

The Imperative of Risk Management Plan in Curbing Corruption in Public Procurement System in Nigeria

Olukayode Abayomi SORUNKE¹

O. Sunday OMOJOLA²

E. Olukayode ADELEKE³

¹Department of Accountancy, Wolex Polytechnic, Iwo, Osun State, Nigeria, ¹E-mail: sorunke@yahoo.com

^{2,3}Department of Accounting, Bowen University, Iwo, Osun State, Nigeria

Abstract *Managing Risk in public procurement system is an operational activity that reduces risk of corruption in the process. A good practice in public procurement system involves putting in place measure to understand and manage risk of corruption. In Nigeria, the risk of corrupt practice is very high in the public procurement system; this is so because of some fundamental flaws in the public procurement system. The position of this paper is that the risk of corruption in public procurement can be reduced if not totally eliminated where there is a formal procurement related risk management plan in place. This paper discusses in detail how a formal procurement related risk management can be put in place in the public procurement process.*

Key words Corruption, risk management, procurement, public sector

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1. Introduction

Public procurement has always played a major role in the world's economic activities.

Studies around the world have also shown that government procurement of goods and services accounted for between 15-25 percent of Gross Domestic Product (GDP) for developed countries and that could be more for developing countries. In a developing economy like Nigeria, a significant portion of annual budget goes to procurement or contract for goods and services; this is because contracts are the vehicles for implementing public policy. Given the huge amount of money going into yearly public procurement, there is every reason for temptation on the part of key players in the public procurement process to corruptly manipulate the process for their own private benefit.

In Nigeria, corrupt procurement practices ranging from lack of transparency, nepotism, cronyism, bribery and sometimes outright fraud have become an integral part of the ways in which government procurement is conducted. This is not surprising because public procurement is among the area of private – public interface with lucrative opportunities for corruption. There are three main phases of public procurement process, which are (i) procurement planning and budgeting (ii) procurement solicitation and (iii) contract award and performance.

Corruption risk can arise in various forms in each of these separate phases of the procurement process. For example, in the procurement planning and budgeting phase, where the procuring government agency is required to determine what goods and services is required to buy and how much it would cost. The procurement requirement could be written to favour a particular supplier or contractor; budget could also be set artificially high so that excess allocation could be stolen or diverted. At the procurement solicitation phase, where the procuring agency is saddled with the tasks of compiling the request for proposal or tender documents and conducting evaluation, element of corruption could be introduced in the process. For example, evaluation criteria in the request for proposal or tender document could be drafted to favour a particular supplier or service provider or likewise could be drafted in a subjective way or even not clearly stated in tender documents, leaving room for manipulation, abuse and corrupt practices.

Also at the contract award and performance phase, corruption opportunities also abound. For example, an offeror could propose an unrealistically low offer in hopes that after the contract is awarded

procurement officials will allow amendment to increase costs. Likewise, it is also possible to corruptly require sub-contractual relationships with favoured suppliers. Also supporting documentation could be intentionally lost or destroyed making detection and prosecution of corruption offenses difficult. Corruption in public procurement system in Nigeria is not as a result of absence of procurement rules and regulation. Here in Nigeria, there is a law called the Public Procurement Act of 2007 which stipulate how public procurement should be conducted, yet, day-in, day out, national dallies are full of stunning needs of procurement corruption on the part of public officials.

The major reason why incident of procurement corruption is still rampant in Nigeria is the absence Procurement-Related Risk Management Plan which will address the risks associated with every sphere of procurement phases such as risk associated with supplier/contractor selection. Also risks associated with post-award phase which would, in addition to identifying risks, help determine what kind of contract/procurement management activities are necessary, how contract management should be staffed and if and what kind of specialized skills are needed.

Therefore, empirical studies need to provide more evidence on how risk management plan can be used to reduce corruption in public procurement system in Nigeria. The extent to which Nigeria public institution have instituted procurement-related risk management plan is worthy of investigation and forms the thrust of this study.

Apart from section one that introduced the paper, the rest of the paper is divided into four segments: section two discussed the conceptual clarifications, section three on the methodology adopted in the study, section four discusses the results and findings, while section five concludes the paper and recommendation were made thereafter for the robustness of the authors' position.

2. Literature review

2.1. Concept of Corruption

Corruption as a concept has been shrouded by value preference and differences (Akindele and Adeyemi, 2011). This has to some extent complicated the attainment of definitional uniformity on the concept within the academia and practicing world of administration (Adeyemi, 2012). Corruption is generally defined as the use of power for profit, preferment, prestige or for the benefit of a group or a class in a way that constitutes a breach of law or of standards of high moral conduct (Gould and Kolb, 1983). Gboyega cited in Olasupo (2009) in his own, view corruption as involving the giving and taking of bribe, or illegal acquisition of wealth using the resources of a public offices, including the exercise of discretion.

In this regard, it is those who have business to do with government who are compelled somehow to do what they had to do or grant underserved favour. It is therefore defined as official taking advantages of their offices to acquire wealth or other personal benefit. Otile (1986) in his own explanation sees corruption as perversion of integrity or state of affair through bribery, favour or moral depravity. It involves the injection of additional but improper transaction aimed at changing the normal course of event and altering judgment and positions of trust. It consists of doers and receivers use of informal, extra-legal or illegal act to facilitate matter.

A standard definition of Corruption, endorsed and applied by the World Bank (world Bank/IMF 2006), among others is the abuse of public office for private gain. This definition covers various forms of interaction between public sector official and other agents. Private gain can be monetary (as in case of patronage or nepotism). Corruption is a world-wide phenomenon which has been with societies throughout the history. It has caused political and economic instability in societies and depending on the scale, it has led to social conflict and violence, as competing groups vie for state power which is the sources of distribution of resources and other amenities in the society (Odunga, 2000).

Public institution in Nigeria has become high temples of corruption and crass mismanagement where combined effect of graft and inefficiency are proudly showcased by the officials (Ekawu, 2007). Alleged corrupt practice include: misappropriation of funds, inflation of contract sums, over invoking of goods, unauthorized withdrawals, reckless vehement and outright embezzlement (Agbo, 2010). The effect of corruption is grievous. It undermines economic performance (Adeyemi, 2012). Corruption in government lowers the respect for the constituted and weakens people's support to the government.

According to Akindele cited in Aluko (2002), corruption is undeniably a socio-political economic and moral malaise that usually holistically permeates all the nerves of any polity. It automatically contaminates all the strata of the system's socio-political structures in ways symmetrical to the spread of a bush fire.

2.2. Risk Management and public procurement

Until recent time, there was little common glossary for discussing or even defining Risk Management. Project management professionals discussed risk in terms of threats to successful project completion. Financial professionals discussed risk in terms of audit scope and the role of internal controls in insuring integrity in financial reporting (Pennington, 2007). Given this, the elusiveness of the definition of risk management (depending on the definer and perspective), there is extensive literature on risk and risk management, and many slightly definitions are proposed; however for the purpose of this paper, *risk* is defined as the exposure to loss as a consequence of uncertainty. A risk is a contingency that can have either a positive or a negative effect on the organization objectives. On the other hand, risk management involves the identification, assessment, and prioritization of risks-followed by actions to minimize the likeliness and/or impact of negative events or maximize the realization of opportunities.

In other words, risk management is the systematic, positive identification of threats and the identification of opportunities for the best use of resources. It also involves the development of appropriate strategies to manage risk and enables an organization or institution to take appropriate action towards the management of resources. In any procurement (public or private), there are varieties of risk factors that arise from external (Exogenous risk) and internal sources (Endogenous risk) that must be assessed. Public procurement officers are required to identify risk factors associated with each procurement, analyze the probability of the risk occurring and consider the potential impacts. Risk management in public procurement will vary depending on the nature and value of the procurement.

To identify risk and apply risk management in the public procurement process, it is imperative to first identify different steps in the procurement process.

Van Weele (1988); Darwish (2015) identifies the following steps in procurement:

(i) Specification: What is the question?

(ii) Selection: Which supplier firm to choose

(iii) Contracting: Preparing a contract

(iv) Monitoring: Follow-up of outstanding orders and invoices to be settled

(v) After-sale service: Settling disputes and recording the experience

Risk management is essential for all the steps in the procurement process. For risk management the following key steps are required:

(i) Communication throughout the process with the relevant internal and external stakeholders.

(ii) Established the context (internal and external) in which the procurement is being undertaken, in line with the organization, stakeholders, strategy and associated importance of risk management for that transaction.

(iii) Risk identification of potential risks associated with the procurement, through the use of some certain tools and techniques e.g. checklist, system analysis, brain storming, drawing on outside experience: and SWOT (Strengths, Weakness, Opportunities and Threats) analysis.

(iv) Risk Analysis - which will involve determining why, how and where possible risk might occur. In determining the level of risk associated procurement transaction, two key elements require consideration:

➤ *Likelihood: How likely is that the potential risk will occur?*

➤ *Consequence: What would happen if the potential risk eventuates*

(vi) Risk Evaluation – Once the likelihood and consequence of the identified risks have been analyzed, it is necessary to evaluate and prioritize the risks so that the most significant risks are treated first.

(vii) Regulating Risk will depend on the level of risk identified. The following risk treatment options may be considered:

- *Accept the risk (where there is no feasible treatment option it may be appropriate or where the impact of the risk is minimal)*

- *Avoid the risks;*

- Reduce the likelihood of occurrence;
- Reduce the consequences; or
- Share the risk.

(viii) Risk Management Plan – This is an action plan that outlines how the identified risk will be managed. A risk management plan can take any form as long as it describes what is going to be done, who is going to do it and when.

3. Methodology of research

This section focuses on the research techniques adopted and used for this study with the aims of achieving the research objective. Both primary and secondary data were used for the study. The primary source of data was the questionnaire for data gathering. The demographic variable were analyzed using descriptive statistical tools while the only hypothesis formulated for the study was analyzed using the one – way ANOVA technique. The test of significance is performed using n-1 degree of freedom at 0.05 level of significance. H_0 is upheld where f-observed is less than the F-table showing that differences in mean scores are not significant and vice versa.

4. Result and discussion

In this section, all the raw data assembled through the use of the instrument stated earlier was used in supporting the research findings as well as testing the only hypothesis formulated for the study.

(A) Summary of findings

- Absence of procurement-related risk-management plans in most of the ministries and agencies.
- Public procurement management policies procedures are ambiguous hence, gives room for manipulation and outright corruption.
- Ineffective assurance systems and control-internal oversight mechanism such as audit, investigation and evaluation functions are identified as high risk area in the procurement life-cycle process.
- The tendering procedure in many of the government ministries and agency does not give room for competitive tender.
- While the Public Procurement Act of 2007 stipulated open competitive bidding for all procurement of goods and services, most government agencies prefer to operate nomination contracting system which is open to abuse and corruption
- Information system do not adequately support public procurement-management activities – The lack of such information has impede informed decision-making and has continually hamper effective and efficient management of public procurement.
- Lack of attention to post – award procurement management is identified as an high risk area in the procurement life – cycle process.

(B) Test of Hypothesis

Table 1. Procurement risk-management plan and corruption

ANOVA: Single Factor

Groups	Count	Sum	Average	Variance
Count 1	6	284.79	49.465	204.9449
Count 2	6	176.08	29.34667	294.4548
Count 3	6	80.44	13.40667	61.2719
Count 4	6	34.78	5.796667	22.05307
Count 5	6	23.91	3.985	10.25187

Source of variation	Ss	df	ns	F	p-value	F-crit
Between Groups	8060.240	4	2015.0600	16.99107	7.52E.07	2.75871
Within Groups	2964.881	25	118.5952			
Total	11025.120	29				

Source: Researchers computation

Hypothesis

H₀: Formal procurement risk-management plans will not significantly reduce corruption in public procurement system in Nigeria.

H₁: Formal procurement risk-management plans will significantly reduce corruption in public procurement system in Nigeria.

This hypothesis is tested at alpha of 5% and (n – 1) degree of freedom. Findings show that F-observed is 16.99 while F-table is 2.759. Since F-observed is > F-table, the null hypothesis is hereby rejected. Thus formal procurement risk-management plans will significantly reduce corruption in public procurement system in Nigeria.

5. Conclusions

The central theme of this paper is that corruption in public procurement poses a serious risk to the nation's economy development, corruption in public procurement cannot be talked about without immediately thinking of bribes paid or received for the award for contracts.

Corruption in public procurement can occur in all the phases of procurement process hence the need to efficiently and effectively managed, the risk associated with corruption in public procurement system.

The level of resources invested in the risk management process and the mitigation strategies is expected to be appropriate to the importance of the procurement. Risk assessment and preparing risk management plans is expected to be done as part of procurement planning and should be revisited and updated throughout the stages of the procurement process. It is by doing these can risk of corruption be reduced in public procurement system in Nigeria.

In light of the findings from this study, the paper therefore recommends the followings the measures to reduce corruption risk in public procurement process:

- (1) Formal procurement: related risk management plan when put in place with address the risk of corruption in public procurement
- (2) The publication of procurement opportunities increase participation and consequently reduce risk of collusion or failure of tendering
- (3) Clear definition of the criteria and procedure for bid selection is also important in reducing corruption risk in public procurement
- (4) Regular auditing will no doubt enhance the integrity of public procurement system and the risk of later detection can further deter corruption in public procurements.
- (5) The integrity of procurement agency personnel as well as corporate integrity of supplying firm is needed to reduce risk of corruption practice in public procurement
- (6) Effective sanctions constitute strong incentives for bidders and public servant to maintain their integrity in the procurement process
- (7) A sound risk management plan could serve as preventive measures against corruption in public procurement system.
- (8) Freezing, seizure and forfeiture of assets involved in corruption tends to reduce risk of corruption in public procurement.

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