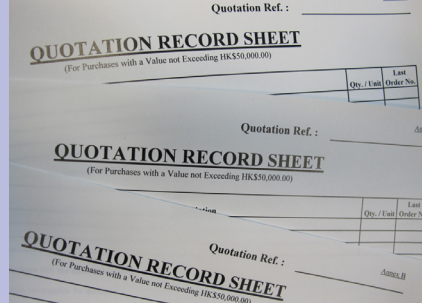


Best Practice Checklist



Procurement



防止貪污處
Corruption Prevention Department

INTRODUCTION

Introduction

Procurement of goods and services, essential to the operation of a company or an organization, often involves substantial expenditure. Past corruption cases shows that it is an area most vulnerable to corrupt manipulation and malpractice. Any corruption in procurement would not only bring financial losses upon a company or an organization, but also adversely affect its reputation as a trustworthy partner for business.

To ensure “value for money” when making purchases and to prevent impropriety in the process, it is important for the company or organization to put in place adequate safeguards in the system. This Best Practice Checklist recommends safeguards for adoption in the procurement of goods and services. Companies and organizations are advised to adapt the recommended measures to suit their respective organizational structure, resource capability, operational need, and risk exposure.

The Advisory Services Group of of the Corruption Prevention Department of ICAC stands ready to provide free, confidential, and tailor-made corruption prevention advice to private companies on request, including how to apply the practices recommended in this Checklist. For further information, please contact the Group at:

Telephone no. : 2526 6363

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HOW TO USE THIS BEST PRACTICE CHECKLIST

For quick and easy reference, users will find the following icons throughout this Best Practice Checklist. They serve to lead users to the information required:



Sample Form – samples forms for adoption where applicable



Pointer – cross reference to other sections of the Checklist

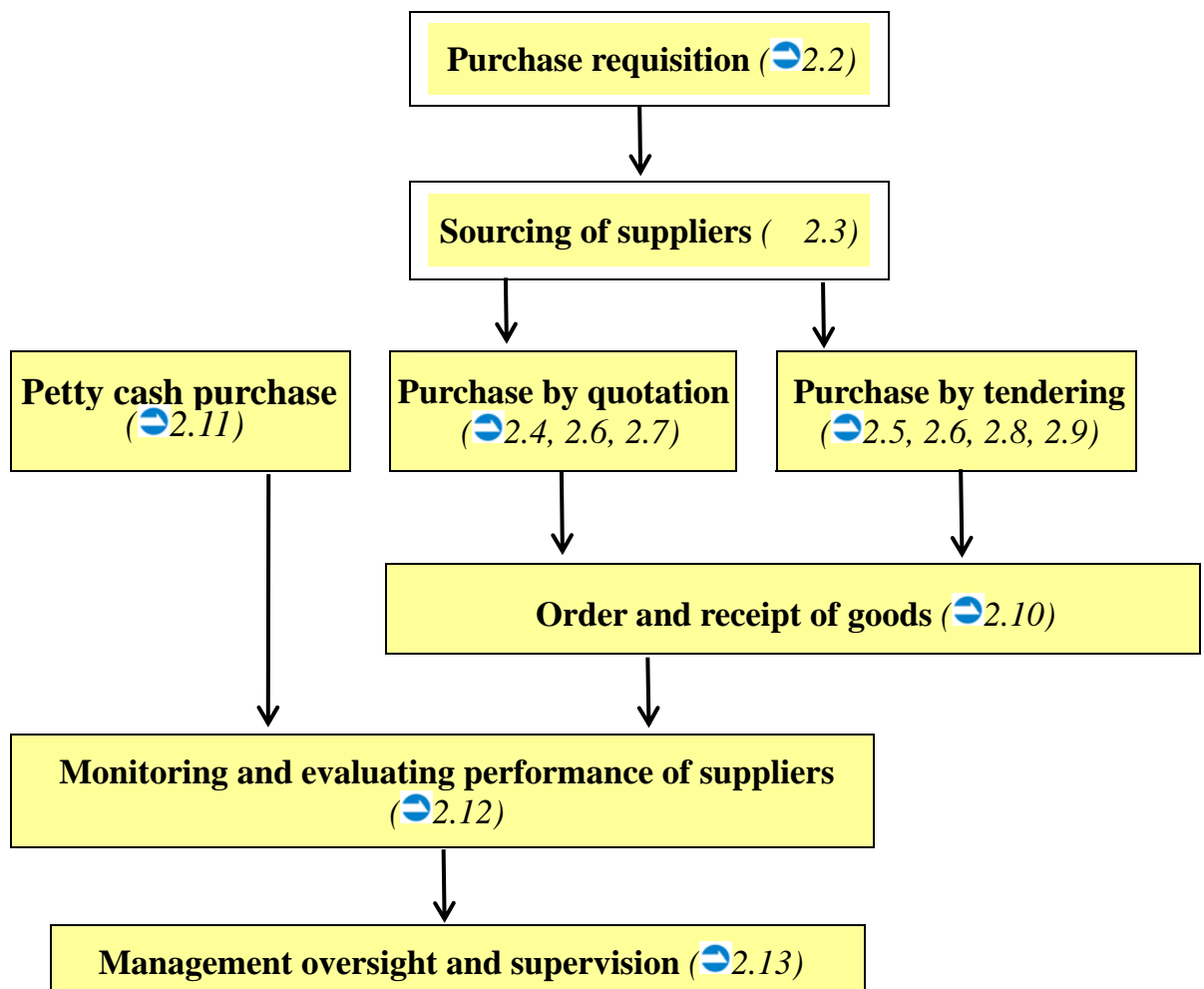
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1.1 Key Stages

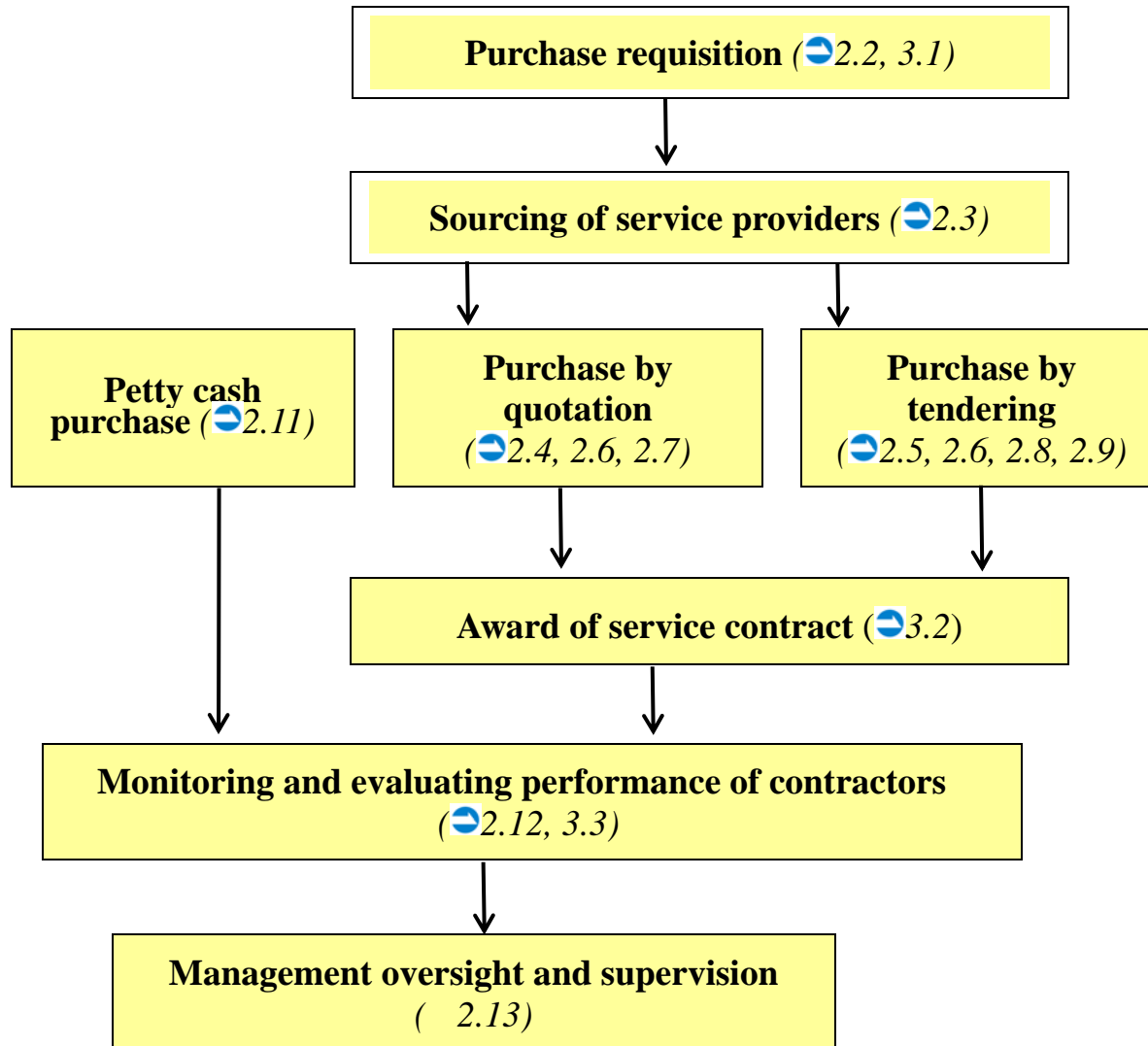
Listed below is a simple outline of the key stages of procurement¹. The recommended control measures to be built in each stage are provided in the following chapters.

1.2 Procurement of Goods



¹ The key processes are listed from the control point of view and are by no means prescriptive.

1.3 Procurement of Services



2.1 Laying Down Guidelines

- Management**
- ❑ Specify the procurement methods for goods of different values and the corresponding levels of approving authority, as follows:
 - Open tendering – High value purchases of a specified amount require open invitation for bids from all interested suppliers (e.g. through the company website or newspaper advertisement). The approving authority should be at the senior management level.
 - Restrictive tendering or quotation – Other purchases above a specified amount (except for petty cash purchases) require invitation of a specified number of suppliers sourced from an approved list or the market, and nominated by users. The approving authority should be at the managerial level (restricted tendering for higher value purchases) or supervisory level (quotation for lower value purchases).
 - Petty Cash Purchases – Small value purchases below a certain amount from suppliers direct should be made by authorized staff only.
 - ❑ Specify the authority for approving purchases of goods (by quotation or tender) for which there are only limited suppliers (e.g. only one or two).
 - ❑ Determine whether a two-envelope system is necessary (i.e. for high value purchases where price is not the only consideration, tenderers are required to submit quality and price offers in separately sealed envelopes for assessment)
 - ❑ Require a tender evaluation panel, comprising members from the user department, the procurement department, and any specialist or technical staff as necessary, to be appointed to evaluate the tenders if quality aspects are assessed apart from the price.

- ❑ Require all staff involved in the procurement process to declare any perceived or actual conflict of interest and take steps to remove the conflict (if any) by assigning other staff to take over the job or requiring the supervisors to closely monitor the process.
- ❑ Instruct all staff involved in the process to avoid over-socialising with or accepting excessive or lavish entertainment from suppliers.

2.2 Making Purchase Requests

User

- ❑ Raise purchase requisition in a purchase requisition form (Appendix I), seeking endorsement of the requisition from the designated authority if required.
- ❑ Draw up a functional specification.
- ❑ Avoid quoting the brand name and model number of a product that may be perceived as favouring a particular supplier.
- ❑ Give justification and seek approval from the designated authority if proprietary or brand name products are required.

Approving Authority

- ❑ Vet the purchase requisition before approval, ensuring the need for the purchase, budget provision, and that the specification of goods is not overly restrictive to inhibit competition.

2.3 Sourcing Suppliers

Procurement Staff Maintaining Approved Suppliers Lists

- ❑ Maintain a list of suppliers for frequently purchased goods, categorised by the types of products they provide, and approved by the management.
- ❑ Ensure that there is a reasonable number of suppliers on the list for each category of goods.
- ❑ Lay down the criteria and procedures for inclusion and deletion of suppliers on the list, and make them known to all suppliers (e.g. on the company website).
- ❑ Vet all applications for inclusion against the criteria, including those nominated by in-house staff or users.
- ❑ Regularly review the suppliers list, with a view to removing suppliers with poor performance or those who are inactive.

Shortlisting Suppliers for Ad Hoc Purchases²

- ❑ Source suppliers according to pre-determined criteria endorsed by the approving authority.
- ❑ Shortlist suppliers sourced through nominations by users, references provided by business partners, company websites, etc., including those who have approached the company themselves and have met the pre-determined criteria.
- ❑ Provide reasons if only one or two suppliers could be sourced.

² Normally refer to goods which are not frequently purchased and for which there is no approved suppliers list.

2.4 Inviting Quotations

Procurement Staff

- ❑ Invite the required number of suppliers on the approved suppliers list to submit quotations or compile a shortlist based on pre-determined criteria endorsed by the approving authority if necessary (→2.3).
- ❑ Ensure the listed suppliers are invited to bid on a fair share basis (e.g. by rotation) and justify any out of turn invitation or frequent invitation of the same few suppliers to bid.
- ❑ Include additional suppliers nominated by users or other staff only if they meet the listing criteria (→2.3) and they should not replace those selected from the approved suppliers list.
- ❑ Specify the mode of submission of quotations (e.g. by fax or email for quotations), and the deadline for submission.
- ❑ Include an anti-bribery message in the request for quotation form (📄Appendix 2).
- ❑ Draw up clear specification of goods based on the users' requirements (→2.2).

2.5 Inviting Tenders (Open/Restrictive)

Procurement Staff

- ❑ Open tendering: openly invite all relevant suppliers to tender through company website or newspaper advertisements.

- ❑ Restrictive tendering: invite suppliers on the approved suppliers list to tender (➡2.3) or compile a shortlist based on pre-determined criteria endorsed by the approving authority (➡2.4).
- ❑ Specify the mode of submission of tenders (e.g. by hand/post to a designated staff member, electronic submission, dropping into a tender box) and the deadline for submission.
- ❑ Undertake formal tender invitation and include the following in the tender invitation documents:
 - clear specifications of the goods required;
 - the selection criteria and their weightings in assessment, if price is not the only consideration; and
 - a warning against corrupt offers to the company's staff and the consequence that company may terminate the contract and claim damages if the contract is obtained through bribery or collusion with other bidders (📖*Appendix 3*).
- ❑ Ensure all bidders are given the same information which is essential for tender preparation.
- ❑ Consider arranging a tender briefing for all interested bidders if necessary.
- ❑ Require bidders to submit tenders in duplicate and in sealed envelopes, or through an electronic tendering system if available.

2.6 Receiving and Opening Quotations or Tenders

- Management**
- ❑ Lay down the procedures and safeguards to prevent tampering/leakage of quotations or tenders, for example:
 - Set aside a fax machine with access control for this purpose, or an electronic quotation system barring access before the closing time; or place the tenders/quotations in the safe custody of a staff member not involved in the process; or use a secure tender box with double lock with the two keys kept by different staff members.
 - Assign a team comprising more than one staff member to open the quotations/tenders shortly after the closing time.
- Procurement Staff**
- ❑ Do not open any quotations or tenders before the deadline.
 - ❑ Record all verbal quotations in writing.
 - ❑ Keep proper records of all quotations and tenders received (e.g. keep duplicate copies of the bids) for future audit.
 - ❑ Place the duplicate copies of quotations/tenders in the custody of a designated staff member who is not involved in the procurement process to facilitate future reference if necessary.

2.7 Evaluating Quotations

- Procurement Staff / User**
- ❑ Check compliance with the specifications (→2.2).
 - ❑ Select the compliant bid with the best price offer, or evaluate the quotations based on the selection criteria if price is not the only consideration.

- ❑ Give justifications if the best price offer is not recommended if price is the major consideration.
- ❑ Recommend the selected supplier on the purchase requisition form (📄*Appendix 1*), attaching all the quotations received, for endorsement by the approving authority.

2.8 Evaluating Tenders

Tender Evaluation Panel

- ❑ Pre-determine the tender evaluation criteria, their relative weightings, and a marking scheme before tender invitation (if price is not the only selection criterion).
- ❑ Do not modify the criteria and weightings after the tenders are opened before because anything drawn up or modified afterwards will lead to allegation of unfairness.
- ❑ Check compliance with the tender specifications (➡2.5) and select the best offer.
- ❑ Open the price offers only after the quality proposals have been assessed, if a two-envelope approach is adopted (➡2.1).
- ❑ Design a tender evaluation form for use by panel members if quality aspects are assessed, to enhance fairness in the process (📄*Appendix 4*).
- ❑ Require the panel members to make assessments on their own against the evaluation criteria using the tender evaluation form (📄*Appendix 4*).
- ❑ Invite bidders to give a presentation to the panel if necessary, and make sure the opportunity is given to all qualified bidders for fairness.

- ❑ Select the conforming bid with the lowest price offer or the one with the highest score, otherwise give reasons for not doing so.
- ❑ Submit the recommendation in writing to the approving authority for endorsement.

2.9 Post-Tender Negotiation

- Management**
- ❑ Lay down the guidelines for post-tender negotiation, including:
 - the criteria for selecting tenderers for negotiation (e.g. the highest-scorer or the top three highest-scoring bidders);
 - the composition of the negotiation team and the level of staff according to the value of purchase;
 - the baseline price and conditions, beyond which the negotiating team are required to seek instruction from the management;
 - prohibition on disclosure of the tenderers' bids during the negotiation; and
 - requirement for the bidders to submit the “best and final” offer in writing after negotiation.
 - ❑ Appoint a negotiation team comprising at least two persons of the appropriate level to conduct negotiation for high value purchases.
- Negotiation Team**
- ❑ Conduct negotiation within the defined parameters and seek instruction from the management as necessary.
 - ❑ Document the salient points of negotiation and the result.

Approving Authority

- ❑ Evaluate the “best and final” offers and submit a recommendation in writing to the approving authority.
- ❑ Ensure the recommendation is in accordance with the laid down criteria and justified, reviewing all the bids received as necessary.
- ❑ Consider the need for re-tendering if the original tender requirements have been substantially changed after negotiation to avoid perception of unfairness to the unsuccessful bidders.

2.10 Ordering and Receiving Goods

Procurement Staff / User

- ❑ Issue serially-numbered purchase orders (📄*Appendix 5*), specifying in detail the requirements as approved (e.g. goods specification and quantity).
- ❑ Assign a staff member, preferably one not participating in selecting the supplier (if resources allow), to inspect the goods delivered against the Purchase Order to ensure that there is no short delivery or substandard goods.
- ❑ For high-value purchases, assign a supervisor to monitor and counter-sign the receipt of goods.
- ❑ Arrange testing of the goods delivered by competent staff (e.g. computers by IT staff) before acceptance.
- ❑ Require the staff to certify acceptance of goods within a specified time limit upon delivery and ensure the supplier makes good any shortfall without delay.

2.11 Making “Petty Cash” Purchases

- Management*
- ❑ Lay down the procedures for maintaining a Petty Cash Account for small amount purchases.
 - ❑ Require the production of invoices, receipts for claims of payment.
 - ❑ Designate a staff member as the Petty Cash Holder to keep an account holding cash of a specified amount, and lay down the procedure and authority for replenishment of the account.
- User*
- ❑ Claim payment or reimbursement by using a petty cash voucher (📄 **Appendix 6**), attaching the original invoice or receipt, or sign petty cash voucher if a receipt is not available.
- Petty Cash Holder*
- ❑ Vet the claim forms before making payment or reimbursement.
 - ❑ Sign the vouchers and stamp “Paid” on the invoices and receipts to prevent their re-use for claims.
 - ❑ Request replenishment from the Accounts Department using a petty cash replenishment form (📄 **Appendix 7**), attaching all the vouchers and receipts of claims.

2.12 Monitoring Performance of Suppliers

- User*
- ❑ Design a performance evaluation form (a checklist) for use in evaluating the suppliers’ performance, listing the attributes for assessment (e.g. quality of goods, promptness in goods delivery, and after-sale service) (📄 **Appendix 8**). Companies could revise the form based on their own requirements.

- ❑ Collect and record users' feedback using the checklist.
- ❑ Conduct periodic performance appraisal if the suppliers are employed on term contracts and ensure any contract renewal is supported by good performance records.
- ❑ Record adverse performance only for future reference if the above formal appraisal system is considered not necessary.
- ❑ Send a copy of the completed performance checklist or adverse performance record to the Procurement Staff for record.

Procurement Staff

- ❑ Handle cases of unsatisfactory performance in accordance with established policies and procedures (e.g. issue of warnings or suspension for a specified period from invitation to bid).
- ❑ Remove the suppliers with persistent adverse performance from the approved list or suspend them permanently from bidding as appropriate with proper approval.

2.13 Carrying Out Management Oversight

Management

- ❑ Review the procurement policies and guidelines periodically, taking into account the operational needs and changing business environment.
- ❑ Assign supervisors to conduct spot checks on the procurement activities to ensure compliance with the laid down policies and procedures and to detect malpractice, such as bogus quotations, through spot checks with the bidding suppliers.

- ❑ Require the users, the Procurement and Accounts Departments to produce management or exception reports to facilitate review by the management (e.g. repeated orders of the same goods over a short period, indicating possibility of split orders or purchases not following the laid down selection criteria).
- ❑ Assign staff independent of the procurement process or engage an external auditor to conduct periodic audits on procurement activities.
- ❑ Provide a channel for feedback from the suppliers and staff, and assign an independent team to investigate any irregularities reported.

The processes for procuring general services (e.g. printing and transport services) are largely similar to those for the procurement of goods. The procedures and measures recommended in Chapter 2 therefore also apply to the procurement of services. The practices and safeguards specific to the procurement of services are highlighted in this chapter.

3.1 Drawing up Service Requirements

User/Procurement Staff

- ❑ Draw up detailed specifications of the services required and the required service level / performance standard, based on the user/management's requirements (e.g. in procuring transport services: the number of vehicles required, the accumulated mileage travelled and condition of the vehicles, response time to orders and punctuality; in procuring printing services: the paper and printing quality, turnaround time).
- ❑ Where applicable, also set out requirements on the contractor's quality and experience (e.g. track record, business nature and experience, client reference).
- ❑ Avoid drawing up subjective specifications as far as practicable.
- ❑ For high-value service contracts and/or where the specifications are mostly subjective in nature (e.g. artistic requirements), appoint a panel to draw up, vet or endorse the specifications.

3.2 Awarding Service Contracts

User/Procurement Staff/Management

- ❑ Specify in the contract agreement, among other terms and conditions, the service requirements and service levels/performance standards (3.1), the performance management system (e.g. performance reports/records to be provided by the service provider, and remedies for non-conformance such as rectification within a specified time limit or payment deduction, liquidated damages), and appropriate provisions for contract variations (e.g. ad hoc placement of additional orders by the company).
- ❑ Specify the payment terms (e.g. monthly, on completion or by stages of completion) and other requirements (e.g. documents required for payment claims).
- ❑ Include in the contract conditions a probity clause prohibiting the contractor's and sub-contractor's (if any) staff from offering or soliciting bribes when performing duties under the contract.

3.3 Managing Service Contracts

User/Management

- ❑ Assign staff to monitor the standard of service and make reports on any deficient or default service, using an inspection checklist designed for this purpose.
- ❑ Require staff responsible to certify acceptance of services within a specified time limit after completion.
- ❑ Require supervisory staff to justify any contract variations, and seek endorsement by the management.

- ❑ Collect user feedback on the contractor's service standards (📄 *Appendix 8*).
- ❑ Establish disciplinary procedures to deal with non-conformance or unsatisfactory performance of the contractor.
- ❑ Hold regular meetings with the contractor's management to discuss problems and review performance.
- ❑ Ensure contract renewal is based on good performance, ask the user and procurement departments to assess the availability of other competitive alternatives before contract renewal, and conduct a fresh tender exercise to source a new contractor where appropriate.

Disclaimer

The recommendations as contained in this Checklist including the sample forms or documents are for general guidance only. The sample forms and documents should be modified and adapted as appropriate to suit individual companies' operational situation and needs before use. The ICAC is not responsible for any loss or damage whatsoever arising out of the use of this Checklist or in connection with any information contained in this Checklist. Users of this Checklist should seek legal or professional advice as and when necessary.

Sample Purchase Requisition Form

SAMPLE ONLY

Purchase Requisition Form

PR No. _____

PART A

Requesting Department : _____

Date : _____

CASH PURCHASE

PURCHASE ORDER *(please as applicable)*

Item#	Qty	Description/Specification	Code	Purpose	Est. Price
TOTAL:					

Items	Budget	Budget Provision (HK\$)	Accumulated Expenses (HK\$)	Balance Available (HK\$)	Justifications (if budget not available)

Deliver to:	Delivery date:

Requested by : _____ Signature : _____ Date : _____

Endorsed / Not Endorsed *(please delete as applicable)*

Reason(s) if not endorsed : _____

Endorsing Officer : _____ Signature : _____ Date : _____

PART B

Quotations Invited:

Supplier	Date Received	Contact Person & phone no. (if verbal)	Compliant (Y/N)	Price HK\$	Special Conditions / Remarks

Quotations.attached not attached (please as applicable)

Recommended supplier/contractor : _____

Reason(s) if lowest bid not selected : _____

Recommended by : _____ Signature : _____ Date : _____

Approved / Not Approved (please delete as applicable)

Reason(s) if not approved : _____

Approving Officer : _____ Signature : _____ Date : _____

PART C

P.O. No.: _____

Accounting Officer : _____ Signature : _____ Date : _____

Sample Request for Quotation Form

SAMPLE ONLY

ABC Company Ltd.
REQUEST FOR QUOTATION
 This is NOT a Purchase Order

RFQ No. : _____

Date : _____

Part A

To : _____ (Supplier)

Please provide quotation for the following items:

Item #	Description/Specification	Qty	Unit Price HK\$	Discount	Net Price HK\$	Any special conditions/ remarks
Total						

Deliver to:	Delivery date:
Special Requirements/Remarks:	

Please send your quotation by _____ to _____.

Requested by : _____ Signature : _____ Date : _____

Part BTo: ABC Company Ltd.

Quotation by : _____ Signature : _____ Date : _____

I on behalf of my company declare that we will not collude with other bidders in this quotation invitation exercise such as price rigging.

IMPORTANT NOTICE

ABC Company Ltd. prohibits its directors and staff from soliciting or accepting advantages including rebates from any supplier/contractor without the company's permission. Suppliers/contractors therefore should not offer any advantages to any director or staff of the company in any business dealings. The company may report any contravention of the Prevention of Bribery Ordinance to the ICAC and debar the supplier/contractor concerned from future business with the company.

Sample Warning Clauses in Tender Invitation Documents

SAMPLE ONLY

Warning Clauses in Tender Invitation Documents

1. The tenderer shall not and shall ensure that his agents and employees shall not give or offer any advantages as defined under the Prevention of Bribery Ordinance to any agent or employee of the Company. The tenderer is also prohibited from colluding with other bidders in this tendering exercise in whatever forms (e.g. price rigging). Any breach of or non-compliance with these clauses by the tenderer shall, without affecting the tenderer's liability for such breach or non-compliance, invalidate his tender.
2. If the supplier/contractor or any employee or agent of the supplier/contractor shall be found to have committed an offence under the Prevention of Bribery Ordinance in relation to the tender or the contract, the Company may terminate the contract without entitling the supplier/contractor to any compensation therefore, and the supplier/contractor shall be liable for all losses and expenses necessarily incurred by the Company as the result of such termination of the contract.

Note: The above warning clauses are meant for samples only. Users of this Best Practice Checklist should consult their own legal advisor in drawing up tender notices or contract documents.

SAMPLE ONLY

TENDER EVALUATION FORM

(to be completed by individual tender evaluation panel member)

Tender Opening Date : _____

Tender Evaluation Date: _____

Product Details : _____

	Supplier/Contractor's Name	Price Quoted (Marks: _%)	Product Quality (Marks:_%)	Delivery (Marks:_%)	Track Record/ Experiences (Marks:_%)	Total Marks (100%)
1						
2						
3						

Name/Post of Evaluator : _____

Signature : _____

Date : _____

Sample Purchase Order**SAMPLE ONLY****ABC Company Ltd.
PURCHASE ORDER**

PO No. : _____

Date : _____

To : _____

Item #	Description/Specification	Qty	Unit Price HK\$	Total Price HK\$
Total				

Deliver to:	Delivery date:
Shipping Instructions:	Special Terms/Conditions/Remarks:

Issued by : _____ Signature : _____ Date : _____

IMPORTANT NOTICE

ABC Company Ltd. prohibits its directors and staff from soliciting or accepting advantages including rebates from any supplier/contractor without the company's permission. Suppliers/contractors therefore should not offer any advantages to any director or staff of the company in any business dealings. The company may report any contravention of the Prevention of Bribery Ordinance to the ICAC and debar the supplier/contractor concerned from future business with the company.

Sample Petty Cash Replenishment Form**SAMPLE ONLY****Petty Cash Replenishment Form**

PCRFR No. _____

Date	PCV No.	Payee	Office Supplies HK\$	Transportation HK\$	Others HK\$	Total HK\$
Total Expenditures						

Checked by : _____ () _____ (Date)

Approved by : _____ () _____ (Date)

Sample Supplier/Contractor Performance Evaluation Form

SAMPLE ONLY

SUPPLIER/CONTRACTOR PERFORMANCE EVALUATION FORM

Name of Supplier/Contractor : _____

Goods/Services Provided : _____

Date of Purchase / Contract Period : _____

Purchase Amount / Contract Sum : HKD _____

Performance Evaluation		
Rating		Remarks
0 – Very Poor 3 – Good	1 – Poor 4 – Excellent	
1. Quality of Goods/Services		
2. Delivery and timeliness		
3. Responsiveness to request(s)		
4.		
5.		
6. Others (<i>Please specify</i>) :		
Overall		
Major defects (if any) :		

Recommendation
<input type="checkbox"/> Continue to invite/use in the future <input type="checkbox"/> Need advice for improvement (please provide information on areas for improvement) <input type="checkbox"/> Issue warning letter (please provide further information) <input type="checkbox"/> Not recommended for future use (please provide further information/evidence).

Prepared by:

Signature : _____

Name : _____

Position : _____

Date : _____

Endorsed by :

Signature : _____

Name : _____

Position : _____

Date : _____



Corruption Prevention Department

Independent Commission Against Corruption

303 Java Road, North Point, Hong Kong