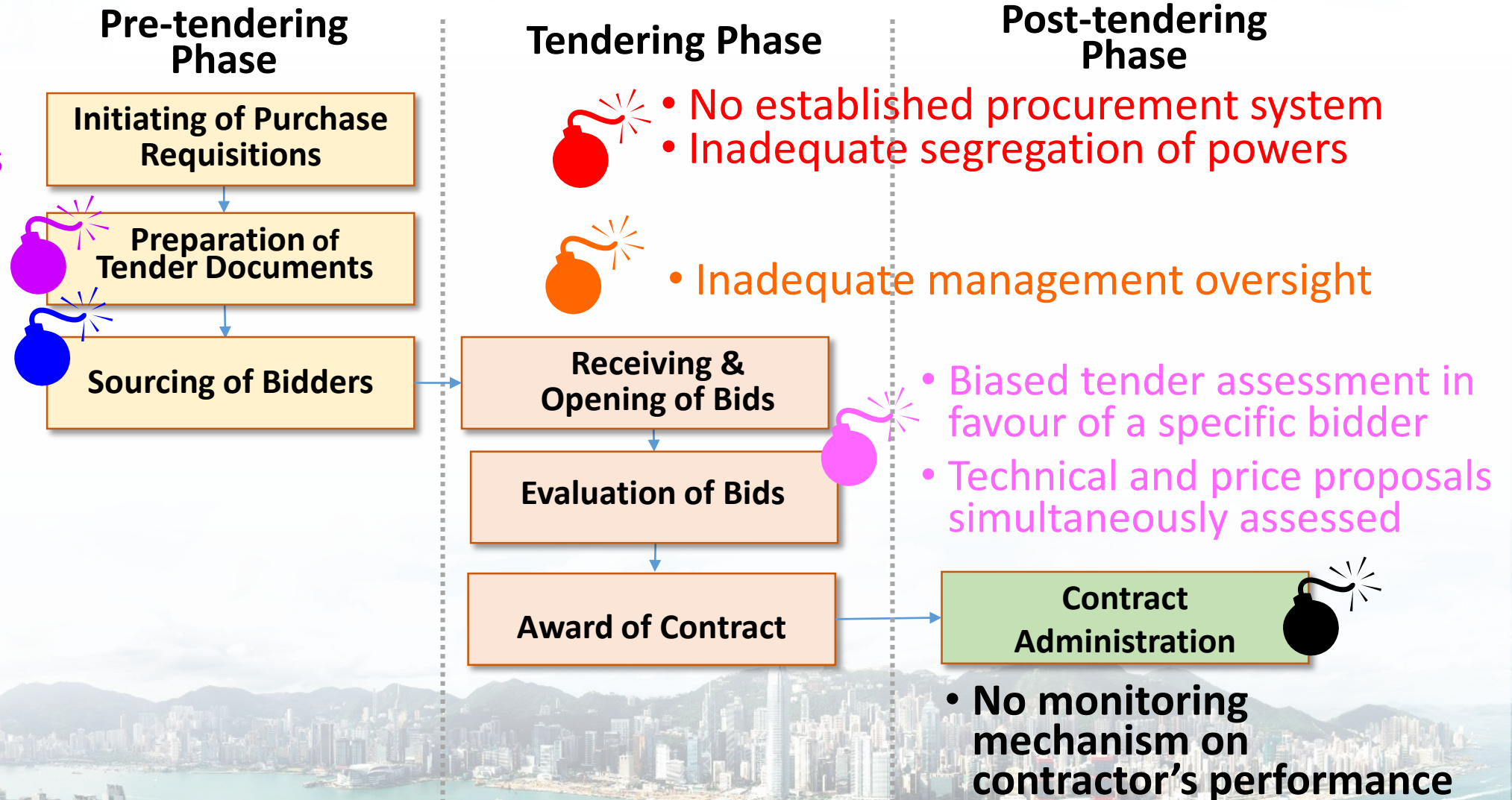
Ben (Senior Manager)  
Raymond (IT contractor)



Patrick (Ben's supervisor)

# Corruption Risks?

- Unclear & biased specifications
- No integrity requirement on staff
- Over-socialising with bidders





# Purchase Requisition



Public body  
General Manager

23 X



\$9.7M  
orders



Contractor

30% of each order  
US\$326,000

≤US\$64,000 – approved by General Manager  
>US\$64,000 – approved by a tender board

# Purchase Requisitions

## Corruption Risks

- 💣 Placing of unnecessary or excessive orders
- 💣 Splitting of orders

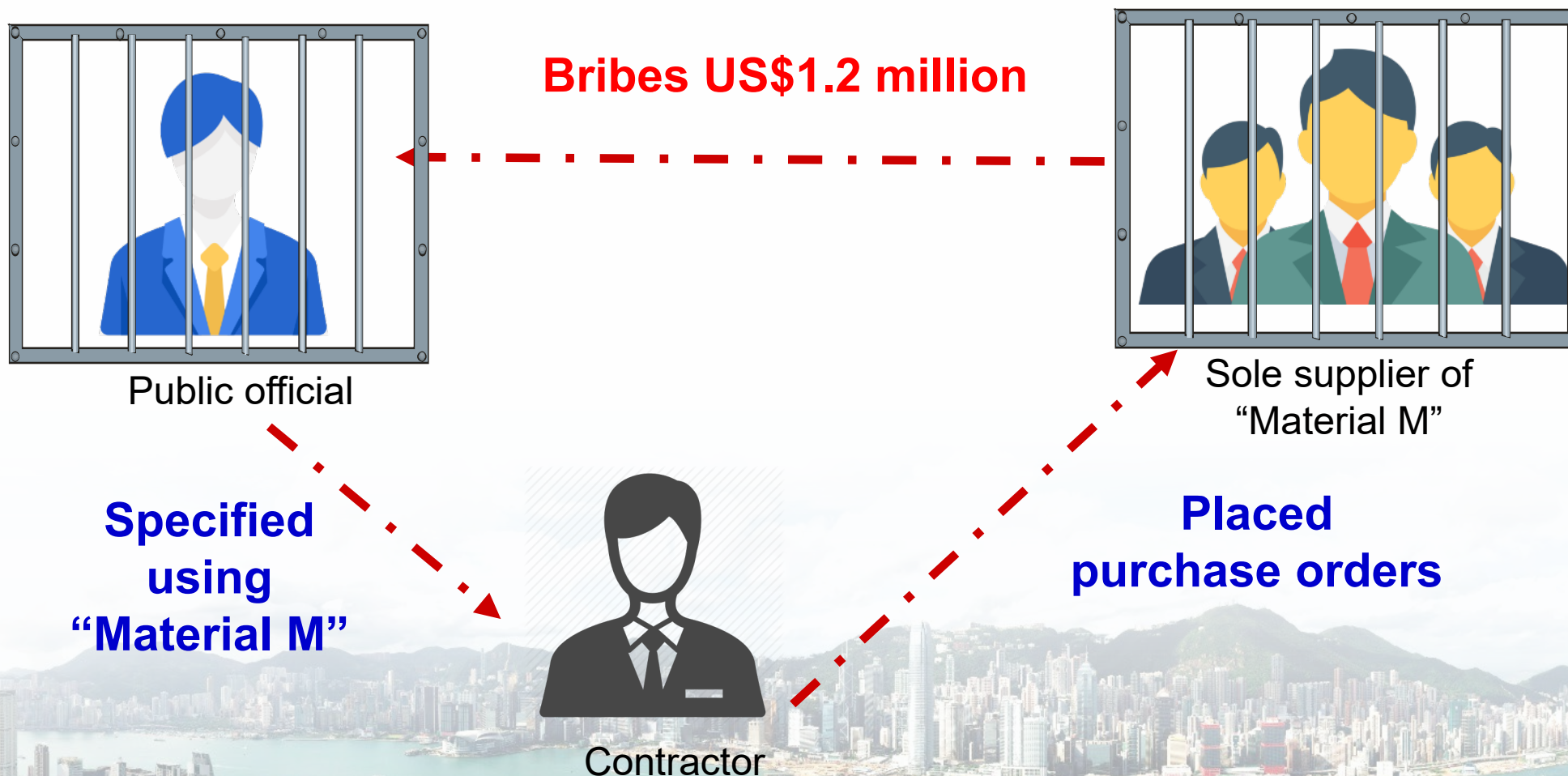
## Preventive Measures

- ✓ Make requisitions in writing with justifications
- ✓ Confirm & approve requisition by an independent party
- ✓ Ensure supporting documents are provided
- ✓ Stipulate approving authority
- ✓ Generate management reports





# Contract Specifications



# Contract Specifications

## Corruption Risks

- 💣 Specify overly-restrictive (e.g. brand-specific) specifications
- 💣 Use unclear specifications



## Preventive Measures

- ✓ Provide clear specifications based on required functions / performance
- ✓ Avoid using brand-names and model numbers of a product
- ✓ Set up a committee to examine and approve the specifications



# Preparation of Quotation/Tender Documents

## Corruption Risks

- 💣 Inadequate probity requirements
- 💣 Only limited information is provided to potential bidders
- 💣 Limited time is provided to potential bidders for preparation of submissions

## Preventive Measures

- ✓ Subject all bidders to anti-bribery clause
- ✓ Provide potential bidders with all necessary information (e.g. evaluation criteria)
- ✓ Ensure that adequate time is provided to bidders



# Sourcing and Invitation of Bidders



**Senior Government official**  
**manage**  
**government properties**

## Contractors' List

**AAA Company**  
**BBB Company**  
**CCC Company**



**Property management co.**  
**owned by a relative**

**Contracts**  
**US\$20 million**

- Recommended relative's unqualified co. to contractors' list
- Failed to declare relationship



# Sourcing of Bidders – Management of Lists of Approved Suppliers/Service Providers

## Corruption Risks

- 💣 Lack of open process for sourcing bidders
- 💣 Staff sourcing bidders through his personal connection without approval or justification

## Preventive Measures

- ✓ Establish a mechanism to manage the approved lists
  - ✓ offer a channel for suppliers/service providers to apply for inclusion to the lists
  - ✓ lay down criteria and procedures (e.g. approving authority) for inclusion to and deletion from the lists
  - ✓ ensure each list contains an adequate number of suppliers/service providers
  - ✓ regularly review the lists



# Sourcing of Bidders – Shortlisting for Invitation

## Corruption Risks

- 💣 Biased selection in shortlisting (e.g. out-of-turn suppliers)
- 💣 Lack of guidelines for shortlisting suppliers
- 💣 Conflict of interest (concealing relationship with suppliers)

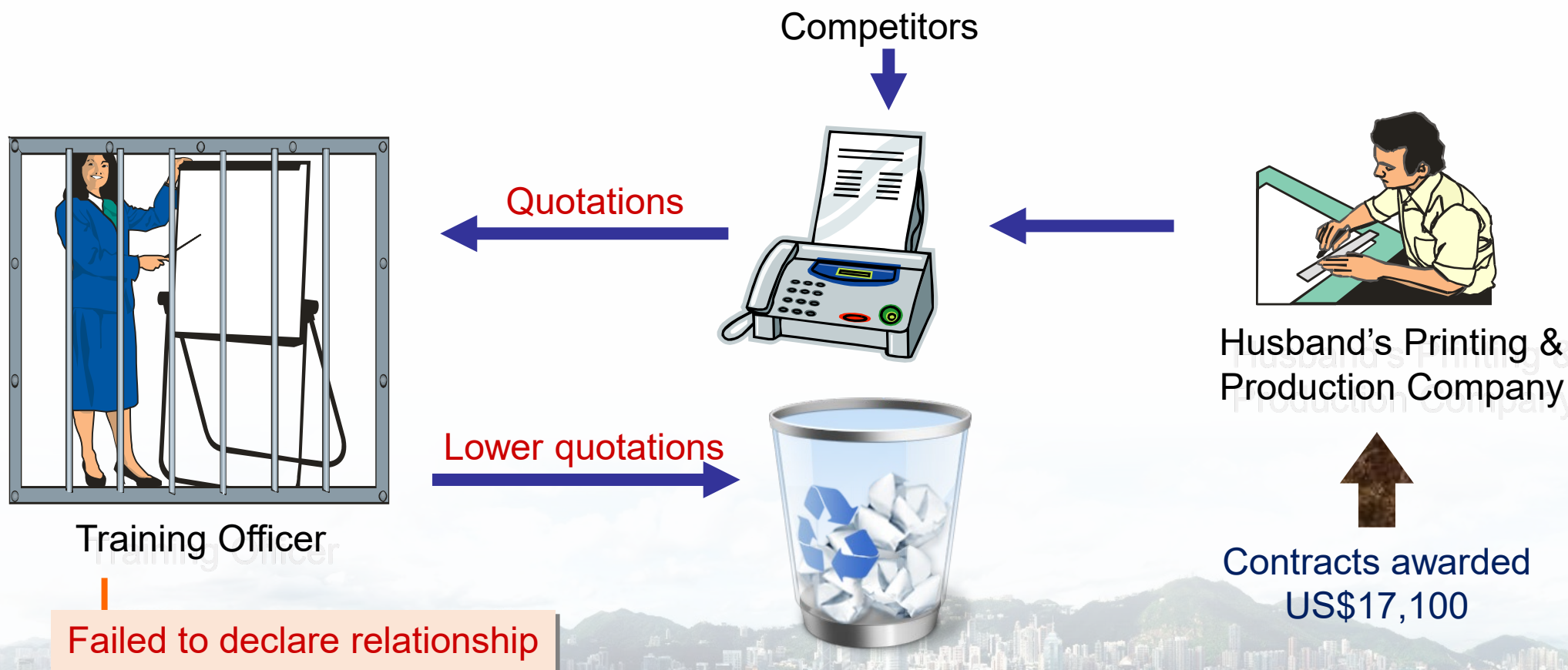
## Preventive Measures

- ✓ Establish a mechanism for shortlisting bidders for invitation
- ✓ Ensure listed bidders are invited on fair share basis (e.g. by rotation)
- ✓ Invite the last successful bidder if its past performance is satisfactory
- ✓ Provide written justification for exceptional case (e.g. out-of-turn invitation)





# Receipt of Bids – Tampering of Quotations



# Receiving and Opening of Bids

## Corruption Risks

- 💣 Leakage/tampering of bid information
- 💣 Lack of security measures
- 💣 Acceptance of late submissions

## Preventive Measures

- ✓ Put in place adequate security measures
  - ✓ Access to submissions on a need-to-know basis
  - ✓ Double-locked quotation/tender box with keys kept by different staff
  - ✓ E-submission
    - a designated mail box for each procurement
    - avoid using personal email account
- ✓ Do not accept late submissions
- ✓ Keep proper records of all submissions received

A sample 'PRICE QUOTATION' form is shown in the bottom left corner. It includes fields for 'COMPANY', 'CUSTOMER NAME', and 'ADDRESS'. Below these is a table with columns for 'ITEM#', 'DESCRIPTION', 'UNIT PRICE', and 'AMOUNT'. The form is tilted and overlaid on the background image of a city skyline.



# Tender Evaluation and Award of Contracts



Chief Engineer  
Govt Dept



***US\$385,000***

***Assist in contract awarding  
& show favour to  
contractors/suppliers***



Contractors &  
Material Suppliers

# Evaluation of Quotations/Tenders

## Corruption Risks

- 💣 Lack of an objective mechanism to evaluate submissions
- 💣 Change of evaluation criteria after opening of submissions
- 💣 Technical proposals are assessed by taking into account the price submissions
- 💣 Lack of documentation on deliberation and decisions

## Preventive Measures

- ✓ Evaluate submissions based on pre-determined criteria and a marking scheme if appropriate
- ✓ Do not revise the evaluation criteria after opening of submissions
- ✓ Establish a tender assessment panel for evaluating submissions by individual member
- ✓ Two envelope approach – open price proposals only upon conclusion of technical assessment
- ✓ Maintain proper documentation



# Tender Evaluation – Tender Clarifications

## Guiding Principles



Keep to the  
minimal

**NO** clarifications  
on missing  
“essential requirements”



Do **NOT** provide  
any tenderer with  
information for  
improving his tender

Proper records  
of clarifications



# Tender Negotiations

## Corruption Risks

- 💣 Biased selection in selecting tenderers for negotiation
- 💣 Negotiation by ONLY one person
- 💣 Leakage of restricted information (e.g. bottom line for accepting the bid, tender prices of other tenderers)
- 💣 Lack of documentation

## Preventive Measures

- ✓ Lay down guidelines
  - ✓ criteria for selecting tenders for negotiation
  - ✓ composition of negotiation team
  - ✓ baseline price and conditions
  - ✓ prohibition on disclosing tenders' bids
- ✓ Require tenderers to submit the “best and final” offer in writing
- ✓ Maintain proper documentation





An aerial photograph of Hong Kong, showing the dense urban landscape of the island, the surrounding water, and the mountains in the background. The sky is blue with scattered white clouds. The text is overlaid on the upper half of the image.

# **Corruption Risks and Preventive Measures**

## **- Contract Administration**

# Contract Administration – Lax Supervision



**Inspector of a  
public body**

**Connive at  
sub-standard service**

**US\$28,000**



**Cleaning  
contractor**



# Monitoring of Contractors' Performance

## Corruption Risks

- 💣 Acceptance of short delivery, substandard goods/services
- 💣 Turn a blind eye to any breaches of contract conditions
- 💣 Insufficient inspections

## Preventive Measures

- ✓ Put in place a monitoring system
  - ✓ inspections before certifying acceptance of goods
  - ✓ day-to-day monitoring activities
  - ✓ action for any short delivery or substandard goods/services
  - ✓ supervisory checks
  - ✓ documentation to be maintained

# Contract Payment

## Corruption Risks

- 💣 Over-payment
- 💣 Expedition or deliberate delay of payment
- 💣 No time limit on payment

## Preventive Measures

- ✓ Verify payment claims against records
- ✓ Set a contractual time limit for payment
- ✓ Conduct supervisory checks
- ✓ Ensure payment claims are processed within prescribed time frame



# Evaluation of Contractors' Performance

## Corruption Risks

- 💣 Conniving at contractors' breaches of statutory/contractual obligations
- 💣 Offering of favourable performance appraisal

## Preventive Measures

- ✓ Put in place a robust performance appraisal system
  - ✓ a central information system recording adverse records and follow-up actions
  - ✓ conduct of periodic and end-of-contract appraisals
  - ✓ standard appraisal form for completion
  - ✓ consideration of track records in future bidding exercises

# Management Oversight

- 
- The diagram shows a stylized figure of a person in a suit. The suit is composed of several colored sections: a grey head, a black tie, and a jacket with teal, yellow, red, and blue panels. Lines connect these sections to specific bullet points on the slide.
- Review procurement policies and guidelines on a regular basis
  - Assign supervisors to conduct spot checks
  - Generate management or exception reports for review
  - Conduct internal audits by an independent party
  - investigate irregularities identified
  - Put in place a user-friendly and reliable feedback or complaint system



# **Corruption Prevention Services in Public Procurement**



# Corruption Prevention Services in Public Procurement



## Assignment Studies

Detailed examination of systems and procedures



## Consultations

Quick advice to Government departments and public bodies



## Capacity Building

Corruption prevention training

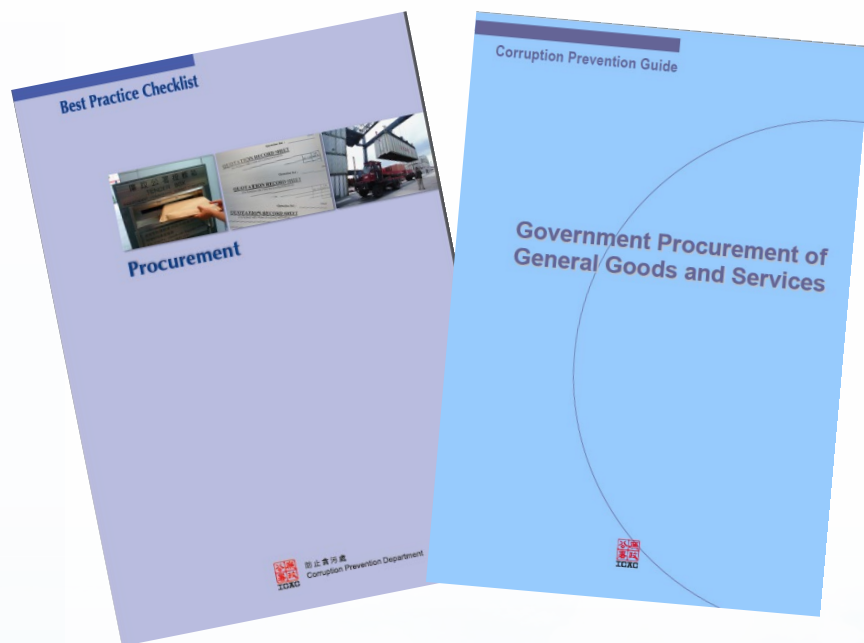


## Corruption Prevention Resources

Corruption prevention guides, best practices, training materials, CPAS web portal



# Corruption Prevention Resources



## Corruption Prevention Best Practices

## Training Package



## RED FLAGS

### Introduction

Red Flags are warning signs that emerge in the routine operation of business process which by themselves may not constitute cases of fraud or corruption but indicate an area where management oversight is required to safeguard against fraud and corruption.

### Procurement – Bidding and Contract Award

User department or technical staff insisting on using a particular brand or supplier despite...

[See More](#)

### Staff Behaviour

Staff insisting on handling particular cases/accounts and resisting re-assignment of duties...

[See More](#)

## Advice on Red Flags



# Corruption Prevention Advisory Service Web Portal



## Key Features

- Corruption prevention publications
- Training videos
- Case studies
- Red flags
- Quick tips

<http://cpas.icac.hk>





# Guiding Principles in Public Procurement

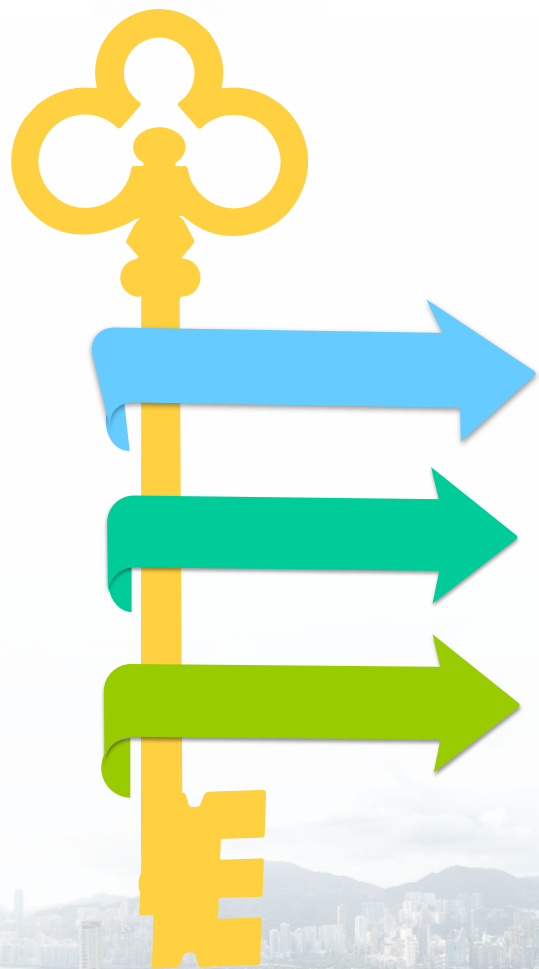
What do you think ...



- (a) Open & Fair, Value for Money, Public Accountability**
- (a) Quick & Efficient**
- (b) Good & Fast**



# Conclusion



## Guiding Principles for Public Procurement

Open and fair competition



Value for money



Public accountability







International Liaison and Training Group  
Independent Commission Against Corruption  
Hong Kong, China

ICAC Corporate website: [www.icac.org.hk](http://www.icac.org.hk)  
Contact: [ilt@adm.icac.org.hk](mailto:ilt@adm.icac.org.hk)



香港 勝在有你同ICAC

Hong Kong Our advantage is you and the ICAC

舉報貪污熱線 25 266 366  
Report corruption hotline