

Examples of Fraud in Capital Projects

Through the combined efforts of our construction and fraud investigations practices, we have been able to assist clients in the investigation and risk management against the incidence of frauds on major capital projects.

Some of the principal types of fraud on construction projects are:

Collusive & Courtesy Bidding

Where a group of contractors or suppliers act as a cartel to manipulate prices. Evidence may be found in analysing similarities, common errors, or estimates of quantities in detailed cost breakdowns submitted in respective tenders.

Supplier Kickbacks

Where an individual within the customer organisation receives some form of payment for selecting a favoured supplier or contractor. Rigorous electronic fraud filtering and tracking methods may be able to detect trends in the letting of contracts within the customer organisation that enables the fraud to be detected.

Material Supply

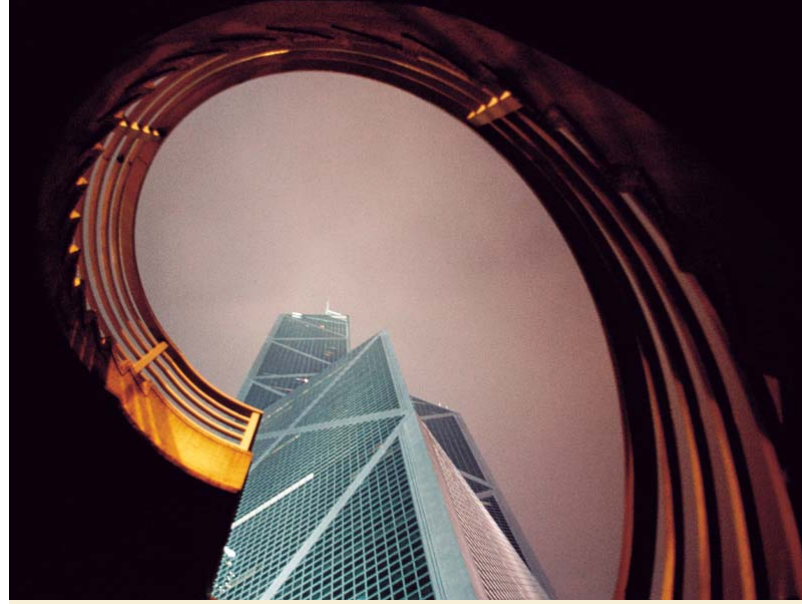
This fraud may have many manifestations, including the supply of lower quantities or quality of materials than invoiced for, repeat deliveries of the same goods with different goods received notes and delivery and credit notes for goods never delivered. In depth material and procurement receipt systems, material checkers, site security and material reconciliations may be installed to combat material supply fraud.

Phantom Personnel

Where a contractor or individual invoices for work or services not provided or duplicates charges for labour, maybe prevalent on projects with large labour only gangs or where reimbursement is not tied to output. Sophisticated electronic labour monitoring and tracking systems and more robust labour procurement and management arrangements may reduce the likelihood of this type of fraud.

Final Account Conclusion

Where the settlement of final accounts includes fraudulent payments or “kickbacks” as part of the final account settlement process. Third party audit or peer review of final account settlement and spot checks may reduce the likelihood of this type of fraud.



FRAUD RISK MANAGEMENT:

Construction & Engineering Sector

MAJOR EUROPEAN UTILITY:

For a major European utility, we undertook a wide reaching review of the capital expenditure programme, and in particular the construction procurement processes to consider control weaknesses in the expenditure programme, reasons for increased expenditure, and potential fraud risk issues.

Following an overall review of capital expenditure, we selected and undertook a detailed analysis of a variety of projects from the capital expenditure programme, including the identification of procurement practices and bidding patterns for work. We reviewed contract documents to identify cost overruns and the reasonableness of variations, reviewed claims (both settled and unsettled), payment applications and the payment process and reviewed subcontractor account agreements and any improper subcontracting practices.

From the review, we were able to identify specific control failures and departures from best practice and we worked with the client to develop a quality control plan to correct the control failings in the capital expenditure programme.