



ASEANSAI

Guidelines on Audit of Public Procurement

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FOREWORD

The ASEANSAI Guidelines on Audit of Public Procurement is an enhancement on Guidelines for Public Procurement that was produced as a result of the Focus Group Discussion (FGD) on public procurement, which was initiated in July 2014. The enhancement of the guidelines include the latest economic development and the urge for accountability and transparency happening around ASEAN countries.

The revision of the guidelines was proposed by SAI Philippines. SAI Malaysia is responsible to update the guidelines and issue Exposure Draft to ASEANSAI member while SAI Thailand is responsible to accumulate and update the comment.

In general, the Guidelines on Public Procurement have seven sections and other parts are the glossary and references. These guidelines outline general information about the procurement audit so that all countries can adopt or use it as a guidance. The idea is to provide a broader picture of the public procurement audit within the ASEANSAI countries. These guidelines can be used as a reference together with the established rules and regulation governed by every ASEANSAI countries.

In line with the ASEANSAI Knowledge Sharing Committee objectives, a strategic planning framework have been prepared to improve and assist ASEANSAI countries on matters relating to audit. Procurement audit working group has revised the guidelines to help auditors have a better understanding in audit process on public procurement. Public procurement audit is essential in order to provide assurance with regard to effective and efficient procurement process, in compliance with rules and regulation as well as obtaining value for money.

We hope that the revised guidelines will enhance capacity building and strengthen public procurement auditing.



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GLOSSARY

- **Assignor** is referring to the person authorizing the conduct of the audit, in most cases, the Head of the SAI.
- **Bridge and waterway construction** means construction, expand or repair of bridge and Waterway which is structure built to span physical obstacles such as a body of water, valley, or road, for the purpose of providing passage over the obstacle, including tunnels and other structures within the construction area which is need in construction work and beneficial to the usage of the structure.
- **Building construction** means construction, repair, renovation and demolish which structure is standing more or less permanently in a variety of shapes, sizes and functions which is primarily as shelter from weather, security, living space, working space, privacy, to store belongings, and to comfortably live and work.
- **Consulting services** refer to services for Infrastructure Projects and other types of projects or activities of the Government requiring adequate external technical and professional expertise that are beyond the capability and/or capacity of the government to undertake Other Technical Services or Special Studies.
- **Corruption** involves effort to influence and/or the abuse of public authority through the giving or the acceptance of inducement or illegal reward for undue personal or private advantage.
- **Fraud** is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
- **Goods** refer to all items, supplies, materials and general support services, except consulting services and infrastructure projects.
- **Irrigation system construction** means construction, repair, renovation and demolish of structure which is about water control system for irrigation or others purpose.

- **Road construction** means construction, expand or repair of road in the purpose of traffic or travel by land but not including train track.
- **Utilities construction** means construction, repair, renovation and demolish of structure which is about water supply, electric utility, communication, telecommunication, water drainage, waste management, Oil & Gas pipelines, highway, train track and other related constructions for all level no matter what it is in, on, under or over the construction area.

CHAPTER 1: INTRODUCTION

1.1. Definition of Public Procurement

Public procurement may define as the overall process of acquiring goods, civil works and services which includes all functions from the identification of needs, selection and solicitation of sources, preparation and award of contract, and all phases of contract administration through the end of a services' contract or the useful life of an asset (UNDP, 2007).

1.2. Characteristics of Effective Procurement

In general, there are five characteristics that should be considered for an effective procurement. These are:

- i. **quantity** - to meet demand and service levels but avoid over stocking which might result to overspending and buying things not needed.
- ii. **quality** - according to specifications suitable/ appropriate to a given purpose or a certain need and standard.
- iii. **time** –available at the right time meet demands.
- iv. **price** –a reasonable, fair and competitive price, with the end of getting the best value for money spent.
- v. **source** –supply the requirements at the right quality, workmanship at a given time in accordance with the specifications and contract.

1.3. Principles of Public Procurement

Public or private organizations have established several principles in procurement. These principles served as a guide in the management of the public procurement process and the code of conduct of employees. Some of the recognised basic public procurement principles identified are as follows:

- i. **Accountability** – appropriate mechanisms must be in place so that all those involved in the public procurement process are made responsible for their actions and decisions, and answerable for the consequences of such actions and decisions.
- ii. **Competitiveness** – Qualified and interested individuals and organizations should be given equal opportunity to participate in the public procurement process, and it should not be manipulated to give preference to anybody.

- iii. **Fair-dealing** – The procedures in the procurement should be disclosed clearly in ensuring that everyone is given equal and fair chance to participate, compete as well as avoiding discrimination
- iv. **Integrity** – This involves integrity in both the public procurement process and the public officials involved in the process. At all times, honesty, trustworthiness, responsibility and reliability should be displayed and observed.
- v. **Transparency** – The public procurement process should be characterized by openness and clarity on policies implementation. All stakeholders involved in the process are informed and understand such policies and procedures.
- vi. **Value For Money** – Prices paid for goods, services, and works are reasonable, in good quality and fairly-priced. In addition, the procurement should achieve the reasonable efficiency and effectiveness.

1.4. The Objectives of Public Procurement

The objectives of public procurement are to be able to promote growth through industry/goods, service sector and state-owned enterprise, to enhance the capacity of industry through technology transfer as well as a tool to achieve national policies.

1.5. Types of Public Procurement

The types of public procurement can be classified as follows:

- i. Supply of goods including supply and installation for example purchasing or lease of commodities, equipment, land, etc.
- ii. Works including contracting for construction such as infrastructure and any civil works.
- iii. Services including consultancy and management such as engagement of consultants, contracting for design and work supervision contracting for works.

1.6. Policies, Rules and Regulations of Procurement

Public procurement is subject to policies, rules and regulations adopted by the government and its regulatory agencies. Policies, rules and regulations are stipulated to support the main public procurement laws which aimed to reduce weakness or strengthen controls as well as setting fine or punishment to prevent unlawful acts such as bribery and conflicts of interest etc.

Every ASEANSAL country has its own laws, rules and regulations related to procurement and set of procurement procedures. The public procurement procedures adopted for every ASEANSAL countries can be found in **Appendix 1**.

1.7. Phases of Procurement

There are five (5) phases in procurement which are (1) planning, (2) bidding, (3) contract awarding and signing, (4) contract implementation, (5) contract deliverable. The description of procurement phases are explained in the next paragraph.

1.7.1. Planning of Procurement

Procurement planning stage is the process by which the efforts of all personnel responsible for significant aspects of a project are coordinated and integrated in a comprehensive manner to enable the organisation to meet its specific purchasing objectives, as well as the organisational goals. Effective procurement planning will produce more efficient and economical procurements, which will deliver products in an acceptable and timely manner.

The procurement planning process comprises of five steps as follows:

i. Identifying the Needs

The first step in the procurement process is to identify and fully define the needs in relation to the activity. Poor identification of needs may lead to inefficiencies or the danger that assets procured do not fully meet the needs of the agency, wasting time, effort and costs. Then, all options are carefully evaluated when all the requirements has been defined.

The availability, reliability, and integrity of information and records need to be taken into account during the assessment. Depending on the system being used, some data may not be available in particular countries; therefore, it is necessary to allow a certain amount of flexibility in conducting the assessment. Lack of fundamental procurement information and data, however, is a shortcoming in the system and need to be identified as such in the assessment report. During this phase, an agency should determine the need to be met and whether procurement provides the optimal solution.

ii. Preparing the project to request for budget

The budget must ensure the procurement gets value for money by comparing the benefit and cost as well as its objectives. It is necessary the

responsible parties to develop preliminary procurement strategy, determine preliminary risk, funding request and funding approval. During this phase, an entity determines the scope of the required project and develops the business case or investment justification to locate the necessary internal funding to proceed.

At the start of every budget period, the procuring entity shall prepare its proposed budget by taking into consideration the budget framework for that year in order to reflect its priorities and objectives for the budget period. After the budget proposal has been approved by the Head of the Procuring Unit/Entity and/or other oversight bodies, the procuring entity's budget office shall furnish a copy of the procuring unit/entity's budget proposal as well as the corresponding project/procurement plan to the concerned authority for its review and consolidation.

iii. Determining the Factors and Methods of Procurement

There are different methods of procurement in acquiring goods, services and works. In determining the appropriate method of procurement, several factors may be considered such as follows:

- requirements of the government laws, rules and regulations,
- complexity and urgency of requirement,
- procurement threshold,
- quantities and specification requirement
- commercial availability,
- sources of supply.

Among the methods of procurement are;

a. Direct Purchase

Direct purchases are made without going through the tender process or request for quotation by selecting a provider of goods/services directly due to low value of procurement or strategic reasons, i.e. to gain competitive advantage in competitive environment. This method of procurement does not require the preparation of tender documents as extensive as open tendering. It is used for small value procurements of readily available off-the-shelf goods or small value construction works or services.

b. Quotation

Procurement through quotation will be implemented when exceeding the threshold of procurement value. It is a formal statement of

promise (submitted usually in response to a request for quotation) by potential supplier to supply the goods or services required by a buyer, at specified price, and within a specified period. It may also contain terms of sale and payment, warranties, quality level per item or contract length. Acceptance of quotation by the buyer constitutes an agreement binding on both parties.

c. Tender

A tender is the more formal and detailed exercise of obtaining sealed bids for goods where the value is high and/or the specification is detailed or complex and/or special terms and conditions may apply. Tender requires widespread publication or announcement. Potential suppliers may apply a formal statement of promise to supply the goods or services required at a specific price and within a specified period. The tendering terms and condition also may contain specifications, quality, contract period, delivery, payment, warranties and etc.

Under special circumstances and where approvals from the concerned authorities have been obtained, tenders may be done in any of the alternative ways, namely open tender, restricted/limited tender, competitive dialogue tender (request for proposal), competitive selection tender and negotiated tender.

➤ **Open tender**

All interested suppliers are invited to express an interest and may submit a tender.

➤ **Restricted/Limited tender**

Only suppliers invited by the procurement contract authority may submit tenders.

➤ **Competitive dialogue tender (Request for proposal)**

It is designed to provide more flexibility in the tendering process for more complex contracts, for example public private partnerships (PPP). Contracting authorities must advertise their requirements and enter dialogue with interested parties, (pre - qualified on the same basis as for restricted procedure, described above). Through the process of dialogue with a range of candidates, a contracting authority may identify arrangements or solutions which meet its requirements.

➤ **Competitive Selection tender**

A method for selecting a Provider of Consulting Services for work in which all eligible Providers of Consulting Services may participate.

➤ **Negotiated tender**

The procurement authority consults suppliers of their choice and negotiates the contract terms with one or more of them. Used in very limited circumstances and as a rule not permitted to be used routinely. The procurement and supply chain manager can provide more detail regarding this procedure.

iv. Preparing the procurement strategic direction

Agencies should also consider the procurement strategic directions in ensuring the plan is consistent with the strategic directions. These requirements may also need to be incorporated into the documents taking the proposal to the market including: specifications; the contract; and the evaluation plan. The preparations of procurement strategic direction are as follows:

- Ensure value for money is achieved
- Encourage competition for supplying to government
- Provide a strategic and agile procurement practice
- Reduce red tape
- Engage with industry
- Innovate and ensure that the plan is in line with policy matters
- Application of relevant sustainability policy
- Align with government/activity needs established through effective internal engagement
- Inclusion of small and medium enterprises
- Method of engagement
- Promote of competition
- Contract period limits
- Any future matters for consideration

v. Determining the Contract Prices and Designing the Contract

The estimation of contract prices must be realistic, credible and take into account the total amount, including any form of option and any renewals of the contract. No project or purchase may be sub-divided to prevent it from coming within the scope of the directives. Where a project or purchase involves separate lots the value of all lots must be included in estimating the value of the contract.

The related authorities in procurement may consider these matters in designing the contract;

a. Preparation of the procurement plan

Procurement planning is the operating plan for the time period ranging from tendering to signing contracts that will be prepared after the budget has been approved. Procurement plan is about timeframe and budget management to meet goals and objectives.

b. Preparation of the project cost

In preparation of the project cost in detail, there will be an appointment of the cost committee, the approval of the cost which may consist of Project Drawings and Bill of Quantity (BQ).

c. Request for Tendering

Request for tendering contains the reasons, needs, budget, mode of procurement and other related details. A request for tendering should be approved by the authorised/ appropriate official.

1.7.2. Bidding

After the planning stage and design of the contract has been made, the secretariat will start the tendering process. The bidding stage includes seven (7) procedures as follows:

i. Advertising Procedures

The first step is advertising the tender offer. Tendering announcement shall be advertised in sufficient of time. Notices must be drawn up in accordance with the standard forms set out, establishing standard forms for the publication of notices in the framework of public procurement procedures.

The tender advertisement period has to take into account the need for approval (usually at the advertisement and award stages) from the lender or donor, the need to adhere to local or national government regulations and bureaucratic procedures, whether it will be advertised internationally, regionally or nationally and the scope of works. Advertisement should include instructions to prospective bidders and the availability of bid documents.

ii. Setting up the Tender Committee

The creation of the committee should conform to the policy, rules and regulations or the practice of the respective countries. The committee members should have the competency, technical knowledge and expertise. They should avoid fraternization and other close contact with bidders.

Two options exist for tender committee, and the choice has to be indicated in the tender document. In the first option, the technical and financial offer are combined and presented in a single envelope. The second option, called staged tender, involves a two envelope system in which the technical proposal (first envelope) is evaluated and bids ranked before the financial offer (second envelope) is opened. It ensures that price does not influence the technical evaluation of the bid. This approach should be preferred, in particular in the case of complex contracts. Where a two envelope tendering process is used, it should be indicated in the tender document that tenderers are to place the technical and financial components of their tenders in separate, clearly marked, envelopes.

iii. Bidding Documents

The bidding documents shall be prepared by the procuring entity following the standard forms and manuals prescribed by each government. The specifications and other terms in the Bidding Documents shall reflect minimum requirements or specifications required to meet the needs of the procuring entity in clear and unambiguous terms. The bidding documents may include the following:

- Approved Budget for the Contract;
- Invitation to Bid/Request for Expression of Interest;
- Eligibility Requirements;
- Instructions to Bidders, including scope of bid, documents comprising the bid, criteria for eligibility, bid evaluation methodology/ criteria in accordance with laws, rules and regulations, and post-

qualification, as well as the date, time and place of the pre-bidding conference (where applicable), submission of bids and opening of bids;

- Terms of Reference (TOR), for consulting services;
- Scope of work, where applicable;
- Plans/drawings and technical specifications;
- Form of bid, price form, and list of goods or bill of quantities;
- Delivery time or completion schedule;
- Form, amount, and validity period of bid security;
- Form, amount, and validity of performance security and warranty;
- Form of contract and general and special conditions of contract.

iv. Consolidation Report/Tender Document

The date and time when bids/tenders are received should be recorded. All bids should be duly sealed and to be kept in a secure and inaccessible location until the time of tender opening. The site visit should be formally recorded and any bidder who is unable to make the visit should be excluded from the process and his/her bid returned unopened depending on the respective countries rules and regulations. Minor omissions or errors are acceptable. Small arithmetical errors should be corrected and the revised figure should be used in the evaluation. If significantly large errors that may affect the bid price are noted, and at the discretion of the evaluation team, the bid should be rejected.

Unrealistic bids with either cost shown at levels impossible to achieve or for bidders who show that they are completely inexperienced or have completely inappropriate equipment, can also be rejected at this stage. If the bidders have not been prequalified some investigation at this stage (this process should be noted in the bidding documents and/or tender advertisement) into the integrity of the bidder should be carried out. Any bidder with recent criminal convictions relating to fraud, bribery or corruption or with serious, proven cases of contract malpractice or failure, should be excluded. The bid should not be evaluated. As above, the bid should be returned to the bidder with a covering letter and all other bidders informed of the decision.

v. Pre-Bid Meeting

Pre-bid meeting should be conducted to clarify and/or explain any of the requirements, terms, conditions, and specifications stipulated in the bidding documents. The pre-bid meeting shall be held before the deadline for the submission and receipt of bids. If the procuring entity determines that, by

reason of the method, nature, or complexity of the contract to be bid or when international participation will be more advantageous, a longer period for the preparation of bids is necessary, the pre-bid conference shall be held before the deadline for the submission and receipt of bids.

The pre-bid meeting shall discuss, among other things, the eligibility requirements and the technical and financial components of the procurement to be bid. Attendance of the bidders shall not be mandatory. However, at the option of the procuring entity, only those who have purchased the bidding documents shall be allowed to participate in the pre-bid meeting and raise or submit written queries or clarifications.

The minutes of the pre-bid meeting shall be recorded and made available to all participants (within few days) after the pre-bid meeting. Any statement made at the pre-bid conference shall not modify the terms of the bidding documents, unless such statement is specifically identified in writing as an amendment thereto and issued as a Supplemental/Bid Bulletin.

vi. Opening of Bids

The Committee shall open the bids immediately after the deadline for the submission and receipt of bids. The time, date, and place of the opening of bids shall be specified in the bidding documents. The bidders or their duly authorized representatives may attend the opening of bids. The Committee shall adopt a procedure for ensuring the integrity, security, and confidentiality of all submitted bids.

The responsible officer opening the bids should first advise all those present of the procedure he/she will follow. Brief details on the evaluation process should be given to assure potential bidders that the evaluation is to be fair and equitable.

During tender opening, one staff member should be given the responsibility for opening the bids received. A secretary will be required to note persons attending and any comments (especially objections) made. The minutes – brief and noting points only – should be filed for future reference.

vii. Evaluation of Bidders

Evaluation of bidders and tenders should be carried out by a suitably competent team which may include independent representation. The evaluation and award process must be demonstrably objective, transparent and based solely on the published criteria. This is best achieved by the use

of a scoring system based on all the relevant and weighted criteria, indicating a comparative assessment of bidders under each criterion. Bidders who do not comply with the requirements specified in the contract notice or the bidder documentation should be rejected. The contract should be awarded to the lowest priced bid or most economically advantageous that meets the relevant criteria.

1.7.3. Contract Awarding and Signing

i. Contract Awarding

Every organization has a written policy on award of contracts prescribing principles and norms to be followed and conditions to be adhered to when procuring goods and services in meeting its operational and maintenance needs. When a contract is being awarded on the most economically advantageous basis, the notice or the tender documents must state all of the criteria being applied in the award process, giving the relative weightings for each criterion. The tenders/bidders must be listed according to the best criteria match with the specification. If there is additional information, it must be distributed to all tenders/bidders.

The contract should be awarded within the bid validity period. If not, the bid validity has to be extended. The announcement of the bid winner should be made immediately upon the completion of bid evaluation and its acceptance by the competent authority. Any significant delay in announcing the bid winner or awarding of the contract might give room to the decision making process being influenced through manipulation, external pressure or corrupt and unethical practices. Unsuccessful tenderers/bidders for any public contract should be informed of the results of the tendering process without delay.

ii. Contract Signing

Contract signing and contract documents should contain the same condition with the tender documents and mutually agreed upon during the tendering processes. Contract document should outline both the obligations and the rights of Government and the Contractor. Contract document may contain the following items:

- General conditions of the Contract;
- Special Conditions agreed by both parties if applicable

Contract document is prepared by a competent team of officers having professional knowledge of relevant commercial, financial and technical issues and possessing adequate expertise in procurement of goods. Besides that, the contract document should have been approved by legal authorities and has adequate clauses to protect the interests of the purchaser to cover various risks including the risk of non-performance by the supplier. The Contract incorporates all terms and conditions stated in the bidding document and information provided in the bid advertisement and subsequent clarifications.

1.7.4. Contract Implementation

There are three aspects in the contract implementation to be considered in the audit of public procurement. The descriptions of the aspects are as follows:

i. Contract management

The contractor must comply with all the terms and condition of the signed contract and the Government should act as supervisor in order to control and monitor the contract implementation. The contract can be amended in case there are changes in the needs of the Government and can also be cancelled due to violations of contract by the contractor.

ii. Variation Order

Among the terms and conditions which affect the audit reporting are variation order and extension of time. Variation order is an alteration to the scope of works in a construction contract in the form of an addition, substitution or omission from the original scope of works upon request by the contractor and it must be reasonable and justifiable.

iii. Extension of Time

Extension of time is caused by the delays on the construction project.

1.7.5. Contract Deliverable

Contract deliverable includes the process of acceptance, payment and defect liability period of the works, goods and services.

i. Acceptance

Provider (supplier) has to handover/deliver works, goods and services within delivery schedule. In receiving, works have to meet the quality and quantity required. Goods supplied must conform to the quantity and specifications. Meanwhile, services have to conform to the terms and

conditions of contract. Testing may be included in the procedures of acceptance. After receipt/acceptance, the delivery should be documented.

ii. Payment Process

Terms and method of payment to the supplier should have been clearly stated in the contract document. The contract for supply of goods should provide for full payment on the delivery and inspection. However, for contracts involving installation and commissioning, the payment may be released only after the supplier has complied with all its obligations under the contract.

In some cases, provisions are made for advance payments. Nevertheless, the advance payment should be secured by a bank guarantee or performance bond from the supplier in accordance with the clauses of the stipulated contract.

iii. Defect Liability/Guarantee Period

Once the good received, the user needs to use and check for defects before the end of the guarantee period. If defects are found within the guarantee period, the contractor is responsible to repair the defects. Once the obligations of the contractor has completed, the bank guarantee or performance bond should be returned.

CHAPTER 2: RISKS ASSESSMENT IN PUBLIC PROCUREMENT

2.1 Auditor's Roles and Responsibilities

The roles and responsibilities of the auditor are to assess the risks of misstatement. Therefore SAIs are expected to demonstrate that the audit addresses these concerns. In the course of audit, auditors should perform their work with due care, professional scepticism with sufficient knowledge and skills in dealing with fraud. Auditors should be aware of the possible existence of fraud in procurement process and they are able to detect and address these matters.

2.2 Assessment of the Risks

Risk Assessment is the process of identifying and analysing relevant risks to the achievement of the agency's objectives and determining the appropriate response.

- i. To identify all risk areas/points in the procurement process or procurement system;
- ii. To determine any management controls to address or manage all identified procurement risks;
- iii. To determine residual procurement risks (those not managed or controlled);
- iv. To prioritize the critical procurement risks among those remaining uncontrolled;
- v. To identify audit focus based on the risks considered critical.

In accordance with ISSAI 1240, when identifying and assessing the risks of fraud, the auditor shall, based on a presumption that there are risks of fraud during audit works. The auditor shall treat those assessed risks of fraud as significant risks and accordingly, to the extent not already done so, the auditor shall obtain an understanding of the entity's related controls, including control activities, relevant to such risks.

2.3 Factors Influencing Risk Assessment

Factors that influence the risk assessment procedures are as follow:

- i. The newness and complexity of the applicable compliance requirements
- ii. The auditor's knowledge of the entity's internal control over compliance with the applicable compliance requirements obtained in previous audits or other professional engagements
- iii. The nature of the applicable compliance requirements

- iv. The service provided by the entity and how they are affected by external factors
- v. The level of oversight by the grantor or pass-through entity
- vi. How management addresses findings

2.4 Steps in Assessing Risks

Auditor assesses risk to determine audit scope and depth. Steps to assess risk are as follow:

- i. Identify risks faced by the entity and its impact over entity's objective achievement.
- ii. Consider the risks caused/influenced by certain regulation and irregularities that might happen.
- iii. Ensure if audited entity already have an adequate control system to identify and minimize risks. If the audited entity's control system is weak, auditor could: (1) discontinue internal control system test and provide conclusion over internal control system, or (2) expand substantive test by extending audit scope and evidence gathering.
- iv. Decide which audit focus has high potential risk and need to be audited after considering those three steps above. To determine key area, auditor needs to assess (understand and test) internal control system over potential risk in doing the procurement. Auditor conducts the assessment using sampling method and considering risk level.

This step is documented in risk and internal control system working paper can be found in **Appendix 2**.

2.5 Risk Assessment in Procurement Process

The objective of risk assessment objective is to determine the nature, timing and extent of substantive tests. The risk of misstatement during goods/services procurement is affected by the following factors:

- i. Procurement value.
The greater the value of good/service procurement, the more it contains irregularities risk.
- ii. Type of good/service.
Simple and common procurement is less likely to have irregularities risk compared to complex and specific procurement.

- iii. Procurement venue.
Procurement held on accessible location is less likely to have irregularities compare to procurement held on a remote location.
- iv. Steps for each procurement method.
Steps' dissimilarity among good/service procurement methods could influence the risk level or the existence of irregularities risk. For example, procurement advertisement is required for competitive bidding method, limited bidding method, and direct election while it is does not apply for direct contract method. Hence, there is no risk of irregularities on procurement advertisement for direct contract method.

2.6 Risks Associated with Procurement

Auditor should identify risks related to the procurement planning because it could affect the achievement of procurement objectives as well as the organisation goals. The risks associated with procurement are as follow :

2.6.1. Risks Associated with Procurement Planning

List of risks associated with procurement planning may include:

- Absence of sound, well established procurement policy and plan
- Procurement needs identification are made without any reference to the strategic plan, goals and objectives of the organisation
- The procurement officer unwilling to hand over OE's supporting documents to the auditor
- Owner's Estimates (OE) is developed by certain providers or created based on the providers' price so that the provider would be the winner
- OE is not developed based on standard or market prices, or the prices have been marked up.
- The selection document is not authorized by the Commitment Making Officials.
- Technical specifications were created to lead to a particular products/services or a certain procurement provider.

2.6.2. Risks Associated with Bidding Process

Organisation For Economic Co-Operation And Development (OECD) Guidelines for Fighting Bid Rigging in Public Procurement (2009) mentioned several indications of risk of fraud in the bidding process, which may include:

i. Cover Bidding

Cover bidding is designed to portray a genuine competition while in fact it's not. It occurs when individuals or firms agree to submit bids that involve at least one of the following:

- competitors agree to submit bid that is higher than the designated winner's bid
- competitors submit bid that is known to be too high to be accepted,
- competitors submit bid that contains special terms that are known cannot be accepted by the purchaser

ii. Bid Suppression

Bid-suppression schemes involve agreement among competitors in which one or more companies agree to refrain from bidding or to withdraw a previously submitted bid so that the designated winner's bid will be accepted. In essence, bid suppression means that a company does not submit a bid for final consideration.

iii. Bid Rotation

In bid-rotation schemes, conspiring firms continue to bid, but they agree to take turns being the winning (i.e., lowest qualifying) bidder.

iv. Market Allocation

Competitors carve up the market and agree not to compete for certain customers or in certain geographic areas as well as certain types of project owner.

v. Information on Bidding

Risks associated information on bidding may include:

- The entity or purchaser organization may not develop any procurement plan for the respective years to be published.
- The entity may only publish part of its procurement plan.

vi. Advertising of Bid

Risks on advertising of bid may include:

- The advertising of bid is made in a restricted manner. For example instead of advertising in the newspapers that have national circulation, it is made in the local newspaper with narrower(s) circulation where only certain bidders can get the information. This will limit completion.

- The advertising may be made in the national circulation newspaper but with special agreement that the ad will only be printed in the “limited edition”.
- Information provided in the Advertisement is not complete. The agency may intentionally eliminate important information of the procurement so that only some bidders can get the complete information. The other bidders will not be able to respond completely to all the requirements set by the purchaser.
- The information given in the advertisement is not correct.

vii. Bidders Clarification Request

Risks on bidders clarification request may include:

- Inconsistency in Bidding Document. The procurement unit distributes the different Bidding Document to different bidders. Only the preferred bidders may get the complete Bidding Document.
- Clarifications are given to some bidders and not all.
- Different clarifications are given to different bidders.

viii. Pre-Bid Meeting

The procurement officers hold a pre bid meeting to make clear the procurement document. The minutes of meeting should be co-signed by one procurement officer and minimum one bidder present. Copies of minutes of meeting should be distributed to all bidders.

Risks on bidders’ meeting may include:

- All the written and oral questions of bidders are not discussed. The agency could limit the information during the conference so that only preferred bidders will get the complete information.
- The answers for responding the bidders’ questions are not clear and complete that may result in each bidder have different perspective.
- The minutes of the conference are not prepared or not issued to all the bidders.
- Clarifications to bidders are given by unauthorized officers of the procuring agency.

ix. Bid Prequalification

Bid prequalification is a process of qualification assessment undertaken prior to bid submission. Prequalification is used for Procurement as follows:

- Selection of Providers of Consulting Services;

- Selection of Providers of complex Goods/Civil Works/Other Services through Competitive Bidding; or
- Selection of Providers of Goods/Civil Works/Other Services using a Direct Appointment Method, except for emergency response.

A bid prequalification process shall produce: 1) List of potential Providers of Goods/Civil Works/Other Services; or 2) Short list of potential Providers of Consulting Services.

Bid Prequalification provides procurement officers with more confidence that only providers who have the required experience, technical, financial resources and capability to supply goods will be invited to offer.

Risk related to bid prequalification may include:

- Providers not meeting the prescribed evaluation criteria might get approved due to unprofessional conduct or corrupt practices.
- Providers may not be treated fairly and objectively due to evaluation criteria and guidelines being vague, unclear and not very comprehensive.
- The non-performing providers may not be suspended or removed from the registered vendor data base.
- Provider may furnish incorrect information to get them pre-qualified or registered.
- The providers selected may lack experience and expertise in producing the required goods.

x. Bid Submission

Risk related to bid submission may include:

- Time allocated to submit the Bid is very short. Bidders will not have sufficient time to prepare their responses appropriately.
- The bidder may submit wrong documents
- The Bidder may submit incomplete documents.

xi. Bid Opening

Risks related to bid opening may include:

- Bids are opened before bid opening date and important information/rates offered are leaked to other competing bidders.
- Bid opening is not made in public to enable the preferred bidder to change his Submission Document subsequently after opening of bids.

- Bid Opening is not done in accordance with the Procurement Method. For example, in the two-stage-two-envelop procedure, the Committee opens the Financial Submission Document before the Commercial or Technical Submission Document.
- Best practices in Bid Opening Procedures are not followed to favour certain bidder.
- Price quoted and other bid details are not announced so that bidders are not aware of prices and terms of their competitor.

xii. Bid Evaluation

Bid evaluation is a process of determining responsiveness of bids, grading them based on technical, commercial and financial parameters/criteria to select the most appropriate offer from the bidders who have participated in the tender. The evaluation process is very crucial. If the bids are not evaluated correctly and fairly, it may lead to selection of wrong bidder and the procurement may not provide best value for money to the purchaser. It may also invite complaints from other bidders who have not been treated fairly. Bid evaluation is a complex exercise and should be done only by qualified and experienced personnel.

Risks related to bid evaluation may include:

- Bid evaluation is not transparent and justification for accepting or rejecting a bid is not properly recorded.
- Bid evaluation committee may not apply evaluation criteria correctly or may use inappropriate method for evaluation.
- Evaluation may not be fair to all the bidders.
- All the factor costs are not taken into account in cost comparisons.
- Technical committee may lack expertise in evaluation of technical systems being procured.
- Technically responsive bids may be excluded from financial evaluation.
- The bid evaluation/purchase committee may accept higher price and may not have determined the reasonableness of the price offered due to lack of information, inadequate market survey or otherwise
- There could be error in technical and financial evaluation due to complex assessment/computations involved.

2.6.3. Risk Associated with Contract Awarding

The process of contract awarding is started immediately after the Bid Evaluation has been finished and most preferred bidder is selected and approved by the

competent authority in the procuring agency. There are certain activities that need to be completed by the agency before it signs a contract agreement with the bid winner. Those activities are announcement of the Bid Winner, notification of the contract award (Letter of intent) and its acceptance by the Bid winner and Contract Signing

Following are some of the risks associated with the Contract Awarding Process:

- The contract is not awarded to the lowest bidder who provided best value for money.
- The prescribed procedure for awarding of the contract is not followed.
- Contract is poorly drafted. The terms of contract are not precise and definite.
- Government's interests were not adequately safeguarded in the conditions of Contract.
- Award of contract has been affected due to conflict of interest or corrupt practices in the purchase organization.

2.6.4. Risks Associated with Contract Deliverables

Basic things that should be on the quality of the work are the field conditions, products design, quality of materials, equipment and human resources, and the final product. Risks related to deliverables may include:

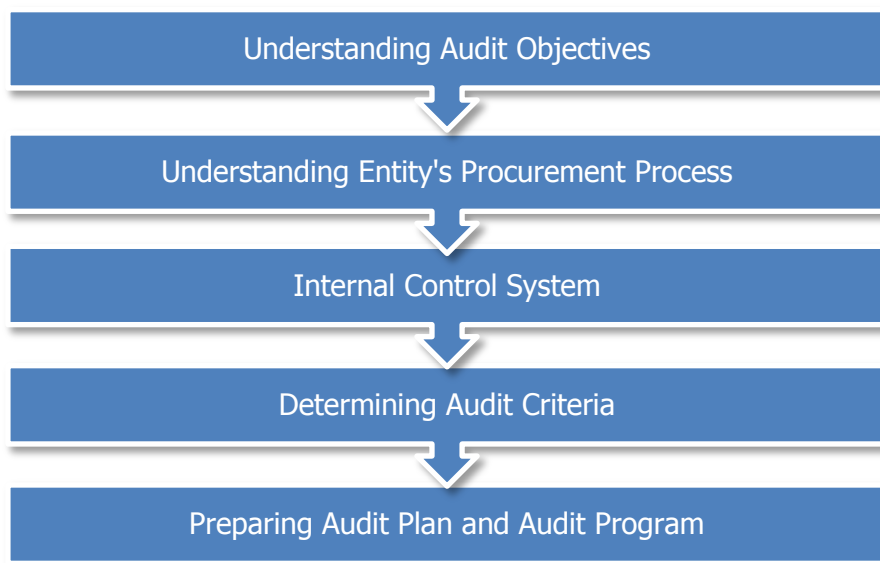
- Goods supplied may not conform to the approved specifications.
- The quality inspectors may fail to notice defects in supplies due to non-observance of prescribed procedures for acceptance testing and quality control or due to casual attitude of the inspectors etc.
- Provider may fail to adhere to the prescribed delivery schedule seriously affecting the entity's project or achievement of program objectives.
- The accepting officer of the entity may fail to detect and report short supply of goods, spares, accessories etc. to the provider.

CHAPTER 3: AUDIT PLANNING

3.1 Steps of Audit Planning

An audit shall be planned in a proper manner. During audit planning, the auditor prepares audit program as a basis for audit so that it could be conducted efficiently and effectively. The step for procurement audit planning is shown in Chart 1.

Chart 1
Steps of Audit Planning



3.1.1 Understanding the Audit Objectives

The objectives of procurement audit are to:

- i. assess that the procurement complies with applicable law, rules and regulations (ISSAI 4000).
- ii. assess on economy, efficiency and effectiveness of the public programs/projects (ISSAI 3000).

The objectives can be achieved by:

- i. The general procurement plan is prepared based on entity's factual needs (need assessment) and it has considered the quality, quantity, and time required to achieve the programs' objective.
- ii. Budget preparation has considered the general procurement plan.
- iii. The procurement process has complied with applicable law, rules and regulations related to procurement.

- iv. The provider has fulfilled his/her obligation to hand over the work/good/services in required time and meet the quality and quantity standard.
- v. The entity has utilized the good/service in line with the procurement objective.
- vi. Internal control design/system during procurement process is in place, and controls are employed to mitigate risks.

In order to achieve the above objectives, the assignments for procurement audit convey some expectation from the assignor. Using intensive communication, auditor shall get written assignment's expectation from the assignor. This is to avoid any expectation that cannot be met by the auditor. Assignment's expectation shall be documented by the auditor since it will be used as a basis to prepare the audit program and to define the auditor needs. The sample form of understanding the audit objective can be found in **Appendix 3**.

3.1.2 Understanding Entity's Procurement Process

An understanding of the entity's procurement process is important as it will be used in assessing risks. Some sources that may be used to obtain this understanding include: (1) information obtained from previous audits; (2) entity database in regard to its mandate, functions, objectives, programs and projects, budget or appropriation, and accounting as well as procurement systems; (3) manual of operations or written guidelines; and (4) internal audit reports.

Auditor shall get information on follow up action that has been taken by audited entity in regard to significant findings and recommendations from previous financial, performance, or other audit engagements, and other study on the audited subject matter. The gathered information is used to define: (1) previous audit period that has to be considered, (2) work coverage that is needed to understand the follow up of significant finding, and (3) impact of those period and coverage over risk assessment and audit procedure in the audit planning.

The auditor's understanding over audited entity shall be documented in audit working paper. The management of audit working paper refers to related guideline. Sample of auditor's understanding over audited entity can be found in **Appendix 4**.

3.1.3 Internal Control System

Internal control assessment conducted based on internal control system understanding. It can help auditor to (1) identify control element (prevention, mitigation, and recovery), (2) identify important impact, (3) consider influencing factor of important impact, (4) design internal control system test, and (5) design substantive test.

Steps in assessing internal control system:

1. Review external and internal document to ensure that internal control system has been adequately designed. External documents are including letter or memo received by the entity, invoice from the providers, leasing document, contract document, internal and external audit report, and confirmation letter from third party. Internal documents are including accounting report, outgoing letter, description of duty, plan, budget, internal report and memo, performance summary and internal procedure and policy.
2. Conduct discussion with entity's management and /or audit committee.
3. Conduct discussion with internal control unit personnel and read their report.
4. Conduct physical observation, means to observe and take a note any situation during goods/service procurement.
5. Conduct test of control to ensure whether control has been applied as it designed. Auditor determines materiality and sampling level according to related guidelines.
6. Based on assessment of risk and internal control system above, auditor will recognize area at risk to be developed as audit focus. Assessment on risk and internal control system can be done through initial audit.

3.1.4 Determining Audit Criteria

Determining audit criteria is important because it is a communication tool between auditor and audited entity or between audit team member, as a way for auditor to build the link between audit objective and audit program, and also as the basis for audit procedure preparation, data collection, and audit findings.

According to ISSAI 3000, Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience define the audit criteria as the intended to give direction to the assessment to determine whether a program meets or exceeds expectations.

In financial audits, transactions that are examined tend to be judged by the auditor as being 'correct' or 'incorrect,' 'legal' or 'illegal,' etc. Such criteria tend to be relatively closed and are usually prefixed by, for example, the legislation establishing the audited entity. For performance audits, however, the choice of audit criteria is normally relatively open and formulated by the auditor, and as mentioned earlier, criteria are often less important in the problem-oriented approach. In the problem-oriented approach it is more important to formulate testable (verifiable) hypotheses on possible causes to the audit problem.

Audit criteria can be obtained from the following sources:

- laws and regulations governing the operation of the audited entity
- decisions made by the legislature or the executive
- references to historical comparisons or comparisons with best practice
- professional standards, experiences, and values
- key performance indicators set by the auditee or the government
- independent expert advice and know-how
- new or established scientific knowledge and other reliable information

Steps to determine criteria in procurement audit are:

1. Determine source of valid criteria
2. Analyse the suitability of criteria with subject matter
3. Determine the criteria to be used by auditor
4. Ensure criteria to be used are accepted by parties involved

3.1.5 Preparing Audit Plan and Audit Program

Auditor prepares the audit plan and audit program to facilitate the implementation of procurement audit assignment systematically. The purpose of audit program is to clarify the feasibility of a conclusion on the audit objective and to assure a logical chain of reasoning and analysis from the audit objective with the audit criteria and the technique used. Some of the information in the audit plan and audit program are as follows:

Audit Plan

- i. Audit legal mandate
- ii. Audit standard
- iii. Audit objective
- iv. Audited entity
- v. Audit scope/target (subject matter)
- vi. Result of internal control system understanding

- vii. Reason for doing the audit
- viii. Audit guidelines
- ix. Audit time period
- x. Composition of audit team member and detail of audit cost
- xi. Audit report framework
- xii. Delivery time and distribution of audit report

Audit Program

- i. Line of inquiry
- ii. Audit objectives
- iii. Audit criteria
- iv. Audit techniques
- v. Type/source of audit evidence
- vi. Audit procedure

CHAPTER 4: AUDIT EXECUTION

4.1 Entrance Conference

An entrance conference is a formal audit commencement meeting between the audit team and the senior management responsible to identify key audit area prior to the commencement of an audit. The purposes of the entrance conference are as follows:

- i. to enable the audit team to meet the responsible entities/ auditees and related stakeholders ;
- ii. to discuss the audit objectives, the audit scope and methodology, timelines and key audit areas and other concern based on previous audit findings;
- iii. to inform the auditee the manner or means of communicating audit observations, queries and report;
- iv. to ensure that the auditee clearly understands the audit processes, the mandate of the audit team on information needed as well as safeguarding the confidentiality of information obtained by the audit team;
- v. to outline the auditors' as well as auditees' roles and responsibilities in order to clarify any queries or misunderstandings; and
- vi. to request from auditee on any assistance needed by the audit team such as logistical support, including the focal persons or liaison officers from the auditee .

The audit execution involves both processes which are analytical and communication process. In the analytical process, data gathered will be examined, verified, interpreted and analysed. The communication process starts when the auditee was notified and will continue until the audit report has been finalized

In the audit execution phase, the auditors will take the following steps:

- i. Data collection and analysis
- ii. Gathering audit evidence
- iii. Preparing working paper

4.2 Data Collection

Before commencing the audit, the auditor should list all the relevant documents and information needed in advance to ensure a smooth implementation of audit. The audit program must be followed through and it must be conducted in accordance with the related standards. The auditor should ensure that the method of collecting evidence is consistent with the audit criteria. The evidence gathered should be competent, relevant and reasonable evidence should be obtained to support the auditor's judgment and conclusions regarding the organization, program, activity or function under audit. During the audit execution, if the audit program needs modification, the auditor has to redefine the audit program involving lines of inquiry, audit criteria and audit procedures. In addition, relevant audit evidence should be related to the general and specific audit objectives.

4.3 Audit Evidence

Audit evidence is the information used by the auditor in arriving at conclusions. It is obtained by analysing the information during the audit. The audit evidence comprises of a combination of documentation and information obtained, or inspected during the executing of audit and analysed to conclude the audit findings. Auditors design and apply appropriate audit procedures to obtain sufficient and appropriate audit evidence in order to form a conclusion or opinion as to whether a subject matter complies, in all material respects, with established criteria. Audit evidence may be classified into several types of evidence such as physical /documentary analytical and testimonial evidence

4.3.1. Appropriateness of Audit Evidence

Appropriateness is a measure of the quality of the audit evidence. It encompasses relevance, validity and reliability.

- i. **Relevance** refers to the extent to which the evidence has a logical relationship with, and importance to, the issue being addressed. For evidence to be relevant, it should help to answer the individual audit objective. Relevance also requires that the evidence apply to the period under review.
- ii. **Validity** refers to the extent to which the evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words,

validity refers to the extent to which the evidence represents what it is purported to represent.

- iii. **Reliability** refers to the extent to which the audit evidence has been gathered and produced by a transparent and reproducible method. Evidence is reliable if it fulfils the necessary requirements for credibility. The reliability of audit evidence is affected by its source—whether internal or external to the audited entity, and type—whether physical, documentary, oral or analytical, and is dependent on the circumstances under which it is obtained.

4.3.2. Sufficiency of Audit Evidence

Sufficiency is a measure of the quantity of evidence needed to support the audit findings and conclusions. There is no formula to express in absolute terms how much evidence there must be to be considered sufficient. In assessing the sufficiency of evidence, the auditor needs to determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.

The quantity of the audit evidence needed is related to the nature of the audit task. For example, to form a conclusion with reasonable assurance, the auditor needs to obtain more evidence than in a limited assurance engagement. A wider audit scope normally requires more audit evidence than a narrower scope.

The quantity of audit evidence needed is also affected by the audit risk (the greater the risk, the more evidence is likely to be required) and on the quality of such evidence (the higher the quality, the less evidence may be required). However, merely obtaining more evidence does not compensate for poor quality.

4.3.3. Types of Audit Evidence

i. Physical Evidence

Physical evidence is a form of tangible evidence which includes accounting records, notes, photographs, charts, maps, drawings, samples, audio visual material, assets, inventory, roads, buildings and etc.

This evidence can be obtained through:

- observation of processes and procedures;

- Physical verification to determine the existence of the goods, services and works.
- Site visits to gain an understanding on practicality, functionality of the programs/activities/projects

ii. Documentary evidence

In physical or electronic form is the most common form of documentary evidence. Documentary evidence is more reliable than oral/testimonial evidence.

External documentary evidence may include letters, memorandum from auditee, invoices, contracts and third party confirmation. While, internal documentary evidence originated within the auditee entity such as accounting records, plan, standard of procedures and policies.

iii. Analytical Evidence

Analytical evidence is a type of evidence developed by the auditors through the application of the professional due care and professional judgment. The purpose is to evaluate the gathered information to generate reliable and valid evidence in order to support the findings. Examples are summary of analytical data, ratio analysis trend analysis and benchmarking.

iv. Testimonial Evidence

Testimonial evidence is obtained through oral or written statements in response to inquiries/ questionnaires or through interviews with auditee or third parties, focus groups, or experts. Testimonial evidence can be documented in the form of interview notes, recorded conversations, audio visual, or corroborated evidence from knowledgeable parties. However, this type of audit evidence is the weakest evidence and need to be complemented by other types of related evidences.

4.4 Audit Techniques

Audit techniques refer to method/techniques used by the auditor to gather evidence. The examples of audit techniques are as follows:

- Inspection** - involves examining books, records, documents or assets whether internal or external, either in paper form, electronic form or a physical examination. It provides evidence of varying degrees or reliability, depending upon their nature and sources. Inspection is the most efficient method of obtaining audit evidence. It is to establish the existence,

condition and provides evidence of valuation, measurement and nature of the goods, services and works.

- ii. **Observation** involves looking at a process or procedure being performed by others. Observation provides audit evidence of the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. Observation may include counting of stocks, bid receiving, bid box sealing and opening, bid opening, etc. It is a data gathering technique that uses the senses (hearing, seeing, touching) to examine facts or phenomena. The results of field observation can be recorded by taking notes and making lists, or by flow charts, photographs, maps, sound recordings, videos, laboratory analyses etc. is an efficient way of capturing first hand evidence for later analysis. They increase the value of direct observation and may also have a powerful impact on the reader of the audit report.
- iii. **Inquiry** involves seeking information from relevant persons, both within and outside the audited entity. Depending on the subject matter and the scope, interviews and questionnaires alone will in most cases not be sufficient and appropriate evidence. Other relevant evidence gathering methods to be considered are, e.g., written documentation from the audited entity. Inquiry is generally used extensively throughout an audit and complements other audit procedures. For example, when observing processes being performed, such as the benefits payment process within a country/state, inquiries could be made of officers as to how relevant legislation, including changes and updates, is identified and interpreted.

4.5 Analytical Procedures

Analytical procedures may consist of comparing data, arithmetical accuracy of accounting records, investigating fluctuations, performing independent calculations, regression analysis techniques, costs and benefits analysis or other mathematical methods. It may assist public sector auditors in comparing actual to expected results.

The extent of analytical procedures for gathering evidence will vary in each audit, depending on the particular subject, the evidence needed and availability of information. It also relies on the needs of the intended users and timeframe and resource constraints.

CHAPTER 5: AUDIT REPORTING

5.1 Audit Reporting

The aim of audit reporting is to improve knowledge and highlight improvements needed. The purpose of an audit report is to (1) communicate the results of audits to the intended user(s); (2) make the results less susceptible to misunderstanding; (3) make the results available to the public in order to create transparency, unless specifically restricted by legislation; and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken.

It is vital that the audit team, supervisors and quality control reviewers critically consider the conclusions in relation to the audit findings, evidence, data, and audit criteria. Findings and conclusions must be supported by sufficient and appropriate evidence. Recommendations, if provided, must be linked to the findings and conclusions. Proper procedures for clearance and fact validation with the audited entity will also be important.

The Audit report should be widely accessible taking into consideration regulations on confidential information of respective countries and it should be distributed to responsible parties, stakeholders and the public. It is common practice to make reports accessible to the public and to other interested stakeholders directly and through the media, unless prohibited by legislation or regulations.

5.1.1. Attributes of Audit Report

The auditor should provide audit reports, which are comprehensive, convincing, timely, reader friendly and balanced. The auditor should identify the audit criteria and their sources in the audit report. The auditor shall ensure that the findings clearly conclude against the audit objective(s) and/or questions, or explain why this is not possible.

A brief description on the attributes of the audit report is as follows:

i. Comprehensive

It is important that the report promotes adequate and correct understanding of the matters and conditions on which the audit focused. The report should include a description of the audit objective(s) and the scope and methodology used for addressing the audit objective(s) / audit questions. This information is for the reader to understand the purpose of the audit,

the nature and extent of the audit work performed, and the context and perspective regarding what is reported.

ii. Convincing

In writing a convincing report, the audit findings and conclusions address the audit objective(s) / questions, and are presented persuasively and objectively. The report has a logical flow, with findings, conclusions and recommendations clearly linked to the audit objective(s), audit questions, and audit criteria. Furthermore, the conclusions and recommendations follow logically from the audit findings and the facts and arguments presented. A convincing report also needs to be accurate. An accurate report is fact-based, with a clear statement of sources, methods and assumptions so that report users can judge how much weight to give the evidence and conclusions reported. The language and tone used is neutral, and the information presented is sufficient to convince the readers as to the validity of the findings after taking into consideration all the feedbacks, the reasonableness of the conclusions, and the benefits of implementing the recommendations.

iii. Timely

The report has to provide accessible, concise and up-to-date information, which the government, the legislature, and auditees may use for immediate action and improvements. The auditors need to provide audit report in time, to respond to the needs of stakeholders. Likewise, the audit report is more helpful if it relates to current issues.

iv. Reader-friendly

It is important that audit reports are clear, concise, logical, and focused on the key audit areas. Reports are likely to have the greatest impact on a wide audience when they are reader-friendly. A reader friendly report meets the audience's needs, has effective report structure and clear writing. An effective structure enables the report to grab the reader's attention, convey the purposes of the audit, communicate complex issues and provide clear interpretation of the audit findings.

v. Balanced

The audit report should be fair and support the overall findings, conclusions and recommendations in order to maximise impact. The findings to be presented objectively and fairly with different perspectives and include both positive and negative aspects for improvement.

5.1.2. Contents of the Audit Report

An audit report needs to include all the information and arguments needed to address the audit objective and audit questions, while being sufficiently detailed to provide an understanding of the subject matter and the audit finding and conclusions. Due to the diverse topics possible in a performance audit, the content and structure of the audit report will vary. The audit report is a formal document. The format of procurement audit reports, either as separate audit report or as part of other audit reports should be in accordance with the format approved in respective SAI.

Typically, for reasons of transparency and accountability, the minimum contents of an audit report include the following:

- i. subject matter,
- ii. audit objective(s) and/or audit questions,
- iii. audit criteria and its sources,
- iv. audit-specific methods of data gathering and analysis applied,
- v. time period covered,
- vi. sources of data,
- vii. limitations to the data used,
- viii. audit findings,
- ix. conclusions and recommendations, if any.

An audit report presented as per the following contents:

- i. **Executive summary:** The executive summary covers all the important messages outlined in the report and has a concordance in tone and emphasis with the body of the report.
- ii. **Title:** the subject of the procurement audit for example the name of the project,
- iii. **Addressee:** the person that the report should be addressed to
- iv. **Background:** To tell the reader what is essential to know to understand the main message. It might project and budget reference, brief subject matter information and references and other important points.
- v. **Audit objectives:** stated in clear several questions on compliance and internal control in case of procurement audits and otherwise on other audits, each audit objective on line of inquiry should be distinctly stated from the other ;
- vi. **Audit Scope and Methodology:** the scope will establish the purpose and boundaries of the audit. The readers should also made aware of the methods and the extent of work carried out as well as the nature and extent of information available in order to arrive audit findings, conclusion and

recommendation;

- vii. **Audit Findings:** Describe the main message of the report that addressed the economy, efficiency with which resources are acquired and used as well as the effectiveness with which objectives are met. Each finding should include criteria, condition, conclusion and summary of project management responses. This section also might include occasional examples from the findings and conclusions on procurement to facilitate understanding.
 - a. **Audit criteria:** to arrive at the audit findings and conclusions with reference to each audit objective and sub-objective which should be stated with appropriate explanations. While it is possible to state the criteria broadly, it is not possible to state all criteria used in audit testing, being too many. In such a case it can be stated that the lower level criteria used form a particular source have been used and indicated with the audit findings;
 - b. **Audit findings and conclusions:** in the sequence of the audit objectives with one-to-one correspondence, the recommendations following each conclusion, where required;
 - c. **Summary of Project Management Responses:** Briefly describes the entity's commitment to take action.
- viii. **Recommendations:** while recommendations may be included at various places in the report in different contexts along with the discussion of the findings of each of the audit objectives alongside the findings and conclusions on different subject matters, major recommendations may be presented together in the executive summary; and
- ix. **Signature and Date of Report:** the report should be dated to inform the reader that consideration has been given to the effect of events of transactions about which the auditor became aware that date.

CHAPTER 6: FOLLOW-UP

6.1 Follow-up

Follow-up on the audit report is an important process or mechanism to strengthen the impact of the audit and improve future audit work, and is therefore a valuable part of the audit process. A follow-up process will facilitate the effective implementation of audit findings and recommendations. It will also provide feedback to auditors, the legislature and the government on performance and improvements made by the auditee.

The auditors should follow up when appropriate, on previous audit findings and recommendations. The auditors should focus the follow-up on whether the audited entity has adequately addressed the problems and remedied the underlying situation after a reasonable period.

Following up on audit findings and recommendations may serve three main purposes:

- i. Identify the extent to which auditee have implemented changes in response to audit findings and recommendations
- ii. Determine the impacts which can be attributed to the audits
- iii. Identify areas that would be useful to follow up in future work

The follow up results need to be reported appropriately in order to provide feedback to the relevant authorities. It is good practice to report deficiencies and improvements identified in audit follow-up to the responsible parties or the legislature. Follow-up may be reported individually or as a consolidated report. The follow-up reports should be balanced and the findings presented objectively and fairly.

CHAPTER 7: CONCLUSION

This guideline on public procurement is intended to help auditors understand the audit process in public procurement. The auditors can audit public procurement as part of the financial statements audit, compliance or as an alternative to assess on the specific procedures and consider the economy, effectiveness, and efficiency, compliance with the objectives and assessing the fraud risk.

Procurement in the ASEANSAL countries is governed by the established regulations and rules of each country. While such regulations and rules may differ in matters of detail, all countries are guided by the Common Guidelines for Public Procurement Audit. This guidelines cover public procurement audit from audit planning until the preparation of the audit report which will follow the format that has been specified by each SAs. The idea is to provide a broader picture of the public procurement audit within the ASEANSAL countries. Hopefully, the ASEANSAL objectives to build capacity and promote cooperation through the exchange and sharing of knowledge and experience would be achieved.

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PUBLIC PROCUREMENT PROCEDURES

PROCEDURES	WORKS						GOODS & SERVICES						CONSULTING SERVICES					
	Country						Country						Country					
	Thailand	Philippines	Cambodia	Brunei	Malaysia	Indonesia	Thailand	Philippines	Cambodia	Brunei	Malaysia	Indonesia	Thailand	Philippines	Cambodia	Brunei	Malaysia	Indonesia
A. PROCUREMENT PLANNING																		
1. Need Assessment for the procurement	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√		√	√
2. Ensuring that plans for procurement are linked to budgets	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√		√	√
3. Preparing the <i>Project Procurement Management Plans</i> (PPMP) which involves: <ul style="list-style-type: none"> identifying the procurement project requirements, determining the Approved Budget for the Contract (ABC), identifying the schedule of milestone activities, and determining the method of procurement 	√	√	√		√	√	√	√	√	√	√	√	√	√	√		√	√
4. Consolidating all PPMPs into the <i>Annual Procurement Plan</i> (APP)	√	√	√		√	√	√	√	√	√	√	√	√	√	√		√	√
5. Approval of budget	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√		√	√
6. Refining/Finalizing the PPMPs to reflect the budgetary allocation as approved	√	√	√		√	√	√	√	√	√	√	√	√	√	√		√	√
7. Decide method of procurement that will be	√	√		√	√	√	√	√		√	√	√	√	√			√	√

used			√						√						√			
• Direct Purchase/Award			√						√						√			
• Quotation			√						√						√			
• Tender			√						√						√			
○ Open Tender			√						√						√			
○ Restricted			√						√						√			
○ Competitive Dialogue			√						√						√			
○ Competitive Selection			√						√						√			
○ Negotiated			√						√						√			
B. PREPARING THE BIDDING DOCUMENTS																		
8. Prepare the Schedule/Project procurement Plan	√		√	√	√	√	√		√		√	√	√		√		√	√
9. Conduct Detailed Engineering	√	√	√	√	√	√	√			√		√				√		√
10. Estimate the contract value/project cost	√	√	√		√	√	√		√	√	√	√	√		√	√	√	√
11. Prepare the Bidding/Tender Documents	√	√	√		√	√	√	√	√	√	√	√	√	√	√	√	√	√
12. Approve the Detailed Engineering Documents	√	√	√		√	√	√			√		√				√		√
C. PROCESS																		
13. Conducting the pre-procurement conference																		
○ Infrastructure projects		*			√	√		**		√		√				√		√
○ Goods and Services														¥				
○ Consulting Service																		
14. Advertising/Posting the invitation to bid	√	√	√	√	√	√	√	√	√		√	√	√	√	√		√	√
15. Set up Bid Committee	√		√	√	√	√	√		√		√	√	√		√		√	√
16. Consolidation report/tender document			√		√	√			√	√	√	√			√		√	√
17. Bidder gathering information			√		√	√			√	√	√	√			√		√	√
18. Conducting eligibility check (and Short Listing)			√		√	√			√	√	√	√		√	√		√	√
19. Issuance and availability of bidding documents		√	√	√	√	√		√	√	√	√	√		√	√		√	√
20. Conducting Pre-bid Conference/Meeting																		
○ Infrastructure projects		*	√		√	√		**	√	√		√				√		√
○ Goods and Services														¥	√			
○ Consulting Service																		
21. Request Clarification		√	√	√	√	√		√	√		√	√		√	√		√	√
22. Supplemental/Bid Bulletin		√	√	√	√	√		√	√		√	√		√	√		√	√
23. Submission and Receipt of Bids	√	√	√		√	√	√	√	√	√	√	√	√	√	√		√	√
24. Submission of Additional Requirements		√			√	√		√		√	√	√		√			√	√

25. Opening the Bids	√		√		√	√	√		√	√	√	√	√	√		√		√	√
26. Bid Evaluation	√	√	√		√	√	√	√	√	√	√	√	√	√	√		√		√
27. Notification for Negotiation		√	√		√	√		√	√	√	√	√		√			√		√
28. Negotiation		√	√		√	√		√	√	√	√	√		√			√		√
29. Post-Qualification		√	√		√	√		√	√	√	√	√		√			√		√
D. CONTRACT AWARDING AND CONTRACT SIGNING																			
30. Approval of Resolution/Issuance of Notice of Award	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√		√		√
31. Contract Preparation and Signing	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√		√	√
32. Approval of Contract by Higher Authority	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√		√	√
E. CONTRACT IMPLEMENTATION																			
33. Supervision in order to control and monitor the contract implementation	√	√	√	√	√	√	√		√	√		√	√		√				√
34. Variation Order	√	√	√	√	√	√	√		√	√*		√	√						√
35. Extension of time	√	√	√	√	√	√	√		√	√*		√	√		√				√
F. USAGE																			
36. Receive/Handover/Delivery	√	√	√	√	√	√	√		√	√	√	√	√	√	√			√	√
37. Payment Process	√	√	√	√	√	√	√		√	√	√	√	√	√	√	√		√	√
38. Usage	√	√	√	√	√	√	√		√	√	√	√	√	√	√				√
39. Checking for defect Return of the performance guarantee	√	√	√		√	√	√		√		√	√		√					√


* For infrastructure projects costing more than P5 million

** For Goods costing more than P2 million

¥ For Consulting Service costing more than P1 million.

√* Services

*** Did not received feedback from LAO PDR

	Procurement Audit For the procurement of goods / services Year.....	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Index number</td> </tr> </table> Made by : Reviewed by : Approved by :	Index number
Index number			
The SAI's Name			
<ol style="list-style-type: none"> 1. Audit Mandate 2. Audit Standard: <ol style="list-style-type: none"> a. SAI's Audit Standard b. SAI's Audit Management Guidelines 3. Audit objective <ol style="list-style-type: none"> 1. 2. 4. Entity 5. Audit Scope 6. Internal control system assessment result 7. Audit Focus 8. Audit Criteria 9. The Reason to Audit 10. Audit Methodology 11. Audit Guidelines 12. Audit Period 			

No	Description of Activity	Number of Days of Audit					
		Team Leader	Team Member	Team Member	Team Member	Amount	Note
1	2	3	4	5	6	7	8
1.	Entrance conference and initial discussion with entity's management						
2.	Acquiring information and data from the entity						
3.	Assessing entity's internal control system or compliance with procurement regulations / legislation						
4.	Performing substantive tests for good/service procurement						
5.	Composing audit findings						
6.	Discuss the audit findings with the entity and requesting entity's action plan						
7.	Exit conference and final discussions with entity management						

Note:

1. Work days = day
2. Holiday and weekend = day
3. Roundtrips = day
Total = day

13. Team Composition and details of audit cost

No.	Team Composition		Number of Audit Day	details of audit cost				note
	Name	Grade		Lump sum	Transportation	etc.	Amount	

--	--	--	--	--	--	--	--	--

14. Audit Report Framework (attached)

.....
 .

15. Due dates for Audit Report Submission and Distribution

.....



Procurement Audit of....

Year...

Index number

Made by :

Reviewed by :

Approved by :

Name of SAI :

UNDERSTANDING OF THE AUDIT OBJECTIVE AND EXPECTATION

I. Audit Objectives

The procurement of good /service audit objectives are to assess :

- The general procurement plan is prepared based on entity's factual needs (need assessment) and it has consider the quality, quantity, and time required to achieve the programs' objective.
- Budget preparation has considers the general procurement plan.
- The procurement process has comply with applicable law and regulation related to procurement.
- The provider has fulfilled their obligation to hand over the work/good/services in required time and meet the quality and quantity standard.
- The entity has utilized the good/service in line with the procurement objective.
- Internal control system deficiencies and irregularities exist during procurement process.

II. Assignment Expectation

1. Audit Standard

In order to achieve the audit objectives, procurement audit must based on SAI's audit standards to impose standards of field work and reporting standards unless otherwise regulated within the SAI's audit standards.

2. Audit schedule

Procurement audit must have conduct based on an audit program with consider the scope and audit objective. The audit accomplishment is performed by preparing an audit report to parliament.

III. Expected Audit Result Plan

The audit may be preceded by monitoring the follow-up results of the previous audit, then also by understanding the internal control and law and regulation pertaining the entity.

The audit should focus on risks area based on the information gathered from the previous audit finding or other relevant information. All steps should be documented in the audit working paper and should be including explanation behind the auditor's judgement or reason.

.....


Team Leader,

Technical Controller,

Person in charge,

Appendix 4

The sample form of understanding the audit objective and expectation assignment

	Procurement Audit	Index number
	For the procurement of goods / services.....	Made by : _____
	Year.....	Reviewed by : _____
		Approved by : _____
Name of SAI : _____		

UNDERSTANDING ENTITY

I. Overview of the organization structure

Entity's main duties and function etc.

II. Programs/Annual Event That Related with Goods/Service Procurement

1. Work Program : (name of the work program)
Budget : \$
Realization : \$

2. etc.

III. Environmental influence

1. Relationship between work units within the entity.
2. Stakeholders of work's program implementation.
3. Standard Operational Procedure or local regulations or internal policies for good/service procurement.
4. etc.

CHART 1 : Procurement Planning Stage

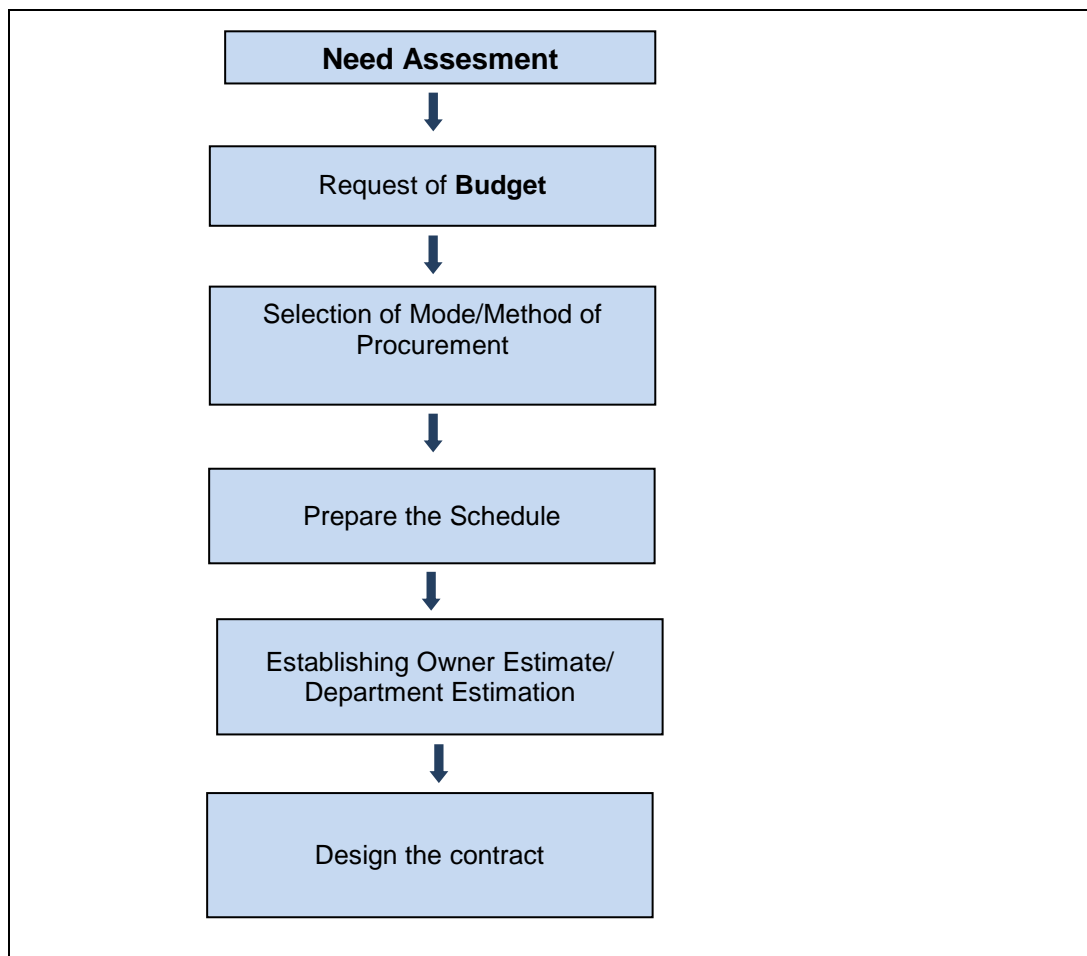


Chart 2: Bidding Process

