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# SRI LANKA AUDITOR GENERAL'S DEPARTMENT PROCUREMENT AUDIT MANUAL

Leadership in Public Financial Management II (LPFM II)

Sri Lanka Short-Term Assistance to Improve Public Financial  
Management Reform (STAIR)

**August 2016**

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Sri Lanka Short-Term Assistance to Improve Public Financial  
Management Reform (STAIR)

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## DISCLAIMER

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## Acronyms

AG	Auditor General
AGDSL	Auditor General's Department of Sri Lanka
AM	Audit Manual
ASOSAI	Asian Association of Supreme Audit Institutions
CIDA	Construction Industry Development Authority
COPA	Committee on Public Accounts
COPE	Committee on Public Enterprises
DOPF	Department of Public Finance
FA	Financial Audit
GDP	Gross Domestic Product
GOSL	Government of Sri Lanka
ICASL	Institute of Chartered Accountants of Sri Lanka
INTOSAI	International Organization of Supreme Audit Institutions
LKR	Sri Lankan Rupee
NPA	National Procurement Agency
NPC	National Procurement Commission
PAM	Procurement Audit Manual
PE	Procurement Entity
PIU	Procurement Investigations Unit
SA	Superintendent of Audit
SAI	Supreme Audit Institution
SL	Sri Lanka
VfM	Value for Money

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# CHAPTER 1: INTRODUCTION AND BACKGROUND

## I. Procurement Audit Manual (PAM)

- 1.1 This Procurement Audit Manual (PAM) is designed to provide guidance to the professional audit staff in conducting procurement audits undertaken by the Auditor General's Department of Sri Lanka (AGDSL). It is important to understand therefore, that procurement audits generally are a part only of the overall financial and other auditing undertaken by AGDSL. The AGDSL Audit Manual (AM) provides overall guidance and umbrella for the policies, procedures, and professional standards in the conduct of an audit. The guidance provided in the AM should therefore be followed as applicable when conducting any procurement audits.
- 1.2 Procurement audits may be conducted as part of a Financial Audit (FA), or independently as a "stand-alone" exercise. In either case, PAM should be used in conjunction with the AM in the conduct of a Procurement Audit.
- 1.3 PAM is another audit tool included in the professional guidance material provided by AGDSL on audit related literature, including the AGDSL AM. By including detailed procurement related audit questionnaires and check-lists as part of the PAM Annexes, auditors will have the ability to carry out both types of Procurement Audits.
- 1.4 Procurement of goods, works and services (the Procurements) continues to constitute a major share of the Sri Lanka (SL) government expenditure. As In 2014 Government procurement expenditure was around LKR 800 Billion.<sup>1</sup> Out of this amount LKR 630 Billion related to capital expenditure requiring public procurement – this is a substantial amount and should be subject to rules, regulations and oversight. As spending on procurements increases they are coming under closer scrutiny by the general public and the international community on the governance and oversight measures in place in Sri Lanka. Good governance and oversight measures in any developing country create confidence in the international community when they consider funding and aid for Sri Lanka.
- 1.5 The Auditor General (AG) understands the importance that procurements play as part of the statutory audit obligations under the Constitution. The AG has therefore decided that procurement audits will be an increasingly important focus when audits are conducted.
- 1.6 Accordingly, the decision to develop PAM is another step in ensuring proper, focused and professional audits are undertaken by AGDSL staffs in the area of procurements.
- 1.7 Presently, procurements are not a focused activity when conducting the financial audits. Therefore, there is little procurement professional literature that is

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<sup>1</sup> Annual report of Ministry of Finance, 2014

accumulated within AGDSL or otherwise disseminated to audit staffs. Producing PAM is just the start of the journey to upgrade procurement oversight and governance.

## **II. Relationship of PAM to AM**

- 1.8 As mentioned earlier, the AM provides overall guidance and umbrella for the policies, procedures, and professional standards in the conduct of an audit. PAM provides specific guidance in carrying out procurement audits within the general financial audit. PAM should be used by audit staff to assist them in the management of planning, execution and reporting related to the procurement audits within the context noted.
- 1.9 AGDSL audits are conducted in accordance with professional auditing standards and the AGDSL policies and mandate, all of which are contained in the AM, and applicable legislative requirements (including those contained in the Procurement Guideline and the Manual 2006, and supporting literature as amended from time to time, originally issued by the National Procurement Agency (NPA), which is now superseded by the National Procurement Commission -NPC).
- 1.10 All the requirements and policies, rules and regulations contained in the AM should be followed when Procurement Audits are conducted.
- 1.11 PAM is not intended to and does not replace the AM, or set up a separate set of guidelines in the conduct of audits by the AG staffs. Rather PAM sets out focused guidance on how procurement audits should be conducted within the overall framework of all audits included in the AM.
- 1.12 AG staffs should therefore be familiar with the requirements of the AM and to the extent possible coordinate their work style, including supervision and review principles, the supporting audit working papers, format, and reports to fit-in and comply with the AM. Accordingly, sections of the AM applicable to procurements are not always reproduced in detail in PAM (where relevant, sections of the AM are cross-referenced).
- 1.13 By its nature a procurement audit substantially consists of verification and compliance of procurement standards, rules and regulations promulgated by NPC and better international procurement standards and practice. The experience, skills and professional judgement of the staffs conducting the procurement audit are the key to success
- 1.14 It is extremely important that audit staffs are familiar and conversant with those procurement edicts (existing and as amended with the advent of time). It is not possible to do an audit when the underlying principles and laws are not known or properly understood. Within the context of the overall professional training given by AGDSL to staff members, it will be important for the Training Division to ensure that significant continuous training is provided on PAM and on the rules and regulations, standards, laws and pronouncements by NPC, Department of Public Finance (DOPF) and other government institutions (for instance CIDA – Construction Industry Development Authority, and think tanks) relating to SL procurements standards.

### **III. Purpose and Objectives of PAM**

- 1.15 PAM (supported by useful check-lists and procurement related audit questionnaires – see Annexes) is designed to provide guidance and international best practice (amended only as relevant to Sri Lanka laws) to help the auditor conduct the Procurement Audit.
- 1.16 The purpose and intention of PAM is to improve the effectiveness of the Procurement Audits undertaken. It contains the general audit measures that are usually undertaken in the course of a Procurement Audit.
- 1.17 Properly conducted, procurement audits contribute to government's efforts to improve effectiveness, efficiency and Value for Money (VfM) in the implementation of public procurement. The lack of a robust Procurement Auditing regime, risks the continuation of weak and corrupt procurement practices. As noted, PAM guidelines concentrate on carrying out audit procedures designed to obtain assurances on compliance of the procurements with international procurement standards and NPC rules and regulations. In certain circumstances, the audit procedures may uncover irregularities or fraudulent circumstances that may require further work or investigative audit procedures. Staff should immediately inform the circumstances to their Superintendent of Audit (SA) and as applicable, other senior AGDSL Officials, to decide on further additional work that might have to be undertaken.

### **IV. Procurement Investigations and the Investigation Unit**

- 1.18 AGDSL has a separate Procurements Investigations Unit (PIU). Currently its work is conducted under entirely separate investigative rules and should not be confused with the procurement audit described in PAM. PIU has a separate Investigations Manual which should be used when investigations are conducted.

### **V. Application of PAM**

- 1.19 PAM is applied to all procurement audits undertaken by the AG.
- 1.20 The guidelines in PAM should be regarded as a “living document” which will need to be updated as the audit environment, procurement practice and laws change and the supporting auditing methodology and practice develop.

## **CHAPTER 2: AUTHORITY OF THE AUDITOR GENERAL TO AUDIT PROCUREMENTS**

### **I. Constitutional and Legislative Mandate of the Auditor General<sup>2</sup>**

1.21 Article 154 of the Constitution provides the mandate for the AG to audit public sector institutions, as follows;

“The Auditor General shall audit the accounts of all Departments of Government, the Offices of the Cabinet of Ministers, the Judicial Service Commission, the Public Service Commission, the Parliamentary Commissioner for Administration, the Secretary General of Parliament and the Commissioner of Elections, Local Authorities, Public Corporations and business or other undertakings vested in the Government under any written law.”

1.22 This mandate is further expanded by the following Statutes.

- a. Part II of the Finance Act, No. 38 of 1971 which provides for Audit of Public Corporations.
- b. Section 23 of the Provincial Councils Act, No. 42 of 1987 – which provides for Audit of Provincial Councils.
- c. Section 219 of the Municipal Councils Ordinance (Cap. 252) which provides for Audit of Municipal Councils.
- d. Section 181 of the Urban Councils Ordinance – (Cap. 255) which provides for Audit of Urban Councils.
- e. Section 172 of the Pradesiya Sabha Act, No. 15 of 1987 – which provides for Audit of Pradesiya Sabhas.
- f. Section 58 of the Agrarian Development Act, No. 46 of 2000 – which provides for Audit of Agrarian Development Councils.
- g. Section 9 of the Sports Act, No. 47 of 1993 - which provides for Audit of Sports Associations.

1.23 The AG is also authorized by the Constitution to engage the services of qualified auditors to assist his work, including the power to retain specialists in the examination of any technical, professional or scientific problem relevant to the audit.

1.24 Article 154(5) of the Constitution, gives the AG access to all books, records, returns and other documents, stores and other property and to be furnished with such information and explanations as may be necessary for the performance and discharge of his duties and functions.

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<sup>2</sup>Corporate Plan 2012 – 2015 AGDSL

## II. Scope

- 1.25 The Auditor General, at his discretion, decides on the scope of audit, and in this regard, he is guided by the prevailing standards included in the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and conventions and best practices relating to audit as adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL), the International Organization of Supreme Audit Institutions (INTOSAI), the Asian Organization of Supreme Audit Institutions (ASOSAI), and the guidance provided by the Committee on Public Accounts (COPA) and the Committee on Public Enterprises (COPE) of Parliament.
- 1.26 Regarding Public Corporations, the Finance Act, No. 38 of 1971 defines the scope of audit in more specific terms and it requires the AG to render three distinct statutory reports (a detailed report to the management of the Corporation; a report for publication together with the Annual Report; and another separate report to Parliament). The scope of the audit as defined in the Finance Act requires the Auditor General to examine as far as possible and as far as necessary the following:
- a. Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
  - b. Whether the conduct of the corporation has been in accordance with the laws, rules and regulations relevant to the corporation and whether there has been fairness in the administration of the corporation;
  - c. Whether there has been economy and efficiency in the commitment of funds and utilization of such funds;
  - d. Whether systems of keeping moneys and the safeguarding of property are satisfactory;
  - e. Whether the accounts audited have been so designed as to present a true and fair view of the affairs of the corporation in respect of the period under consideration with due regard being given to principles of accountancy, financing and valuations; and
  - f. Any such other matters as the Auditor General may deem necessary.
- 1.27 The respective statutes relating to Local Authorities and Universities provide for the AG to disallow and surcharge on those responsible for:
- a. All deficiencies and losses incurred by the negligence or misconduct;
  - b. All items in the accounts that are contrary to law; and
  - c. All accounts that should have been brought to account but not brought to account as required.

- 1.28 However no such surcharge power has been vested in the AG by any law with regard to Ministries, Departments, Public Enterprises or any other public institution other than the Local Authorities or the universities.

### **III. Activities of the AGDSL**

The AGs work can be summarized into six major tasks.

#### *i. Financial Audit*

- 1.29 The audit of accounts and financial statements of the public sector institutions can be identified as the core function. These annual financial statements are prepared in the form of Appropriation Accounts, Advance Accounts or Revenue Accounts with regard to Ministries, Departments and District Secretariats and Provincial Councils. For these the special feature is that no audit opinion is expressed on those Accounts. However audit observations are included in reports under Article 154(6) of the Constitution tabled in Parliament in a separate volume.
- 1.30 The other institutions under the purview of the AG prepare financial statements consisting of either profit or loss accounts or income and expenditure accounts, balance sheets and cash flow statements (the financial statements) which reflect the state of affairs of such institutions.
- 1.31 By expressing an opinion on the financial statements, the AG provides independent assurance to Parliament as to whether the financial statements give a true and fair view of the state of affairs of the institutions. Three types of opinion are expressed: an unqualified opinion; a qualified opinion; or a disclaimer opinion which is expressed in instances of material uncertainty, disagreement or limitation of work. The Financial Audit is carried out in accordance with the Sri Lanka Auditing Standards, INTOSAI Auditing Standards, and International best practices. Details of the auditing standards can be found in the AGDSL Audit Manual.

#### *ii. Performance Audit*

- 1.32 Performance audits are conducted as the traditional financial audits alone do not meet the requirements of the end-users, mainly the Parliament. Traditional financial audits provide comfort on whether allocated funds were managed properly and in compliance with laws and regulations. Performance auditing provides public officials, legislators and the general public with information on whether government organizations are achieving the service delivery objectives for which public funds were allocated. Performance auditing provides an insight into whether allocated funds are being used economically, efficiently and effectively.

#### *iii. Report to Parliament*

- 1.33 The AGs primary responsibility under Article 154(6) of the Constitution is to report the audit findings to Parliament. The reports presented to Parliament are based on detailed audit reports submitted to public institution managements from time to time, as and when important audit findings are made. Management has the opportunity to review a draft audit report and make needed clarifications to enhance the quality and objectivity of the audit reports, before the report is finalized and submitted.

*iv. Assist Parliament to examine performance of Public Entities*

- 1.34 Another responsibility is to assist Parliamentary Committees on Public Accounts (COPA) and Public Enterprises (COPE) to examine the manner in which the public sector institutions are managed with a view to improving the quality of governance, and to assess the situation and ensure the public accountability.
- 1.35 The two Committees regularly hold hearings based on the AG's reports tabled in Parliament and taking evidence from the senior officials responsible for managing resources in their Institutions.

*v. Special Investigations*

- 1.36 Special investigations are conducted by the Special Investigation Unit established under the direct supervision of a Deputy Auditor General (DAG). Most of these investigations are procurement related based on petitions referred to the Auditor General by Public.

*vi. Commentary*

- 1.37 As can be seen from the above, the AG has ample specific and general authority and mandate to conduct audits and other related oversight matters to address the finances of all government entities (Central, Provincial and Local). Public Procurement Audits fall within such authority.

## CHAPTER 3: PUBLIC PROCURMENT

### I. Definition of Procurement

- 1.38 Procurement is "the whole process of acquisition from third parties (including logistical aspects) and covers Works, Goods, inclusive of Consulting Services and construction projects. This process spans the whole life cycle from initial concept and definition of business needs through to the end of the useful life of an asset or the end of a services contract"
- 1.39 "The Procurement System is a function of government that involves using government resources (public funds) to obtain goods, works and services to meet the needs of the government as it carries out its responsibilities to the citizens".<sup>3</sup>
- 1.40 For the purpose of Procurement Management, it could be defined as "Procurement is a process by which the Goods, Works, Non-consultant Services, and Consultant Services are acquired appropriately"
- 1.41 "Procurement we define as the whole life-cycle process of acquisition of goods, services and works from third parties – beginning when a requirement is first defined and ending with the ultimate disposal of an asset or end of a service contract."<sup>4</sup>
- 1.42 The Procurement Manual 2006 has defined sound procurement system as one that combines all the following hallmarks<sup>5</sup>:
- a) Maximizing Economy, efficiency and effectiveness (Value for Money - VfM);
  - b) Adhering to prescribed standards, specifications, local laws rules and regulations and international obligations
  - c) Fair, equal and maximum opportunity for interested parties to participate in Procurement;
  - d) Expeditious execution of Works and delivery of Goods and Services;
  - e) Compliance with local laws and international obligations
  - f) Ensuring Transparency and consistency; and
  - g) Retaining confidentiality of information."

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<sup>3</sup>World Bank

<sup>4</sup>Peter Gershon, OGS Chief Executive

<sup>5</sup>The Procurement Guidelines and Manual 2006 issued by NPA

## II. Principles of Public Procurement

1.43 Understanding the basic principles of public procurement helps the procurement auditor ensure that the Procuring Entity (PE) has sufficiently applied such principles in the procurement decision making process.

### i. Primary Principle - Value for Money (VfM)

1.44 VfM, is the fundamental principle: Whether PE ensures VfM is embedded in the procurement decision making process.

1.45 VfM is the optimum combination of whole life costs and quality to meet the customer's requirements and it is government policy that all public procurement should be based on value for money, having due regard to propriety and regularity.

1.46 To ensure that the best VfM is obtained, the process of soliciting bids and selecting a Contractor should:

- a. Maximize competition;
- b. Minimize the complexity of the solicitation, evaluation, and the selection process;
- c. Ensure impartial and comprehensive evaluation of solicited bids; and
- d. Ensure selection of the Contractor whose offer has the highest degree of *realism* and whose performance is expected to best meet the specifications, statement of works/ terms of reference.

1.47 AGDSL Performance Audit Manual provides additional guidance on whether and how VfM is achieved in public procurement.

### ii. Complementary Principles

#### i. *Transparency*

1.48 Transparency is the ability to understand and see through the procurement process to determine if the process has adhered to the principles and achieved the objectives that the system is trying to implement.

#### ii. *Accountability*

1.49 Accountability refers to the PE assuming responsibility for actions taken and being held to account for those actions. Accountability is the obligation an officer has to explain and justify the actions taken to perform tasks

#### iii. *Fairness*

1.50 Fairness requires the procurement system to operate in a manner that is *perceived* as offering an opportunity for all participants to win contracts in accordance with

an agreed set of rules that are not “prejudiced” against participants without a reasonable explanation.

*iv. Openness*

- 1.51 Openness relates to fairness, but is more specific as to the ability of a wide range of participants to participate in a competition. An example of the lack of openness might be restricting procurement to national or local firms. Another example might be restricting participation to small businesses only. But these lacks have to be looked at in light of government’s overall economic and national policies and priorities.

*v. Competition*

- 1.52 Having multiple demands for limited resources creates competition. Having more than one participant trying to win creates the potential for a competition. The objective of competitive processes is to provide all eligible prospective offers with timely and adequate notification of the procuring entity’s requirements and an equal opportunity to tender for the required goods, civil works and services. Procurement Units should ensure that restrictions are not placed on the competitive processes limiting the pool of potential bidders.

### **III. Objectives of Public Procurement**

- 1.53 As identified by SL government a main objective is to achieve its national and economic goals and priorities:
- 1.53.1. Promotion of domestic industry and employment;
  - 1.53.2. Non-discrimination;
  - 1.53.3. Special objectives;
  - 1.53.4. National Security;
  - 1.53.5. Regional Development; and
  - 1.53.6. Social Equity.

### **IV. Broader Objectives**

- 1.54 **Strategic** - Achieving high level goals, aligned with and supporting the Procuring Entity’s (PEs) vision and mission;
- 1.55 **Operational** – Implementing an economical, efficient and effective public procurement system-related operations; and safeguarding public funds against loss due to waste, abuse, mismanagement, errors, and fraud and other Irregularities;

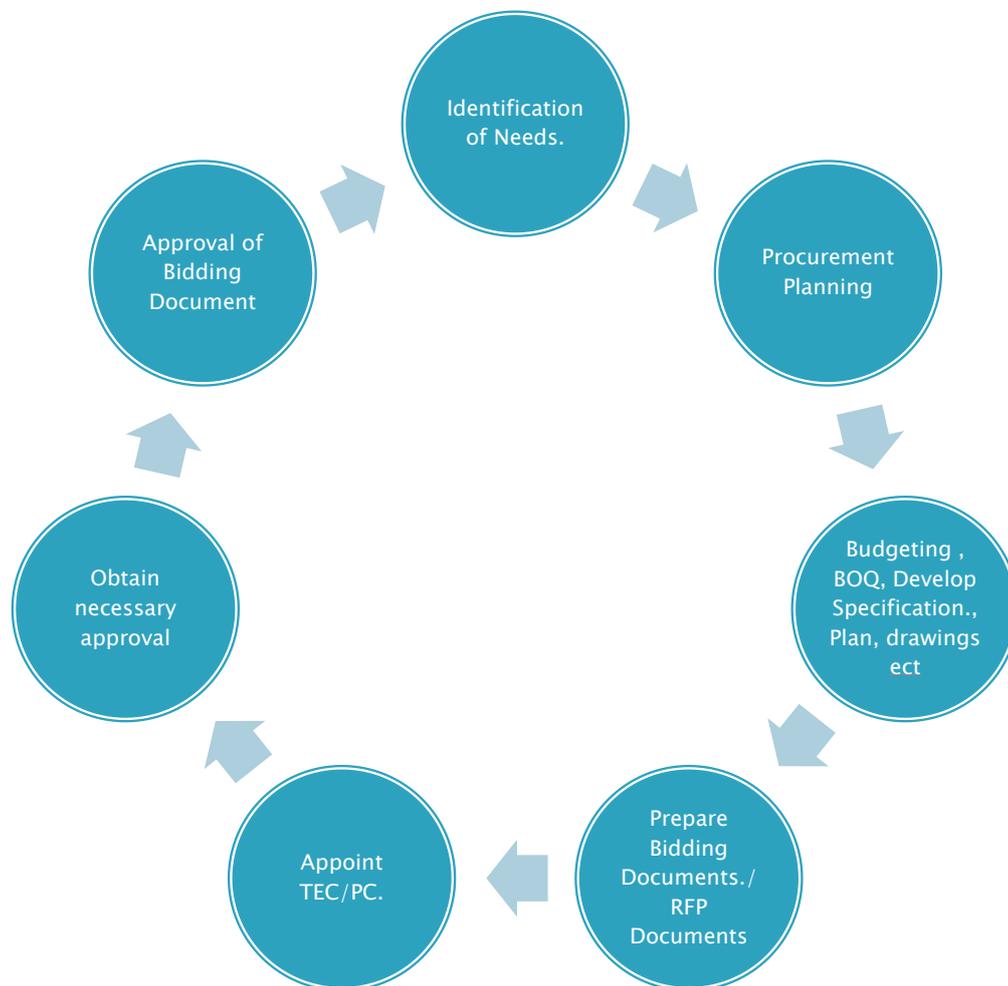
1.56 **Reporting** - Supporting the development and maintenance of reliable procurement information and disclosure of such information in timely reports to fulfil accountability obligations in particular;

1.57 **Compliance** - Ensuring that procurement activities and processes are in accordance with Government Procurement Guidelines, Manuals and other circular instructions, as updated from time-to-time.

## V. Public Procurement Process

1.58 Public Procurement Process can be explained in three separate stages.

### Stage 1: Procurement Planning and Preparatory Stage

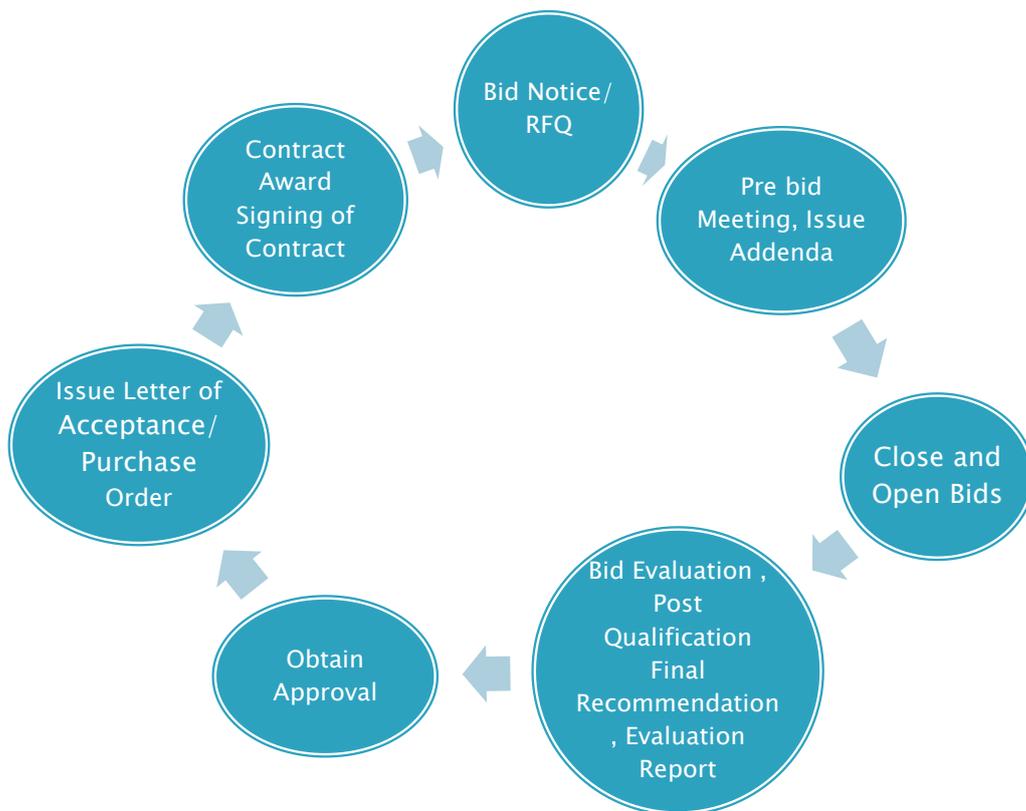


*Documents/Plans to be prepared under this stage*

- I. Master Procurement Plan
- II. Annual Proposed Procurement Plan
- III. Procurement Package summaries

- IV. Procurement Preparatory Plan
- V. Obtaining necessary special approval of documents pertaining to procurement identified
- VI. Development of Specifications, Plans, Drawings, designs etc.

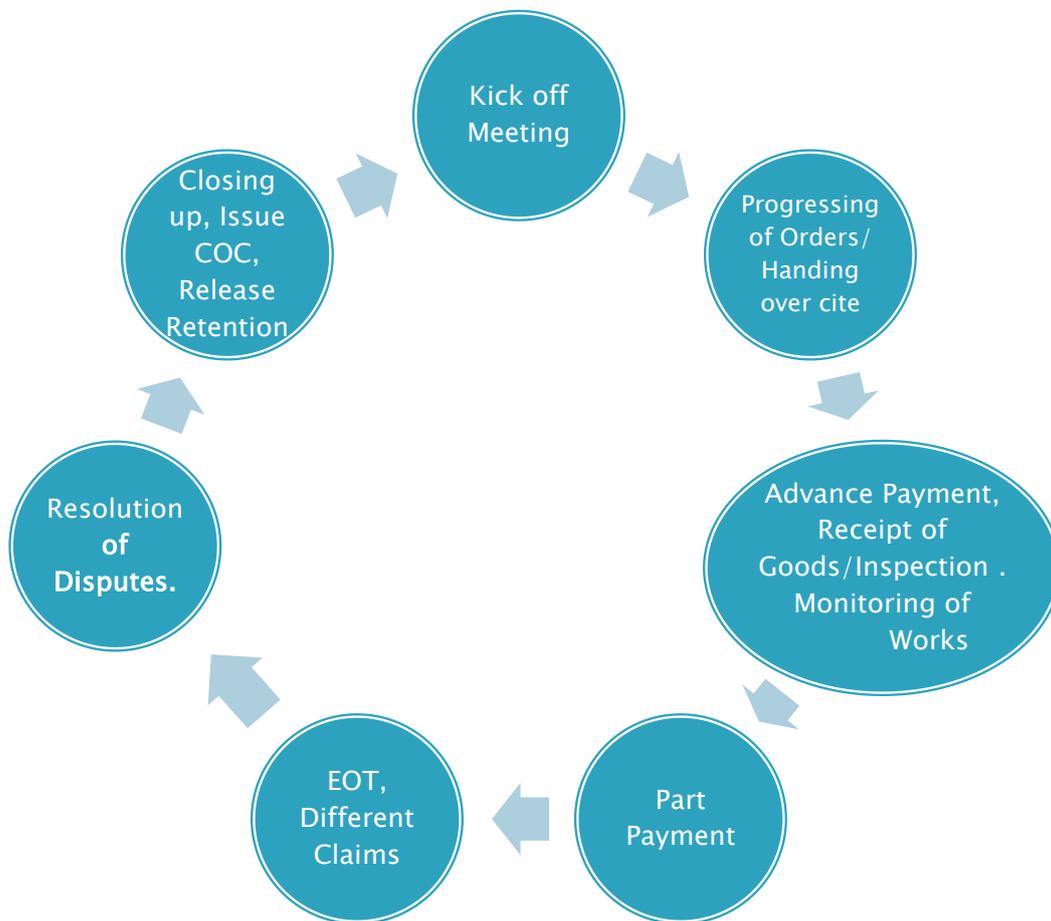
## Stage 2: Pre-contract Stage



### *Documents/Plans to be prepared under this stage*

- I. Procurement Time Schedule (PTS) for each contract package
- II. Detailed Procurement Plan for Works, Goods and Services
- III. Detailed Procurement Plan for Consulting Services (separate plan)

### Stage 3: Post Contract (Contract Administration) Stage



*Documents/Plans to be prepared under this stage*

- I. Contract Administration Plan (CAP)
- II. Cash Outflow Plan synchronized with CAP

### III. Why public Procurement is Important

*a. Impact on the Level of Good Governance*

- 1.59 “The level of Governance of a country, particularly developing countries, heavily depends on the quality of procurement system of the country”.

- 1.60 The principles of Good Governance and the principles of Public Procurement are almost the same. There is a positive impact to the level of Good Governance of the country when the procurement principles are properly applied and adhered to.
- 1.61 VfM is the fundamental principle of good governance. To achieve VfM, public organisations should plan their procurement strategically. That means procurement needs should be in line with the expected goals, objectives and targets of the organisation and also aligned with the National Development Plan
- 1.62 That means procurement needs should be identified necessarily in line with the expected goals, objectives and targets of public organisations in one hand and the National Development Plan prepoerly align with the macro-economic objectives on the other hand. So that, the Coutry Procurement Plan will appropriately correctly align with the objectives of individual ministries , departments, other public sector entities etc. as well as the macro-economic objectives of the country.
- 1.63 In this exercise, national priorities, economic development paramerters etc. should take into account with a sound control of curruption in public procurement.

*b. Impact on SL GDP*

- 1.64 In 2014 Government procurement expenditure was around LKR 800 Billion.<sup>6</sup> Of this amount LKR 630 Billion related to capital expenditure requiring public procurement – this is a substantial amount and should be subject to rules, regulations and oversight (AG and Paliamentary).

*c. Impact on the National Budget*

- 1.65 Thetotal capital expenditure of the government and a significant portion of the recurrent expenditure within the budget is spent on public procurement. This is in addition to the procurements undertaken separately underpublic private partnership projects.Accordingly, public procurement has a big impact to the national budget.

*d. Impact on the Procurement Entity's (PE) Goals, Objectives and Targets*

- 1.66 Procurement expenditure of an entity varies. However, procurement expenditure is crucial to any organisation in order to achieve its goals and objectives. Therefore, it is important for the PE to ensure there is a linkage between the procurement and its goals and objectives.

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<sup>6</sup> Procurement Expenditure from Capital Expenditure alone is Rs 630 Billion - annual report of Ministry of Finance, 2014

## **CHAPTER 4: SITUATION AND APPLICATION IN SRI LANKA**

### **I. Importance Placed by the Government**

- 1.67 When GoSL launched the Procurement Guidelines: Goods & Works in 2006, the Preface included the following message from the President of Sri Lanka:
- 1.68 “The Government of Sri Lanka has placed the highest priority to ensure that development efforts across all sectors are evenly balanced and distributed to all cross sectors of the society, in order to meet the overall national development and enhance the quality of life of its citizens. To achieve the desired results it is imperative to ensure speed, transparency and integrity in all the development spheres and in regard to which the procurement function of goods, works and services plays a critical role.
- 1.69 The development programs which are instituted and other in the pipe line include those which are financed by public funds as well as by external funding. Within this context the availability of a set of guidelines on procurement which harmonizes the processes to be followed under the different funding agency procedures has been identified and acknowledged by all providers of development funding as a vital factor. It is in this context that the National Procurement Agency has been established under Presidential directive. The institution which functions directly under my purview is mandated to study, revise and adopt the procedures and processes in order to govern this vital aspect.
- 1.70 The Government Procurement Guidelines 2006 are issued with the approval of the Cabinet of Ministers in order to enhance the transparency of Government procurement process to minimize delays and to obtain financially the most advantageous and qualitatively the best services and supplies for the nation.”
- 1.71 Government procurement is important because failure to procure cost effectively can put the achievement of key objectives and services at risk. It is big business and successive independent reviews have highlighted the significant potential to improve Value for Money (VfM).
- 1.72 VfM in procurement can be achieved by:
- 1.72.1. Reducing the cost of purchasing and the time it takes – the processing overhead;
  - 1.72.2. Getting better VfM for the goods and services purchased and improved quality of services;
  - 1.72.3. Improving project, contract and asset management;
  - 1.72.4. Making procurement decisions on the basis of a long term view of VfM so that the focus is not on the lowest price;

- 1.72.5. Combining competition with innovative ways of procurement while managing the risks effectively, and drawing on latest advances in electronic commerce (e-Procurement) and good procurement practice;
- 1.72.6. Using the range of tools available which promote and measure VfM gains, audit can examine how well they are being implemented in departments and whether they have achieved their objectives.
- 1.72.7. Departments depend on the range of goods and services which they purchase to deliver their core services. These can range from rudimentary and low value items such as pens and paper to new works and high value and complex items such as, IT enabled services to support business change, or technical advice or equipment to support research and development. Purchasers need to purchase goods and services of the right quality, at the most cost effective price, in the most economic quantities, and ensure that they are available when needed. Failure to meet any of these requirements can seriously affect a department's ability to meet its objectives and outputs and ultimately to deliver services to citizens. Procurement is, therefore, strategically important to departments".

## **II. Role of the National Procurement Commission (NPC) in Public Procurement**

- 1.73 NPC was created under the Constitution to take over the role of the National Procurement Agency (NPA) which no longer exists. Rules and regulations promulgated by NPA now come under the egis of NPC. NPC is presently undergoing a process of development of its mandate and rules, regulations and guidance material on public procurements.
- 1.74 156C. (1) provides as follows: it shall be the function of NPC to formulate fair, equitable, transparent, competitive and cost effective procedures and guidelines, for the procurement of goods and services, works, consultancy services and information systems by government institutions and cause such guidelines to be published in the Gazette and within three months of such publication, to be placed before Parliament. Without prejudice to the generality of paragraph (1) of the 19th Amendment of the Constitution it shall be the function of the Commission to:
  - 1.74.1. Monitor and report to the appropriate authorities, on whether all procurement of goods and services, works, consultancy services and information systems by government institutions are based on procurement plans prepared in accordance with previously approved action plans;
  - 1.74.2. Monitor and report to the appropriate authorities on whether all qualified bidders for the provision of goods and services, works, consultancy services and information systems by government institutions are afforded an equal opportunity to participate in Functions of the Commission. Nineteenth Amendment to the Constitution 51 the bidding process for the provision of those goods and services, works, consultancy services and information systems;
  - 1.74.3. Monitor and report to the appropriate authorities on whether the procedures for the selection of contractors, and the awarding of contracts for the provision of goods

and services, works, consultancy services and information systems to government institutions, are fair and transparent;

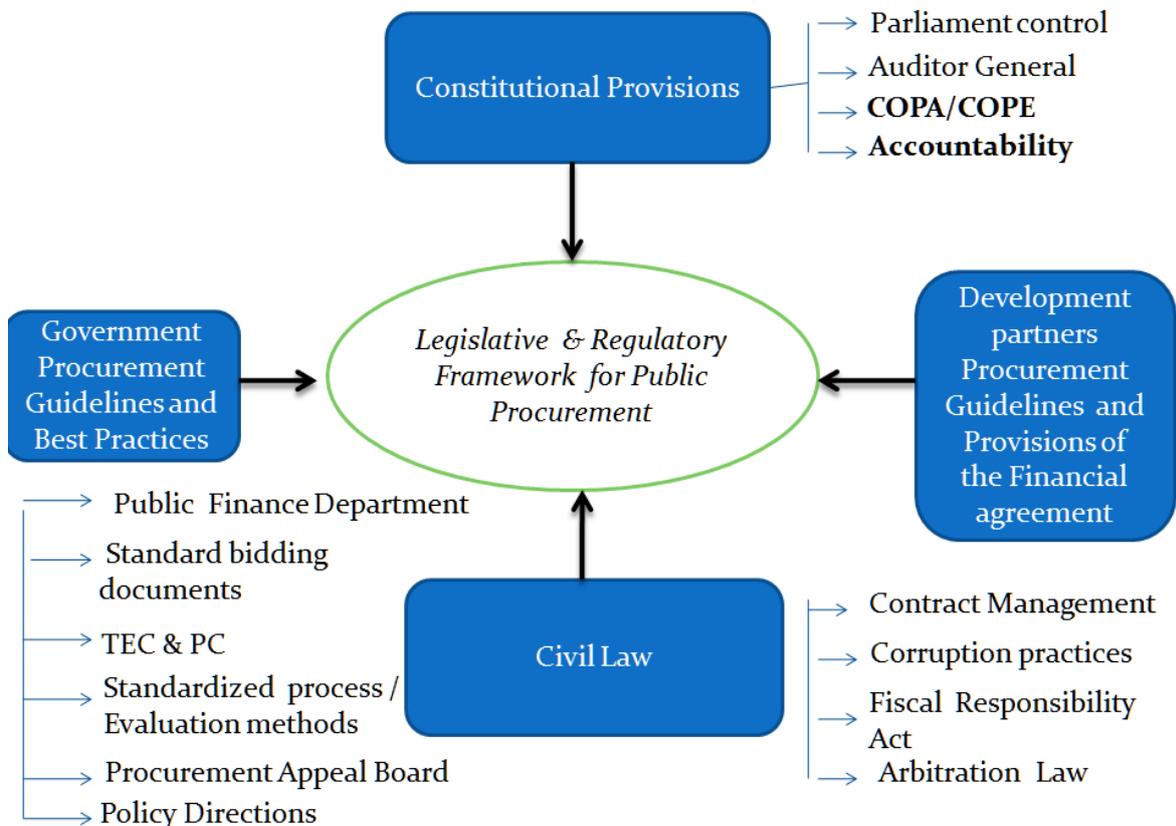
- 1.74.4. Report on whether members of procurement Committees and Technical Evaluation Committees relating to the procurements, appointed by government institutions are suitably qualified; and
- 1.74.5. Investigate reports of procurements made by government institutions outside established procedures and guidelines, and to report the officers responsible for such procurements to the relevant authorities for necessary action.

### III. Role of the Department of Public Finance in Public Procurement

1.75 The Department of Public Finance (DOPF) has played an important role public procurement matters in SL. As noted above, NPC is a new and key institution which is in the process of substantive development. DOPF’s role will change when NPC is fully developed. DOPF’s role as included below, shows the situation prior to NPC.

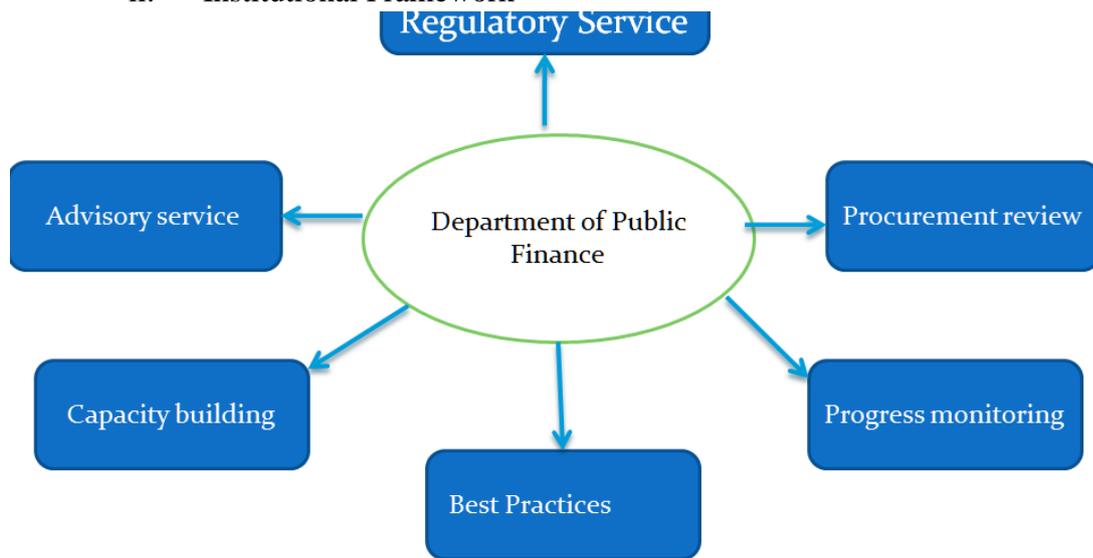
### IV. Procurement Environment in Sri Lanka<sup>7</sup>

#### i. Legislative and Regulatory Framework



<sup>7</sup>Department of Public Finance presentation 2014

ii. Institutional Framework



**V. Changes to Procurement Guidelines**

1.76 Auditor should be vigilant to the amendments made by the authority from time to time and update the Inventory of Procurement Guidelines before commencing the procurement audit.

## CHAPTER 5: PROCUREMENT AUDITING

### I. How Auditors Can Help in Public Procurement

#### 1.77 Some Broad Reasons for Procurement Auditing

- i. In case of public procurement audit, the use of poor auditing process has the risk of keeping weak and corrupt procurement practices in place since the audit exercise could not discover and report them.
- ii. Other risks to public procurement due to poor audit practices include: waste of public resources, lack of fair and transparent procurement process, lack of public accountability, and failure to comply with procurement rules and procedures.
- iii. All these have the ultimate effect of adversely affecting the national development effort and the level Good Governance of the country.
- iv. Public procurement audits are seen as very important to the realization of value addition to government procurement in terms of ensuring accountability, transparency, prevention of improper procurement practices, and improving upon past procurement performance<sup>8</sup>

### II. Improved principles leading to Good Governance

#### i. *Value for Money (VfM)*

1.78 Auditors are concerned that Value for Money (VfM) is achieved, appropriate controls are in place so that expenditure is reliably recorded; that it complies with all relevant accounting requirements, authorities and regulations (e.g.: for NPC) and that the risks of waste, impropriety and fraud are minimized. In designing control, it is important that the control in place and the cost of applying it is proportional to the risk. Apart from the most extreme undesirable outcome (such as loss of human life) it is normally sufficient to design control to give a reasonable assurance of confining likely loss within the risk appetite. Generally, the purpose of control is to contain risk rather than to obviate it<sup>9</sup>.

1.79 Public procurement audits are seen as very important to the realization of value addition to government procurement in terms of ensuring accountability, transparency, prevention of improper procurement practices, and improving upon past procurement performance<sup>10</sup>

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<sup>8</sup>Mapesa and Kibua, 2006

<sup>9</sup>Management of Risk: A Strategic Overview, UK Treasury, February 2000

<sup>10</sup>Mapesa and Kibua, 2006

*ii. Forward Looking Constructive Approach*

- 1.80 Auditors can also make an important contribution by adopting a forward looking and constructive approach to:
- 1.81 Reviewing how departments determine the need for goods and services and how they procure them to identify how this might be done better;
- 1.82 Highlighting good procurement practice backed up by practical examples which might be more widely applied;
- 1.83 Supporting well managed risk taking and innovation that is likely to lead to sustainable improvements in both the cost of procurement and the quality of the goods and services procured;
- 1.84 Ensuring that departments and agencies have overall organizational and management capability to undertake large, novel and/ or contentious projects; and
- 1.85 Ensuring that departments have overall organizational and management capability to undertake large, novel and/or contentious projects.

*iii. AG Prospective Strategy and Pre deals*

- 1.86 Trending progressive thinking in the audit profession is that auditors should engage on a prospective basis, that is while events are happening, rather than waiting to do audits retroactively, that is, after the events and at the end of fiscal year. By that time, the only contribution the auditor can make to good governance and improvements to internal controls and policies and procedures is a report which only records matters that may have gone wrong – it is too late for management to correct a situation.
- 1.87 The AG might want to adopt a strategy to carry out studies from time to time on procurement as part of the statutory remit to report to Parliament on the economy, efficiency and effectiveness with which departments use their resources and as part of a general support to drive to improve VfM from procurement. Playing a role before major procurements is finalized. Pre-deal audit involvement may help to prevent poor procurements from proceeding and may ensure that sound methodologies are used. But such involvement needs to be conducted with care so that it does not prejudice the auditor's ability to conduct post contract examinations and that the audit regime does not slow up the procurement process.

*iv. Output and Outcome Expected*

- 1.88 The output expected from the procurement audit is a report on the results of the procurement audit that presents information to the auditee officials (usually the Chief Accounting Officer – CAO) on whether the procurement was acceptable based on international standards, rules and regulations pronounced by NPA of efficiency, effectiveness, open competitiveness, transparency, VfM and accountability.

- 1.89 The report to the audited entity CAO should also outline recommendations for improving the procurement processes adopted by the entity. This is a valuable document which if accepted and acted upon will further strengthen the internal controls and the institution
- 1.90 A special purpose audit is designed to address a particular area of the financial system of an entity under audit. A procurement audit is similar to a special purpose audit and concentrates on getting assurance that selected procurements have complied with international standards and all the rules and regulations issued by an authority – in this case NPA. Generally, a separate opinion is not issued on the procurements being audited. There may be special circumstances where a separate special purpose audit opinion is required to be issued, in which case ISSAI 1800 Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks may be applicable. PAM does not address ISSAI 1800 issues.

### **III. Internal and External Audits**

- 1.91 The two main forms of audits often referred to are: internal and external audits. The main difference between these two borders on the extent of details; whilst internal audit generally is concerned about the *whole operations of an institution* with respect to certain key internal control objectives and not just the financial aspects the external audits mainly focus on financial control systems that have direct, significant effect on the financial performance of the institution<sup>11</sup>.
- 1.92 The Procurement Auditing function has the primary objective of providing reasonable assurance that specified and established criteria relating to public procurement have been complied with; and as with FAs it involves the collection and evaluation of sufficient evidence to determine whether an assertion corresponds with established criteria<sup>12</sup>.
- 1.93 An ancillary objective is to ensure that procurement activities are done in an effective, efficient, and economical manner within the provisions of relevant acts, regulations and guidelines<sup>13</sup>, and that VfM has been received.

### **IV. Reasons for doing Public Procurement Audits**

- 1.94 A basic reason for conducting audits, including public procurement audits, is to ascertain whether performance measures up to pre-determined standards within defined parameters so that changes can be implemented to improve standards<sup>14</sup> As such, public procurement audit can be explained as the process of gathering and evaluating sufficient evidence on government procurement activities to

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<sup>11</sup>Encyclopedia of Small Business 2007

<sup>12</sup>AbdolMohammed and Thibodeau, 2007

<sup>13</sup>Office of the Auditor General -Nepal, 2005

<sup>14</sup>Hart, Northmore and Gerhardt, 2009

ascertain whether specified laid down procedures have been complied with or not.

- 1.95 Other reasons for public procurement audits are to;
- a. prevent fraud,
  - b. provide assurance with regard to effective and efficient operations, and that the services obtained have been utilized according to the objectives of the need;
  - c. ensure reliable financial reporting,
  - d. establish compliance with laws, rules and regulations, including NPA Procurement Guidelines 2006 as amended and updated
  - e. address corruption, and
  - f. prevent future mistakes<sup>15</sup>
- 1.96 Moreover, public procurement is audited to verify whether there was an actual need for a given procurement; whether the procurement procedure achieved value for money, and whether public procurement regulations were adhered to<sup>16</sup>

## V. Principles of Procurement Audit

- 1.97 In order for Procurement Audits of public agencies to be effective, the procurement audit arrangements should ensure:
- i. Independence:
  - ii. The Auditor should be fully independent in the conduct of the procurement audit;
  - iii. The Auditor should be free to determine the scope, methods and resources required to conduct the procurement audit of the auditee;
  - iv. The auditor must be independent of the *management* of the auditee.
  - v. Where a Procurement Audit is undertaken for an international institution, the rules and regulations of the institution should ensure that the auditor is not restricted in carrying out any audit task deemed necessary to fulfil the procurement audit mandate.
  - vi. Has sufficient authority to carry out the procurement audit in a manner that meets best practice in the audit of public funds;

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<sup>15</sup>Wayne State University, 2014; Petrovits, Shakespeare and Shih, 2009; Krivish and Vilks, 2013

<sup>16</sup>Pelzer, n.d.

- vii. It is the responsibility of the auditee (through the CAO) to prepare and present its statements and records relating to public procurement proceedings. The auditor's task is to audit these, and express an opinion on them, either as part of the FA audit opinion, or by a suitable report, as is appropriate in the circumstances.
- viii. INTOSAI's Auditing Standards, should be followed in general in any audit and are included in Chapter 2, paragraph 2.5 for regularity audit. Certain standards can apply specifically to Procurement Audits and should be followed:
  - a) Audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations;
  - b) Audit of internal control and internal audit functions;
  - c) Audit of the probity and propriety of administrative decisions taken within the audited entity; and
  - d) Reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed. See the INTOSAI website. ([www.intosai.org](http://www.intosai.org)) for fuller details.
- ix. Has the right and obligation to report on the results of the procurement audit to the head of public organization concerned (usually the Chief Accounting Officer - CAO);
- x. The procurement audit reports should be publicly available. Exceptions should be based on clear and relevant criteria concerning classified and confidential information and.
- xi. may consider forwarding the procurement audit reports to the Commission on Bribery and Corruptions, National Procurement Commission and similar authorized entities.
- xii. Meets relevant professional and ethical standards (these are outlined in Chapter 2 under the AGs mandate and activities).
- xiii. The conduct of the procurement auditor shall be in conformity with the Code of Ethics and other generally accepted professional standards.
- xiv. Auditors shall perform their authorities and duties impartially during the process of procurement audit, and shall not do any of the following:
  - a) Obstruct the lawful procurement process of the auditee under the guise of auditing.
  - b) Receive improper gifts or entertainment.
  - c) Act for the auditee to review bids, conduct bidders' evaluation or be involved in the procurement process itself.

- d) Take advantage of the procurement audit process to collect information or materials no relevant to the audit work itself, or to make other improper requests.
- e) Disclose confidential information or materials acquired during the course of finding audit.
- f) Engage in matters or activities that may affect the dignity of AGDSL or that may make the general public believe that the member cannot perform duties impartially.

## **VI. Conflict of Principles in Practice**

- 1.98 Sound understanding of procurement principles of PE as well as the auditor is vital to see whether any conflict of interest in carrying out procurement activities from the need identification up to the completion of procurement contracts.
- 1.99 Auditor should check whether procurement action is directed to any personnel benefit or benefit of specific groups, rather to meet public interest than objectively identified preference. For example domestic preference to local contractors when competing with foreign contractors.

## **VII. Objectives of Procurement Audit**

- 1.100 Considering the existing practice, auditors are expected;
  - 1.100.1. That the procurement procedures, rules, regulations and laws established by GoSL as amended and updated, have been followed and that VfM has been received;

## **VIII. Audit Process**

- 1.101 Procurement audit is carried out in the following order:
  - 1.101.1. Audit preparation, including Procurement Audit Plan (PAP) and the Procurement Audit Program;
  - 1.101.2. Audit implementation / execution (field work);
  - 1.101.3. Audit result reporting; and
  - 1.101.4. Monitoring follow up of the audit results.



**Diagram of the Audit Process**

## **IX. Audit Steps**

1.102 The following steps lay out the Audit Process:

1.102.1. **Step 1-**Determine the **audit areas** for focus (for example appropriateness of Technical Evaluation Committee) and audit objectives (for example to verify if the Bid Evaluation Committee composition is in accordance with Procurement Guidelines) based on the Risk Assessment. The procurement audit area and the audit sub-areas should be identified.

1.102.1.1. The Audit Program Check-List (Volume 2 of PAM) will be useful for the purpose of identifying these audit sub-areas.

1.102.1.2. For each sub-area, the audit objectives will be identified based on the risks determined during the Internal Control and Risk Assessment (Annex 1 & 2) and/or based on the requirements of existing regulations

1.102.2. **Step 2-** Determine the **audit scope**;

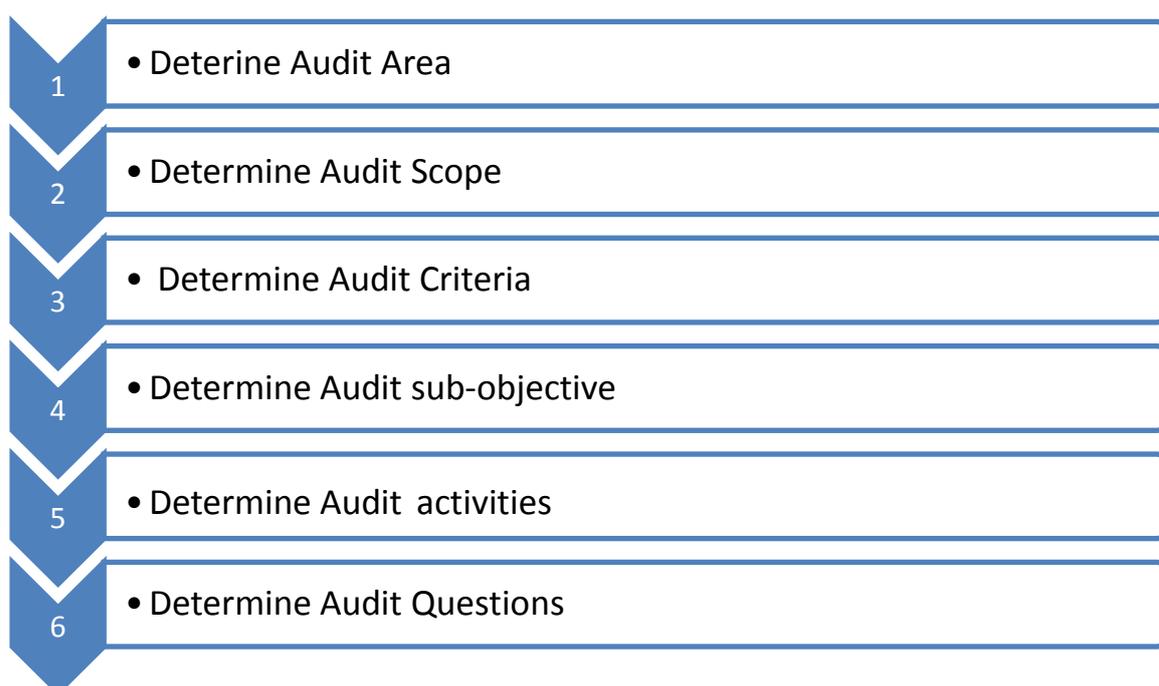
1.102.3. **Step 3-** Determine the **audit criteria** (For example each PE shall establish one major Procurement Committee) that are relevant to the identified risks and audit scope.

1.102.4. **Step 4-** Determine the audit **sub-objectives**.

1.102.4.1. The audit sub-objectives (using the Audit Check list) will correspond to the identified audit objective(s) and the audit criteria identified in Step 3 above.

- 1.102.5. **Step 5**—Determine the audit **activities** that will attain the audit sub-objectives. The Audit Activities identified in the Manual are mere suggestions and may be substituted by the auditor with other more effective, efficient, and economical activities which are more workable under the specific audit situation.
- 1.102.6. **Step 6** -Determine the **audit questions** that will match the audit sub-objectives. The audit questions, in the Audit Check-list of this Manual can assist in this step.

## X. Flow of Audit Steps



## XI. Examples of Audit Steps

### 1.103 Audit Objectives:

- 1.103.1. To verify:
- 1.103.1.1. The existence of the Procurement Committee (PC)
- 1.103.1.2. Whether the PC composition is in accordance with NPC Guidelines;
- 1.103.1.3. If the PC members' term is fixed from the date of appointment;
- 1.103.1.4. If the PC prepared a Bid Evaluation Report as required by the Procurement Guidelines and had it approved by the Head or a proper delegated authority according to the Delegation of Financial Authority of the PE.

### 1.104 Sub-Objectives

- 1.104.1. To verify that:

- 1.104.1.1. The appointment of the Head of the PC is properly approved by the Chief Accounting Officer (CAO);
- 1.104.1.2. Other members of the PC are appointed by the Accounting Officer (AO);
- 1.104.1.3. PC Members are knowledgeable in procurements, and the rules, regulations and laws supporting them;
- 1.104.1.4. The regularity and appropriateness of the appointment of Minor Procurement Committees.

**1.105 Criteria**

- 1.105.1. To verify the existence of PCs) in the PE in accordance with the provisions of the Government Procurement Guidelines and related Supplements.

**1.106 Audit Activities**

- 1.107 Audit activities will be generated from various documents initially examined: for example Approval Letter of CAO, the AO, Board Resolution (in the case of a commercial corporation), Appointment letter from the Secretary to Treasury in case of Cabinet Appointed PC.

**1.108 Audit Questions:**

- 1.108.1. Is there a Major PC in the PE?
- 1.108.2. Are there Minor Procurement Committees?

**1.109 Validation procedures & Suggested Working Paper**

*(Given in last four Columns)*

Audit Sub-objective • Audit Criteria	Audit Activities	Suggested Audit Working Paper			
		Audit Question	Yes	No	Particulars of the Answer
<b>Sub-Objectives</b> 1. <i>To verify if the PCs exist in the PE in accordance with the provisions of the Government Procurement Guidelines and related Supplements</i>  <b>Criteria</b> 1. <i>To verify if the PC exist in the PE in accordance with Government Procurement Guidelines and related Supplements</i>	1. Audit activities developed from documents initially examined: for example Approval Letter of CAO the AO, Board Resolution ( in the case of a commercial corporation) , Appointment letter from the Secretary to Treasury in case of a Cabinet Appointed	Is there a Major PC in the PE?	X		X-Reference to the Approving Letter

	Procurement Committee				
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## **XII. Audit Methodology**

- 1.110 As with Financial and other audits, the Procurement Audit adopts the following methodology:
- 1.110.1. **Desk Audit**—This consists of a review of the various documents related to the procurement, applicable procurement laws and regulations, including by NPC, preparation of Planning, Execution and Reporting processes and procedures for the audit to be carried out (including the Procurement Audit Program – subject to changes on the ground) the and to identify any weaknesses in the systems and procedures of the procurement that may be possible from a review of the available documents;
- 1.110.2. **Field Audit** - This is an onsite field examination concentrating on direct verification and accuracy of the amount, quality and placement, timely delivery and utilization of goods/services, among others by observation, verification / physical check and request for information. As this is conducted, changes may be made to the Audit Program to address matters / issues arising;
- 1.110.3. **Benchmarking of the Procurement selected for Audit**- Benchmarking involves a comparison between the contract price and the reasonable market price or the guidelines on unit price determined by recognized Technical Institutions and NPC recognized entities;
- 1.110.4. **Utilizing Experts** –to assess the reasonableness of goods / services quality and construction standards (for example getting Engineers from CIDA to audit Works Contracts);
- 1.110.5. **Further investigation-type audit steps** may need to be carried out where violations and non-compliance indicate / identify corruption or corruptive practices. However it is important for the examining auditor to immediately raise these matters with the Superintendent of Audit - SA (and possibly other AGDSL senior officials) to decide on a course of action, including further in-depth audit steps and possible involvement of the Procurement Investigation Unit.

## **XIII. Procurement Audit Planning and Preparation**

- i. The Objective of Procurement Audit Preparation
- 1.111 The objective of the procurement audit preparation is to obtain general information concerning the procurement activities to be audited. The information will provide the auditor with an overall understanding of the procurement activities to facilitate the preparation of the Procurement Audit Plan (PAP).

ii. Preparation of Procurement Audit Plan (PAP)

- 1.112 An audit engagement refers to the audit of an auditee and this comprises all of the audit work that needs to be carried out to complete the audit. Perhaps the most important activity of any audit is planning. The greater the care taken in the planning, the more precise and effective will be the audit. The following auditing standards should be followed in planning the procurement audit:
- 1.113 The auditor should plan the audit in a manner which ensures that a high quality audit is carried out in an economic, efficient and effective way in a timely manner;
- 1.114 The work of the audit staff at each level and audit phase should be properly supervised during the audit; and a senior member of the audit staff should review documented work;
- 1.115 The auditor should study and evaluate the reliability of existing internal controls in order to determine the extent and scope of the audit.

iii. Audit Plans

- 1.116 Audit Planning is generally comprised of two distinct elements. The first level of planning is Institution-wide (i.e. the whole of AGDSL) and is carried out at the Audit Directorate level. This exercise results in the preparation of Annual and Quarterly Work plans and the Audit Directorate's budget. The guidance on this is contained in the AGDSL AM, and is not discussed in great detail here in PAM;
- 1.117 The Head of Audit Division is responsible for both, and the respective procedures are described below.

iv. The Annual Audit Work Plan

- 1.118 The Annual Audit Work Plan is effectively an annual Master Plan document submitted to the AG for approval. Its purpose is to communicate
- 1.119 The portfolio of procurement audits;
- 1.120 The level of resources required to service the portfolio;
- 1.121 The staff resources, and the logistical resources available, and the present or expected budget;
- 1.122 The resource gap if any, including proposals on how this gap could be dealt with, and the risks /consequences arising if the proposals are not able to be implemented;
- 1.123 A summary of the actual audit assignments that are planned for execution and the allocation of audit staff;
- 1.124 A summary of capacity building that is planned to take place noting any unmet needs. the Annual Audit Work Plan should contain a major appendix comprising the Risk Assessment of the entire audit portfolio. After being approved, the Annual Audit Work Plan should be distributed to each audit team / group.

v. Quarterly Planning

- 1.125 The Annual Planning exercise described above is a “best estimate” carried out prior to the commencement of the year. Situations can and do change in the course of the year, and therefore an updated quarterly plan is produced prior to the commencement of each quarter in the same format as the annual plan. Justification is provided for any significant changes from the original annual plan.
- 1.126 The Quarterly plan is also submitted to the AG for authorization.
- 1.127 Selection of Procurement Audits to be undertaken: The Annual and the Quarterly Work Plans provide the basis to staff of the AGs authority to conduct the selected Procurement Audits to be undertaken during the year, either as part of the FA or on a “stand-alone” basis as discussed earlier.

vi. Micro Audit Plan

- 1.128 Micro Plan is an operational plan for each individual audit (Auditee basis) which includes the details of tasks to be undertaken for each procurement audit along with the time schedule. When conducting this detailed operational planning (in effect the Procurement Audit Plan), the Head Audit Directorate takes the following considerations into account:
- 1.128.1. Risk, materiality and priorities of each procurement audit activity;
- 1.128.2. Significant Areas of audit due to past or anticipated problems;
- 1.128.3. Details of any abnormal circumstances or economic factors that are expected to affect the auditee performance;
- 1.128.4. New or changed IT procurement systems;
- 1.128.5. Changes in legislation;
- 1.128.6. Staffing requirements and availability.
- 1.129 After completing the Risk Assessment for each audit assignment and taking the above mentioned factors into account, the Head of Audit Division will prepare an **Operational Audit Plan** for auditees. This will include:
- 1.129.1. Deciding which programs / assignments are to be carried out;
- 1.129.2. Deciding the number / value of items to be selected for each assignment. This will depend mainly on the risk attached to the assignment;
- 1.129.3. Determining how much staff time is to be allocated to the assignment;
- 1.129.4. Completing a standard Audit Assignment Control Record for each audit program to be executed;
- 1.129.5. Recording any other matters that need to be brought to the attention of the senior auditor.

- 1.130 The Micro (Operational) Plan will comprise the following headings:
- a. Name of Public Body (Auditee) – Period to be covered;
  - b. The Current Operating Environment (including extraordinary issues that may impact the conduct of the procurement audit);
  - c. Summary of all the Risk Ratings (for each audit assignment);
  - d. Mandatory audit activities (from the Strategic Plan);
  - e. List of assignments for execution in current year including time allocated to each, and staff assigned.

#### **XIV. Duties and Responsibilities of Staff Involved in Procurement Audit**

- 1.131 On-site staff helps the Superintendent of Audit (SA) develop a focused Procurement Audit Program (the PA program) for the entity being audited. Using check-lists and audit questionnaires (see annexes in Volume 2), the assigned audit staff develop specific audit steps which are then included in the Audit Program.
- 1.132 As with a general financial audit (and other audits, such as a performance audit), the first stage of a procurement audit requires the preparation of the Procurement Audit Plan (PAP). Section 4000 of AGDSL Audit Manual should be followed, as applicable to the procurement audit activities to be undertaken.
- 1.133 Remember that an overview Audit Plan should already have been prepared for the financial audit of the selected entity. The overview Audit Plan should have been prepared using the AGDSL Audit Manual. A part of the overview Audit Plan for doing the financial audit will refer to the Procurement Audit to be conducted. It will have selected the particular procurement (s) for a more detailed study and audit, using the Risk Based Audit (RBA) strategy and methodology. The risk analysis will highlight why the particular procurement has been selected and the ‘risk mapping’ associated with the selection. The ‘risk mapping’ will guide the Audit Examiner to develop an Audit Program which focuses on the higher-risk areas and provides less time in other areas of the procurement being audited.
- 1.134 Note that if the selected Procurement Audit is not part of a financial audit and is being carried out on a “stand-alone basis”, the PAP to be prepared will include all the overview elements that would normally be included in the overview Audit Plan, following the AGDSL Audit standards and guidelines Section 4000.
- 1.135 Therefore, the PA Program is a sub-set of the overview Audit Plan to be implemented at the selected entity. The PA Program outlines in more detail the audit steps to be undertaken to get assurance that the procurement strategy adopted by the entity and the processes and procedures undertaken are satisfactory and meet international standards and the rules and regulations of NPC.
- 1.136 Preliminary discussions should be carefully prepared and carried out by the SA and the AE / Senior leading the Audit Team.

- 1.137 So that the management of the auditee can get a proper understanding of the procurement audit exercise, it is important that the auditors clarify the background, objectives, audit target, audit scope and target date for completion of the procurement Audit and the parties (usually the CAO) that will get the audit result report.
- 1.138 As explained before, a procurement audit is NOT a Procurement Investigation which is conducted by the AG Investigation Unit, and which has very different rules of engagement – see the AGDSL Procurement Investigation Manual.
- 1.139 Where applicable, the procurement audit is a facet of the overall financial audit with a particular focus on selected procurements undertaken by the audited entity. It may be important to explain this to the entity management, so that there is no misunderstanding on what will take place and what the result is expected to be.
- 1.140 Obtain a comprehensive preliminary understanding by gathering general and background information concerning the processes and procedures adopted by the entity in undertaking all procurements; whether as a matter of policy, they comply with and conform to the requirements of the Procurement Manual, including completing standardized forms. Some of this information can be gathered by “walk-throughs” and site visits. Some preliminary testing of the information / data obtained can be helpful in developing the next stage.
- 1.141 This information should be recorded as part of PAP and used in developing the Procurement Audit Program.
- 1.142 The following is a guide to the type of information that should be obtained:
- a. Prevailing GoSL Guidelines and circulars concerning procurements;
  - b. A brief history, background, aim and purposes of the selected procurements for audit;
  - c. General policies of the entity regarding compliance and adherence with GoSL promulgations; records of meetings held (Board of Directors, Procurement Committee; Management Meetings relating the proposed procurement) and decisions made in the procurement process;
  - d. Organization chart, job description and other written information concerning the auditee organization;
  - e. Financial data relating to the selected procurement to be audited;
  - f. A brief overview of unresolved issues either within the management or with the supplier of the procured item.
- 1.142.1. The information may be obtained from the following sources:
- a. Standard Operating Procedure (SOP) Manuals on procurements, where available;
  - b. Files of applicable laws and regulations concerning the procurement;

- c. Budget and financial documents supporting the procurement;
- d. Internal management and other reports of the procurement activities;
- e. Reports by the internal auditors or supervising committees;
- f. Brochures concerning the development of procurement activities;

1.143 The information obtained above will assist in developing the PAP which sets out the broad guidelines from which the detailed Procurement Audit Program is developed. Follow the guidelines set out in the AGDSL Audit Manual to formalize the final PAP (Section 4000 Planning Activities).

## **XV. Preparation of Detailed Procurement Audit Program (PA Program)**

1.144 For optimum results the AE will work with the SA to draft the detailed Procurement Audit Program, using the information in the PAP and the guidance provided in this section.

1.145 The guidelines set out in the AGDSL, AM, Sections 5000, 6000 and 7000 as applicable, should be followed in developing the Procurement Audit Program.

1.146 Always remember that the Check-lists / Questionnaires included in the Annexes in Volume 2 are Guidelines only: Not every step listed needs to be incorporated into the PA Program. Professional judgment and support from senior AGDSL staff will help in determining the appropriate steps.

1.147 The Procurement Audit Program is developed in three (3) stages:

- a. Identify and Assess the Audit Risks (Annex 1)
- b. Develop Tests and Execute Internal Control test; and
- c. Develop and Execute Substantive Tests.

## CHAPTER 6: PROCUREMENT RISK ASSESSMENT

### I. Introduction

- 1.148 Risk management is an essential requirement of modern procurement systems. It can be defined as a process of identifying risk, assessing risk, and taking steps to reduce (by mitigation) risk to an acceptable level. Risk is the net negative impact of vulnerability, considering both the *probability and the impact of occurrence*.
- 1.149 The three security goals of any organization are; -
- a. Confidentiality,
  - b. Integrity
  - c. Availability.
- 1.150 In audit an assessment has to be made on whether any of these goals are compromised, and if so, to what extent there is a pay-off between the costs of minimizing / eliminating and the risks that are acceptable to management. Accordingly, it is important to study the management perspective and policies before audit comes to a conclusion of the acceptable and unacceptable risks. A study of the policies and processes of the risk management adopted by the PE is required to assess the soundness of the procurement system. At the planning stage it is necessary to study the risk management process in order to understand the threats as perceived by management and the impact on the internal control systems and to independently assess whether these threats have been countered or guarded against effectively and economically.
- 1.151 An independent risk analysis by the auditor not only helps identify areas that have to be examined but also in determining audit objectives and supporting risk-based audit decisions. There is a need for enhanced detailed audit and substantive testing where the risk assessment is high and risk management is poor.
- 1.152 The Risk Assessment guidelines in the AM should be used when preparing of the Procurement Audit Plan.

### II. Use of Internal Control (IC) Check list for Risk Assessment

- 1.153 The Procurement Audit Internal Control Check-list (**Annex 2**) has been developed in line with the Public Procurement Process and the Government Procurement Guidelines. However, since no guidelines have been issued so far relating to procurement implementation (Contract Administration) the internal control checklist has been formulated based on public sector best practice;
- 1.154 The Procurement Audit Internal Control Check-list will assist in developing the detailed Procurement Audit Plan and Audit Program.

### **III. Use of Audit Manual for Risk Assessment**

1.155 Section 5000 of the AGDSL AM sets out the guidelines and should be used for general risk assessment and to develop the Audit Plan/ Program:

### **IV. Identify and Assess the Audit Risks:**

- a. 5010: Risk Assessment
- b. 5020: Understanding the Entity and Its Environment
- c. 5030: Understanding and Evaluation of Internal Control
- d. 5040: Identify and Assess Risks of Material Misstatement

1.156 As explained earlier, so long as the Procurement Audit is being undertaken as part of a financial audit, the overview Audit Plan would have covered the area of *risk assessment* in selecting which procurements to audit.

1.157 However, if the Procurement Audit is being undertaken as a 'stand-alone' exercise, the AE and SA will need to carry out a risk analysis and strategy in line with the guidelines noted above to determine which audit steps will have to be developed to address the risks.

### **V. Steps in Procurement Risk Analysis**

1.158 In planning an audit, the Head of the Audit Division or his supporting staff will carry out an assessment of Audit to assess the risk that exist. The main factors which increase risk in an audit include:

- a. The Volume of transactions - the higher the volume, the higher the risk;
- b. The value of sums of funds involved - the higher the value, the higher the risk;
- c. The relative complexity (and strength or weakness) of the procurement system, internal controls and segregation of duties. Complex or weaker systems give rise to higher risk;

1.159 The sensitivity of procurement system components, which includes:

- a. Procurement system components which are particularly susceptible to Mal- administration. These are high risk;
- b. The likelihood of collusion amongst employees. This raises risk; Where the capacity of staff is known to be weak (or there has been high incidence of new key staff). This raises risk;
- c. The relative strength or weakness of the overall control environment particularly with regard to procurement management and analysis of procurement performance. A weak control environment raises risk.

## **VI. Steps for a risk-based approach**

- 1.160 Assess the procurement system in use; Determine which of the system components impact critical functions, such as funds, end users, suppliers, decision making;
- 1.161 Assess what risks affect these components and the severity of impact on the procurement functions;
- 1.162 Based on the above assessment, decide the audit priority, resources, schedule and frequency.
- 1.163 Risks are categorized as follows:
  - a. Inherent risks;
  - b. Control risks; and
  - c. Detection risks.

## **VII. Inherent Risk**

- 1.164 Inherent risk is the probability of loss arising out of circumstances or existing in an environment, in the absence of any action to control (ICs) or modify the circumstances. Examples are the susceptibility of resources controlled by the procurement system to material theft, destruction, disclosure, unauthorized modification, or other impairment, assuming that there are no related internal controls.

## **VIII. Control Risk**

- 1.165 Control risk is the risk that an error that could occur in an audit area, and which could be material, individually or in combination with other errors, and which will not be prevented or detected and corrected on a timely basis by the internal control system.
- 1.166 Policies, procedures, practices and organizational structures put in place to reduce risks are referred to as internal controls. The extent of internal controls present in an organization would determine the level of risk of the procurement system under audit and also the extent or level of auditing to be undertaken. In other words, where internal controls are required, the extent of audit increases with increased substantive testing and vice versa.
- 1.167 Accordingly, the corresponding Audit Standard is: "The existence of an adequate system of internal control minimizes the risk of errors and irregularities. "Internal control activities and supporting processes are either manual or driven by automated systems.
- 1.168 A preliminary assessment of the adequacy of controls can be made on the basis of discussions with the management and a preliminary review of the available supporting documentation.

- 1.169 The level of internal control *awareness* in the auditee organization and *existence* or non-existence of internal control standards are key indicators for a preliminary control assessment determination;
- 1.170 The assessment at this stage also helps fine-tune the audit objectives, which need to be spelt out before the commencement of substantive testing;
- 1.171 The following types of controls are considered when evaluating control strength.
- 1.172 Preventive
- a. Detect problems before they occur;
  - b. Monitor both operation and inputs;
  - c. Attempt to predict potential problems before they occur and make adjustments;
  - d. Prevent an error, omission or malicious act from occurring.
- 1.173 Detective
- Use controls that detect and report the occurrence of an error, omission or a malicious act.
- 1.174 Corrective
- a. Minimize the impact of a threat;
  - b. Resolve problems discovered by detective controls;
  - c. Identify the cause of a problem;
  - d. Correct errors arising from a problem;
  - e. Modify the processing systems to minimize future occurrence of the problem.
- 1.175 The auditor should ordinarily make a preliminary evaluation of the controls and develop the Audit Plan on the basis of this evaluation.
- 1.176 During a review, the auditor will consider the appropriateness of this evaluation in determining the extent to which controls can be relied upon during testing.

#### Identification of Controlled Areas and Procurement Risk Assessment

- 1.177 Based on the assessments of inherent, control and detection risks, including the preliminary evaluation of controls, the auditor should identify the most effective controls and these should be tested to determine if they are in fact operating effectively.
- 1.178 By relying on these preliminary assessments to plan audit tests, the auditor can avoid expending resources on testing controls that clearly are not effective.

## Assessment of the Extent and Scope of Internal Audit

- 1.179 The auditee's internal auditor and the auditors of the AGDSL have complementary roles to play. Where significant amounts of overlap exist, external procurement audit could be suitably modified;
- 1.180 An evaluation of the capacity, scope and efficiency of the internal audit function should be carried out in order to avoid duplication;
- 1.181 Weak internal audit points to high risk in internal controls and would necessarily result in enhanced external audit procedures;
- 1.182 Some basic risk areas arising from the review of internal audit work include:
  - 1.182.1. Internal audit is not reporting to senior management;
  - 1.182.2. Management is not required to act on internal audit recommendations;
  - 1.182.3. Internal Auditor may not be empowered to carry out a full range of assessments or there may be significant restrictions on the scope of work;
  - 1.182.4. Insufficient resource, in terms of finances, staff and skills required;
  - 1.182.5. Internal audit is not involved with the procurement system.

## **IX. Detection Risk**

- 1.183 Detection risk is the risk that the procurement auditor's substantive procedures will not detect an error which could be material, individually or in combination with other errors;
- 1.184 In determining the level of substantive testing required, the procurement auditor should consider both:
  - 1.185 The assessment of inherent risk;
  - 1.186 The conclusion reached on control risk following compliance testing.
- 1.187 The higher the assessment of inherent and control risk the more audit evidence the procurement auditor should normally obtain from the performance of substantive audit procedures.

## **X. Risk Analysis chart<sup>17</sup>**

- 1.188 Based on the Internal Control Check-list and the Risk-Assessment Check list, the Auditor should decide the level of risk and the relevant consequences in respect of

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<sup>17</sup>Public Procurement Audit Manual (Version1,May2011)

the procurements being audited. The Procurement Audit Program will reflect the level of risks determined:

<b>Risk Level</b>		<b>Extreme risk</b>	Detailed action/plan required
		<b>High-risk</b>	Needs senior management attention
		<b>Moderate risk</b>	Specify management responsibility
		<b>Lowrisk</b>	Managed by routine procedures
<b>Consequences</b>	<b>5</b>	<b>Severe</b>	Would stop achievement of functional goals/objectives
	<b>4</b>	<b>Major</b>	Would threaten functional goals/objectives
	<b>3</b>	<b>Moderate</b>	Necessitating significant adjustment to overall function
	<b>2</b>	<b>Minor</b>	Would threaten an element of the function

# CHAPTER 7: PROCUREMENT AUDIT IMPLEMENTATION

## I. Introduction to Procurement Audit Implementation

- 1.189 Once the Procurement Audit Plan (PAP) is finalized, the steps for Audit Implementation/ Execution should be developed according to the guidelines included in the AGDSL AM. The detailed steps outlined in this chapter provide guidance on specific aspects of the procurement audit for clearer focus and application.
- 1.190 Audit implementation is the main stage of an audit and includes the review, observation, analysis, testing, confirmation, physical test, request for information and use of other audit techniques by the auditor.

## II. Determining scope and Objectives of the Procurements to be Audited

- 1.191 Based upon the risk assessment and the control assessment of the procurement system and the procurements selected for audit, the audit objectives are developed. The audit objectives should also take into consideration the auditee managements' objectives of the procurement system.
- 1.192 Although it is essential to set out audit objectives clearly for commencement of detailed procurement audit, these objectives may undergo modifications during the course of the audit.
- 1.193 The broad objective of procurement audit is to evaluate the procurement processes to ensure the safeguarding of public funds, system effectiveness and efficiency and also the conformance to rules and regulations. Procurement audit objectives go hand in hand with any performance or regularity audit objectives that the auditor may set out.
- 1.194 The following is an illustrative list of some of the common audit objectives for procurement audit:
- i. **Review of the controls** of the procurement system to gain assurance about their adequacy and effectiveness;
  - ii. **Evaluation of the main processes** involved in the operations of a given procurement phase;
  - iii. **Examine the procurement system** and the procedures followed at various stages involved

### **III. Determining Audit Scope**

- 1.195 The audit Scope defines the boundaries of the audit. Determining the scope of the audit is a part of audit planning. It addresses such aspects as the period and number of locations to be covered and the extent of substantive testing depending on risk levels and control weaknesses. The scope of audit can be changed during the audit process.

### **IV. Logistical Planning**

- 1.196 Once the scope of audit is determined, auditor should plan for logistics. Logistical planning includes:
- i. Manpower planning
  - ii. Methodology of audit – approach to evidence collection, nature of evidence to be collected etc. is identified.
  - iii. Scheduling - the time schedule for various tasks to be undertaken has to be set out with enough flexibility for mid-stream corrections.
- 1.197 This includes the identification of the personnel to carry out the audit in specific areas depending upon their expertise and allocation of responsibilities.

### **V. Methodology of audit**

- 1.198 It is the approach to evidence collection, nature of evidence to be collected etc. This includes Scheduling, which is the time schedule for various tasks to be undertaken. This has to be set out with enough flexibility for mid-stream corrections

### **VI. General Considerations**

- 1.199 As noted elsewhere, all steps outlined in this Chapter do not have to be undertaken for every procurement selected for audit. Professional judgment and general audit skills are necessary to select the particular steps in each circumstance, and depend on the results of the review of Internal Controls and the procurement Risk Assessment etc.
- 1.200 The Procurement Process Checklist/Audit Program (Annex 4) sets out detailed steps to be *considered* for the audit execution. If the level of risk is high and the Internal Control system of the PE is weak, applying most steps may be prudent.
- 1.201 The following areas at the PE should be considered for inclusion in the Audit Program:
- i. Procurement Planning:**
    - a. Compliance with Procurement Guidelines;
    - b. Adhering to Procurement Principles;
    - c. Need Assessment;
    - d. Strategy Development;

- e. Procurement Packaging ;
- f. Master Procurement Planning;
- g. Annual Procurement Planning;
- h. Procurement Time Scheduling and Detailed Planning;
- i. Selection of Procurement Methods;
- j. Procurement Preparatory /Preparedness Planning;
- k. Sanctioning / approval of Plan.

**ii. Technical Specification:**

- a. Sufficient details available to ensure that all prospective bidders have essentially the same understanding of the requirement.
- b. The specifications are clear, and prepared in accordance with procurement requirement;
- c. Evidence of completing of the technical specifications later than scheduled;
- d. The expertise exists in-house or will also have to be procured.
- e. Goods specifications guarantee the desired quality,
- f. Any bias towards product/or equivalent word included?
- g. Specification is correct?

**iii. Preparation of Cost Estimates**

- a. Compliance with regulations, standards, benchmarks and best practices;
- b. Accuracy;
- c. Sanctioning / approval;

**iv. Preparation of Bidding Documents and Issuing of Standard Bid Documents (SBDs):**

- a. Use of SBDs;
- b. Customized SBDs;

- c. Critical information;
- d. Vetting and approving;
- e. Assess the knowledge and skills of TEC/PC.

**v. Bid Invitation /Request for Quotation:**

- a. Publication in media;
- b. Bidding period;

**vi. Pre-bid meeting and Submission of Bids:**

- a. Site visits;
- b. Pre-bid meeting;
- c. Clarifications;
- d. Addenda;

**vii. Receiving, Closing and Bid Opening:**

- a. Receiving procedure;
- b. Custody of bids;
- c. Bid Closing;
- d. Late bids;
- e. Bid opening procedure;
- f. Bid opening committee;
- g. Bid Opening Minutes.

**viii. Bid Evaluation Process:**

- a. Bid Evaluation Principles;
- b. Bid Evaluation Criteria;
- c. Preliminary Examination and rejection of Bids;

- d. Detailed Bid Evaluation and Principles;
- e. Imbalanced Bids;
- f. Post Qualification;
- g. Negotiations;
- h. Recommendations;
- i. Time of Evaluation;
- j. Approval of Awards Determinations.

**ix. Pre-qualification:**

- a. Pre-qualification documents;
- b. Pre-qualification Notice;
- c. Pre-qualification assessment.

**x. Compliance with Rules and Regulations:**

- a. Conflict of Interest;
- b. Different Procurement Committee;
- c. Delegation of Financial Authority;
- d. Inventory of Procurement Regulations;
- e. Skills and Knowledge of TEC/PC members.
- f. Skills and Knowledge of Procurement Officers;
- g. Integrity of Committee members/ procurement officers;
- h. Compliance and violation of rules.

**xi. Contract Implementation:**

- a. Authority and signing of contracts;
- b. Performance security;
- c. Contract Administration Plan;

- d. Kick off meeting;
- e. Contract Monitoring;
- f. Advance payment and part payment including delays;
- g. Variation, Additional Claims and approval;
- h. Time Extension;
- i. Quality control/assurance;
- j. Inventory Records;
- k. Dispute resolution;
- l. Taking over and COC.

**xii. Selection of Consultants:**

- a. Applicable guidelines;
- b. Consultancy Service Planning;
- c. Selection Methods;
- d. Preparation of TOR;
- e. Preparation of Cost Estimates;
- f. Preparation and publication of EOI;
- g. Preparation of RFP;
- h. Short listing;
- i. Evaluation –Technical;
- j. Evaluation – Financial;
- k. Final Recommendation;
- l. Negotiation;
- m. Approval;
- n. Coordination and Monitoring;
- o. Variation;
- p. Delivery of outputs;
- q. Payment;

r. Implementation of Consultancy reports.

**xiii. Complaint Process:**

- a. Debriefing;
- b. Handling of Complaints.

**xiv. Areas of Particular Attention:**

- a. Price reasonableness;
- b. Accuracy on quantity;
- c. Accuracy on quality;
- d. Timeliness;

**xv. Indication of irregularities, including criminal acts, such as:**

- a. Fictitious procurements;
- b. Marked up price of goods/services;
- c. Quantity/volume of actual delivery / procurement is reduced;
- d. Quality of the procurement is lowered;
- e. Delay in completing the works procurement;
- f. The procurement is not beneficial to / or not utilized by the entity (for example, not according to the need, of low quality, or damaged);
- g. A violation in the procurement that indicates Corruption, Collusion or Nepotism.

**VII. Audit Implementation Process**

Step1 - Entry Audit Conference

Step 2 -Evidence Collection and Evaluation

Step 3 - Audit Testing and Sampling

Step 4 - Exit Audit Conference

Step 5 - Audit Documentation

**Step1 - Entry Audit Conference**

1.202 It is necessary to conduct a formal audit commencement meeting with the senior management responsible for the area under audit to finalize the scope, understand

the special concerns if any, schedule the dates and explain the methodology for the audit. This helps fine tune the objectives based on managerial perceptions of the procurement system. Such meetings get senior management involved, allow people to meet each other, clarify issues and underlying business concerns, and help the audit to be conducted smoothly, as well as helping to determine the nature of data, information and documents that will be required by the audit team. During the entry conference the representatives of the auditee can be apprised of the broad objectives of audit, the proposed tentative audit plan and possible areas of concern based upon previous audit findings. Management concerns regarding the procurement system are also taken into consideration.

## **Step 2- Evidence Collection and Evaluation**

- 1.203 The Audit Standard for acceptable evidence is: "Competent, relevant and reasonable evidence obtained to support the auditor's judgment and conclusions regarding the organization's program, activity or function under audit."
- 1.204 The standards further prescribe inter-alia that,
- 1.205 data collection and sampling techniques should be carefully chosen;
- 1.206 the auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, to collect audit evidence; and
- 1.207 The evidence should be complete, relevant and reasonable and as direct as possible. Audit evidence comprises a combination of documentation and information obtained, or inspected in executing audit programs and in arriving at the conclusions on which the audit report is based. Sources of audit evidence include the accounting systems and documentation of the auditee, the tangible assets, management and employees, customers, suppliers and other third parties who have dealings with, or knowledge of, the PEs activities.
- 1.208 Relevant audit evidence must relate to the general and specific audit objectives. Evidence which is not related to the audit objectives should not be collected.
- 1.209 Audit evidence is obtained by carrying out audit tests which should be classified according to their primary purpose. Evidence can either be substantive or compliance in nature.
- Substantive evidence*
- 1.210 Substantive evidence provides direct assurance about completeness, existence etc. and which the auditor gathers to form his opinion.
- Compliance evidence*
- 1.211 Compliance evidence is used to enable the auditor to make assessment of the effectiveness of internal controls (Use **Annex 2**-Internal Control Assessment list) and, thus, reduce the extent of the substantive testing. Substantive testing must always be carried out.

- 1.212 The weight attached to the two types of evidence depends on which audit approach is selected for each area of audit work. (Use the Financial Audit Manual for Control Tests and Substantive Tests)

### **Develop and Execute Controls Tests**

- 1.213 Section 6000 of the AGDSL Audit Manual sets out the guidelines as follows:
- 1.213.1. 6001 Introduction
  - 1.213.2. 6010 Controls and Controls Properties
  - 1.213.3. 6020 TGCs external comments address
  - 1.213.4. 6030 Using the Work of Internal Audit
  - 1.213.5. 6040 Service Organizations
  - 1.213.6. Develop and Execute a Controls Test Plan
- 1.214 It is important for audit staffs to be familiar with the AM which sets out in considerable detail (not repeated in PAM) how tests are developed and then substantively carried out. Reference should be made to Section 7000 of the AGDSL Audit Manual which sets out the guidelines as follows:
- 1.215 7010 Introduction
  - 1.216 7010 Develop and Execute the Substantive Test Plan
  - 1.217 7020 Evaluate Sufficiency and Appropriateness of Audit Evidence
  - 1.218 7030 Substantive Analytics
  - 1.219 7040 Tests of Detail
  - 1.220 7050 External Confirmation
  - 1.221 7060 Physical Inventory Observation
  - 1.222 7070 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

### **Step 3 - Audit Testing and Sampling**

- 1.223 The objective of an audit engagement is to provide an independent and objective level of assurance to assist the auditee.
- 1.224 The techniques employed are based on an assumption that the sample of procurement data selected for examination comprise of the same characteristics as

examination of all data (that is, the test data is representative of the entire spectrum of the data at the PE).

1.225 Testing is broadly divided into three areas:

- i. Compliance testing
- ii. Substantive testing, for which various sampling methods may be applied, and which are discussed in this section, and also
- iii. Analytical reviews.

*Compliance Testing*

1.226 Compliance tests are concerned with testing the transactions for compliance with existing laws, rules, regulations, policies and procedures and provide auditors with evidence of the existence of internal controls. Compliance tests can be used to test the existence and effectiveness of a defined process, which may include a trail of documentary or automated evidence. Conclusions will be drawn from this on the reliability of the system. This will in turn lead to decisions with regard to the level of substantive tests required.

*Substantive Testing*

1.227 Substantive tests are tests to obtain evidence as to the validity and propriety of the transactions and the correctness of balances shown in the accounting records. Substantive tests mainly comprise the detailed verification of particular transactions and balances.

*Sampling*

1.228 Audit efficiency relies on obtaining the minimum audit evidence, sufficient to form the audit opinion. The use of audit sampling in audit assignments, offers numerous benefits to auditors. These include:

1.229 providing a framework within which sufficient audit evidence is obtained;

1.230 forcing clarification of audit thinking in determining how the audit objectives will be met;

1.231 minimizing the risk of over-auditing;

1.232 facilitating more expeditious review of working papers;

1.233 Increasing the acceptability of audit conclusions by the auditee as they are seen to be unbiased.

1.234 Audit sampling is the testing of selected items within a population to obtain and evaluate evidence about some characteristic of that population, in order to form a conclusion concerning the population.

1.235 It is important that the items selected should be representative, in order to be able to form a conclusion on the entire population. Compliance tests determine the extent

to which substantive tests may be carried out. Strong controls revealed in the compliance tests can limit the substantive tests and vice versa.

- 1.236 A number of different forms of sampling can be used for both substantive and compliance testing: random sampling, stratified sampling and statistical sampling. The AM has more detailed information on sampling methodology and guidance on selecting the type of sampling to use.

*Random Sampling*

- 1.237 Items selected are drawn at random from the entire population so that each item has an equal chance of selection.

*Stratified Sampling*

- 1.238 Where transactions or records vary in materiality or relative risk, they may be grouped and each group sampled separately.

*Statistical Sampling*

- 1.239 Where the auditee has large transaction populations, statistical sampling may be used.

- 1.240 Sampling is mainly based on transactions representing up to 80% of the value of, for example, expenditure. This is known as the Pareto principle of distribution, such that in this case approximately 20% of the number of transactions will represent 80% of the value of all transactions. This is commonly called the “80/20 rule or principle”.

- 1.241 However, in cases where there are potentially a large number of transactions; and if the transactions are of low risk/low value, the Senior Auditor shall advise on the test sample volume and method of selection.

- 1.242 In developing the detailed Procurement Audit Program, staff should take into account the following “Red Flag” indicators / situations, which give rise to suspicion and demand closer scrutiny and additional audit steps which should be included in the PA Program.

## **Red Flag Indicators**

Red Flag Indicators are situations where additional special steps may need to be developed.

### **i. Procurement Planning:**

- 1.243 Marked-up budget (indicated by an unrealistic unit price);
- 1.244 Directed Procurement planning (technical specification is directed to a certain brand or supplier);
- 1.245 Procurement plan is not announced openly at the initial budget implementation;

- 1.246 Engineering work packages are split into several packages to avoid tender;
- 1.247 Dividing the work package according to the nature of the works when they should have been treated as one overall construction;
- 1.248 Combining several work packages into one big package when procurement should have been carried out by small businesses (medium and big);
- 1.249 Purchase plan is not according to the need;
- 1.250 Unrealistic time schedule;
- 1.251 Selecting the wrong method (direct appointment instead of open tender);
- 1.252 Budget allocation for activities which are planned to be carried out using self-management, but the implementation is carried out by contract or vice versa;
- 1.253 Time schedule to register and collect procurement documents uses different timeframes;
- 1.254 A budget to support the procurement is not available

**ii. Establishment of PC / procurement officials / procurement unit**

- 1.255 Officials do not have procurement expertise or certificate and / or evidence to have participated in procurement training;
- 1.256 The process set up by them is not open and transparent;
- 1.257 There is a lack of integrity (committee is dishonest, unprofessional, not transparent and unaccountable);
- 1.258 They are not impartial (committee gives preference to certain groups);
- 1.259 Are not independent (committee is controlled by certain parties);
- 1.260 Personnel hold concurrent positions that are in conflict.

**iii. Preparation and validation of Owner's (Entity) Estimate (OE)**

- 1.261 There is no OE;
- 1.262 OE is not signed by all members of procurement committee;
- 1.263 OE price is directed to certain brands/products;
- 1.264 Estimated value is covered up or difficult to obtain;
- 1.265 Marked-up price in OE;
- 1.266 Basic price which is not standard in preparing OE;
- 1.267 Determination of estimated price does not comply with the regulations;

1.268 Source/price reference for preparing OE is fictitious;

1.269 Addition of cost items which are not allowed.

**iv. Preparation and validation of goods/services providers' selection document**

1.270 Selection document is not validated by the right officials;

1.271 Technical requirements are made up or excessive, compared with the user requirement;

1.272 Criteria for passing evaluation are not available or not clear;

1.273 Technical specification is directed to certain products or group;

1.274 Addition of unnecessary evaluation criteria;

1.275 Use of non-standard tender document;

1.276 Incomplete tender document.

**v. Announcement of tender / selection / procurement**

1.277 No announcement of tender / selection / procurement;

1.278 Announced, but not in the required format or media as directed by NPA;

1.279 Fraudulent tender announcement;

1.280 Tender announcement material is confusing;

1.281 Announcement period is too short;

1.282 Tender announcement is incomplete

**vi. Prequalification / post-qualification of goods/services providers**

1.283 Documents of participants do not meet requirements accepted by the PC;

1.284 Administrative document is 'fabricated' to allow prequalification;

1.285 Qualification document is not supported by authentic data;

1.286 Evaluation made by the committee is not according to criteria;

1.287 Using prequalification open tender method instead of post-qualification open tender

1.288 Criteria for prequalification document evaluation are not available or unclear;

**vii. Bid Explanation Meeting**

1.289 Pre--bid meeting is limited to a particular group;

- 1.290 Limited information and description;
- 1.291 No public participation;
- 1.292 Controversial explanation;
- 1.293 Pre-bid meeting is not documented;
- 1.294 Minutes of pre-bid meeting is not distributed to all participants;
- 1.295 Important changes on the providers selection document is not contained in the provider's selection document addendum;

**viii. Submission and opening of bidding document**

- 1.296 Relocation for submission of bidding document is not advertised properly;
- 1.297 Time limit for the submission is postponed or made earlier without appropriate notice
- 1.298 Bidding document is not kept in the box or safe/locked place;
- 1.299 Late receipt of bidding document;
- 1.300 Submission of fictitious document;
- 1.301 Incomplete bidding document;
- 1.302 Opening of bidding document is carried out during holidays;
- 1.303 Opening of bidding document is postponed without clear reasons.

**ix. Bid evaluation**

- 1.304 Defective evaluation criteria;
- 1.305 Selecting a place for evaluation out of public sight;
- 1.306 Tender participants are involved in bid rigging practices or the number of tender participants is declining drastically;
- 1.307 Replacement of bidding document;
- 1.308 Fraudulent bidding letter.

**x. Announcement of winner**

- 1.309 There is no announcement of winner;
- 1.310 Announcement of winner is not advised to all tender participants;
- 1.311 Announcement to the public is limited;
- 1.312 Announcement does not observe 'public' aspect or it is carried out secretly;

- 1.313 Postponing date of announcement without proper notice;
- 1.314 Announcement is not according to normal practice or there is no input from the public.

**xi. Complaints by tender participants**

- 1.315 Complaint letter is not responded;
- 1.316 Response to the complaint is postponed;
- 1.317 Selective responses;
- 1.318 Substance of complaint is not responded;
- 1.319 Pre-format Bid complaint to avoid suspicion that tender process is engineered.

**xii. Contract signing**

- 1.320 Suspicious articles / additions in the contract;
- 1.321 Collusive contract signing;
- 1.322 Delay in signing of contract purposely;
- 1.323 Closed contract signing;
- 1.324 Invalid contract signing;
- 1.325 Contract not supported by authorized performance bond;
- 1.326 Date of performance bond is later than the date of contract.

**xiii. Implementation of contract / delivery of the goods / services**

- 1.327 Quantity / volume delivered are not in accordance with the contract;
- 1.328 Quality is inconsistent with the provisions in the technical specifications / contract;
- 1.329 Quality delivered is lower than the provisions in the technical specifications / contract;
- 1.330 Unexplained delay in delivery;
- 1.331 Unexplained / suspicious Contract Change Order;
- 1.332 Engineered criteria of goods receipt;
- 1.333 Fraudulent after-sales guarantee;
- 1.334 Engineered field data.

**xiv. Payment and Reporting**

- 1.335 Payment not accordance with the physical progress;

- 1.336 Fictitious payment;
- 1.337 Deficiency of withholding and payment of tax;
- 1.338 No reporting;
- 1.339 Fictitious or wrong reporting;
- 1.340 Incomplete reporting;
- 1.341 Reporting is not according to regulations.

**xv. Potential violation in utilization**

- 1.342 Quantity of goods/services received is not according to the requirements;
- 1.343 Quality of goods/services received is not according to the requirements;
- 1.344 Delivery of goods/services is not in the right location;
- 1.345 Goods/services that have not utilized yet / cannot be utilized.

**Potential Corruption in Public Procurement**

- 1.346 Procurements are an area which tends to attract corruptive and fraudulent practices, much unlike a routine FA. In normal circumstances, auditors are likened to a “watchdog, not a bloodhound”. This means that whereas in a normal audit the auditor is entitled to do the audit without special exercises for such practices, in conducting a Procurement Audit, auditors must be aware that such practices are fairly prevalent. Therefore in developing and designing audit steps in the Procurement Audit Program, the Red Flags noted above, require a more rigorous approach. This does not mean that the exercise takes on an investigative approach – see comments elsewhere regarding AGDSL Investigative Unit. Simply put, the procurement auditor should have his guard up.

**Use of Professional Judgment and Experience**

- 1.347 Although the Audit Check-lists included in the Annexes give the auditor a head start, there is no substitute for the use of professional judgment and experience in deciding on the appropriate audit steps to be included in the assignment, according to the conditions determined in the field.

**Step 4- Exit Audit Conference**

- 1.348 After the audit scrutiny is completed, the audit findings and suggestions for corrective action and improvements should be reported to senior management in a formal meeting. This will ensure better understanding and increase buy-in of audit recommendations. It also gives the PE an opportunity to express their views on the issues raised. Writing a report after such a meeting where agreements are reached on all audit issues can greatly enhance audit effectiveness. Exit conferences also help in finalizing recommendations which are practical and feasible.

## **Step 5- Audit Documentation**

- 1.349 Auditors should adequately document the audit evidence in working papers (Annex 5), including the basis and extent of the planning, work performed and the findings of the audit. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant findings and conclusions.

### **Importance of Documentation**

- 1.350 Procurement systems audit documentation is the record of the audit work performed and the audit evidence supporting audit findings and conclusions.
- 1.351 Potential uses of audit documentation include:
- 1.352 Demonstration of the extent to which the auditor has complied with the Auditing Standards;
- 1.353 Assistance with planning, performance and review of audits;
- 1.354 Facilitation of third-party/peer reviews;
- 1.355 Evaluation of the procurement auditing functions quality assurance program;
- 1.356 Support in circumstances such as fraud cases and lawsuits.

### **Form, Content and Extent of Audit Documentation**

- 1.357 The auditor should prepare audit documentation that enables an experienced auditor to understand:
- 1.357.1. The nature, timing, extent and results of the audit procedures performed
- 1.357.2. The audit evidence obtained;
- 1.357.3. The conclusions reached on significant matters;
- 1.357.4. Audit procedures designed to address identified risks of material misstatement.
- 1.358 Documentation includes a record of:
- 1.359 The planning and preparation of the audit scope and objectives;
- 1.360 The audit program;
- 1.361 The evidence collected on the basis of which conclusions are arrived at.
- 1.362 All work papers including general file pertaining to the auditee organization and system
- 1.363 Points discussed in interviews clearly stating the topic of discussion, person interviewed, position and designation, time and place.

- 1.364 Observations of the performance of work. The observations may include the place and time, the reason for observation and the people involved.
- 1.365 Reports and data obtained from the procurement system directly by the auditor or provided by the audited staff. The procurement auditor should ensure that these reports carry the source of the report, the date and time and the conditions covered.
- 1.366 At various points in the documentation the auditor may add his comments and clarifications on the concerns, doubts and need for additional information. The auditor should come back to these comments later and add remarks and references on how and where these were resolved.
- 1.367 Where the audit work is reviewed by a superior auditor, the remarks arising out of the review also should be recorded in the documentation. The final reports of the audit should form part of the audit documentation.

#### **Identification of Auditor and Reviewer**

- 1.368 In documenting the nature, timing and extent of audit procedures performed, the auditor should record:
  - 1.369 Who performed the audit work and the date of such work; and
  - 1.370 Who reviewed specific audit documentation and the date of such review

#### **Documentation of Specific Items Tested**

- 1.371 In documenting the nature, timing and extent of audit procedures performed, the auditor should record the identifying characteristics of the specific items tested.
- 1.372 Recording the identifying characteristics serves a number of purposes. For example, it demonstrates the accountability of the audit team for its work and facilitates the investigation of exceptions or inconsistencies. Identifying characteristics will vary with the nature of the audit procedure and the subject matter.
- 1.373 For a procedure requiring selection or review of all items over a specific amount from a given population, the auditor may record the scope of the procedure and identify the population
- 1.374 For a procedure requiring inquiries of specific auditee personnel, the documentation may include the dates of the inquiries and the names and job designations of the auditee personnel.
- 1.375 For an observation procedure, the documentation may identify the process or subject matter being observed, the relevant individuals and what they were responsible for, and when the observation was carried out.

#### **Reply from the Auditee Management**

- 1.376 In case of Procurement Audit Reports, it is important to get the confirmation of /replies to the audit.(Details are in the Chapter 8)

## **Chapter 8: Reporting the Results**

### **I. Introduction**

1.377 The report process begins after the exit conference. It involves issuing three reports:

A draft report,

A preliminary report, and

A final report.

### **II. Draft Audit Report**

1.378 The draft audit report is developed from the exit conference. The Deputy Auditor General in charge of procurement reviews the report and provides inputs.

1.379 The draft report is sent to the auditee for review and comments as to the accuracy and clarity of the report as well as the reasonableness of the findings/recommendations.

1.380 The content will be largely unchanged from the exit conference so there should not be any surprises to the auditee.

1.381 An agreed-upon deadline is set for submitting auditee responses to the draft report to the DAG

1.382 The DAG or the AAG/SA (lead auditor) will resolve comments that are received and integrate them with the audit report as applicable.

### **III. Preliminary Audit Report**

1.383 The preliminary audit report consists of the draft audit report after all comments have been resolved.

1.384 It is issued to the CAO/AO as a confidential document.

1.385 The CAO/AO will have an agreed upon deadline to provide the formal response to the findings/ recommendations in the report.

1.386 The formal response should include a plan of action for each recommendation and expected date of completion for each action plan.

### **IV. Final Audit Report**

1.387 Upon approval of the DAG's response to the preliminary audit report, the final report is prepared.

1.388 The final audit report is issued to CAO.

1.389 Audit recommendations remain open until they are followed up and determined to have actions plans implemented. See Chapter 9, Follow-up actions for the process used to close out open audit findings/recommendations.

## **V. Structure of Audit Report**

- 1.390 The report should be timely, complete, accurate, objective, convincing, and as clear and concise as the subject permits.
- 1.391 A carefully prepared report may be of little value to decision makers if it arrives too late.
- 1.392 The auditors should consider interim reporting, during the audit, of significant matters to appropriate officials. Such communication, which may be oral or written, is not a substitute for a final report, but it does alert officials to matters needing immediate attention and permits them to correct them before the final report is completed.
- 1.393 The Procurement Audit Report should be consistent with the reporting requirements in the AGDSL Audit Manual, but should at least include:
- The basis of the Procurement Audit;
  - The Audit purpose;
  - The Audit scope;
  - A summary of the Audit results;
  - A summary of Audit Findings;
  - Weaknesses noted during the work, and suggested recommendations to improve the systems and methodology with a view to enhancing FM;
  - Other Significant Matters of interest to the CAO and Management; and
  - An outline of the expected next steps to be taken when the report includes significant departures from government requirements and / or material matters are reported.

## **VI. Contents of an Audit Report**

The report can be broadly structured under the following headings:

### **Introduction**

A brief introduction to the procurement audit being audited would be the starting point of the audit report.

Auditors should, as applicable, identify auditee, geographic locations, period covered; composition of audit team, report the kinds and sources of evidence; and explain any quality or other problems with the evidence. The report must briefly give details of the existing procurement system.

The volume of data, the complexity of processing and other details should also be highlighted so that the reader can gain a clear idea about the procurement system to appreciate subsequent audit findings. The criticality of the system must be assessed

and mentioned, as many of the audit observations gain their seriousness from the criticality of the system. If the data flow is complex, a flow chart may be annexed to the report.

### **Objectives, scope, and methodology**

Knowledge of the objectives of the audit, as well as of the audit scope and methodology for achieving the objectives, is needed by readers to understand the purpose of the audit, judge the merits of the audit work and what is reported, and understand significant limitations.

In reporting the audit's objectives, auditors should explain the aspects of performance examined. To avoid misunderstanding in cases where the objectives are particularly limited, it may be necessary to state areas that were not audited.

In reporting the scope of the audit, auditors should describe the depth and coverage of work conducted to accomplish the audit objectives. Auditors should also report significant constraints imposed on the audit approach by data limitations or scope impairments.

To report the methodology used, auditors should clearly explain the evidence gathering and analysis techniques used. This explanation should identify any significant assumptions made in conducting the audit; describe any comparative techniques applied; describe the criteria used; and when sampling significantly supports auditors' findings, describe the sample design and state why it was chosen.

### **Objectives of Audit Reporting as included the AM**

The guidelines provided in the AGDSL Audit Manual (Section 8000), as appropriate, provide the underpinning for reporting the results (in form and content) of the Procurement Audit to the CAO of the audited entity, including discussions on the draft report before finalization.

The objectives of the Procurement Audit Report include:

Providing objective information;

Presenting evaluation results clearly and succinctly, and which take into account the principles of efficiency, effectiveness, openness, competitiveness, transparency, fairness / non-discrimination, accountability and VfM;

Identifying weaknesses noted and suggesting recommendations to improve planning, implementation and control of procurement activities;

Setting clear guidelines on the addressing item 2 above and the next steps to be taken after the report is issued.

### **Major Findings**

Auditors should report the significant findings developed in response to each audit objective. In reporting the findings, auditors should include sufficient, competent,

and relevant information to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper perspective.

Auditors should also report appropriate background information that readers need to understand the findings.

Audit findings not included in the audit report, because of insignificance, should be separately communicated to the auditee, preferably in writing. Such findings, when communicated to the Auditee's Head, should be referred to in the audit report. All communications of audit findings should be documented in the working papers.

### **Noteworthy Accomplishments**

Noteworthy procurement management accomplishments identified during the audit, which were within the scope of the audit, can be included in the audit report along with deficiencies. Such information provides a more fair presentation of the situation by providing appropriate balance to the report. In addition, inclusion of such accomplishments may lead to improved performance by other public bodies that read the report.

### **Conclusions**

Auditors should report conclusions as called for by the audit objectives. The strength of the auditors' conclusions depends on the persuasiveness of the evidence supporting the findings and the logic used to formulate the conclusions.

Sweeping conclusions regarding absence of controls and risks thereon may be voided, when they are not supported by substantive testing.

The report should be able to logically link the various observations.

### **Recommendations**

Auditors should report recommendations when the potential for significant improvement in operations and performance is substantiated by the reported findings.

Recommendations to effect compliance with laws and regulations and improve management controls should also be made when significant instances of noncompliance are noted or significant weaknesses in controls are found. Auditor should also report the status of uncorrected significant findings and recommendations from prior audits that affect the objectives of the current audit.

Constructive recommendations can encourage improvements.

Recommendations are most constructive when they are directed at resolving the cause of identified problems, are action oriented and specific, are addressed to parties that have the authority to act, are feasible, and, to the extent practical, are cost-effective.

In reporting significant instances of non-compliance, auditors should place their findings in perspective. To give the reader a basis for judging the prevalence and

consequences of non-compliance, the instances of non-compliance should be related to the number of cases examined and quantified in financial terms.

## **Chapter9: Procurement Audit Follow-Up**

### **I. Introduction to Audit Follow-Up**

Audit follow-up of audit findings is defined as the action taken to correct a weak control situation that has been identified and reported to the Auditee. The responsibility for follow-up is with the CAO. Every audit should receive a response, and every audit finding should be resolved.

Where the Auditee agrees with all of the findings, the audit report will note this and include dates of implementation where possible. But if an audit recommendation is challenged by the Auditee, then the Auditors will attempt to resolve the matter. If they are not successful, CAO must review and attempt to resolve the matter.

The audit report or transmittal will include a request for a written reply regarding corrective actions, taken or planned, for each unsatisfactory audit finding.

### **II. Purpose of Audit Follow-Up**

Audit follow-up plays a vital role in the procurement audit process since it helps an effective implementation of audit recommendations and provides feedback to the Auditor on the effectiveness of procurement audit carried out.

Following up on Audit recommendations serves four main purposes:

to increase the effectiveness of audit reports;

to increase the probability of recommendations being implemented;

to evaluate Audit performance and

To create incentives for learning and development as following up activities may contribute to better knowledge and improved practice.

### III. Monitoring by AGDSL

The effectiveness of an audit is determined by the speed and proper follow-up by AGDSL of the implementation of audit results and recommendations for improvements agreed to by the CAO.

Monitoring the follow-up is required so as to encourage the finalization of the audit as well as the proper follow-up of the recommendations for improvements by the auditee.

Periodic monitoring and implementation of follow up is carried out, recorded and then the final report is prepared. The monitoring also covers follow up / clearing of the outstanding matters (such as certificates, outstanding information requested from the client / constraints that need to be attended to by the client staff) and open issues (auditee comments on draft recommendations / reports).

### IV. Procurement Audit Follow-Up Process

It is important for both the Auditor and the Auditee to know the extent to which corrective actions have taken place to resolve previously reported issues.

The Procurement Audit Division shall conduct a follow-up as a regular process until the actions agreed to be taken are resolved.

In the initial planning of a follow-up, the audit team should consider the following questions:

Is the time appropriate for follow-up actions?

Should the audit address the implementation of the recommendations only?

Has the initial problem or issue identified evolved with time?

What is the extent of the risk associated with issues raised in the original report?

The focus should be given to decide the progress achieved in resolving the issues originally identified. Nonetheless, issues may evolve with time, and focus may miss a new concern, as the recommendations may not be fully relevant to new circumstances or the evolution of the issue.

The follow-up process should begin with a request to the public organization for an update on the status of the action taken to implement the recommendations from prior years' audits. The request should include the following questions:

What steps have taken to achieve the desired improvements?

How well are entities progressing in those efforts?

The progress in resolving the issues or the degree of success in fully implementing Audit recommendations should be rated by the audit team. The team should consider using a **Rating Scale** that includes:

### **No progress or insignificant progress**

Generating informal plans is regarded as insignificant progress.

### **Planning stage**

Formal plans for organizational changes have been created and approved by the appropriate level of management, with appropriate resources and a reasonable timetable.

### **Preparation for implementation**

The auditee has begun necessary preparation for implementation.

### **Substantial implementation**

Structure and processes are in place and integrated in some parts of the auditee, and some achieved results have been identified. Moreover, an implementation timetable is in place.

### **Full implementation**

Structures and processes are operating as intended and implemented fully in all intended areas of the auditee.

### **A recommendation is no longer applicable**

The recommendation is obsolete due to time lapses, new policies, etc.

The audit team should provide the auditee's management with the scale to be used. At the end of the follow-up, the audit team should present and discuss the results with auditee representatives and prepare a report.

Results from the follow-up of audit recommendations should be recorded. By tracking the results of the audit follow-ups, the Procurement Audit Division measures the progress of resolving previously reported issues.

Deficiencies and improvements identified in the follow-up of audits should, be reported to the auditee if relevant.

## **V. Possibilities for Re-Audit**

In reviewing the situation for audit follow-up, the audit team may find that the issues have significantly evolved and must be redefined. Furthermore, new issues may also be identified for assessment and reporting. In this situation, a re-audit should be identified based the level of risk immersed in the novel situation.

# ANNEX1: PROCUREMENT RISK ASSESSMENT CHECK LIST

Some broad questions auditors doing procurement audits can ask. This is a good place to start a Procurement Audit. This sets the stage to determine the areas for in-depth audit work and the extent of such work, dependent on the risks assessed.

(See instructions to staff at the foot of this annex)

- Extreme risk - Detailed action/plan required
- High risk - Needs senior management attention
- Moderate risk - Specify management responsibility
- Low risk - Managed by routine procedures

### Consequences

- 5 Severe - Would stop achievement of functional goals / objectives
- 4 Major - Would threaten or functional goals / objectives
- 3 Moderate - Necessitating significant adjustment to overall function
- 2 Minor - Would threaten an element of the function

No.	Questions to ask	Yes	No	If No - X-ref to WP for Reasons	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
<i>See Instructions at the foot of this Checklist</i>						
1	Does the department have a procurement strategy covering the whole process of obtaining goods, services and construction projects from third parties?					
2	Does the procurement strategy make a clear link between procurement goals and the achievement of departmental policy and business objectives?					
3	Is there a formal statement of procurement policies and plans with mechanisms to ensure they are implemented across the whole organization?					
4	Is there a written policy or code of ethics covering procurement and are staffs aware of its content?					

No.	Questions to ask	Yes	No	If No - X-ref to WP for Reasons	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
5	Is there monitoring and periodic reporting on the outcomes of major procurement initiatives at a senior level in the department?					
6	Does the department know its:					
6.1	▪ Main procurement requirements;					
6.2	▪ Key suppliers and their supply chains;					
6.3	▪ The markets from which it purchases and is there evidence that it uses this information to develop its procurement strategy and in its negotiations with suppliers?					
6.4	▪ Does the department examine the extent to which the third parties it funds apply best practice in their procurement? Does it encourage them to do so?					
6.5	<ul style="list-style-type: none"> <li>▪ Does the department have in place mechanisms for working with key suppliers effectively at a senior level?</li> <li>▪ Does the procurement strategy contain an assessment of the: <ul style="list-style-type: none"> <li>– performance of the department’s purchasing unit and the potential to reduce purchasing costs?</li> <li>– scope to adopt innovative approaches to improve procurement while managing risks? And</li> <li>– the extent to which professional procurement staff are involved?</li> </ul> </li> </ul>					
6.6	▪ Does the procurement strategy cover all the spend?					
7	Does the department have sufficient management information to make decisions?					

No.	Questions to ask	Yes	No	If No - X-ref to WP for Reasons	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
8	Has the department considered the benefits of tools and methods such as electronic commerce, procurement cards and framework agreements and is there evidence that it uses these appropriately?					
9	Has the department considered the scope for collaboration with other departments, for example by sharing information or joint purchasing?					

**Instructions to Staff:**

Col 1: The answer 'Yes' indicates that system is strong;

Col 2: The answer 'No' suggests that system is weak;

Col 3: For 'No' answers, please note the reasons why and X-reference to a supporting WP;

Col 4: X-reference to WP regardless whether Recommendations for Improvements will be considered. Explain if 'No'.

Col 5: Each step of the Checklist MUST be initialed and dated by the staff member doing the work.

Reviewed by (SA or Senior Official)

Name & Signature

Date

ANNEX2 –  
INTERNAL CONTROL ASSESSMENT CHECK LIST

*Checklist for Evaluating the Internal Control Systems: after analyzing the risks (Annex 1), this is the next step to determine the extent of in-depth audit work to be done.*

## SEE INSTRUCTIONS AT THE FOOT OF THIS IC CHECKLIST

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
<b>1</b>	<b>Procurement Planning</b>					
	a. Approved Procurement Plan is available					
	b. There are details of the requirements for procurement as the basis for budget proposal					
	c. There is a Procurement Time Schedule (PTS) for each package					
	d. Using open competitive bidding method – if not state method					
	e. There is a financial provision for the Procurement (i.e. budget) is available in National / Entity Budget;					
<b>2</b>	<b>Establishment of the Procurement Planning Committee (PPC), Procurement Committees (PC) and Technical Evaluation Committees (TEC)</b>					
	a. There is Decree for the Procurement Committees (PPL, PC and TEC)					
	b. All Committee and department senior staff (CAO and AO) have certificates for participation in procurement education and training (international better practice not followed in SL)					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	c. All Committee and CAO and AO have passed the national examination on public procurement on Works, Goods and Services (Inclusive of Consulting Services) ( <i>international better practice not followed in SL</i> );					
3	Cost Estimate					
	a. PE Cost Estimate is in place;					
	b. PE Estimate is prepared by the experts as required and approved by CAO or AO, finally approved by PC;					
	c. There is no addition on cost items after PC approval;					
	d. Check price Sources / references in preparing PE for validity;					
	e. Total PE Estimate value for all procurements; ( <i>international better practice, but in SL except for goods and services and consulting services</i> ) is publicly known.					
4	Preparation of Bidding Documents					
	a. Bidding document is in place under different categories of procurement and different procurement methods;					
	b. In the Bidding document brands are not stated in respect of Goods;					
	c. If brand names not avoidable” ”or equivalent” is added;					
	d. Technical specification is not directed towards certain products or groups;					
	e. There is no unnecessary criteria / addition to the evaluation criteria.					
5	Invitation for Bid (IFB) / Request for Quotations (RFQ) announcement					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	a. There is evidence of the posting of the Bid notice /RFQ announcement/Invitation ;					
	b. Invitation /Announcement material is clear					
	c. The time Period starting from the announcement/Invitation is sufficient as per the provisions of the GPG 2006					
	d. RFQ is sent according to Registered Suppliers/ using Rainbow Pages with rational basis as per the DOFP Circular instructions					
6	Pre-Qualifications of Goods/Works and Service providers					
	a. Pre- Qualification documents are in place;					
	b. Pre-Qualification documents from applicants are validated by the related committees/institution;					
	c. Minutes on qualification evaluation result are available.					
	d. Pre-qualification evaluation is correct					
7	Issue and Collection of Bidding documents					
	a. Same Bidding documents are submitted to all participants (i.e. the documents do not differentiate amongst participants)					
	b. Period of time for document collection is sufficient					
	c. There is no indication or evidence illegal levy for document submission					
	d. Location for document collection is easy to reach					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	e. Documents are access to all people as per the GPG or any restrictions are in place					
8	Pre-bid meeting					
	a. Pre-bid meeting is scheduled whenever deemed necessary 10 days before the bid closing;					
	b. There are minutes of the Pre-bid meeting					
	c. Participants in the Pre-bid meeting represent all participants who purchased bidding documents;					
	d. Total value of PE Estimate is advised in bid request					
	e. All addenda are issued to bidders.					
	f. Relevant Experts are participating pre-bid meeting to response to the questions/clarifications raised by bidders					
9	Submission and Closing of Bids					
	a. There is no change of location for submission of bidding documents					
	b. No participant is late in submitting the bidding document - adequate evidence available for late bids					
	c. Bid Opening Committee (BOC) is properly appointed					
	d. There is evidence that all bidders submitted Bidding documents					
	e. Bid is officially closed before opening					
10	Opening of Bids					
	a. All members of BOC have participated for opening					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	b. Bid Covers (envelopes) are opened in sequential order (withdrawal; modification and original);					
	c. Put the date stamps and initials on all relevant documents by the BOC;					
	d. All required information is read out and recorded (name, bid amount, bid security information, and signature of bidder, bid discount)					
	e. BOC has taken precautions to cover the rates and sub totals using transparent cello tape to avoid any alterations after opening;					
	f. Bidders signatures are obtained on the Bid Opening Minute as a proxy;					
	g. Bids are sealed after closing.					
11	Bid Evaluation					
	a. Evaluation Committee (TEC and PC) members have actually participated;					
	b. Bid Examination is correctly done and identified non-responsive bids with reasons;					
	c. Is there any dissenting comments by Committee members;					
	d. Bidding evaluation minutes are in place;					
	e. Examination on the validity of bidding documents used/submitted;					
	f. Procurement committee has agreed with the recommendations of TEC;					
	g. Alternative actions taken if there is a disagreement between PC and TEC;					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	h. Alternative actions taken by the authority (PE) if TEC, PC recommendations are undesirable before approval of contract award determinations/recommendations					
12	Publication of Contract Award Determination					
	a. Announcement to the successful Bidder using an -Intention to contract award - is issued to all bidders as per the provisions of GPG (Government Procurement Guidelines ) in respect of CAPC and MPC Procurements					
	b. When aggrieved bidders seeking reason for rejection, the reason for rejection of such bidders are given and CAO's view has been promptly disseminated to the Procurement Appeal Board (PAB) for high value procurements as per GPG					
	c. Announcement is made widely to the public as per the provisions of GPG					
	d. Announcement is immediately made after appeal period is over in respect of High value procurement and for other procurement soon after the approval is given for the contract award determination is made					
13	Complaints of Bidders /Participants					
	a. There is sufficient time (provided by GPG) given in the bidding documents for complaints;					
	b. Ample record maintained of any complaints from received from participants					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	c. Evident are there to ensure that all complaints received have been recorded and timely responded.					
14.	Contract Awards					
	a. Award letter/Purchase Order for Works/goods/services procurement is available					
	b. Award letter/Purchase Order are issued immediately after the complaint period is over in accordance with the provisions of GPG.					
15	Contract Signing					
	a. Sample Contract Agreement is in place for different types of contracts;					
	b. There are no suspicious articles in the contract;					
	c. Performance bond/security with adequate value and validity period is in place;					
	d. Contract signing is according to the original schedule					
	e. Appropriate authority has signed the contract on behalf of the Employer/Client/Purchase					
16	Implementation of Contracts / submission of Goods/Services and Implementation of Works					
	a. Any intutional arrangements for accepting the Goods and Services; and actions have been taken if any quantity differences					
	b. Quantity/volume of works/goods submitted are in accordance with the contract; and actions have been taken if any quantity differences					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	c. Clear evidence for the Quality of works performed are in accordance with the provisions in the technical specification/contract;					
	d. There is no delay in goods/services submission and Justification of EOT given is evident with proper authority					
	e. There is no volume change order (Contract Change Order); where there are changes, there is appropriate documentation on file;					
	f. After sales guarantee is in place					
	g. Minutes of physical / field examination are in place.					
17	Payment and Reporting					
	a. Payment is according to physical progress;					
	b. Tax obligations deducted are remitted to proper authorities					
	c. Delay in payment, including advance payment evident beyond the period given in the bid documents/contract agreement					
	d. The PE maintains a Contract Administration Plan (CAP) to monitor all awarded contracts are properly and timely implements and contractors/Suppliers are properly compensated					
	e. Proper information flow is evident to Finance Department/Division to ensure for realistic cash outflows projections pertaining to the implementation of procurements in line with the CAP					
	f. Any interest payment made due payment delays					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	g. All payments made within the allocated financial provisions					
18	Custody and Utilization					
	a. Goods/services submission is carried out in the right location;					
	b. All procured services are being used – note if not being used or needed					
	c. Any evident for idle capacity/space or services					
	d. All goods are taken into Master Inventory and sectional Inventories with clear evident					

**Instructions to Staff:**

Col 1: The answer ‘Yes’ indicates that IC is strong;

Col 2: The answer ‘No’ suggests that IC is weak;

Col 3: For ‘No’ answers, please note the reasons why and X-reference to a supporting WP;

Col 4: X-reference to WP regardless whether Recommendations for Improvements will be considered. Explain if ‘No’.

Col 5: Each step of the Checklist MUST be initialed and dated by the staff member doing the work.

Reviewed by (SA or Senior Official)

Name & Signature      Date

**ANNEX 3 - PROCUREMENT PROCESS CHECK LIST**

## Audit Program on Public Procurement Process

No.	Audit Framework	Audit Purpose
A	<b>Audit Preparation</b>	Explaining the objectives and goals of audit and to obtain general information
<b>B</b>	<b>Audit Implementation</b>	
1	Testing Internal Control System of Procurement Process (See Annex 2 for more details)	Assessing the internal control system through testing the risks of procurement implementation based on applicable regulations
2	Procurement Planning Check a. Procurement Planning b. Bid Opening c. Bid Evaluation d. Post Qualification e. Pre-qualification	Assessing if procurement planning is according to the requirements and in line with the approved Action Plan
3.	Compliance Check of the Implementation of Procurement Procedure with the provisions of applicable laws and regulations	Assuring that procurement procedures have been implemented according to the applicable regulations
4	Price Reasonableness Check of Procurement Contract	Assuring that contract price has met the requirements of most advantageous to the country and can be accounted for, and the applicable taxes relating to the procurement have been levied and transferred according to the tax code
5	Quantity Accuracy Check of Procurement	Assuring that the realization of quantity of goods is in accordance with what is stipulated in the contract and payment is effected according to realization
6	Quality Accuracy Check of Procurement	Assuring that the implemented quality of procurement is up to the standard in the Contract
7	Timeliness Check of Procurement	Assuring that implementation of procurement is according to or does not exceed time period set forth in the contract and any addendum
8	Utilization Check of Procurement	Assuring that the G/S procurement result is used as intended
9	Identification of possible Corruption	Identifying any indication of possible corruption in the acquisition / implementation of G/S procurement
C	Audit Completion	To communicate audit findings to the responsible officials on the audited G/S procurement

## Detailed Audit Steps

### A. Audit Preparation

No.	Stages of Procurement	Yes	No	Reasons for No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Objective :</b></p> <ul style="list-style-type: none"> <li>Explain the purpose and target of the audit as well as obtaining general information and documents related to the audited procurement</li> </ul> <p><b>Steps :</b></p> <p><b>A</b> Have a preliminary discussion with the auditee to explain the objectives and goals of procurement audit;</p> <p><b>B</b> Obtain documents related to the procurement activities, among others :</p>					
	i. The relevant documents such as Guidelines, Manuals, supplements, circulars, etc. applicable to the Auditee.					
	ii. Organizational structure and description of duties of users and Procurement Committees, (Technical Evaluation Committees and Bid Opening Committees )					
	iii. Procurement thresholds of authority of individual officers and committees in terms of the Delegation of Financial Authority					
	iv. Budget documents including initial budget and supplementary Budget for procurement under review					
	v. Cost estimate of procurements, BOQs, revisions of estimates together with approvals					
	vi. Specifications, drawings, plan etc.					

No.	Stages of Procurement	Yes	No	Reasons for No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>vii. Basis for Procurement requirements such as feasibility study, request from different divisions, authorities</p> <p>viii. Procurement Planning document including Mater Procurement Plan, packaging summaries etc.</p>					
	<p>ix. Procurement Time Scheduling (PTS) of each package and Detailed Procurement Plan (DPP) of all packages of the PE</p>					
	<p>x. Issued Bidding Documents, RFP and Request for Quotation (RFQ) along with Addenda based on the sample selected for review</p>					
	<p>xi. Procurement Implementation document – Contract Administration (CAP) and the Cash Flow Statement or similar documents</p>					
	<p>xii. Bid Opening Minute and Evaluation Reports of TEC and Procurement Committee</p>					
	<p>xiii. Documents relating complaints, observations and debriefing</p>					
	<p>xiv. Documents relating to the approval of contract award recommendations for the sample selected for review</p>					
	<p>xv. Procurement Contract Agreements and Purchase Orders where no contract agreement signed</p>					

No.	Stages of Procurement	Yes	No	Reasons for No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	xvi. Goods acceptance reports and Quality Control/Assurance documents					
	xvii. Inventory Record pertaining to Goods procurement and related GRN					
	xviii. Contract files pertaining to works contract such as payment certificates, quality control and assurance certificates, EOT, change Orders, calculation of price escalations, handing over and taking over documents, site meetings, monitoring reports and COC (completion of certificates or substantially completion certificates ) etc.					
	xix. Payment and supporting documents					
C	Carrying out a Preliminary Examination of information / data obtained					
D	<b>Summary of Preparation Result</b>					

## B. Audit Implementation

### 1. Testing the Internal Audit System

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Objective :</b></p> <p>Evaluating the condition of the internal control system in the procurement process to establish / identify the need for further in-depth testing.</p> <p><b>Steps :</b></p> <ul style="list-style-type: none"><li>▪ Preparing questionnaire/ check list to carry out testing of the procurement (use standard questionnaire/ Internal Control Check List (Annex .....)) and make amendments as necessary. For steps not carried out – note reasons for that decision)</li><li>▪ Distributing questionnaires to the officer/s in charge of Procurement and Head of procurement</li><li>▪ Assessing the response to the questionnaires/ check list and making a summary of the internal control examination/assessment result</li><li>▪ Identify where weaknesses appear</li></ul>					

## 2. Procurement Planning Check

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Objective :</b></p> <p><b>Procurement Guidelines on Procurement Entity (PE) / Unit of PE</b></p> <ul style="list-style-type: none"> <li>To assess whether the PE promptly follow the Procurement Guidelines, other related provisions and regulations at the Procurement Planning Stage.</li> </ul> <p><b>Steps :</b></p> <p>A. Check for the following: whether or not :It has implemented the principles of economy, efficiency, effectiveness, openness and competitiveness, fairness / non-discrimination and accountability. The following points would be helpful to the auditor;</p> <p>B. If any, examine and scrutinize the procurement guidelines applicable to the Organization, and determine whether the guidelines have been followed relating to procurement planning</p>					
	i. <i>In order to achieve <b>Economy</b> of procurement, PE has determined the appropriate quality level of procurement</i>					
	ii. <i>PE has taken steps to minimize purchasing and maximizing the utilization of existing assets than purchasing new assets</i>					
	iii. <i>More purchases are evident at the end of financial year just to exhaust the financial provisions to avoid being lapsed</i>					
	iv. <i>Procurement estimates are prepared through regular market surveys and compared with accepted national standards wherever applicable before estimating.</i>					
	v. <i>Procurement has been made by considering the lowest evaluated cost</i>					
	vi. <i>Time <b>efficiency</b> is considered by the PE in the entire procurement process with agreed PTS (Procurement Time Schedules)</i>					
	vii. <i>Efficiency Ratio of outputs generated using inputs</i>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	viii. <i>The envisaged final outcomes and impacts (Effectiveness) of procurement are considered at the planning stage and measurement of effectiveness indicators being used</i>					
	ix. <i>Whether Public Procurement Principles are adhered at the Planning Stage such as Openness, competitiveness and fairness etc. could be assessed and ensured by referring to the source selection (procurement methods) , bidding document inclusive of Evaluation criteria.</i>  x. <i>Flexibility and <b>accountability</b> is evident from the procurement system of the PE (Proper delegation of Financial Authority by the CAO/AO and clear list of duties are issued to respective officers on the responsibility and accountability of different procurement actions etc.</i>					
	xi. Consideration has been given to Government procurement policy objectives in the following areas:  • <i>Utilization of domestic production, with the goal to expand employment opportunities and use of local materials.</i>					
	• <i>To enhance the participation of small businesses / small cooperatives.</i>					
	• <i>To simplify the provisions &amp; procedures to speed up decision making process of procurement.</i>					
	• <i>Decentralization of procurement process is evident to provincial, departmental, local and regional levels as much as possible to ensure efficient decision making and also reduce regional disparity – Ex. direct works contracts to CBO.</i>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>Provisions are provided for domestic preference whenever applicable</li> </ul>					
	<ul style="list-style-type: none"> <li>Increase state income from tax sector</li> </ul>					
	<ul style="list-style-type: none"> <li>Increase professionalism, independence and accountability from the users of, committee / procurement officials and providers</li> </ul>					
	<ul style="list-style-type: none"> <li>Increase the participation local / national providers without affecting or compromising the quality and price of the proposed procurement.</li> </ul>					
	<ul style="list-style-type: none"> <li>The announcement of advance procurement notice has been made openly to public at large.</li> </ul>					
<b>Conclusion of the Audit Results</b>						
<b>1. Procurement Needs Assessment:</b>						
	<p><b>Objectives :</b> Ascertaining that procurement is carried out based on <b>Needs</b> dependent also on quantity, quality and time period requirements.</p> <p><b>Steps :</b></p> <p>A. Procurement Requirement Determination:</p> <ul style="list-style-type: none"> <li>The first step in the public procurement process is to identify requirements</li> <li>All procurement requirements should begin with the perception of a <b>Need</b>.</li> <li>At planning stage it is necessary to clearly define the need.</li> </ul> <p>B. To achieve the objective the following aspects should be examined</p>					
	<p>i. The conformation of the study team of the PE should be multidisciplinary in order to address the different questions to be answered to facilitate a comprehensive understanding of the <b>Need</b> so as to clearly define the actual requirement.</p>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>ii. Whether <b>Market Study</b> is done for Procurement</p> <p><i>(A market study also known as market analysis, market assessment, market sounding, market research, etc. is useful when defining requirements; preparing budgets; choosing procurement method; planning and scheduling the procurement of goods, services and works; evaluation of bids/proposal, and sometimes to justify contract amendments. The extent of a market study is dependent on and determined by the degree of complexity and monetary value of the requirement.</i></p> <p><i>A market study can be done using the internet and/or by soliciting information from potential suppliers, consultants or service providers. It can be done in-house, or by hiring a specialized firm to carry-out the study.)</i></p> <p><i>The minimum expected results of a market study are: the identification, interest and availability of suppliers, contractor or services providers, their technical capability and financial capacity, and price trends.</i></p> <p><i>It is very useful to develop a template for recording and filing the results of a market study, and for future use when procuring similar goods, services or works from similar market)</i></p>					
<b>2</b>	<b>Public Procurement Planning</b>					
	<p>i. Procurement Plan has listed all the requirement of the PE.</p> <p><i>(The procurement plan is expected to list all the requirements that are under the responsibility of a particular Procurement Entity (PE) and that are expected to be procured over a period of time usually one year, but could be longer when dealing with project procurement).</i></p>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	ii. Procurement Plan has listed procurement above Rs. ....threshold.  <i>(There are instances where some items that are below a certain monetary threshold are not listed on the procurement plan; however, effort should be made to have everything that a particular procurement entity is responsible for procuring listed on the procurement plan of that procurement entity)</i>					
	ii. The Procurement Plan has updated regularly  <i>(The procurement plan should also be update at least every six (06) months or more if required, but constant updating should be avoided. The fact that the procurement plan needs updating is an indication that it is not expected to be a static document. This, however, should not lessen the importance of procurement planning as the primary tool used for triggering procurement actions. This means that all procurement actions taken by a particular procurement entity should be guided by an approved Procurement Plan)</i>					
<b>3</b>	<b>Procurement Strategy Development</b>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>i. Procurement Strategy Development has undertaken by the PE before procurement Planning.</p> <p><i>(It's difficult to talk about procurement planning without mentioning procurement strategy, because procurement strategy is developed in conjunction with and during the procurement planning phase and is a key factor in determining the most appropriate procurement method given the complexity and monetary value of the requirement, and market availability.</i></p> <p><i>While procurement planning deals with "when", procurement strategy looks "what", "how", "where" and "why"; which need to be decided before the "when". So that following questions to be raised: What to buy? Why buy it? how to buy it? What purpose does it serve? What's the objective of the purchase? How much does it cost? Where can it be sources? How many sources are available? What's the risk? What's the benefit?)</i></p>					
	<p>ii. Is the expected contract award date realistic given the procurement method?</p> <p><i>(But even after a preliminary procurement plan is developed, there are still further strategic questions that need to be answered, such as:</i></p> <p><i>Does the procurement process need expediting?</i></p> <p><i>Are there opportunities for packaging requirements in order to purchase in bulk?</i></p> <p><i>What are the monetary or strategic advantages/disadvantages of grouping requirements?</i></p> <p><i>Are there any dependent requirements?</i></p> <p><i>The above list of questions is not exhaustive)</i></p>					
4	<p><b>Procurement Packaging</b></p> <p>i. Procurement Packaging has done correctly?</p>					

<p><i>(Knowledge of the scheduling of procurement requirements and of the timeline of each key milestone in the evaluation and selection process (duration of the evaluation process, approval requirements, contract negotiations, etc.) is crucial to effectively package procurement requirements. The following questions to be raised:</i></p> <p><i>What is procurement packaging?</i></p> <p><i>There are two principal forms of procurement packaging:</i></p> <p><i>the grouping (or bulking) of procurement requirements within a procurement category for the purpose of acquiring them under a single contract, and the division of one requirement into multiple lots (Slicing), where bidders can submit bids for one, several or all lots (as would be stipulated in the solicitation documents), and where a contract could be awarded for each lot. On the one hand only one contract is awarded; on the other several contracts may be awarded.</i></p> <p><i>Another form of packaging is done by grouping several procurement categories when this is considered most practical. For example Goods and Works together</i></p> <p><i>An example of such packaging is when there is a requirement for acquiring a particular type of equipment, and where there may also be a requirement for the installation of the equipment, and sometimes training on the use of the equipment once installed.</i></p> <p><i>In such cases, it may be most practical to call for bids for the supply, installation and training on the operation and use of the equipment.</i></p> <p><i>Although this may seem the most logical arrangement, the equipment, its installation and training could also be procured from three different sources under three different contracts.</i></p> <p><i>When to consider procurement packaging?</i></p> <p><i>The packaging of procurement requirements should be considered during the requirements determination and procurement planning phases, so that the decision is taken into account during procurement scheduling.</i></p> <p><i>What needs to be considered when deciding on packaging procurements?</i></p>				
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No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><i>The following needs to be taken into account when considering procurement packaging:</i></p> <ul style="list-style-type: none"> <li>○ <i>If the group of requirements are needed (or can be received) simultaneously, or are there different delivery dates between requirements. Unless the selected supplier can deliver at different intervals, receiving all the goods at one time could result in a potential logistical problem; therefore, under these circumstances it may be preferable not to package the various requirements.</i></li> <li>○ <i>The likelihood of local suppliers being able to fulfill the requirement and if the packaging would limit their participation.</i></li> <li>○ <i>The availability of several suppliers that can provide a combination of procurement categories as may be required in the case of supply, installation and training.</i></li> <li>● <i>iv) If the procurement unit lacks the capacity to coordinate several suppliers this may create a preference for packaging to reduce the number of suppliers that the procurement unit would have to coordinate.</i></li> </ul>					
	<p>ii. <b>Avoided Procurement Packaging whenever deemed necessary?</b></p> <p><i>(Procurement packaging should be avoided:</i></p> <ul style="list-style-type: none"> <li>● <i>When the failure of one supplier could have a negative impact on the outcome of a project, given the interdependence of requirements under a project.</i></li> <li>● <i>When it may limit competition or the participation of suppliers in the procurement process.</i></li> <li>● <i>When packaging a requirement into several lots may increase the need for supervision beyond the capacity of the unit responsible for contract administration.</i></li> <li>● <i>When there is no economic or efficiency gains to be derived from the packaging)</i></li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>iii. Whether Proposed Procurement Plan (PPP) is available in the PE?</p> <p><i>(Auditor examines the Proposed Procurement Plan(PPP) and check whether</i></p> <ul style="list-style-type: none"> <li>• <i>PPP has been prepared by the PE in line with the approved Annual Work Plan.</i></li> <li>• <i>Procurement Plan has been prepared by considering the strategic directions and objectives of the organization</i></li> <li>• <i>top management has involved in the process</i></li> <li>• <i>proper priority of the PE has been identified before finalizing the Proposed Procurements and also check the followings</i></li> <li>• <i>Annual Proposed Procurement Plan (PPP) for the financial year has been approved by the appropriate authority)</i></li> </ul>					
	<p>iv. Have Procurement Time Schedules (PTS) been prepared?</p> <p><i>(Procurement Time Schedule (PTS) should be prepared for each and every contract package based on the requirement given above and the provisions of the GPG)</i></p>					
	<p>v. Has Detailed Procurement Plan (DPP)prepared covering all packages approved?</p> <p><i>(Detailed Procurement Plan (DPP) for the financial year should be prepared after approving packages of the PPP. DPP is to monitor and ensure each and every activity of procurement package being implemented as planed)</i></p>					
	<p>vi. Is approved Procurement Plan is continuously updated as per the provision in the Government Procurement Guidelines (GPG)?</p> <p><i>(Procurement Plan should be updated at least every six month as per the provisions of the GPG)</i></p>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>vii. Is PE prepares a Procurement Preparatory plan?</p> <p><i>(Procurement Preparatory Plan is required to ensure that all Procurement preparatory activities have been correctly identified, completed and duly assigned to respective officers before the beginning of the financial year to ensure bid notice could be published soon after the budget is passed by the authority)</i></p>					
	<p>viii. Has PE deviated from the approved procurement plan?</p> <p><i>(To deviate from the approved Procurement Plan, proper approval should be obtained from the appropriate authority before the procurement action is taken in respect of each and every such deviations)</i></p>					
	<p>ix. Have Advanced Procurement Notices are been published?</p> <p><i>(Advanced Procurement Notices should be published in case of high value procurements as per the provisions of the GPG 2006)</i></p>					
	<p>x. Has Master Mater Procurement Plan (MPP) been prepared?</p> <p><i>(MPP should be prepared for at least three (03) Years as per the GPG)</i></p>					
	<p>xi. What is the planed procurement against the total procurement expenditure?</p> <p><i>(Check the percentage of total procurement expenditure of the PE and the percentage of Procurement Planned)</i></p>					
	<p>xii. All similar procurements are packaged or sliced?</p> <p><i>(All similar procurements should be packaged and sliced as outlined above properly based on the market situation/requirements)</i></p>					
	<p>xiii. Any splitting of procurement noticed?</p> <p><i>(Check and ensure that no splitting of procurement is exercised by the PE)</i></p>					

	<p>xiv. Appropriate Procurement Methods are selected in accordance with the provisions of GPG?</p> <p><i>(Deciding Procurement Method -</i></p> <ul style="list-style-type: none"> <li>• <i>During the requirement identification stage, the entity with the need determines when they want the goods delivered, services rendered or construction works completed. It is important to consult with the procuring entity at this early stage in order to determine the most appropriate procurement method for their specific need.</i></li> <li>• <i>The procurement method should be determined at this early stage because of the impact it has on the procurement lead-time, and also to ensure that the responsible entity is able to set realistic time frames and expectations for contract award in the initial stages of development and definition of their procurement requirement</i></li> <li>• <i>The selection of procurement methods will depend on many factors such as; the value, complexity, availability of local suppliers or contractors, urgency and the financial thresholds given in the GPG and the donor procurement guidelines</i></li> <li>• <i>Procurement methods are the procedures used by the procuring entity to acquire goods, services and works. These methods can be competitive and non -competitive.</i></li> <li>• <i>There's a preference always encourage PE for using competitive methods of procurement given that they tend to promote transparency, economy and efficiency, and limit favoritism.</i></li> <li>• <i>Procurement methods are given in the procurement plan for each contract package)</i></li> <li>• <i>Types of procurement methods</i></li> <li>• <i>Procurement methods are many, and they go by different names depending on the procurement category. Most, with few exceptions, generally fall into the following types as defined in the UNCITRAL Model Law on Public Procurement (International</i></li> </ul>				
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No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><i>Best Practice) and also GPG with slightly different names.</i></p> <ul style="list-style-type: none"> <li>• <i>These are: Open Tendering, Restricted Tendering, Request for Proposals, Two-stage Tendering, Request for Quotations, and Single-source Procurement.</i></li> <li>• <i>As per the GPG there are seven (07) methods such as ICB, LIB, NCB, LNB, Shopping, Force Account and Direct</i></li> <li>• <i>Check what is the Methods Applied by the PE?</i></li> </ul> <p style="margin-left: 40px;"><i>Methods with full Competition such as NCB, ICB</i></p> <p style="margin-left: 40px;"><i>Methods without Competition Single Source, Direct Contracting &amp; Repeat Order</i></p> <p style="margin-left: 40px;"><i>Methods with Restricted Competition Such as Shopping, LNB, LIB, PQ.</i></p>					
	<p>xv. What Bidding Procedure followed by PE and is it justifiable?</p> <p><i>(Check the Bidding Procedure adopted by the PE such as Single Stage, - Single Envelop or Two Envelop, 2 Stage, Single or Two Envelop Bidding and justification of the selected procedure)</i></p>					
	<p>xvi. Is Procurement Requisition Processing adequate?</p> <p><i>(Once the procurement plan is prepared and approved, the requesting entities/divisions/officers should begin submitting their requirements accordingly to the procuring entity for processing.</i></p> <p><i>When a procurement requisition is submitted, the first step in processing the request for procurement action is to determine exactly what is required)</i></p>					

5	<p><b>Is Technical Specification Correct?</b></p> <p><i>(Although a general idea would already exist as a result of the requirements determination and procurement planning phases, it is at this point that the completed technical specifications or terms of reference should be sent to the PE to start the procurement requisition process and check whether:</i></p> <ol style="list-style-type: none"> <li><i>i. The PE in turn reviews the technical specification or terms of reference for completion.</i></li> <li><i>ii. sufficient details in the description of the requirement available to ensure that all prospective bidders or service providers have essentially the same understanding of the requirement.</i></li> <li><i>iii. If the specifications are clear, and prepared in accordance with procurement procedures, the solicitation process can begin; if not, the PE must seek clarification in order to finalize the solicitation documents accordingly.</i></li> <li><i>iv. The proper description of the procurement requirement is essential to beginning the procurement process. If done correctly, it avoids disappointments and waste of resources resulting from purchasing goods and services that fail to fulfill the purpose intended because of improperly prepared technical specifications or terms of reference.</i></li> <li><i>v. Completing the technical specifications and terms of reference later than scheduled will have an adverse impact on the execution of the procurement plan and the award of the contract, which in turn will cause delays in acquiring the goods and services.</i> <ul style="list-style-type: none"> <li><i>• phase, because if the expertise for preparing the technical specification or terms of reference must be hired, this in itself creates a procurement requirement that needs to be considered in the procurement planning process.</i></li> <li><i>• This, consequently, will also require its own technical specifications or terms of reference completed and contract</i></li> </ul> </li> </ol>				
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	<p><i>awarded far enough in advance for the hired individual to prepare the technical specifications or terms of reference in time for the solicitation documents of the requirement in question to be prepared and the procurement process initiated as forecasted on the procurement plan.</i></p> <ul style="list-style-type: none"> <li>• <i>Independent of the technical expertise existing in-house, when technical specifications or terms of reference are unclear or lacking in other important elements, the procuring entity must seek clarification in an effort to resolve any apparent discrepancies before completing the solicitation documents.</i></li> <li>• <i>Ideally, the requesting entity/division should maintain an open dialogue with the PE while preparing their technical specifications and terms of reference. Sharing informal versions and getting feedback from the PE up until the final version is ready for formal submission. Doing this helps prevent rejection of the technical specifications or terms of reference for additional information, risking delaying the procurement process due to late submission of this most important document, without which the procurement process cannot begin.</i></li> <li>• <i>When the PE receives the technical specifications or terms of reference in a manner suitable for requesting offers, and with the proper fiscal authorization to commit the allocated funds, the procuring entity can begin preparing the solicitation documents)</i></li> </ul>					

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	<p>vi. <i>It is important for the procuring entity, incoordination with the requesting entity, to determine in advance if technical expertise will be required to draft the technical specifications or terms of reference and if this expertise exists in-house or will also have to be procured.</i></p> <p>vii. <i>Goods specifications guarantee that goods obtained will be according to the desired quality, for example after sales guarantee / service, manufacturer authorization maintenance capacity (location distribution- availability of major spare parts), sales volume etc.</i></p> <p><i>This exercise needs to be undertaken during the requirement determination</i></p>					
6.	<b>Supporting Documents</b>					
	Obtain all supporting documents for procurement under concern such as feasibility study, engineering plans, BOQ, Cost estimates and survey results and similar type of documents supporting the procurement. Review the feasibility study to find out the objective of the procurement and for requirements relating to quantity, quality as well as time it is needed.					
	<b>a. Cost Estimates</b>					
	i. whether each contract has been properly estimated and the provisions of the Financial Regulation and other rules relating , the cost estimate of procurement have been adhered					
	ii. Whether cost estimates are prepared following accepted standards such as BSR (Building Schedule Rates), HSR (High way Schedule Rates) and ISR (Irrigation Schedule Rates) etc.					
	iii. Whether the procurement has been carried out at reasonable prices beneficial to the government.					

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	iv. Authenticity and accuracy of the estimated cost.					
	v. cost of material and wages do not exceed standard or price effective during the period					
	vi. When there is a significant gap between the date of preparation of cost estimates and the date of Bid Notice published, whether estimates are being revised					
	vii. Application of uniform wages rates in preparation of estimate without considering the rate of concerned districts.					
	ix. Any duplication of overhead and profit margin in estimation.					
	x. Inclusion of Engineer's facilities such as vehicles, computer, Furniture etc. in Bill of Quantities (BOQ) in case of Works Contracts.					
	xi. Any other benchmarks/ standards/ market survey has been followed to prepare the cost estimates.					

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7.	<b>Solicitation Documents - Preparation and Publication</b>					
	<ul style="list-style-type: none"> <li>• Upon receipt of an Approved Procurement Requisition, and after reviewing the technical specifications and other related documents or terms of reference for completeness, the procuring entity is in a position to begin preparing the solicitation documents;</li> <li>• Otherwise, the PE needs to establish contact with the requesting entity/division in order to get any missing information to complete the technical specifications or terms of reference before they can begin preparing the solicitation documents.</li> <li>• Solicitation documents are prepared from a template called Standard Bidding Documents (SBDs) or Tender Documents, and information specific to the particular requirement, such as observe below is used to complete the solicitation documents;</li> <li>• Assuming that the requirement is on the procurement plan, pertinent information needs to be obtained and agreed with the requesting entity prior to completing the solicitation documents.</li> <li>• When completing solicitation documents, it's important to check whether: <ul style="list-style-type: none"> <li>• Have clear technical specifications or terms of reference</li> </ul> </li> </ul>					
	<ul style="list-style-type: none"> <li>• Decide on the need for pre-bid or pre-proposal conference and/or site visit</li> </ul>					
	<ul style="list-style-type: none"> <li>• Determine if the requirement is for international or local competitive bidding</li> </ul>					
	<ul style="list-style-type: none"> <li>• Determine due date for request for clarifications on the solicitation documents</li> </ul>					
	<ul style="list-style-type: none"> <li>• Decide on the deadline for submission of bids or proposals</li> </ul>					

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	<ul style="list-style-type: none"> <li>Obtain the name, address, phone number and email address of the client's authorized point of contact for information on the requirement</li> </ul>					
	<ul style="list-style-type: none"> <li>Determine bid/proposal validity period</li> </ul>					
	<ul style="list-style-type: none"> <li>Determine need for bid security and/or performance security</li> </ul>					
	<ul style="list-style-type: none"> <li>Determine bid/proposal evaluation criteria</li> </ul>					
	<ul style="list-style-type: none"> <li>Identify and select evaluation panel members and observers</li> </ul>					
	<ul style="list-style-type: none"> <li>Determine bid/proposal opening date</li> </ul>					
	<ul style="list-style-type: none"> <li>Once the solicitation documents are complete and approved, a procurement notice is prepared and posted to approved websites and internet portals, and also published in local and (if necessary) international newspapers.</li> </ul>					
	<ul style="list-style-type: none"> <li>Scrutinize the Bidding Documents to find out the following aspects; quantity, quality and time completion requirements to ensure they align with the user / feasibility request</li> </ul>					
	<ul style="list-style-type: none"> <li>whether standard bidding documents are used or customized documents used</li> </ul>					
	<ul style="list-style-type: none"> <li>In case of customized bidding documents, approval has been obtained from the Procurement Committee and in other cases TEC approval has been obtained</li> </ul>					
	<ul style="list-style-type: none"> <li>Make sure that a proper evaluation method ( Lowest cost, price plus other factors, life cycle costing or merit point system (not desirable other than pre-qualification) is used in the procurement based on the nature, value and complexity of procurement</li> </ul>					
	<ul style="list-style-type: none"> <li>Check whether proper Evaluation and Qualification Criteria are included based on the nature of procurement so check;</li> </ul>					

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	<ul style="list-style-type: none"> <li>For procurement with post-qualification, the post-qualification criteria has included in the bidding document.</li> </ul>					
	<ul style="list-style-type: none"> <li>Review to ensure that administrative requirements do not limit potential contractors from participating in bidding</li> </ul>					
	<ul style="list-style-type: none"> <li>Instruction to the Bidders (ITB) of the procurement process (for example general information, content of the Bidding document so that check whether ITB entail all information required for bidders to submit bid and PE to evaluate Bid <i>(such as eligibility qualification, procedure for clarifications, language requirements, method of submission, no of copies, and marking of bidding envelope and date, time, place of bid submission, bidding opening procedure, modifications and withdrawals, correction of arithmetic errors and qualification assessment, domestic preference, pricing and currency of bid, bid validity, etc. and Bid evaluation and qualification criteria)</i></li> </ul>					
	<ul style="list-style-type: none"> <li>Whether conditions of contract included in Bidding document the rights and obligations of both parties correctly and appropriately; <i>(such as General Conditions/ Conditions of Contract and Special Conditions such as performance security, insurance, quality control, inspection, procedure for delivery and INCOTERMS, procedure for measurements and alterations, payment including advance payment, mode and form of settling disputes, price adjustment, performance securities, Procedure for damages, penalties for delay, Procedure for termination, applicable law and Force Majure etc.)</i></li> </ul>					

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	<ul style="list-style-type: none"> <li>Whether under special conditions specifically indicate price variations for contracts where the implementation period if more than 3 months in case of local funded and more than 18 months in respect of foreign funded procurements (need , clear rules on price adjustments may be stipulated together with a clarification of the formula to be used)</li> </ul>					
	<ul style="list-style-type: none"> <li>List of quantity, delivery period including local components, Technical specification and drawings (ensuring there is no direction to a particular / preferred brand), BOQ, designs.</li> </ul>					
	<ul style="list-style-type: none"> <li>Contract Form should contain Contract Agreement and Performance security Form of Bid.</li> </ul>					
	<ul style="list-style-type: none"> <li>Bidding Forms should contain bid bond, advance bond, retention bond, delivery schedule, payment schedule, manufacture authorization any annexures etc.</li> </ul>					
	<ul style="list-style-type: none"> <li>Check if the content of the Invitation for Bid (IFB) complies with the regulations and is substantially informative (among others; name and address of project, type and value of works, work location, eligibility qualifications , security and bid submission and closing information etc. to be included.</li> </ul>					
	<ul style="list-style-type: none"> <li>Check if IFB is placed in the right media and reaches potential Bidders/applicants to the widest extent possible according to the needs (national and/or international depending on the procurement method used)</li> </ul>					
	<ul style="list-style-type: none"> <li>Ensure that date of IFB provides sufficient time for Bidders/applicants to collect bidding documents and to prepare their bids.</li> </ul>					

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	<ul style="list-style-type: none"> <li>Obtain confirmation of IFB and Make sure that the cost for IFB is budgeted by the PE and not charged to the -selected bidder or Bidder's Payment without adequate justification and support.</li> </ul>					
	<ul style="list-style-type: none"> <li>Assess the knowledge and skills of members of TEC and PC to vetting and approving bidding documents</li> </ul>					
<b>3.</b>	<b>Receiving, Closing ,opening and Evaluation of Bids</b>					

<p style="text-align: center;"><b>Receiving, Closing and Bid Opening</b></p> <p>i. Is Pre-Bid Meetings and Site Visits planned  <i>(Their purpose is to clarify any concerns bidders may have with the solicitation documents, scope of work and other details of the requirement. These meetings are formal and the results are made available in writing to all prospective bidders that registered interest in the requirement be it through requesting, buying or downloading the solicitation documents from an official website.</i></p> <p><i>Prospective bidders are permitted to request clarifications by a date and time stipulated in the solicitation documents.</i></p> <p><i>It is most beneficial to hold pre-bid meetings prior to formally responding to the request for clarifications, that way the responses to the request for clarifications can be sent along with the results of the pre-bid meeting, including a copy of the minutes of the pre-bid meeting.</i></p> <p><i>Although prospective bidders should be encouraged to get as much information as possible (including visiting the site) on a specific or upcoming requirement of a procuring entity, formal site visits are usually planned and carried out for works procurement and more complex goods requirements.</i></p> <p><i>When a site visit is planned, the details of the date and time must be stated in the solicitation documents. And the site visit should take place before (but not too far in advance of) the pre-bid meeting.</i></p> <p><i>The results are also formally sent to all prospective bidders that expressed interest in the requirement, by way of minutes of the site visit and pre-bid meeting, including consolidated responses to request for clarifications, also from prospective bidders.</i></p> <p><i>The pre-bid meeting is usually open to all interested prospective bidders; however, in cases where pre-qualification or short-listing is carried out, only pre-qualified or short-listed bidders are invited to attend the pre-bid meeting.</i></p> <p><i>Site visits, as mentioned above, can and should preferable be held prior to the pre-bid meeting.</i></p>					
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	<p><i>The reason for this preference is because after the site visit, bidders may have additional queries and these can be addressed at the pre-bid meeting and formally sent (with the minutes) to all prospective bidders that expressed interest in the requirement, or those that were short-listed through a pre-qualification exercise or restricted bidding process.</i></p> <p><i>The time and venue of these meetings are addressed in the solicitation documents, and attendance is usually not obligatory.</i></p> <p><i>During the site visit the prospective bidders survey the site and ask questions to clarify any doubts or information provided in the solicitation documents. Sometimes, as a result of the site visit/pre-bid meeting there might be a need to extend the bid/proposal submission date by way of Addendum to the solicitation documents to give bidders sufficient time to address any changes made to the solicitation documents as a result of the site visit and/or pre-bid meeting)</i></p>					
	<b>Receiving of Bids</b>					
	<p>After the site visit and/or pre-bid meeting, the following could result so check whether:</p> <ul style="list-style-type: none"> <li>i. the selection process continues to the opening date and time as planned</li> <li>ii. the submission date is extended by addendum to give bidders a reasonable amount of time to submit their bids/proposals (especially if there are changes to the solicitation documents), or the requirement is altogether cancelled.</li> <li>iii. Assuming that the process continues as expected, receiving and opening offers (bids/proposals) is the next step.</li> </ul> <p><b>Bid Opening</b></p> <ul style="list-style-type: none"> <li>i. Ascertain that all potential bidders were invited to participate in the opening ceremony of bidding documents.</li> </ul>					

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	<p>ii. Obtain the list of days and dates when bidding documents were received from potential bidders make sure that bidding documents were received within the period in the bidding documents.</p> <p>iii. Check Bid Opening Minutes and attendance list and make sure that the date and place of bid opening is according to the rules stipulated, and check that the participants submitting the documents are prequalified.</p> <p>iv. Confirm and if necessary obtain evidence to ensure that where a bidding document is received after the due date that the bid documents are returned to the bidder without being opened.</p> <p>v. Make sure that all bidding documents received have been kept in a safe place and cannot be accessed by anyone until opening of bidding and that documents remain sealed (technical and price).</p> <p>vi. Ensure that record exists to indicate that opening of the bidding documents was transparently announced to all attending participants.</p> <p>vii. Make sure that Minutes of bid opening prepared by the Bid Opening Committee (BOC) are in conformity with the written records and properly appointed the BOC by the competent authority.</p> <p>viii. Confirming that all bidders receive the same bidding documents.</p> <p>ix. Obtaining a list of potential bidders who collect bidding documents and check the dates of document collection to make sure that the document collection is within the stipulated period.</p>					

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	<p>x. Check if there are potential bidders who purchase or obtain bidding documents after the date stipulated and obtain explanations.</p> <p>xi. If there are reasons for questioning the process, directly confirm with several potential bidders who have collected bidding documents but cancelled participation in the bidding process and obtain reasons / explanations to make sure that the procurement committee's work was fair and transparent.</p> <p>xii. Compare the documents submitted by the winning and losing bidders for suspicious situations.</p> <p>xiii. Check the minutes, attendance list of potential bidders and time period between announcement and selection, and make sure that there are adequate participants in the process.</p> <p>xiv. Make sure that date, time and venue of the pre-bid meeting are clearly included in the Bidding documents and if there are addendum, make sure that all bidders have been informed of the change.</p> <p>xv. To check the mandatory information has disclosed by the BOC. Obtain Sample bidding Bids submitted by bidders and check;</p> <ul style="list-style-type: none"> <li>• Bid Amount (if discrepancy in words and figures the amount in words ) are correctly recorded in the Bid Opening Minute</li> <li>• if all bidders submitted the correct amount , validity period, approved source, original of bid bond valid</li> </ul>					

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	<p>through the procurement implementation process</p> <ul style="list-style-type: none"> <li>• Whether bid form is signed</li> <li>• Disclosed and recoded the Discounts offered by bidders</li> <li>• If alternative bid requested who have submitted alternative bids</li> <li>• If samples requested whether samples are submitted</li> </ul>					
	<b>b. Bid Evaluation Process</b>					
	<p><b>Bid Evaluation Principles and Criteria</b></p> <p>i. The result of the bid or proposal evaluation process is dependent on the Evaluation Method and Evaluation Criteria ( given in the Bidding Documents) procurement method and the Bidding Procedures for determining the selected supplier, contractor or service provider that will be recommended for negotiations and/or contract award.</p> <p>ii. So Auditor should check whether Bid evaluation process has adhered the following principles;</p> <p>iii. <i>In case of works and Goods could be procured item by item, schedule by schedule or section by section see whether evaluation criteria included is based on “<b>Price Comparison by Schedule, Section or Item</b>”</i></p> <p>iv. <i>When the bid documents for commodity contracts specify that bids for <b>partial quantities</b> will be considered, such bids must be evaluated on the same basis as bids for the entire quantity, provided that at least the minimum quantity specified is offered.</i></p> <p>v. <i>If a bid for a partial quantity is the lowest, the quantities awarded to higher bidders are reduced accordingly.</i></p>					

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	<p>vi. <b>Use of Evaluation Criteria</b>-All criteria to be used in the evaluation of bids and the method of their application must be specified in the bid documents and all the criteria specified must be applied to the extent necessary and in the manner specified to ensure that the low bid is determined in accordance with the bid documents. Evaluation factors not specified cannot be used in bid evaluation.</p> <p>vii. <b>Completeness of Bid</b> -The bid documents should specify whether only bids quoting prices for all items listed in the specifications will be considered and whether incomplete bids will be rejected. Those provisions must be followed in the bid evaluation. If the bid documents do not indicate whether incomplete bids will be accepted, the question whether such bids are "substantially responsive" and, therefore can be considered and must be decided during bid evaluation.</p> <p>viii. <b>Delivery or Completion Schedule</b> -If the bid documents specify a range of delivery or completion dates (e.g., 12 to 14 weeks), all bids offering delivery or completion within that range should be considered on the same basis. Adjustments to bid prices should be made only if the Executing Agency would incur costs if delivery is made earlier than the beginning of the range of dates specified, or incur costs or risks if delivery is made later than specified</p> <p>ix. An adjustment for earlier delivery is not justified if</p> <p>x. the bid documents specify a delivery date "not later than" a certain date.</p> <p>xi. <b>"Equivalent" Specifications</b> - The Procurement Guidelines require that brand names or catalogue numbers and specific standards can be used in</p>					

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	<p><i>specifications only if the words "or equivalent" are added.</i></p> <p>xii. <i>The reverse is also true: if the words "or equivalent" are absent, bidders are justified in assuming that only bids conforming to the description contained in the bid documents are acceptable and the Executing Agency should reject bids with specifications claimed by the bidder to be equivalent.</i></p> <p>xiii. <b>Capacity of Equipment</b> - <i>Even in cases where deviations from the specified capacity of equipment were not classified as grounds for rejection of a bid, bids deviating from the specified capacity should be rejected if capacity is an essential element of the specifications.</i></p> <p>xiv. <b>Missing Items-</b> <i>Bid prices should be adjusted to account for items not included in a bid, provided that the bids can be accepted under the provisions of the bid documents, and provided further that such adjustments would not exceed a certain percentage of the total bid.</i></p> <p>xv. <b>Adjustments for Commercial Deviations</b></p> <ul style="list-style-type: none"> <li>• <b>Principles – Delivery-</b></li> </ul> <p><i>The generally accepted method for computing the monetary value of a delivery date which is later than the one taken as base is to use the percentage of liquidated damages per unit of time specified in the bid documents, usually 0.5 per cent of the bid price per week or 0.1 per cent per day. Respectively. the "base" is the delivery period specified; if a range of dates, e.g. "6 to 10 weeks" is specified, the base is the latest date, except when specified otherwise in the bid documents.</i></p> <p><i>The adjustment for delivery earlier than that specified, if an adjustment is justified, the cost to the Executing Agency of advancing the payment from the date it</i></p>					

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	<p>would have been made if delivery had taken place at the beginning of the specified delivery period to the date on which payment is required for the earlier delivery.</p> <p>Other costs, such as storage or insurance, may also be considered if they would actually be incurred.</p> <ul style="list-style-type: none"> <li> <b>Principles - Payment Terms</b>            The monetary value of differences between the payment terms specified in the bid documents and those proposed by a bidder is the additional cost of money to the Executing Agency caused by making payments according to the bidder's schedule. If the payment terms in the bid documents, e.g., specify a 80 per cent payment within 15 days from arrival of the goods at the port of entry and the bidder proposes that the payment be made against presentation of shipping documents following loading of the goods at the port of shipment, the payment would be due, say, six weeks earlier. The Executing Agency, therefore, computes the interest it must pay on the amount of the payment for six weeks and adds it to the bid price. The interest rate to be used is the higher of the Bank's interest rate applicable to the loan or the re-lending rate applicable to the re-loan by the Government to the Executing Agency, if any, whichever is higher.         </li> <li> <b>Principles - LD and Retentions</b>            If the elimination of the additional security which liquidated damages or retentions would have provided is acceptable to the Executing Agency in return for a lower contract price, the bid price should be adjusted by the amount that would be payable or be forfeited by the contractor in the event the conditions specified in the bid documents for payment of liquidated damages or forfeiture of the retentions were met. In both cases that amount should be         </li> </ul>					

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	<p><i>the maximum amount payable under the liquidated damages clause or the maximum amount that could be forfeited under the retention clause.</i></p> <ul style="list-style-type: none"> <li> <b>Principles - After-Sales Service</b>  <i>Provided that the criteria for the evaluation of the after sales service offered by different bidders are set forth in the bid documents, all bids complying with the minimum standards established should be considered on the same basis, unless the bid documents provide otherwise including bids submitted by bidders offering to establish new facilities providing for the level of service specified in the bid documents. A bid offering a quality of service considered better than the standard established in the bid documents should therefore not be given an advantage over a bid offering a lower level of service as long as the latter meets the minimum requirements. The level of service will not be an evaluation factor. This principle is the same as that used in evaluating offers for equipment: equipment of a quality judged higher than described in the specifications is not given a price advantage over equipment of lower quality in terms of output, convenience of use. adaptability. etc. as long as the specifications are met, provided that the bid documents do not specify otherwise.</i> </li> </ul> <p><i>How bids not offering after-sales service, if required, or offering service of a lower standard of service than specified, are to be evaluated depends on the importance of after-sales service in any given case. For equipment requiring repair services that cannot be provided by the Executing Agency or existing local firms, and whose utility would therefore be greatly diminished if the manufacturer, his agent or a dealer is not in a position to provide maintenance services, after-sales service is critical. The Executing Agency should</i></p>					

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	<p><i>therefore reject all bids not meeting the requirements it has established. The intention to do so should be stated in the bid documents. The advisability for adopting that extreme position would, however, have to be approved by the Bank. It may be justified.</i></p> <p><i>The quality of the services offered can also be evaluated by using a point scoring system in which different factors are rated. Such factors could be the proximity of service facilities to the site where equipment will be located, numbers and level of expertise of available staff, level of spare parts inventory carried, duration of service, etc. If such detailed evaluation is to be undertaken, the factors to be evaluated and the minimum requirements should be specified in the bid documents. This approach is suitable only in cases where it is known that specific services, such as training in the use of the equipment for a specified period, will be needed and the availability of such services is an important element of the contract.</i></p> <ul style="list-style-type: none"> <li>• <b>Principles Inland Freight</b></li> </ul> <p><i>For purposes of price comparison only, the cost of inland freight to the project site should be added to the bid price quoted for delivery CIF or C &amp; F for imported goods or to the price quoted ex-factory or ex-warehouse for locally produced or previously imported goods.</i></p> <p><i>The same applies to bids for supply and erect contracts. No adjustment for inland freight costs is necessary in connection with bids for civil works contracts because unit prices quoted include such costs, unless otherwise specified in the bid documents, e.g., for items of permanent equipment to be furnished and installed as part of the contract.</i></p>					

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	<p><i>Principles - Adjustment for Technical Deviations</i></p> <p><i>Adjustment of bid prices for deviations from the Technical Specifications (also called "engineering adjustments") can be carried out in three ways:</i></p> <ul style="list-style-type: none"> <li>▪ <i>by using the average price quoted for the non-conforming item in conforming bids or</i></li> <li>▪ <i>by estimating the price, based on experience or inquiries. Other bids, of course, can be used only if the price for the item or component in question is quoted separately.</i></li> <li>▪ <i>For use of the average price quoted in other bids to estimate the amount to be used for adjustment purposes is the only possible way if other bids do not quote separately for the item, component or feature in question.</i></li> </ul> <p><i>If the total amount of engineering adjustment, when added to other adjustments, exceeds about 15 per cent of the bid price, the bid as a whole should be considered unresponsive and rejected. ?</i></p> <ul style="list-style-type: none"> <li>• <b><i>Principles - Adjustment for Cost of Civil Works in Supply Contracts</i></b></li> </ul> <p><i>Bids for the supply, or the supply and erection, of equipment should not be adjusted for differences in the cost of related civil works, except in cases where substantially different costs would be involved for offers specifying different engineering solutions permitted by the bid documents.</i></p> <ul style="list-style-type: none"> <li>▪ <i>If adjustments for the cost of civil works are to be made, the bid documents should so state. In</i></li> <li>▪ <i>addition, the bid documents should specify the unit costs for the principal elements of the civil works so that all</i></li> </ul>					

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	<p><i>bidders will use the same costs in calculating the cost of civil works.</i></p> <ul style="list-style-type: none"> <li>▪ <b>Principles-Alternate Bids</b></li> <li>▪ <i>Alternate bids can be considered for award only if the base bid is the lowest evaluated bid, unless the bid documents provide otherwise.</i></li> <li>▪ <i>If an alternate bid is to be considered independently from the base bid, the bidder submits in effect two bids and must provide two bid bonds; he should not designate either of the two bids as "main bid" or "alternate bid"</i></li> <li>▪ <i>Alternate bids can be considered for award only if the base bid is the lowest evaluated bid, unless the bid documents provide otherwise.</i></li> <li>▪ <i>If an alternate bid is to be considered independently from the base bid, the bidder submits in effect two bids and must provide two bid bonds; he should not designate either of the two bids as "main bid" or "alternate bid"</i></li> </ul> <ul style="list-style-type: none"> <li>• <b>Principles- Clarifications and Modifications during Evaluation</b></li> </ul> <p><i>The Executing Agency can, and indeed should, ask a bidder for clarification of his bid if there is any doubt about the intent of the bidder.</i></p> <ul style="list-style-type: none"> <li>▪ <i>Modifications of the substance of the bid by a bidder are, however, not permissible. Any change in price, delivery terms, conditions of contract or changes in specifications proposed by the bidder in his bid is considered a substantive modification.</i></li> <li>▪ <i>The Executing Agency cannot change any of the commercial terms or technical specifications after the bids</i></li> </ul>					

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	<p><i>have been opened and before the low bidder has been determine</i></p> <ul style="list-style-type: none"> <li> <b>Principles- Split Awards</b>  <i>Unless two bids are exactly the same after evaluation, a situation that has never been recorded, splitting an award between two bidders cannot be justified except in such cases as discussed in Partial Quantities.</i>   <i>If the bid documents call for the award of several items or the entire quantity of one item to the low bidder for all items or the total quantity, the award must be made to one bidder; the award cannot be "split" by making a partial award to several bidders.</i> </li> </ul>					

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	<p><b>Bid Evaluation Process</b></p> <ul style="list-style-type: none"> <li>i. Make sure that the evaluation has been completed by the evaluation committees as per the PTS.</li> <li>ii. Confirm and make sure that selection of the qualified bidders is actually carried out strictly on the Evaluation <b>and qualification criteria disclosed</b> in the bidding documents and no additional criterion has been adopted during the evaluation by the evaluation committees.</li> <li>iii. Make sure that Bid Evaluation process is according to the rules stipulated in the bidding document, and that the process is carried out in a fair, open, transparent and accountable manner.</li> <li>iv. Obtain minutes of the selection and check that all questions and answers (Clarifications) obtained during the evaluation process in award process are recorded in writing and signed by the procurement committee and representatives of the participants.</li> <li>v. Bidders are not obliged to attend the award meeting but the procurement committee has an obligation to send the results of Intention to contract awards pertaining to large contracts as per the provisions of GPG to all bidders.</li> <li>vi. Also provide debriefing for aggrieved bidders in writing if any bidder wishes to know the reason for rejection of his bid.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<b>Preliminary Bid Examination</b>					
	<p>i. Although an initial review of the offers received is done at the bid opening event, a preliminary examination of the offers is done at the beginning of the evaluation process to determine, the responsiveness of the offers to the solicitation documents.</p> <p>ii. After that, a detailed bid evaluation /examination is done only of the offers that complied with (were responsive to) the requirements of the solicitation documents.</p> <p>iii. Check other reports and documents supporting the result of bid assessment and test if the bidding assessment was carried out according to the evaluation method and bid evaluation criteria stipulated in the bidding document. and also check:</p>					
	<p>iv. What are the bids rejected in the stage I of the Preliminary Bid Examination Process and the reason for rejection is correct (check the auditee has followed the steps –rule of Thumb given the GPG )</p>					
	<p>v. What are the bids rejected at stage II of the Preliminary Bid Examination and the reason for rejection is correct.</p>					

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	vi. In the case of solicitations for goods and works procurement, after confirming compliance with the technical requirements and commercial at the stage II of the examination, a comparison of the proposed price is made, and the offer that is technically and commercially compliant, and with the lowest evaluated bid price has to be determined through the Detailed Bid Evaluation – The objective is to find out , the one that is recommended for contract award and check.					
	vii. What are the bids that have been evaluated as substantial responsive bids.					
	viii. Particularly check any bid that has major deviations has been accepted by the TEC as a responsive bid or any bid has been rejected with minor deviations.					
	<b>a. Detailed Bid Evaluation</b>					
	i. Check whether TEC has followed the correct sequence spelt out in the guidelines to undertake detailed Bid Evaluation for substantially responsive bids selected after preliminary check the following Steps followed by the Auditee;					
	ii. Removal of VAT, Contingency Provision and Provisional Sums from the bid price.					
	iii. Correction of arithmetical errors using the principles given in the GPG. iv. ( if there is a discrepancy in amount in figure and words, the figure in words will govern over figures, rate will govern and sub-total will govern in case of obvious misplacement of decimal points )					

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	v. Has informed bidders the corrected bid price if any changes made?					
	vi. Is conversion to a common currency correct? <i>( make sure principles have followed in converting common currency such as date of conversion, source used and the selling rate has used for conversion);</i>					
	vii. Is apply applicable Discounts if any correct? <i>(Check whether only discounts that are offered on unconditional and read and recorded at the bid opening have considered).</i>					
	viii. Are adjustments for various minor deviations as defined? <i>(check the basis taken to load such as replacement cost plus 25% of administrative cost, average cost or highest cost and has never used the lowest cost for missing items if such items are given by other bidders)</i>					
	ix. Whether TEC has made adjustments/ loading for all the minor omissions which have financial value?					
	x. Adjustments for inland transportation.					
	xi. Adjustments for Domestic Preference <i>(Check documentary evidence submitted by bidders and see whether the domestic bidders have fulfilled the eligibility requirements to get preference as per the Bidding documents and also check the percentage used is correct according to GPG and donor Procurement Guidelines).</i>					
	xii. Clarifications during evaluation are correct?					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>xiii. Ensure selected bidders have the highest score if scoring system being applied for evaluation in case of the quality difference is material.</p> <p><i>(In such cases, ensure that only 10 to 20 marks allocated for quality aspect and more marks at least 80 percent given to the price factor)</i></p> <p><i>However, if scoring system is adopted for evaluation, all bidders who have obtained score above the cut-off point should be treated as equal and the lowest cost bidder shall be selected</i></p> <p><i>Score is determined according to evaluation method -technical / quality or combination between technical / quality and price).</i></p>					
	<p>xiv. Reassess Ranking Order and Examine for Imbalance Bidding?</p> <p><i>(In case of Imbalance bids in Works contract, see whether any front-end loading issue. In such a situation see how the TEC has mitigated the risk to the PE either by rejecting the lowest bidder or enhancing the performance security after obtaining rate analysis clarifications and observations)</i></p>					
	<p>xv. In case of unrealistic rates, if the bidder has quoted unrealistically low rates on critical or very important items.</p> <p>xvi. <i>(Have bidders been requested to prove to the satisfaction of the TEC. So that ensure whether TEC has obtained such clarifications and done a Rate Analysis and made observations before arrive at the awarding or rejecting decision)</i></p>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>xvii. Check the consideration of Alternate Bids if requested.</p> <p><i>(If alternative bids are requested ensure that only the Lowest Evaluated Substantially Responsive Bidder's envelop is opened and selected if it is technologically accepted and the price is lower than the original bid in any case other bidders envelop should not be opened)</i></p>					
	<p>xviii. Whether determination the Lowest Evaluated Substantially Responsive Bid is correct in terms of the Bidding documents and bid submitted? and also ensure;</p> <p><i>bidding prices of bidders to see if there are indications of a pre-arranged price or conditions. (Indications on different bids include: the same format and letters, the price difference is extreme on some items, bids are very low or unrealistic or imbalanced.</i></p> <p><i>if selected bidder has any special relationship with those preparing the procurement documents, including users, persons preparing owners' estimates, government entity staffs and the Procurement Committee. If there is an indication of a special relationship explores collusion possibilities and discuss with AG senior staff.</i></p> <p><i>the records support the successful Bidder (minutes of evaluation result, technical proposal, evaluation of cost proposal and evaluation of combined proposal).</i></p>					
	<p>xix. Check any Collusion and Bid Rigging is immersed</p>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<b>Post Qualification Verification</b>					
	<p>i. Check whether the bidder whose bid has been evaluated as the lowest has the capacity and resources to effectively carry out the contract concerned –Post Qualification</p> <p><i>(Serves as a safety measure to make sure that the lowest evaluated bid has been submitted by a responsible and trustworthy bidder</i></p> <p><i>It is therefore necessary, before the award is made, to determine that the bidder who has submitted the lowest evaluated bid price has the required capacity and resources to carry out the contract. Effectively.</i></p> <ul style="list-style-type: none"> <li>• <i>Check whether post qualification assessment has made only for Lowest Evaluated Substantially Responsive Bidder;</i></li> <li>• <i>If Pre-qualified check whether the subsequent information has checked by the committees;</i></li> <li>• <i>If the Lowest Evaluated Bidder not complying, see whether committee has check for the next lowest)</i></li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Contract Negotiations and Award Recommendation</b></p> <p><b>Negotiations</b></p> <ul style="list-style-type: none"> <li>• Contracts for goods and works procurement are not usually negotiated, except under exceptional circumstances, depending on the complexity of the requirement.</li> <li>• Complex requirements for supply, installation and commissioning may be better procured through negotiations with the highest technically qualified firm, as determined by the results of the evaluation of their technical proposals. Similarly, under works procurement, design and build requirements may also need to be negotiated; as well as, turnkey contract requirements or only one offer has received and it is much higher than the estimated cost</li> <li>• Ensure that price negotiations are carried out by the PC or TEC with the concurrence of the respective PC properly and there are transcripts and minutes in writing signed by the procurement committee and successful tenderer, prior to contract signing.</li> </ul>					
	<p><b>Final Recommendations and Contract Award Determination</b></p>					
	<ul style="list-style-type: none"> <li>• Check whether anonymous decision is given by all members (TEC/PC) or descending comments by some members, particularly check such descending comments.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Check whether, TEC recommendation has been accepted by the PC, in case of disagreement what actions taken such as joint-committee evaluation, obtaining third party view from a consultant etc.</li> </ul>					

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	<ul style="list-style-type: none"> <li>Check whether approving authority has approved the final recommendations or what actions taken to justify the recommendations if disagree by the authority.</li> </ul>					
	<ul style="list-style-type: none"> <li>Ensure that the Intention to Contract Award is issued to all bidders participated in case of Cabinet Appointed Procurements and Ministry Procurements (CAPC and MPC) as per the provisions of GPG.</li> </ul>					
	<ul style="list-style-type: none"> <li>In all other cases, ensure that the Debriefing issued to all unsuccessful bidders saying the reason for lack of success in order to educate them and to minimize the level of complaints and also demonstrate the principles of probity and transparency of the procurement process.</li> </ul>					
	<ul style="list-style-type: none"> <li>Check whether PE has promptly responded to any complaint made by any aggrieved bidder before the contract award.</li> </ul>					
	<ul style="list-style-type: none"> <li>Ensure that the award notice has been announced to media with relevant information and publish it its web site and the web site of the Department of Public Finance (PFD) as per the provisions of GPG.</li> </ul>					
	<ul style="list-style-type: none"> <li>if the if the contract value exceeds LKR 250 Million the publication of contract award shall be published at least in one widely circulated newspaper, the PFD web and the Government Gazette. Check if objections / complaints to the award notice have been filed timely and there is evidence of proper follow-up and resolution by the Procurement Committee.</li> </ul>					

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	<ul style="list-style-type: none"> <li>• Depending on the nature of the complaint / objection, independently confirm with the unsuccessful Bidder whether the complaint has been successfully disposed. If there are suspicious indications discuss with senior AG officers whether there is a need for a further in-depth audit.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Whether the evaluation committee (TEC/PC) recommendation is made to the approving authority in time?</li> </ul>					
	<ul style="list-style-type: none"> <li>• Ensure that the final award determination of the TEC and the PC has been approved by the proper authority without any delay.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Check the conclusion of the evaluation process, the evaluation panel must both recommend and justify; <ul style="list-style-type: none"> <li>• either the rejection of all offers</li> <li>• proceeding with contract negotiations or</li> <li>• contract award.</li> </ul> </li> </ul>					
	<ul style="list-style-type: none"> <li>• Compare the date of determination of contract award, and date of contract signing, to ensure the complaint period is over under the rules.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Check the Evaluation reports of TEC and PC to ascertain that all relevant information is included as per the provisions of the GPG.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
<b>Conclusion of the Audit Results</b>						
<b>Pre –qualification</b>						
<p><b>Pre-qualification Process</b></p> <ul style="list-style-type: none"> <li>i. Check and make sure that pre-qualification document is complete including the need documentation and at least contains;</li> <li>ii. Scope of work, requirements for participants, time and location for collection / submission of pre-qualification documents, and the responsible person for pre-qualification;</li> <li>iii. Minimum requirements for participants include: Participants are not under court supervision, not bankrupt, no suspended activity relating to government procurements, board of directors are not under criminal sanction;</li> <li>iv. Have met their tax obligations and can prove it</li> <li>v. Within good past experience with government tenders, including as sub-contractors;</li> <li>vi. Are Not included in the blacklist</li> <li>vii. Pre –qualification Assessment procedure covers Technical (past experience relating to the procurement, personnel capabilities, equipment capabilities and ability, arbitration and litigation history and Financial capacity.</li> <li>viii. Correct evaluation method is used (pass or fail or scoring systems);</li> <li>ix. Make sure that the providers pre-qualification process is in accordance with the provisions stipulated in the procurement guidelines and manual;</li> </ul>						

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	<p>x. Make sure that the implementation is carried out in a fair, open, transparent and accountable manner.</p>					
	<p><b>Pre-qualification Notice</b></p> <p>i. Making sure that the pre-qualification notification has been made to the widest extent. In the event announcement is made through mass media or electronic media, confirm, or make sure that there is no fabricated announcement.</p>					
	<p>ii. Check whether required information is include in the notice such as:</p> <ul style="list-style-type: none"> <li>• a brief description of the goods and works to be procured;</li> <li>• the contract conditions;</li> <li>• who is financing the project;</li> <li>• eligibility requirements for potential bidders, suppliers and contractors; and</li> <li>• the time and place where prequalification documents can be obtained.</li> </ul> <p>iii. Check completeness of pre-qualification document issued to applicants.</p>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Pre-qualification Documents</b></p> <p>i. Whether pre-qualification document is complete?</p> <ul style="list-style-type: none"> <li>• <i>For purposes of evaluating the applicants, the prequalification documents should include a questionnaire, requiring applicants to respond to direct questions as well as to complete a series of forms;</i></li> <li>• <i>The PE should avoid requesting excessive form-filling, testimonials, affidavits from bidder's former or current clients, notarized documents and any other non-essential documents and information which will deter some of the qualified firms from applying</i></li> </ul>					
	<p><b>Pre-qualification Assessment</b></p>					
	<p>i. Whether pre-qualification assessment is based on compliance with clearly identified minimum threshold to ascertain the capacity?</p>					
	<p>ii. Applicants are prequalified using unambiguous?</p>					

	<p>iii. Whether used generally used parameters for evaluation?</p> <p><i>(Financial Resources: Demonstrating availability of the financial means to fully finance the estimated contract cash flow for a specified period of N months, net of requirements for other known commitments over the period of construction. N is determined as the time, from the end of the month being invoiced, required by the PE to pay the contractor, including the time needed by the Engineer to issue the interim/monthly certificate, plus two months. (A straight line cash flow is assumed, neglecting any advance payments and retentions.)</i></p> <p><i>Personnel Resources: Having a pool of experienced staff capable of performing the key functions required for the project, from which</i></p> <p><i>contract personnel will be drawn. The prequalification document should list the essential functions, and the number of years of relevant experience of the personnel to be detailed in the submission. At least two staff members for each essential position should be available. The PE should avoid using words such as “qualified” or “licensed” as well as “university degrees”, unless they are essential for a specific function.</i></p> <p><i>Equipment Resources: Having available specialized equipment essential for the execution of the contract. The list should be limited to highly specialized or heavy equipment which would be critical to the execution of the contract, and cannot easily be purchased, hired or leased in the market, or readily manufactured for the task. Normal construction equipment (scrapers, bulldozers, loaders and tip trucks) which can normally be bought leased or hired “off-the-shelf” should not be listed, unless there are particular circumstances which would make access)</i></p>				
	<p>iv. If the PE doubts the accuracy or completeness of a prequalification</p>				

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	application, Whether the applicant has requested to provide verification or supplement earlier provided information?					
	v. Whether Litigation and arbitration history of applicants checked?					
	vi. Whether TEC and PC correctly followed the pre-qualification assessment under the following three stages; <ul style="list-style-type: none"> <li>• <i>Preliminary Screening</i></li> <li>• <i>Detailed assessment and</i></li> <li>• <i>Determination of pre-qualified applicants</i></li> </ul>					
	vii. Check if list of pre-qualification participants and result of qualification assessment has been approved by the authorized officers.					
	viii. Whether pre-qualification result has been informed to all participants?					
	ix. If necessary get confirmation from the participants who do not pass pre-qualification to make sure whether the prequalification has been carried out according to the rules and regulations?					
	x. Identify any deviations in the pre-qualification process to find out the possibility (indication) of fraud.					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
<b>Make a Conclusion of the Audit Result</b>						
	<b>Financing &amp; Scheduling of Procurement Implementation</b>					
	<b>Objectives :</b> <ul style="list-style-type: none"> <li>• Assuring that the funding planned / budgeted for the procurement includes the preparation and implementation cost</li> <li>• Assuring that the time allocation needed for each stage of the procurement implementation is sufficient in the circumstances.</li> <li>• Assuring all contracts are implemented as planned</li> </ul>					
	<b>Steps :</b> <ul style="list-style-type: none"> <li>• Scrutinize / review to ensure that the cost and value elements of the procurement are included in the budget, including: Administration and other costs such as Honorarium of procurement committee/technical evaluation committee members, officials and other staff , (where applicable)Other costs related to project to support the procurement implementation, such as reproduction of procurement documents and advertising, bid meetings etc.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Verify the time allocation (bidding process) determined by the procurement users to ensure that the allocation is according to the request.</li> </ul>					
<b>Make a Conclusion of Audit Result</b>						
3	<b>Check of the Compliance of the Procurement Procedure Implementation with the applicable laws and regulations</b>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Objectives :</b></p> <p>Assessing that Procurement and Contract Administration officers and procurement committees are the right persons according to the requirements of provisions of laws and regulations.</p>					
	<p><b>Steps :</b></p> <ul style="list-style-type: none"> <li>• Examine/review and make sure that the personnel involved in the organizational structure of procurement users and procurement committees are not involved in the following interests:</li> </ul> <p>Procurement Officer (Officer in charge of procurement actions) should not concurrently work as a member of procurement committee/technical evaluation committee</p>					
A	<p>i. Procurement committee may not have family relationship (vertically and horizontally) with the official that determines all procurement committees should submit declarations as per the provision of GPG that they have no conflict of interest.</p>					
	<p>ii. Make sure that the Procurement officer and all procurement committee have Expertise Certificate or Statement of Participation of Procurement Education and Training.</p>					
	<p>iii. Obtain integrity declaration and make sure that the Procurement officer, committee and procurement providers have signed the integrity pact;</p> <p>Make sure that the Procurement officer and procurement committee have complied with the ethics of procurement as governed in the applicable laws and regulations;</p> <p>Regarding independence, professionalism and integrity and appear to be free of any obvious conflict of interest issues( Declaration of no conflict of interest )</p>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	iv. Check if the decisions made by procurement commitment are free from outside influence including from management and users.					
	v. Ensure that any TEC member doesn't serve on procurement committee activities or PC any member doesn't involve in TEC activities.					
	vi. Record the procurement committee work mechanism.					
<b>Make a Conclusion of Audit Result</b>						
<b>B</b>	<b>Procedure for the Selection of Providers</b>					
	<p><b>Objectives :</b></p> <ul style="list-style-type: none"> <li>• Ensuring that the documentation process of procurements is sufficient.</li> <li>• Ensuring that the procedure for the procurement providers selection are carried out according to the applicable NPA/PFD rules and regulations</li> <li>• Ensuring that the list of the procurement providers includes only providers that have met the requirements under the NPA rules and regulations</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Steps :</b></p> <ul style="list-style-type: none"> <li>• Ensure that the method used for the selection of procurement providers (whether open competitive bidding , limited bidding , shopping or direct contract or single source selection is appropriate.</li> <li>• Obtain complete package of procurement documents including, Prequalification / post-qualification documents</li> <li>• Documents supporting the selection (of bidders and other documents related to the procurement providers selection procedure, among others : <ul style="list-style-type: none"> <li>• Invitation documents(where and what media)</li> <li>• Pre-qualification document of all candidates providers and invitation for the participants that pass prequalification.</li> </ul> </li> </ul>					
<b>Make a Conclusion of Audit Result</b>						
C	<b>The Implementation of Procurement Contracts</b>					
	<p><b>Objective :</b></p> <ul style="list-style-type: none"> <li>• Ensuring that the procurement contract, including the supervision and monitoring of contract implementation is according to the procurement documents, written contract and best practice;</li> <li>• Ensuring that payments and changes to the contract are in accordance with NPA rules.</li> </ul>					
	<p><b>Steps :</b></p> <ol style="list-style-type: none"> <li>i. Make sure written contract has been signed in case of Goods and Services procurement exceeds LKR 500,000 and Works LKR 250,000 as per the provisions of the GPG.</li> </ol>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	ii. Make sure the PE has used the correct form of contract agreement depending on the nature and funding source of procurement.					
	iii. Make sure that the contract has been signed by the properly delegated officer of the PE as one party.					
	iv. Make sure that the Letter of Acceptance (LOA) has been issued no sooner the final determination of contract award is completed.					
	v. Make sure the Kick off meeting has conducted soon after the contract is signed and all necessary information has obtained from the contractor and discussed at the meeting.					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>vi. Make sure that the PE has a proper Monitoring system to ensure all the contract awards are properly and timely implements and contractors are properly compensated. So that check the following.</p> <ul style="list-style-type: none"> <li>• <i>Whether PE Maintain a Contract Administration Plan (CAP) which consists of all awarded contracts including monitoring and surveillance techniques.</i></li> <li>• <i>Ensure that the PE maintains a Cash Flow synchronizes with the CAP and the Cash Flow is periodically up dated in line with the changes of the CAP.</i></li> <li>• <i>Ensure the officers in charge of procurement implementation inclusive of contract administrators/engineers and consultants shall provide changes to the CAP to the finance officers to update and arrange financing.</i></li> <li>• <i>Review and make sure the procurement contract is in conformity with the general and specific requirements included in the procurement documents (check what legal reviews were undertaken) and include the following minimum requirements;</i></li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li><i>Name of the parties (name, position, address) Main work agreed, Rights and obligations of the parties, Value and price of contract and payment terms, Requirements are clear and include detailed technical specification, Place and timeframe for completion and delivery terms are clearly stated, Technical guarantee / result of work performed are in accordance with the tender documents and procurement rules, Clear conditions for default and sanction / penalty, Clause includes impartial contract termination rules, Provision on force majeure, Provision on the obligations of the parties in the event there is a failure with work implementation, Provision on workforce protection, Provision on form and responsibility of environmental impact, Provision on dispute settlement, Provision for revoking procurement contract under specified conditions such as: Where contract substance violates the Sri Lankan applicable laws (null and void)</i></li> </ul>					
	vii. Check whether there is any evidence that the parties commit fraud or forgery in the procurement process as well as during contract implementation (revoked).					
	viii. If there is supervisory work in the contract, make sure that supervision implementation has been performed according to the contract. If not, check if there is an adequate supervision during the implementation of the contract.					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>ix. If there is a clause on advance payments, make sure that the advance payments to the contractor are according to NPA rules and regulations and also check:</p> <ul style="list-style-type: none"> <li>• <i>Payment of advance even if no provision is made in the agreement.</i></li> <li>• <i>Payment of advance in excess of agreed percentage.</i></li> <li>• <i>Non-recovery of advances in foreign and local currency at the proportion of advance paid.</i></li> <li>• <i>Non-compliance of recovery provision as specified in the agreement.</i></li> <li>• <i>Advance paid without bank guarantee against such advances.</i></li> <li>• <i>Deduction of advance at completion stage of contract assignment.</i></li> <li>• <i>Non-settlement of advance even after the delivery of goods and use of material in construction work.</i></li> <li>• <i>Payment made without proof of material at site.</i></li> <li>• <i>Use of advances other than the specified purposes</i></li> <li>• <i>Make sure the advance paid are correctly recovered from payments and retain retention money as per the executed contracts</i></li> </ul>					
5	<b>Variations - Price Escalations and Scope Changes</b>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>Check the following aspect in respect of price escalations;</p> <ul style="list-style-type: none"> <li>i. Calculation of price escalation without considering source of price mentioned in the agreement and</li> <li>ii. Calculation of price escalation without applying agreed price escalation formula.</li> <li>iii. Payment made without considering amount of agreed discount.</li> <li>iv. Payment of escalation in provisional sum (lump sum amount in BOQ).</li> <li>v. Price escalation awarded in newly developed item rates.</li> <li>vi. Change in source of price index without seeking approval from employer.</li> <li>vii. Use of different index instead of applying agreed source of index</li> <li>viii. Check whether proper approval has been obtained from the authority by the Consultant/ engineer in case of physical and price variations.</li> </ul>					
6	<p><b>Quality aspect of the procurement</b></p> <ul style="list-style-type: none"> <li>i. Make sure the quality control/quality assurance being done promptly in case of Works contracts by using the documentary evidence.</li> <li>ii. Check the Goods and Services receipt, Inspection and acceptance procedure of the PE to ensure that the same quality and quantity of Goods and Services received by the PE. Particularly check whether, the PE has a different committee such as Goods Acceptance Committee independence to the PC or TEC</li> </ul>					
7	<p><b>Inventory Control</b></p> <ul style="list-style-type: none"> <li>i. Make sure proper inventory system is in place and all purchases are recorded in the Master Inventory and the Sectional Inventory before payments are made.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
8	<p><b>Payments</b></p> <p>i. Check whether contractors and suppliers are timely paid in accordance with the conditions of contract and any significant delays persist.</p> <p>ii. Make sure payment certificates are correctly certified and approved by the respective authority and are arithmetically accurate and no double payment or over payment.</p>					
9	<p><b>Total Cost Estimate (TCE)</b></p> <p>Check whether Total Cost Estimates (TCE) has been revised and financial provisions are made before such variations are approved and paid.</p>					
10	<p><b>Time Extension</b></p> <p>i. Check the Time Extensions given (EOT) - the approval and justification and also check.</p> <p>ii. Are the reasons for extension of time for completion of contract assignment reasonable and approved by competent authority?</p> <p>iii. Is the period extended is adequately supported by evidence?</p> <p>iv. Is extension granted is before the expiry of contract period?</p> <p>v. Is the penalty is chargeable for the extended period?</p> <p>vi. Is the performance bond validity has been extended covering the extended period of contract and consequently insurance coverage, if any, been extended accordingly?</p> <p>vii. Are the numbers of extensions considered?</p>					
11	<p><b>Extra Claims</b></p>					
	<p>i. Adequate collection of evidences by government authorities to reject the contractors claims.</p>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>ii. Claims made by contractors and paid by the PE. For example non- availability of stone at project site has also been claimed showing the same reason.</li> <li>iii. Claims made for faulty design and specification made by the consultant.</li> <li>iv. Lack of adequate support of claim for loss sustained by contractor.</li> <li>v. Claim made for unapproved idle time.</li> <li>vi. Expenses which can be avoided during idle period have also been claimed.</li> <li>vii. Delay in payment of claims.</li> <li>viii. Loss sustained in local currency is paid in foreign currency.</li> <li>ix. Payments made even after the lapse of time for lodging claims.</li> <li>x. Payment of claim against loss which is to be paid by insurance company</li> </ul>					
12	<p><b>Defects</b></p> <ul style="list-style-type: none"> <li>i. Check the defects reported and remedy taken to rectify and release of retention, performance security after completion /defect liability period.</li> </ul>					
13	<p><b>Sub-contracting</b></p> <ul style="list-style-type: none"> <li>i. Check the sub-contracting and see whether those in conformity of the contract agreement and the conditions of contract.</li> </ul>					
14	<p><b>Issuance of Completion Certificate</b></p> <ul style="list-style-type: none"> <li>i. Check whether Cite taking over and handing over documents are complete and Completion certificates are issued by the authority after obtaining no claim certificate from the contractor.</li> </ul>					

	<p><b>Procurement of Goods &amp; Delivery</b></p> <ul style="list-style-type: none"> <li>• Compliance with Procurement Guidelines and contractual obligations should be responsibility of both parties i.e. procuring entities and suppliers. Some of the risk areas are mentioned below which the auditors should look at:</li> <li>• Procurement should be made in accordance with the procurement plan so as to meet the objective of the procurement.</li> <li>• The procuring entity must be cautious making decision for procurement because wrong decision may have financial consequences to the entity.</li> <li>• It is expected that entity has complied with prescribed norms and legislation, however some of the points are stated below as examples which needs to be considered by auditor to confirm the economy, efficiency and legitimacy at procurement stages is stated below</li> <li>• Evaluation of procurement policy of the project and evaluate the cost benefit analysis of the system prevailing in the organization;</li> <li>• Determination of specification which is suitable to the particular supplier only;</li> <li>• Procurement of goods directly from limited supplier as propriety goods;</li> <li>• Making the competition limited by dividing the whole supplies in different packages;</li> <li>• Procurement of goods does not meet the required specification;</li> <li>• Approval of procurement proposal of goods without</li> <li>• evaluation and certification of technician about compliance with specification; and</li> <li>• Procurement without assessment of annual requirement of goods.</li> <li>• Procurement made in time to time or piece meal basis in order to avoid competitive procurement;</li> <li>• Procurement of machinery and machinery and equipment of old technology by ignoring the new technology</li> </ul>					
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<ul style="list-style-type: none"> <li>• Procure goods without specifying warranty period and payment made for repairs, maintenance and services;</li> <li>• Increased volume of unused spares due to change in technology;</li> <li>• Procurement made from suppliers not registered with the organization</li> <li>• Import of goods from other countries even it is available locally at lower cost;</li> <li>• Possibility of misuse of goods due to non-provision of special identification mark in goods procured by government entities,</li> <li>• Preference to economy aspects only without considering quality/specification for item wise purchase from different bidders;</li> <li>• Procurement under the bid procedure even after the receipt of inadequate bids;</li> <li>• Non deductions of Tax as per the Tax laws;</li> <li>• Procurement of goods completion of intended works.</li> <li>• Goods Shipment</li> <li>• The supplier of the goods has to dispatch the goods at specified date through the agreed mode of transport which may be ship or air or road. Before shipment, the specification of goods to be confirmed by purchasing entities either deputing by its own experts or by hiring independent experts/agents. At this stage audit is expected to examine the following points during the audit:</li> <li>• Confirming the specification and quantity procured from supplier through appointed agent or deputed experts/officer/surveyor;</li> <li>• Certificate of origin;</li> <li>• Bill of lading to confirm the quantity, date and place of shipment;</li> <li>• Insurance coverage; and</li> <li>• Packing list-packing needs to be properly made to safeguard the quality of goods</li> <li>• Goods- Delivery and Payment Stage</li> <li>• Delivery of goods would have been made after due date of agreement;</li> <li>• Delivery not made at specified site or place;</li> </ul>				
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<ul style="list-style-type: none"> <li>• Non-compliance of provision of delivery in lot basis;</li> <li>• Non-recovery of liquidated damage for partial delivery even the goods were to delivered in lot basis;</li> <li>• Acceptance of goods even the goods does not comply with approved sample or specification;</li> <li>• Acceptance of delivery without accessories and payment is made for accessories which were to be supplied free of cost;</li> <li>• Non-seizure of deposits for non-compliance of specification of goods;</li> <li>• Non-submission of quality assurance certificate for goods supplied;</li> <li>• Payment of transportation charges even the goods are not delivered at specified place;</li> <li>• Payment for customs even the terms and condition of the agreement does not permit;</li> <li>• Mode of payment needs to be specified;</li> <li>• Additional claim made for demurrage and additional charges caused by delay in decision making by authorities; and</li> <li>• Claim for short delivery.</li> <li>• Supply of Goods &amp; equipment</li> <li>• Some of the procurement may be related only for goods and equipment.</li> <li>• The nature of goods may be medicine, raw material, stationery, chemical etc. whereas equipment may include medical apparatus, vehicles, communication equipment, security equipment, machinery etc. Some of the contract may also include installation of such equipment.</li> <li>• The audit areas may include need identification, procurement, execution of contract and utilization of goods and equipment etc. The following needs to be considered:</li> <li>• Preparation of Goods Received Note (GRN);</li> <li>• Posting in the stock register showing quantity Received as per GRN;</li> <li>• Goods &amp; Equipment should be in accordance with the specification;</li> </ul>					
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No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>• Claim for short delivery and damages;</li> <li>• Imposition of Penalty for delay in delivery; and</li> <li>• Goods should be properly stored and safe from theft and pilferage.</li> </ul>					
15	<p><b>Contract Closeout</b></p> <p>Check the contract close out activities as per the conditions of contract and also check;</p> <ul style="list-style-type: none"> <li>• Whether the contractor has removed all equipment from the cite and cleaned the cite</li> <li>• Has issued the Completion of Certificate (COC)</li> </ul>					
<b>Make a Conclusion of Audit Result</b>						
<b>Implementation of Consulting Services Procurement</b>						
	<p><b>Objective :</b></p> <ul style="list-style-type: none"> <li>• Ensuring that the consulting services procurement procedure has been implemented according to NPA rules and regulations.</li> </ul>					
	<p><b>Steps :</b></p> <p>i. Check whether the PE maintains a set of Guidelines, Manuals pertaining to the selection and recruitment of consultants which is unprinted and published in the NPA/PFD web.</p>					
	<p>ii. Make sure the consulting services have been planned at the beginning of the year, approved by the authority and Detailed Procurement Plan is maintained to monitor the implementation as per the provisions of the GPG 2007.</p>					
	<p>iii. Examine if the services required by the consulting services users are implemented by a third party (not by the service users themselves).</p>					
	<p>iv. See whether required consulting service is a consulting firm or individual consultants</p>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	v. Make sure that the consulting service procurement include clear Terms of Reference (TOR) and a Cost Estimate.					
	vi. See whether selection method is in accordance with the approved Procurement Plan					
	vii. Check whether proper Expression of Interest (EOI) is published as per the provisions of GPG 2007					
	viii. Check whether proper Request for Proposals (RFP) prepared by the PE and it has been approved by the respective PC /TEC and particularly check the selection criteria is incorporated correctly.					
	ix. Check the short listing procedure followed by the PC/TEC and the methodology used and whether shortlisted any unsuitable consultants ( by using either elimination of obviously unsuitable consultants or selecting the most suitable consultants)					
	x. Check that the TOR and Minutes of explanation include the criteria for proposal evaluation and the selection criteria has been conveyed to the Short listed consultants.					
	xi. Obtain procurement committee/TEC evaluation results on the selection process and test the evaluation result is according to the evaluation established criteria. The basic elements evaluated include experience, approach and methodology, and qualification of experts.					
	<b>Evaluation of Consulting Services</b>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>• When evaluating consultants, individuals (ICC or ICS) or firms, the technical qualifications are also initially assessed. For individual consultant selection, once the technical qualifications are</li> <li>• determined, the consultant obtaining the highest technical score above the minimum technical qualifying mark is requested to submit a financial offer and to negotiate a contract.</li> </ul>					
	<ul style="list-style-type: none"> <li>• In the case of consulting firms, depending on the selection method (QCBS, QBS,LCS,FBS,CQS and SSS) , the selection could be similar to that of individual consultants (as indicated above) or the final selection could be determined by scoring and assigning weights to both the technical and financial evaluation. The highest ranked consultant resulting from the sum of the combined technical and financial scores would be recommended for invitation to negotiate the contract.</li> </ul>					
	<b>Technical Evaluation</b>					
	<ul style="list-style-type: none"> <li>• Technical Evaluation is the most important aspect of the consultancy services procurement and needs to be thoroughly scrutinized. The following points to be considered while reviewing Technical Evaluation:</li> </ul>					
	<ul style="list-style-type: none"> <li>• Evaluation criteria should be approved in advance.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Setting of evaluation criteria should be in objective manner rather than subjective manner.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Lack of adequate information and data for fair evaluation.</li> </ul>					
	<ul style="list-style-type: none"> <li>• No proper basis for short listing exercises.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>Evaluation criteria may not be uniformly applied (For example, experience of similar job is given high weightage).</li> </ul>					
	<ul style="list-style-type: none"> <li>Authenticity of documents submitted along with RFPs (Technical proposal).</li> </ul>					
	<ul style="list-style-type: none"> <li>Inconsistency in evaluation of educational qualification of experts due to disparity in certificate issued by different institutions.</li> </ul>					
	<ul style="list-style-type: none"> <li>Opening of proposal even all bidders are not present while opening tenders.</li> </ul>					
	<ul style="list-style-type: none"> <li>Development Partners' guidelines not adequately complied with.</li> </ul>					
	<b>Financial Evaluation</b>					
	<ul style="list-style-type: none"> <li>The Financial Evaluation is another aspect of the consulting service procurement that needs to be considered</li> </ul>					
	<ul style="list-style-type: none"> <li>GPG 2007 guidelines not adequately complied with.</li> </ul>					
	<ul style="list-style-type: none"> <li>Possibility of calculation mistake in currency conversion as RFPs may have quoted different foreign currency.</li> </ul>					
	<ul style="list-style-type: none"> <li>Increase or decrease in scope of work in course of negotiation.</li> </ul>					
	<ul style="list-style-type: none"> <li>Difficulty in comparison of RFPs due to non submission of proposal in structured format.</li> </ul>					
	<ul style="list-style-type: none"> <li>Non recording of negotiation proceedings or inadequately records pertaining to negotiations</li> <li>In the case of consulting services, there are consulting firms and individual consultants. Contracts for these two categories of consultants are negotiated slightly differently</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<b>Consulting Services- Variation in Scope of work</b>					
	<ul style="list-style-type: none"> <li>Consultants are appointed with defined scope of work and responsibilities. Normally in public work projects consultants are appointed for engineering design and supervision of the construction work. Payment to consultants depends upon the nature of contracts, which may include time-based contract, lump sum payment etc. Following areas needs to be considered</li> </ul>					
	<ul style="list-style-type: none"> <li>Modification in the assignment which is not directly related with existing scope of work</li> </ul>					
	<ul style="list-style-type: none"> <li>Rates for additional work through negotiation may not be reasonable.</li> </ul>					
	<ul style="list-style-type: none"> <li>Additional work is awarded through approving variation order without having adequate option analysis and justification.</li> </ul>					
	<ul style="list-style-type: none"> <li>Extension of time without justification even the scope of work remains the same.</li> </ul>					
	<ul style="list-style-type: none"> <li>Payment of contract amount in full even the scope of work is reduced or works was not completed.</li> </ul>					
	<ul style="list-style-type: none"> <li>Appointment of separate consultant for the same job by reducing the scope of work of previously appointed consultant.</li> </ul>					
	<ul style="list-style-type: none"> <li>Extension of contract period without approval from competent authority</li> </ul>					
	<ul style="list-style-type: none"> <li>Performance of consultants &amp; payments</li> </ul>					
	<b>The auditor should also consider following:</b>					
	<ul style="list-style-type: none"> <li>Delay in commencement of work.</li> </ul>					
	<ul style="list-style-type: none"> <li>Making claims without adequate supporting documents.</li> </ul>					
	<ul style="list-style-type: none"> <li>Payment made for the idle period when the consultants have not performed their work -without having adequate justification.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>Non-compliance of Income tax Laws while making payments</li> </ul>					
	<ul style="list-style-type: none"> <li>Non-submission of adequate supporting for the expenses which are reimbursable at cost.</li> </ul>					
	<ul style="list-style-type: none"> <li>Reimbursement made for the expenses incurred other than project purposes.</li> </ul>					
	<ul style="list-style-type: none"> <li>Ownership of fixed assets procured under the Payment made in foreign currency instead of local currency not in accordance with the terms of the agreement.</li> </ul>					
	<ul style="list-style-type: none"> <li>Payment made in foreign currency instead of local currency not in accordance with the terms of the agreement.</li> </ul>					
	<ul style="list-style-type: none"> <li>Issuance of variation order for the inputs covered by the approved scope of work</li> </ul>					
	<ul style="list-style-type: none"> <li>Payment should not be in excess of approved man months/days and other facilities at agreed quantity and amount.</li> </ul>					
	<ul style="list-style-type: none"> <li>Out of pocket expenses should be within agreed amount. Contract.</li> </ul>					
	<ul style="list-style-type: none"> <li>Ensure that the information in the curriculum vitae and the authenticity of the expert's formal education is according to the established qualifications.</li> </ul>					
	<ul style="list-style-type: none"> <li>Check the process used prior to determining the winner, (whether there is negotiation and clarification, test the process - compare with the minutes) and make sure it is according to the RFP documents. Review the work result of the technical team that evaluates activity report on the implementation of consulting activity.</li> </ul>					
<b>Make a Conclusion of Audit Result</b>						
4	<b>Procedure of PPP Projects</b>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Objective :</b></p> <ul style="list-style-type: none"> <li>Assuring that the PPP projects have followed the provisions of the applicable provisions of the Guidelines..</li> </ul>					

	<p><b>Steps</b></p> <ol style="list-style-type: none"> <li>i. Identify the Internal Control of the PPP projects in the PE</li> <li>ii. Assess the adequacy of IC pertaining to PPP activities.</li> <li>iii. Assess the level of Risk by considering the IC system operating in the PE</li> <li>iv. Check whether PPP unit is available in the PE</li> <li>v. Check whether PPP unit/division is available in the approving authority (Line Ministry and the Ministry of Finance)</li> <li>vi. Identify the relevant portions, procedure laid down in Government Tender Procedure – Part 11 issued in 1998 pertaining to PPP projects.</li> <li>vii. Identify the PPP process followed by the PE</li> <li>viii. Determine the gaps between the process followed and the procedures laid down in the Guidelines.</li> <li>ix. Assess whether there is any study /evaluation done for pre-feasibility study before proceed.</li> <li>x. Assess the process followed to select consultants for feasibility studies and their performance</li> <li>xi. Check whether the consultants who developed RFP and contract have given proper <b>Transaction Advice</b> pertaining to managing the PPP project.</li> <li>xii. Identify different forms of PPP projects awarded such as BOT, BOO or IPP etc.</li> <li>xiii. Assess the level of competence of the Cabinet Appointed Negotiation Committee (CANC) and Project Committee (PC) members to evaluate PPP projects by taking into consideration of the nature, complexity of the project.</li> <li>xiv. Examine the Evaluation process, criteria etc. followed by the PC and CANC to arrive at the determination.</li> <li>xv. Assess how PPP project has identified by the PE (By considering the national priority -In terms of the pipe-line</li> </ol>				
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	<p>projects in the National Investment Plan or some other basis)</p> <p>xvi. Identify any conflict of Interest visible in awarding PPP projects.</p> <p>xvii. Assess the adherence to procurement principles pertaining to PPP projects</p> <p><b>Evaluation of PPP Proposals</b></p> <p>i. Assess the affordability of PPP projects identified – (Government and the end users)</p> <p>ii. Check how the risk allocation done between the project proponent and the PE.</p> <p>iii. Check what kind of government guarantee for loan repayment and demand risk.</p> <p>iv. Assess the contingent liability created due to the project and whether it has been taken into consideration.</p> <p>v. Assess the risk undertaken by each party - the Private Party (Proponents) and the Government in awarding PPP projects</p> <p>vi. Assess the justification of Risk undertaken by the government and the project proponent.</p> <p>vii. Check the reasonableness of the Cost Estimate submitted by the Proponent.</p> <p><b>PPP Implementation</b></p> <p>i. Check the Quality of outputs generated from PPP projects.</p> <p>ii. Assess the attainment of Economy, Efficiency and Effectiveness (VFM) of PPP projects awarded. (Pl use performance Audit Manual )</p> <p>iii. Assess the final outputs and outcomes obtained from PPP projects.(Pl use performance Audit Manual)</p> <p><b>Deviation from PPP Procedures</b></p> <p>i. Identify any deviations made in awarding PPP projects.</p> <p>ii. Identify the provisions laid down in 1998 Tender Procedure pertaining to unsolicited proposals.</p>				
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No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	iii. Identify the procedures followed by PE to entertain unsolicited proposals deviating from the 1998 Tender Procedure. iv. Examine the sufficiency of parameters considered by the authority when approving PPP projects in principle for unsolicited proposals. v. Assess the risk allocation of each party pertaining to unsolicited proposals. vi. Assess the national priority of unsolicited projects. vii. Identify the government guarantee and contingent liability of project awarded under unsolicited basis. viii. Overall assessment of project bases on VFM					
<b>Make a Conclusion of Audit Result</b>						
4	Checking the Reasonableness of the Procurement <b>Price</b>					
	<b>Objective :</b> <ul style="list-style-type: none"> <li>• To obtain assurance that the contract price is the lowest price for the quantity and quality specified in the procurement documents and meets the standards for Value for Money (VfM) which can be easily demonstrated.</li> <li>• Calculating Procurement Entity’s Estimate (PES)</li> </ul>					
	<b>Steps</b> <ol style="list-style-type: none"> <li>i. Obtain PES prepared by / for the Procurement Committee that has been approved by the users. (PEs may be prepared by procurement officials / committee themselves based on the engineering estimates and prepared by the Engineering consultant / other experts, after it is reviewed by procurement officials).</li> </ol>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	ii. Scrutinize the volume used in PES calculation, particularly coefficients of wages, materials and equipment whether it is reasonable or based on an accepted reference point.					
	iii. Scrutinize to ensure the price in PES calculation is based on local market price determined in the procurement process, standard unit price information published by a recognized authorized institution.					
	iv. Make sure that the works, goods/equipment specifications and price reference used by auditee in preparing PES are in accordance with the specifications in the procurement document					
	v. Make sure that the PES determined is used as a basis for calculating the performance bond.					
	vi. Payment without adequate justification and support.					
	vii. Calculation of price escalation without considering source of price mentioned in the agreement.					
	viii. Calculation of price escalation without applying agreed price escalation formula.					
	ix. Payment made without considering amount of agreed discount.					
	x. Payment of escalation in provisional sum (lump sum amount in BOQ).					
	xi. Price escalation awarded in newly developed item rates.					
	xii. Change in source of price index without seeking approval from employer.					
	xiii. Use of different index instead of applying agreed source of index.					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	xiv. Payment without adequate justification and support.					
	xv. Calculation of price escalation without considering source of price mentioned in the agreement.					
	xvi. Calculation of price escalation without applying agreed price escalation formula.					
	xvii. Payment made without considering amount of agreed discount.					
	xviii. Payment of escalation in provisional sum (lump sum amount in BOQ).					
	xix. Price escalation awarded in newly developed item rates.					
	xx. Change in source of price index without seeking approval from employer.					
	xxi. Use of different index instead of applying agreed source of index.					
<b>Measurement and Payment</b>						
	<b>Steps</b> The Standard Bidding Documents approved by the PE provides for mode of measurement and payment that has to be adhered to. Some of the points to be considered in course of audit are to confirm:					
	i. Payment made without applying rates mentioned in bill of quantity(BOQ).					
	ii. Payment against quantity which is previously paid.					
	iii. Mistake in total of bill.					
	iv. Determination of rate and payment made for the items covered by B.O.Q.					
	v. Payment of new items without rate analysis.					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	vi. Amount of foreign currency and exchange rate while making payments					
	vii. Lack of negotiation in determining the rate for new item.					
	viii. Lack of original and adequate supporting documents.					
	ix. Payment made without measurement of work done & incomplete work.					
	x. Payment by changing measurement unit such as months to days, liters to metric ton, metric ton to cubic meter etc.					
	xi. Items mentioned in specification as non-measurable have been paid by measuring such items.					
	xii. Duplication in measurement of same item.					
	xiii. Huge quantity difference between quantity in interim payment and final bill.					
	xiv. Make a conclusion of audit result					
	xv. Ensure that contract price does not exceed budget ceiling					
	xvi. Evaluate the reasonableness of contract price if PE Sis not used as a reference					
	xvii. Check whether the approach to cost/unit price calculation is according to the determined technical specification					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p>xviii. If there is a difference in the implementation method between tender/contract document and the result in the field (do a site visit), check that might be due to a collusion between users and the contractor to increase the PES unit price. (for example: the tender document that the works that must use heavy equipment so as the PES is higher, however it is reality it is found the work can be done manually resulting in cheaper cost but at a cost of time).</p>					
	<p>xix. Check the supporting documentation by the contractors, users as well as supervising consultants (such as log books, daily reports, back up data etc.) on the realization of the usage of material, wages and equipment. Compare the result with the volume used to calculate contract price (bill of quantity).</p>					
	<p>xx. Check the calculations by doing a unit price analysis, (for example, whether a material component which is no longer available or difficult to obtain locally, with the purpose of increasing unit price, however in fact it is replaced by material which is cheaper and available locally).</p>					
	<p>xxi. Check if in the implementation there is equipment made available by users (without cost), but the cost of the equipment is charged in the calculation of contract unit price.</p>					
	<p>xxii. Do other tests to check there is no fraudulent mark-up if there are indications this may have happened. Investigated further by collecting sufficient evidence.</p>					



No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	i. Modification of rates –Modification of rates should be guided in accordance with the Standard Bidding Document.					
	ii. Modification in Design and Specification –It should be dealt with in accordance with the terms and conditions mentioned in the bidding documents within the provision of the FR.					
	iii. The main focus of the audit at implementation stage would be to determine;					
	iv. Whether the implementation is being carried out in accordance with the detailed plans, time schedule and system and procedure are in place for efficient execution of the public works. A few of the specific aspects to be checked and analyzed are stated below:					
	v. Determine the cause of delay and actions taken by the authorities. (e.g. delay due to bad planning, poor supervision and lack of coordination etc).					
	vi. Identify the wastage and overspending.					
	vii. Variation or changes that have added to cost.					
	viii. Whether progress of work is in accordance with the contract schedule.					
	ix. Whether supervision at construction site is adequate.					
	x. Whether site records have been properly maintained (for example site register of material, equipment, time sheet, Inspection Register etc.).					
	xi. Whether the insurance and bank guarantee covers the project period.					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	xii. Whether the extension of contractors is approved by the competent authority.					
	xiii. Whether extension awarded with or without charging penalty.					
	xiv. Whether the different claims have been made in time by the contractor.					
	xv. Carry out work from sub-contractor even no provision is therein agreement to appoint sub-contractor.					
	xvi. Payment made for loss or damages even after the compensation is received by contractor from insurance Co.					
	xvii. Use of material imported under custom facilities in other than project purposes.					
	xviii. Poor supervision by consultants.					
	xix. No legal action initiated against contractors leaving job incomplete.					
	xx. Poor implementation of decision against black list contractor/suppliers.					
	xxi. Non-recovery of additional liability from contractor who left their job midway and completed such unfinished work from new contractor.					
	xxii. Payment made at agreed rate even the work done is below the standard or quality.					
	xxiii. Provide construction material departmentally to contractor even the contractor was supposed to arrange such required material.					
	xxiv. Non-settlement of installment of advances.					
	xxv. Payment without adequate justification and support.					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	xxvi. Calculation of price escalation without considering source of price mentioned in the agreement.					
	xxvii. Calculation of price escalation without applying agreed price escalation formula.					
	xxviii. Payment made without considering amount of agreed discount.					
	xxix. Payment of escalation in provisional sum (lump sum amount in BOQ).					
	xxx. Price escalation awarded in newly developed item rates.					
	xxxi. Change in source of price index without seeking approval from employer.					
	xxxii. Use of different index instead of applying agreed source of index.					
	xxxiii. Payment without adequate justification and support.					
	xxxiv. Calculation of price escalation without considering source of price mentioned in the agreement.					
	xxxv. Calculation of price escalation without applying agreed price escalation formula.					
	xxxvi. Payment made without considering amount of agreed discount.					
	xxvii. Payment of escalation in provisional sum (lump sum amount in BOQ).					
	xxviii. Price escalation awarded in newly developed item rates.					
	xxxix. Change in source of price index without seeking approval from employer.					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	xl. Use of different index instead of applying agreed source of index.					
<b>Make a Conclusion of Audit Result</b>						
5	<b>Taxes</b>					
	<b>Steps</b>					
	<ul style="list-style-type: none"> <li>Identify type of tax/PNBP of procurement contract. Please note that in some contractual documents taxes that should be levied by work providers are not stated specifically</li> </ul>					
	<ul style="list-style-type: none"> <li>Check contract payment and tax/PNBP payment documents, to make sure that all tax/PNBP transactions have been withheld/charged and paid to</li> </ul>					
	<ul style="list-style-type: none"> <li>The State/Regional /SOE/ROE/Public Service Enterprise Treasury, including costs for organizing and preparing the document, which are collected at the time of document collection. If required confirm to receiver bank</li> </ul>					
	<ul style="list-style-type: none"> <li>Check the conformity of tariff withheld on tax/PNBP</li> </ul>					
	<ul style="list-style-type: none"> <li>Carry out other procedure to ensure that there is no tax/PNBP that have not been levied or paid to the State Treasury/Regional Treasury. If there is, determine the value</li> </ul>					
	<ul style="list-style-type: none"> <li>(applicable Tax regulations for Public procurement are particularly the Government Regulation No. 140 of 2000 and Decree of Minister of Finance No. 559/KMK.04/2000</li> </ul>					
<b>Make a conclusion of audit result</b>						
6	Contract Price and Implementation of Consulting Services					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Objectives :</b></p> <p>To assess price reasonableness of contract price and conformity of consulting services implementation with the contract</p>					
	<p><b>Steps :</b></p> <ul style="list-style-type: none"> <li>• Test the data described in curriculum vitae (CV) of consultants, including by requesting copies of diploma, and ensuring that substantial experience is supported by the references of previous service users.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Test billings with rates in the contract</li> </ul>					
	<ul style="list-style-type: none"> <li>• Make sure that the incurred non-personnel costs are in conformity with the contract provisions</li> </ul>					
	<ul style="list-style-type: none"> <li>• Test if in the non-personnel costs include the cost of purchase/procurement goods. If there is, check if it has been implemented efficiently and economically (for example : through price comparison among a few bidders).</li> </ul>					
	<ul style="list-style-type: none"> <li>• Test the names of personnel in the contract with other supporting evidence such as time sheets of attendance of consultants. If a consultant is replacement, check if the replacement personnel is equally qualified as the person listed.</li> </ul>					
	<ul style="list-style-type: none"> <li>• If the consultants have other contracts in parallel with current contract, and test that both contracts do not have the same consultants (double-dipping issues)</li> </ul>					
	<ul style="list-style-type: none"> <li>• Check payments to consultants to ensure that payment is according to progress of the work, supported by supervisory documents</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>Compare the consulting services contract period with the supervised attendance records of the consultants and the billings paid for.</li> </ul>					
<b>Make a conclusion of audit result</b>						
7	<b>Checking Procurement Quantity Accuracy</b>					
	<p><b>Objective :</b></p> <p>Make sure that the quantity of procurement conforms with the quantity in the contract and payment has made according to the physical progress.</p>					
	<b>Steps :</b>					
	<ul style="list-style-type: none"> <li>Obtain and scrutinize Minutes of completion of the procurement and compare with details in the contract.</li> </ul>					
	<ul style="list-style-type: none"> <li>Test/calculate physically to ensure that the total of goods received/construction volume is according to the contract. Physical test/calculation is contained in the Minutes of Physical Examination signed by auditor and works providers.</li> </ul>					
	<ul style="list-style-type: none"> <li>Determine whether or not there is a shortage of quantity/volume of G/S. If there is a shortage determine the amount including the amount based on unit price in the contract multiplied by the shortage of work volume.</li> </ul>					
	<ul style="list-style-type: none"> <li>Check if there is a portion of main works which is assigned (subcontracted) to another party. The works that can be subcontracted is not main works and it is prioritized to small providers, however the responsibilities remain to the Main G/S providers.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>If there is variation work, check the reasons for the variations work and make sure that the variations work is based on a condition that can be accounted for or is reasonable, including : documented support of an addendum; and carry out physical examination.</li> </ul>					
	<ul style="list-style-type: none"> <li>Confirm (with the supplier of providers, users or other parties) to make sure that the quantity is according to the contract and its supporting documents.</li> </ul>					
	<ul style="list-style-type: none"> <li>Carry out other procedures to ensure that procurement is according to the contract.</li> </ul>					
	<ul style="list-style-type: none"> <li>Verify the period (dates) and total stages of payment and then compare with the period (dates) or level of procurement progress to ensure that the payment (including installments) is based on the period and level of physical work progress (progress report) as well as the payment procedure stipulated in the contract.</li> </ul>					
	<ul style="list-style-type: none"> <li>Check if the Minutes of Work Progress is fabricated to make early budget disbursement to avoid a carryover of the budget to the next fiscal year.</li> </ul>					
	<ul style="list-style-type: none"> <li>Obtain payment transactions and test that such payment is received by the contractor and compare the invoice and receipt documents to detect fraudulent invoicing.</li> </ul>					
	<ul style="list-style-type: none"> <li>Where goods originated from overseas (imported), obtain confirmation from other parties such as Customs</li> </ul>					
<b>Make a conclusion of audit result</b>						
8	<b>Checking Procurement QUALITY Accuracy</b>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<p><b>Objective :</b></p> <p>To ensure that the quality of the Procurement matches the specification requirements in the contract.</p>					
	<p><b>Steps :</b></p>					
	<ul style="list-style-type: none"> <li>Study (analyze) contract document, to find out the requirements of the quality agreed upon in the contract.</li> </ul>					
	<ul style="list-style-type: none"> <li>Obtain and check the Minutes of work completion, and supporting document, to find out if it has been made and processed sufficiently according to the contract provisions and has included the participation of competent officials.</li> </ul>					
	<ul style="list-style-type: none"> <li>Testing the quality to ensure that the specification is according to the requirements in the contract/ (if deemed necessary utilize competent expert opinion in determining the quality). Do a ‘walk-through’ physical examination. Ensure the results of ongoing progress implementation testing is contained in the Minutes of Quality Testing.</li> </ul>					
	<ul style="list-style-type: none"> <li>To ensure conformity of quality, testing can also be done by getting confirmation from the unit or users of goods procured</li> </ul>					
	<ul style="list-style-type: none"> <li>Verify whether there is quality reduction. If any, determine the total value.</li> </ul>					
	<ul style="list-style-type: none"> <li>Obtain the certificate of origin to ensure that the manufactured goods are original.</li> </ul>					
	<ul style="list-style-type: none"> <li>Specifically for certain goods, make sure that in the contract there is a requirement of ‘fit for operation’. If it has been carried out, obtain the minutes of the test for ‘fit for operation’.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<b>Use of Material/Equipment</b>					
	<ul style="list-style-type: none"> <li>This is the situation where the employer provides material and equipment. Such practice should be avoided and resorted to only in emergency situations. The auditor should consider the following:</li> </ul>					
	<ul style="list-style-type: none"> <li>Authorization for Issuance or Requisition form.</li> </ul>					
	<ul style="list-style-type: none"> <li>Requisition form must be properly signed by recipient department or person.</li> </ul>					
	<ul style="list-style-type: none"> <li>Posting in the stock register showing quantity issued.</li> </ul>					
	<ul style="list-style-type: none"> <li>Records of material used must be properly maintained and updated.</li> </ul>					
	<ul style="list-style-type: none"> <li>Site register needs to kept showing Quantity received, Issued and Balance.</li> </ul>					
	<ul style="list-style-type: none"> <li>Verification of closing stock at the end of fiscal year.</li> </ul>					
	<ul style="list-style-type: none"> <li>Quantity used must be tallied with MB.</li> </ul>					
	<ul style="list-style-type: none"> <li>Losses or wastages are approved by the competent authority.</li> </ul>					
	<ul style="list-style-type: none"> <li>Unused material must be returned to control store.</li> </ul>					
	<ul style="list-style-type: none"> <li>Permanent Records of Equipment kept giving details (cost, date of purchase, size, brand etc.).</li> </ul>					
	<ul style="list-style-type: none"> <li>Machinery and equipment should be used in project or specified purposes only.</li> </ul>					
	<ul style="list-style-type: none"> <li>Regular maintenance of equipment.</li> </ul>					
	<ul style="list-style-type: none"> <li>Maintenance of operation logs of machinery, Vehicles etc. and authorized properly.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
<b>Make a conclusion of audit result.</b>						
9	<b>Timeliness in the Procurement Completion</b>					
	<b>Objective :</b>					
	<ul style="list-style-type: none"> <li>• To make sure that the procurement completion is according to or does not exceed the time period in the contract or its addendum</li> </ul>					
	<b>Steps :</b>					
	<ul style="list-style-type: none"> <li>• Study the contract and related documents to find out the deadline for work completion and sanction for work delays.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Obtain Minutes of Work Completion or similar documents to find out when the works were completed and compare with the actual time in the contract.</li> </ul>					
	<ul style="list-style-type: none"> <li>• If there is time extension for work completion (contract addendum), scrutinize reasons for the extension to</li> </ul>					
	<ul style="list-style-type: none"> <li>• determine that the extension is worthy and reasonable and not to cover up the failure of the contractors.</li> </ul>					
	<ul style="list-style-type: none"> <li>• Worthy and reasonable reasons for an extension are :</li> </ul>					
	<ul style="list-style-type: none"> <li>• Additional work</li> </ul>					
	<ul style="list-style-type: none"> <li>• Change of design</li> </ul>					
	<ul style="list-style-type: none"> <li>• Delay due to users</li> </ul>					
	<ul style="list-style-type: none"> <li>• Issues arising beyond the control of the contractor, Force majeure</li> </ul>					
	<ul style="list-style-type: none"> <li>• If there is a delay in works due to failure of the contractor responsibility, make sure that penalties are imposed according to the contract provisions.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>Users of procured goods may terminate the contract according to the clauses in the contract, if delay is prolonged, eg where the penalty has almost reached the value of performance bond. In the event of a partial contract termination, the consequence of procurement providers is : performance bond shall become the possession of state/region, the remaining advance payment must be settled by G/S providers, paying fine/compensation to the state/region, blacklisted for a certain period.</li> </ul>					
	<ul style="list-style-type: none"> <li>If the delay in work implementation is due to the negligence of the users, then compensation sanction may be imposed on G/S providers, according to what is set forth in the contract and the applicable laws and regulations.</li> </ul>					
	<ul style="list-style-type: none"> <li>Making sure of timeliness in work completion, procurement delivery can be done by direct confirmation with various parties of goods users or other parties, and other procedures to determine when the work/goods actually were received/completed.</li> </ul>					
.	<b>Make a conclusion of audit result.</b>					
10	<b>Ensuring PROPER UTILIZATION of the Procurement</b>					
	<b>Objective :</b>					
	To make sure that the procurement being carried out or which has been completed / delivered is according to the contract and is being appropriately utilized (if already commissioned).					
	<b>Steps :</b>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>Do a site visit to the construction location to determine that the construction works have been or are being completed and have been utilized if handover has taken place. If the construction works have been completed but have not been utilized, check the reasons. (May need a discussion with the users to establish the reasons). Check that utilization is planned in the near future.</li> </ul>					
	<ul style="list-style-type: none"> <li>In the case of goods procurement, obtain the document of goods delivery / handover documents to the goods users or other documents, to find out the location of the goods. Do a site visit and physically inspect the goods, interview or confirm with the users to make sure that the goods have been utilized as appropriate or is according to the need.</li> </ul>					
	<ul style="list-style-type: none"> <li>Check if the procurement being carried out / purchased is supported by the necessary facilities / infrastructures or available facilities (do a common sense test, for example: in the case of the purchase of sophisticated equipment if there is no electricity or operator is in place, logically the goods cannot be utilized, even though the goods are needed badly, may require further investigation and executive action).</li> </ul>					
	<ul style="list-style-type: none"> <li>Check to ensure the procurement is not doubled-up by a previous procurement.</li> </ul>					
<b>Make a conclusion of audit result.</b>						
11	<b>Overview of Audit steps to Identify Corruption</b>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	(The following audit steps are designed as overview audit checks to ensure that risks have been identified and the necessary audit step has been implemented in the previous audit stage).					
	<b>Objective :</b>					
	To quickly identify if there is any indication of corruption in the implementation of the procurement process.					
	<b>Steps</b>					
	<ul style="list-style-type: none"> <li>Some indications / flags of corruption / corrupt practices are:</li> </ul>					
	<ul style="list-style-type: none"> <li>Procurement which should have been implemented through open tender is implemented by direct appointment and adversely affects state finance</li> </ul>					
	<ul style="list-style-type: none"> <li>Evidence of collusive tendering among potential bidders / suppliers (sometimes by paying a fee to the losing tenderer)</li> </ul>					
	<ul style="list-style-type: none"> <li>Specifications of the items procured are not according to the contract, but successful tenderer has been paid the contract price (possible collusive practice between supplier and auditee officials, or sign-offs by supervising engineers).</li> </ul>					
	<ul style="list-style-type: none"> <li>The procurement package detailing the specification is directed / tilted toward a particular brand that is not suitable for needs specified by the users;</li> </ul>					
	<ul style="list-style-type: none"> <li>Fictitious procurements;</li> </ul>					
	<ul style="list-style-type: none"> <li>Paying twice for the same procurement;</li> </ul>					
	<ul style="list-style-type: none"> <li>Abuse of or engineered variations on construction works (collusion between suppliers, engineers, supervising engineers and possibly auditee staffs)</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>Shadow or fictitious contractors (just using the name) affecting the quality of goods/services procured</li> </ul>					
	<ul style="list-style-type: none"> <li>Steps that may be carried out to determine problem procurements:</li> </ul>					
	<ul style="list-style-type: none"> <li>Check of procurement processes which should have been done by open tender but procured by direct appointment. Check NPA rules and regulations to determine whether direct procurements criteria have been followed (there are specific conditions that must be met).</li> </ul>					
	<ul style="list-style-type: none"> <li>Indications of collusive tendering include:</li> </ul>					
	<ul style="list-style-type: none"> <li>Bidding format for bidders are the same;</li> </ul>					
	<ul style="list-style-type: none"> <li>The difference in price between bidders occurs on a systematic basis (say every 3rd or 4th item) or limited to a few items of insignificant value.</li> </ul>					
<b>Make a conclusion of audit result.</b>						
12	<b>AUDIT COMPLETION</b>					
	<b>Objective :</b>					
	<ul style="list-style-type: none"> <li>To communicate the audit findings to the officials responsible for the procurement being audited.</li> </ul>					
	<b>Steps :</b>					
	<ul style="list-style-type: none"> <li>Generally follow the guidance in the AGDSL Audit Manual on reporting requirements to the auditee, once the audit is complete.</li> </ul>					

No.	Stages of Procurement	Yes	No	Reasons For No – X-ref to WP	Recommendations for improvement? Yes / No. X-ref to WP	AE / Staff initial & Date
	<ul style="list-style-type: none"> <li>Particularly ensure AGDSL Audit Manual and guidelines are followed, both in the gathering of the data and having a proper review done by your Superintendent of Audit (SA). Clear problem areas / indicators / findings with your SA on a regular basis and come to a consensus on whether further audit steps must be carried out to come to a conclusion.</li> </ul>					
	<ul style="list-style-type: none"> <li>Prepare the results of the examination and the findings in a brief and clear manner In writing such that the message to the auditee is not ambiguous giving sufficient explanations and providing supporting evidence wherever possible.</li> </ul>					
	<ul style="list-style-type: none"> <li>Give sufficient time to the auditee to understand and to respond in writing</li> </ul>					
	<ul style="list-style-type: none"> <li>Provide the auditee with additional supporting materials and explanations if asked to do so by the auditee.</li> </ul>					
	<ul style="list-style-type: none"> <li>If there is a difference of opinion on the findings, request additional support evidence from the auditee to assess whether audit findings should be revised.</li> </ul>					
<b>Make an Overall Conclusion of the Procurement Audit</b>						

ANNEX 4 –  
INVENTORY OF GOVERNMENT PROCUREMENT  
PROCEDURES

*Inventory of Existing GOSL and Donor Procurement Procedures (as of June 30 2016)*

<b>Serial No</b>	<b>Name of the Institution</b>	<b>Relevant Guidelines</b>	<b>Relevant Section to Public Procurement</b>	<b>Date Promulgated</b>
1.0	National Procurement Agency (NPA)	Procurement Guidelines Goods & Works	All sections	2006.01.27
1.1		Procurement Manual 2006 Goods & Works	All sections	2006.03.01
1.2		Procurement Guidelines on Selection and Recruitment of Consultants	All sections	2007
1.3		Procurement Manual on Selection and Recruitment of Consultants -2007	All sections	2007
1.4		Guidelines for Procurement of Pharmaceuticals & Medical Devices -2006	All sections relevant to the Ministry of Health	2006
1.5		Bidders Guide to Success in Public Procurement - A Hand Book	All sections	2006
2.0	Department of Public Finance, Ministry of Finance	Government Tender Procedure -Part 11 - Private Sector Infrastructure Projects (BOO/BOT/BOOT Projects)	All sections are relevant when private sector provides funds on government infrastructure Projects	1998
3.0	National Procurement Agency (NPA)	Supplement 7 - Procurement Committees (MPC,DPC and PPC)	Supersede Section 2.7.4, 2.7.5, 2.7.6 of the Government Procurement Guidelines (GPG) -2006	2006.10.11
3.1		Supplement 8- Cabinet Appointed Procurement Committees (CAPC)	Supersede Section 2.7.1 of GPG-2006	2006.10.11
3.2		Supplement 9 - ICTAD Registration as Equivalent to Post Qualification Criteria	Supersede to Section 5.3.5 of GPG -2006	2007.05.04
3.3		Supplement 13- Laws Applicable to Procurement Activities	Reference to Section 1.5 of GPG -2006	2007.10.03
3.4		Supplement 14- Variation to Contract Awards	Reference to Section 1.5 of GPG -2006	2007.10.03
3.5		Supplement 15-Dispute Resolution	Reference to Section 5.4.14 of GPG-2006	2007.11.01
4.0	Department of Public Finance	Supplement 17 - Priority Preference to Local Bidders participating in Contracts Works with Domestic Funding	Public Finance Circular 442	2010.04.30
4.1		Supplement 19 - Repairs to Motor Vehicles	Reference Section 9.3 of GPG-2006	2010.09.06

<b>Serial No</b>	<b>Name of the Institution</b>	<b>Relevant Guidelines</b>	<b>Relevant Section to Public Procurement</b>	<b>Date Promulgated</b>
4.2		Supplement 23 - Dealing with Unsolicited Proposals	Government Tender Guidelines - Part II -1998	2011.05.12
4.3		Supplement 24 - Procurement Appeal Procedures	Reference Section 8.3, 8.4 of GPG-2006	2012.03.21
4.4		Supplement 25 - Payment for Members of Procurement Committees, TECC, Project Committees, Staff Officers and other officers assisting to procurement activities	Reference Section 2.9.1 of GPG-2006	2012.07.23
4.5		Supplement 26 - Small Value Procurement Sri Lanka Mission Abroad	Reference Section 3.4,3.4.5 of GPG-2006	2012.08.08
4.6		Supplement 27 - Composition of Technical Evaluation Committees	Reference Section 2.8, 2.8.1 of GPG-2006	2012.08.08
4.7		Supplement 28 - Authority Limits of Procurement Committees for Contract Awards Recommendations/ Determinations under open competitive Bidding , Shopping and Direct Purchase	Reference Section 2.14.1 of GPG-2006	2014.07.04
4.8		Supplement 29 - Advance Payment for Works and Goods Contracts	Reference Section 5.4.4, 5.4.6 and 5.4.8 of GPG-2006	2016.01.25
4.9		Obtaining Security Services for Ministries, Departments, Statutory Boards etc.	Public Finance Circular 445	2010.08.12
4.10		Reservation of Import Cargo for Ceylon Shipping Corporation Ltd	Public Finance Department Circular - PFD/ 03	2016.02.19
4.11		Settlement of Outstanding Contract Administration	Public Finance Circular- 03/2016	2016.02.18
4.12		Purchasing of Air Tickets for Foreign Travel	Public Finance Circular- 431	2016.02.16
4.13		Payment of Fees for urgent Services to Government	Public Finance Circular 01/2016	2016.01.01
4.14		Revision of Total Cost Estimates for the Reconciliation of Cost Variation	Public Finance Circular 02/2012	2012.08.07

<b>Serial No</b>	<b>Name of the Institution</b>	<b>Relevant Guidelines</b>	<b>Relevant Section to Public Procurement</b>	<b>Date Promulgated</b>
4.15	Ministry of Construction and Engineering Services	Establishment of a Standing Technical Committee to report on estimation and rates payable on building and engineering contracts entrusted to state agencies deviating from normal Tender Procedures and Mediation on disputes in contracts under the consolidated Fund	03.03.02.03.002	2008.08.01
5.0	Asian Development Bank (ADB)	Operational Procurement - Goods, Works and Related Services	If Loan/Credit agreements mandate to apply the ADB Procurement Guidelines, ADB Guidelines will apply to the extent applicable when there is a conflict between the ADB Guidelines and the GOSL Procurement Guidelines	April, 2015
		Operational Procurement - Consulting Services		April, 2015
6.0	World Bank (WB)	Guidelines: Goods, Works and Non-consulting Services under IRDP Loans , IDA Credits and Grants	If Loan/Credit or grant agreements mandate to apply the World Bank Procurement Guidelines, the World Bank Guidelines will apply to the extent applicable when there is conflict between the World Bank Guidelines and the GOSL Procurement Guidelines	January, 2011
		Guidelines: Selection and Employment of consultants under IRDP Loans , IDA Credits and Grants by World Bank Borrowers		January, 2011
7.0	Japanese Bank of International Corporation (JBIC)	Procurement under Japanese ODA loans	If Loan/Credit or Grant agreements mandate to apply the JBIC Procurement Guidelines, JBIC Guidelines will apply to the extent applicable when there is a conflict between the JBIC Guidelines and the GOSL Procurement Guidelines	April, 2012
		Guidelines for Employment of Consultants under Japanese ODA loans		April, 2012

Serial No	Name of the Institution	Relevant Guidelines	Relevant Section to Public Procurement	Date Promulgated
8.0	UNDP	UN Procurement Manual	if the donor insists to apply their Procurement Guidelines in terms of the Credit, Loan or Grant agreement signed by the External Resources Department, the Donor Guidelines will prevail to the extend applicable when there is a conflict between the donor procurement Guidelines and the GOSL Procurement Guidelines.	July, 2013
9	IFAD	IFAD Project Procurement Guideline	if the donor insists to apply their Procurement Guidelines in terms of the Credit, Loan or Grant agreement signed by the External Resources Department, the Donor Guidelines will prevail to the extend applicable when there is a conflict between the donor procurement Guidelines and the GOSL Procurement Guidelines.	September, 2010

ANNEX 5 –  
THE PROCUREMENT GUIDELINES AND MANUAL 2006  
ISSUED BY NPA - EXTRACTS AND INDEX

## **The Procurement Guidelines and Manual 2006 issued by NPA Extracts and Index**

These Extracts are reproduced as a Ready Reference for use by the audit staffs. A full copy should be obtained for more extensive usage.

The Procurement Manual<sup>18</sup> sets out the following detailed objectives of public procurement:

### **Why is proficient public procurement so important?**

Public procurement is the process by which the Procuring Entities (PEs) purchase the inputs for vital public-sector investments. Those investments, both in physical infrastructure and in strengthened institutional and human capacities, lay foundations for national development. In procurement terms, those inputs are generally grouped into three categories: Works (for example, bridges and buildings, harbors and highways); Goods - typically equipment, materiel and supplies, commodities, textbooks, medical supplies; and Services - expert advice and training, conventionally labeled Technical Assistance, as well as such things as building maintenance, computer programming, etc).

The quality, timeliness, appropriateness and affordability of those procured inputs can largely determine whether the public investments will succeed or fail. So the beneficial impact and contribution of the input, particularly in the case of technical assistance services, can exceed their direct costs, by several orders of magnitude. Yet procurement costs can be substantial, consuming scarce resources of tightly constrained government budgets. Often the required funding must be borrowed. Moreover, the process also consumes scarce skilled public-sector human resources. It takes time, not merely for procurement planning and contracting but also for contract supervision and execution. And much of this process is highly visible, as well as controversial; exposing politicians and public officers to scrutiny and second-guessing for procurement choices they made deferred or discarded.

On the other hand, the desired impact of procurement is also to inspire the confidence and willingness-to-compete of well-qualified suppliers and contractors. This directly and concretely benefits the Government and the PE, responsive contractors and suppliers, and the funding agencies.

### **A sound procurement system is one that combines all the following hallmarks:**

- Maximizing Economy, efficiency and effectiveness (Value for Money - VfM);
- Adhering to prescribed standards, specifications, local laws rules and regulations and international obligations
- Fair, equal and maximum opportunity for interested parties to participate in Procurement;
- Expeditious execution of Works and delivery of Goods and Services;
- Compliance with local laws and international obligations
- Ensuring Transparency and consistency; and
- Retaining confidentiality of information.”

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<sup>18</sup>Extracts from the SL Procurement Manual 2006 issued by NPA

### **Maximizing Economy:**

Procurement is a purchasing activity of which is to give the purchaser best Value for Money. For complex purchases, value may imply more than just the price, since quality issues also need to be addressed. Moreover, lowest initial price may not equate to lowest cost over the operating life of the item procured. But the basic point is the same: the ultimate purpose of sound procurement is to obtain maximum Value for Money.

### **Adhering to prescribed standards, specifications, local laws rules and regulations and international obligations:**

Good procurement holds its practitioners responsible and accountable for enforcing and obeying the rules. It makes them subject to challenge and to sanction. (Emphasis added)

### **Fair, equal and maximum opportunity for interested parties to participate in Procurement:**

Good procurement is unbiased, consistent, competitive and therefore reliable. It offers all interested contractors, suppliers and consultants a level playing field on which to compete and thereby, directly expands the purchaser's options and opportunities.

### **Expeditious execution of Works and delivery of Goods and Services:**

The best public procurement is simple and swift, producing positive results without protracted delays. In addition, efficiency implies practicality, especially in terms of compatibility with the administrative resources and professional capabilities of the PE and its procurement personnel.

### **Ensuring Transparency and consistency in the evaluation and selection procedure:**

Good procurement establishes and then maintains rules and procedures that are accessible and unambiguous. It is not only fair, but should be seen to be fair. The officials involved in a procurement action shall not abuse their powers. An official who abuses one's position in a procurement action to derive benefits for oneself or one's close associates would deem to be engaged in corrupt practices.

### **Officials shall not take advantage of their involvement in a procurement action for personal gain. Retaining confidentiality of information:**

Parties associated with procurement actions, namely, suppliers/contractors and officials shall ensure that they maintain strict confidentiality throughout the process. No information on the evaluation of bids shall be disclosed to bidders or any person other than those officially involved in the process.

### **The objectives and functions of NPA**

The NPA is the principle authority for formulating and effecting amendments to the Procurement Guidelines; issuance of manuals, Standard Bidding Documents (SBDs), evaluation methodologies, standard contracts, and specifications. Any clarification of the provisions of the Guidelines or the aforementioned documents should be sought from the NPA.

**NPA was established under the directive issued by H.E the President of Sri Lanka with the following objectives:**

- To streamline the government procurement system and standardize the same to be of equal application to all government institutions.
- To ensure better transparency and good governance in relation to government procurement awards.
- To ensure that all parties who are eligible and desirous of participating in public bidding are given an equal opportunity.
- To ensure that the government will get the best value of money in terms of price, quality and timely delivery at procurement.
- To ensure that the government procurement system is made efficient and simplified in order to promote development needs of the country.
- To put in place a monitoring system in relation to selection of successful bidders and award of government tenders.”

### **Key Functions of NPA**

- Develop, implement and review policies in procurement of goods, works and services
- Advise the Ministries and Tender Boards on procurement Activities
- Standardizing of goods and equipment
- Simplification of Review and Approval Process
- Review Procurement Procedures & Procurement Plans of all Government Institutions
- Monitor quality and progress on procurement projects
- Formulate accreditation system on selection of members for Technical Evaluation Committees (TECs) and Tender Boards
- Appoint Tender Board and Technical Evaluation Committee members for procurements of higher values -- Cabinet Appointed Tender Boards, Cabinet Appointed Negotiating Committees and Project Committees
- Introduction of code of conduct and ethics for Procurement Procedures
- Introduction of performance and technical auditing
- Capacity Building in the field of Procurement Management

### **INSTITUTIONS, PROCUREMENT COMMITTEES AND THEIR FUNCTIONS**

#### **Primary Responsibility of Procurement**

The responsibility of a Procurement Action shall be with the Chief Accounting Officer (CAO). Limits of authority and thresholds to make recommendation/determination of contract award shall be decided by the Government from time to time, and shall be announced by circulars issued under these Guidelines by the NPA. The CAO may delegate the authority to Accounting Officers or others.

If not provided in this manual, CAO, AO, Project Directors or other respective authorities shall take every effort to standardize the procurement procedures within the ministry, department, project, Provincial Council or local authorities respectively. Such offices may develop standard forms where possible to streamline the process and expeditious execution and may obtain the assistance of the Procurement Liaison Officer and Procurement Assistant on this regard. They may also obtain guidance for such standardization procedures from NPA.

The CAO should ensure that sufficient training is given to the staff involved in procurement at the ministry and the organizations under the ministry. The CAO and other staff are requested to visit the NPA website ([www.npa.gov.lk](http://www.npa.gov.lk)) to obtain information of such training opportunities.

## **JOINT RESPONSIBILITIES OF Procurement Committee (PCs) and Technical Evaluation Committee (TECs)**

### **Umbrella of Procurement Activities under one Objective**

The appropriate PC and appropriate TEC shall carry out the relevant aspects of the Procurement process. An umbrella of Procurement activities connected with a common objective such as design, separate construction activities in a complex activity shall be handled by the appropriate Procurement Committee. Any Procurement that will lead to other downstream Procurement/s such as selection of consultants for design Works and the contractors for Construction Works shall be aggregated and the appropriate Procurement Committee shall be selected. However, there may be different TECs for each Procurement activity in accordance with the authority and threshold limits applicable to such individual procurement.

Eg: A Procuring Entity is planning to construct a large administrative complex and wishes to award separate contracts for: (a) feasibility studies (consultant services estimated at Rupees 5 m); (b) design and construction supervision (consultant services estimated at Rupees 30 m); (c) construction of the building works contract estimated at Rupees 600 m); and (d) peripheral roads (works contract estimated at Rupees 125 m). The procurement process of all the above four contracts shall be handled by a PC authorized for the aggregate value of Rupees 760 m. However there may be different TECs for each contract. Other than the same PC is responsible for all such contracts for all other purposes including the payments for PC and TEC members the above is considered as four different procurements.

The following extract of the CONTENTS in the Procurement Manual is reproduced to assist the auditor in understanding the Manual accessing the relevant information quickly:

### **Acronyms**

AO	-	Accounting Officer
BOQ	-	Bills of Quantity
CANC	-	Cabinet Appointed Negotiating Committee
CAO	-	Chief Accounting Officer
CAPC	-	Cabinet Appointed Procurement Committee
CBO	-	Community Based Organization
DPC	-	Department Procurement Committee GOSL - Government of Sri Lanka
ICB	-	International Competitive Bidding
ICTAD	-	Institute for Construction, Training & Development
MPC	-	Ministry Procurement Committee

MAPC	-	Ministry Appointed Procurement Committee
MPP	-	Master Procurement Plan
NCB	-	National Competitive Bidding
NPA	-	National Procurement Agency
PC	-	Procurement Committee
PE	-	Procuring Entity
PG	-	Procurement Guideline
PPC	-	Project Procurement Committee
PTS	-	Procurement Time Schedule
RPC	-	Regional Procurement Committee
SCAPC	-	Standing Cabinet Appointed Procurement Committee
SBD	-	Standard Bidding Document
TEC	-	Technical Evaluation Committee
SLR	-	Sri Lanka Rupee
TCE	-	Total Cost Estimate
UNDB	-	United Nations Development Business
VAT	-	Value Added Tax

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ANNEX 6–  
GLOSSARY OF SELECTED ACCOUNTING AND AUDITING  
DEFINITIONS

## GLOSSARY OF DEFINITIONS

"Assignment"	means a specific audit engagement, task, or review activity, such as an audit, fraud examination, or consultancy. An assignment may include multiple tasks or activities designed to accomplish a specific set of related objectives.
"Audit Objectives"	are broad statements developed by auditors and define intended audit accomplishments;
"Audit Procedures"	are the tasks the auditor undertakes for collecting, analyzing, interpreting, and documenting information during an audit. Audit procedures are the means to attain audit objectives;
"Audit Program"	is a document which lists the audit procedures to be followed during an audit. The audit program also states the objectives of the audit;
"Audit Report"	is a signed, written document which presents the purpose, scope, and results of the audit. Results of the audit may include findings, conclusions (opinions), and recommendations;
"Audit Risk"	means the risk that information or financial reports will contain material errors that the auditor may not detect;
"Audit Scope"	refers to the activities covered by an audit. Audit scope includes, where appropriate: <ul style="list-style-type: none"> <li>▪ Audit objectives;</li> <li>▪ Nature and extent of auditing procedures performed;</li> <li>▪ Time period audited;</li> <li>□ Related activities not audited in order to delineate the boundaries of the audit;</li> </ul>
"Audit Standards"	are the criteria by which the operations of an audit are evaluated and measured. They are intended to represent the practice of auditing as it should be;
"Audit Working Papers"	record the information obtained, the analyses made, and conclusions reached during an audit. Audit working papers support the bases for the findings and recommendations to be reported.
"Auditee"	comprises a legal entity, public body, procurement unit, that is a subject of an audit activity;
"Code of Ethics"	The Code of Ethics of the Agency's Audit Directorate are principles relevant to the profession and practice of auditing, and rules of conduct that describe behavior expected of auditors. The Code of Ethics applies to the Agency's staff that provides audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of auditing.
"Compliance"	means conformity and adherence to plans, procedures, laws, regulations, contracts, or other requirements;

"ConflictofInterest"	means any relationship that is or appears to be not in the best interest of the public body. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively;
"Control"	means any action taken by public body's management and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved;
"Error"	as it relates to audit reports is an unintentional misstatement or omission of significant information in a final audit report.
"Follow-up"	by auditors is defined as a process by which they determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings;
"Fraud"	means any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and public bodies to illegally obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage;
"Government"	means the Government of the Democratic Socialist Republic of Sri Lanka
"IllegalActs"	refer to violations of laws and governmental regulations;
"Impairments"	Impairments to individual objectivity and organizational independence may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, properties and resource limitations (funding);
"Independence"	allows auditors to carry out their work freely and objectively. This concept requires that auditors be independent of the activities they audit. Independence is achieved through Agency's status and objectivity;
"Information"	is data the auditor obtains during an audit to provide a sound basis for audit findings and recommendations. Information should be sufficient, competent, relevant, and useful;
"InternalAuditing"	is an independent appraisal function established within a public body to examine and evaluate its activities as a service to the public body.  The objective of internal auditing is to assist members of the public body in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost;
"InternalControl"	is a process within a public body designed to provide reasonable assurance regarding the achievement of the following primary objectives: <ul style="list-style-type: none"> <li>▪ The reliability and integrity of information;</li> <li>▪ Compliance with plans, procedures, laws, and regulations;</li> </ul>

	<ul style="list-style-type: none"> <li>▪ The safeguarding of assets;</li> <li>▪ The economical and efficient use of public funds;</li> <li>▪ The accomplishment of established objectives and goals;</li> </ul>
"INTOSAI"	International Organization of Supreme Audit Institutions
"Irregularity"	<p>refers to the intentional misstatement or omission of significant information in accounting records, financial statements, other reports, documents or records. Irregularities involve:</p> <ul style="list-style-type: none"> <li>▪ Falsification or alteration of procurement, accounting or other records and supporting documents;</li> <li>▪ Misrepresentation or intentional omission of events, transactions or other significant information;</li> </ul>
"Key Audit Findings"	are those conditions which, in the judgment of the Agency, could adversely affect the public body. Significant audit findings may include conditions dealing with irregularities, illegal acts, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses;
"Objectives"	are the broadest statements of what the public body chooses to accomplish;
"Objectivity"	<p>is an independent mental attitude which requires auditors to perform audits in such a manner that they have an honest belief in their work product and that no significant quality compromises are made.</p> <p>Objectivity requires auditors not to subordinate their judgment on audit matters to that of others.</p>
"Public Body"	means any public body, which is partly or wholly financed by the federal, regional or local Government Budget, higher education institutions, and public institutions of like nature
"Recommendations"	are actions the auditor believes necessary to correct existing conditions or improve operations;
"Re-performance"	is the auditor's independent execution of procedures or controls that were originally performed as part of its internal control;
"RiskAssessment"	is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process should provide a means of organizing and integrating professional judgments for development of the audit work schedule;
"Risk Management"	is a management approach designed to identify, assess, manage and control potential risks or situations inherent to procurement system in order to provide reasonable assurance regarding the achievement of the public body's objectives;
"Risk"	is the probability that an event or action may adversely affect the organization or activity under audit.
"SAI"	Supreme Audit Institution

ANNEX 7:

PROPOSED DIVISION TO MANAGE PROCUREMENT AUDITS OF AGDSL

- 1.67. AG shall decide the enhanced duties and responsibilities and also the structure of the Procurement Audit Division in the light of the Procurement Audit Manual to carry out procurement audit function of the ADDSL.
- 1.68. The following aspects should be considered for the new directorate;

## Duties and Responsibilities for Procurement Audit Division

1.69. The Head of Audit Directorate is an officer not less than the rank of Additional Auditor General/Deputy Auditor General is responsible for the efficient and effective functioning of the Agency's Audit Directorate. The Head shall have the following duties and responsibilities:

- To maintain an efficient and effective Audit Directorate able to carry out its functions;
- To implement all relevant aspects of the Procurement Audit Manual and ensure that the prescribed standards and audit plans/work programs are adhered to where applicable;
- To prepare annual and quarterly audit plans/ work plans for the Audit Directorate to ensure optimal deployment of resources to priority audit areas, and to submit the plans to the AG for approval;
- To supervise the conduct of procurement audits, and review the draft audit reports and working papers of the Audit Directorate staff to ensure that:
  - all procurement audits have been carried out to an acceptable standard following prescribed programs;
  - all matters arising have been properly dealt with and reported in the correct manner;
- To prepare procurement audit quarterly reports for submission to the AG within one month at the end of each quarter;
- To audit procurement procedures and payments in public organizations to ensure that all goods, services and works are properly ordered, received, examined and paid for in terms of the Procurement Guidelines, Manuals, Circulars SBDs, and the Procurement Audit Manual and that value for money as an objective of procurement has been achieved;
- The Audit Directorate may collaborate with other directorates of the AGDSL while auditing public bodies.

## Management and Allocation

1.70. The optimum allocation and deployment of procurement audit staff is a key element in the efficient management of the Audit Directorate. By completing the planning processes the Head of Audit Directorate will have a clear record of which audits are scheduled, and where each member of audit staff is to be deployed.

1.71. The Head of Audit Directorate should hold regular meetings of his staff for effective deployment and operations of the Audit Directorate staff. Such meetings should be held at least monthly.

1.72. If there are frequent amendments/ deferrals to the planned schedule the Head of Audit Directorate must take steps to identify the issues and resolve them. At the end of the quarter, the Head will have to account for reasons for major slippages in the execution schedule.

1.73. The Head should organize a monthly staff meeting with a flexible agenda, which is scheduled to take approximately one hour. Several matters should be "standard" items for the

agenda, for example; progress on overall execution of the Annual Work Plan/Audit Plan – degree of slippage, technical issues – and lessons learnt, logistical issues and staff matters etc.

#### Staff Monitoring, Mentoring and Appraisal

- 1.74. Performance of the Audit Directorate will be enhanced if all staff members are effectively monitored, mentored and appraised, on an ongoing basis. The nature of procurement audit makes monitoring and mentoring quite straight forward. The "deployment meeting" will keep the Head apprised of whether staff is completing its work on time, and the detailed review of staff audit working papers will enable the manager to monitor audit standards and quality.
- 1.75. It is important that whenever "performance issues" arise with a member of the Audit Directorate, the matter is raised, discussed, and resolved on an immediate basis. Mentoring therefore becomes an ongoing process. This mentoring should apply equally to both good performance and substandard performance. The Head should also keep a record to keep track of such instances. This record of performance monitoring should then be brought into the annual performance appraisal. The appraisal process should follow normal Government procedures.

Section on Capacity building and training is missing

#### Technical Development and Capacity Building

Objectives of the training and development program

- 1.76. The overall aim of the training and development program should be to develop a wide range of audit skills in the following areas:
- **Basic Technical Skills:** these include, analytical skills, use of audit program and procurement audit control questionnaires, production of satisfactory working papers and procurement audit report writing;
  
  - **Professional Skills:** a knowledge of auditing and public procurement processes, relevant legislation, and code of ethics of auditors;
  
  - **Specialist Technical Skills:** these include IT and other skills;

- **Investigatory Skills:** how to conduct a value-for-money audit and how to investigate fraud and corruption;
  
- **Interpersonal and Communication Skills:** interviewing techniques, how to deal with uncooperative auditees and how to persuade public bodies' management to accept audit recommendations;
  
- **Management and Organizational Skills:** how to conduct procurement audit, how to lead an audit team and audit planning and control; and
  
- **Knowledge of the Audit Division's Organization:** knowing the protocol, regulations, procedures and decision making processes of the Audit Division's organization and knowing how it is structured.

#### Training Records

- It is vital that adequate training records are kept for all Audit staff. This should include details of the skills requirements for all audit positions and those held by the individual as a result of education, training or practical experience. These should be competency-based.
- These records are essential for assessing further training needs and in comparing development between individuals.
- Training records can also be used for purposes of selecting short lists for promotion.

#### Procurement Training Program

- The training program has to be developed in line with individual needs as not all Audit Directorate's staff will require the whole range of skills.
- Therefore, as starting point, it is necessary to identify the skills requirements of each Audit Directorate's staff and, hence, their training needs. There are distinct advantages of involving staff in this process as frequently their perceptions of their own training needs differs markedly from that perceived by management.
- Training can be divided into four broad categories:
  - (a). Practical Experience: staff should be given as wide an experience as possible as much can be learned by working under the supervision of an experienced auditor and observing how an experienced auditor operates;
  - (b). Professional Training: this is restricted to any staff undertaking studies towards professional qualifications. Auditing has to be covered in reasonable depth as part of the professional syllabus;

(c). In-Service Training: an essential part of in-service training is an induction course for new entrants aimed at providing basic audit skills and a broad appreciation of the Agency. Designation of a specific day each month for in-service training could be very useful; and

(d). External Training: as this type of training is more costly than in-service training and care has to be taken to select the right courses. However, if this is done, staff can be thoroughly trained in topics which could not be adequately covered by in-service courses. They will also be exposed to a wider range of expertise and other viewpoints. Other possibilities include seconding staff to the Office of the auditor General for periods of time. If need for such are identified, this should be integrated in the Agency's Capacity Building Plan.

### Proposed Training Courses for Audit Staff

The detailed content and duration of each training program to be determined

<i>Course</i>	<i>Level</i>	<i>Objective</i>	<i>Content</i>
<i>Induction</i>	<i>Introductory</i>	<i>Understanding of the GDDSL and its Audit Directorate and Procurement Audit function; Explain structure and operations</i>	<i>i. AGDSL</i> <ul style="list-style-type: none"> <li>▪ <i>Structure;</i></li> <li>▪ <i>Key Legislation;</i></li> </ul> <i>ii. Audit Directorates;</i> <ul style="list-style-type: none"> <li>▪ <i>Legislations;</i></li> <li>▪ <i>Manuals;</i></li> <li>▪ <i>Independence;</i></li> <li>▪ <i>Ethics;</i></li> <li>▪ <i>Structure;</i></li> <li>▪ <i>Auditees;</i></li> <li>▪ <i>Reporting;</i></li> </ul> <i>iii Basic audit programs</i> <i>iv. Basics of Procurement Audit</i>
<i>Public Procurement</i>	<i>Intermediate</i>	<i>Overview of the legal and ethical reasons for Accountability and Control in the Public procurement</i>	<i>Legislative Framework of Public Procurement</i> <ul style="list-style-type: none"> <li>▪ <i>Feature of Procurement Guidelines</i></li> <li>▪ <i>Procurement Principles</i></li> <li>▪ <i>Public Accountability Process</i></li> <li>▪ <i>Public Procurement Process</i></li> <li>▪ <i>Procurement Audit Planning, execution and Reporting</i></li> </ul>

<i>General Audit Techniques</i>	<i>Intermediate</i>	<i>To give all audit staff the range of general skills required to undertake their tasks effectively</i>	<i>Procurement Control and Materiality- In-depth training on Procurement Audit</i> <ul style="list-style-type: none"> <li>▪ <i>Evidence;</i></li> <li>▪ <i>Systems Based Auditing;</i></li> <li>▪ <i>Interviewing;</i></li> <li>▪ <i>Sampling and Testing;</i></li> <li>▪ <i>Audit Programs;</i></li> <li>▪ <i>Internal Control;</i></li> <li>▪ <i>Questionnaires;</i></li> <li>▪ <i>Analytical Review;</i></li> <li>▪ <i>Analysis of Procurement Systems;</i></li> <li>▪ <i>Flow Charting</i></li> </ul>
<i>Audit Management</i>	<i>Advanced</i>	<i>To provide Audit Management with the skills required to Plan, Control and Report on procurement audits</i>	<i>Audit Planning;</i> <ul style="list-style-type: none"> <li>▪ <i>Audit Control;</i></li> <li>▪ <i>Risk Assessment;</i></li> <li>▪ <i>Audit Review;</i></li> <li>▪ <i>Audit Reporting;</i></li> <li>▪ <i>Audit Standards;</i></li> <li>▪ <i>Audit Documentation;</i></li> <li>▪ <i>Audit Filing and Working Papers</i></li> </ul>
<i>Specialist Audit Technique</i>	<i>Advanced</i>	<i>To give specialist audit skills to those staff requiring them</i>	<i>Procurement Processes Audit;</i> <ul style="list-style-type: none"> <li>▪ <i>Fraud and Corruption;</i></li> <li>▪ <i>Value-for-Money Audit;</i></li> <li>▪ <i>Operational or Management Audit;</i></li> <li>▪ <i>Special Investigations;</i></li> <li>▪ <i>Donor Audit;</i></li> <li>▪ <i>Audit Evaluation.</i></li> </ul>
<i>Professional Auditing Skills</i>	<i>Advanced</i>		<i>Professional Certified Procurement Auditor</i>