



ASEANSAI GUIDELINES ON PUBLIC PROCUREMENT



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PROCUREMENT

FOREWORD

Nowadays, audit of public procurements have gained in importance. However, practitioners from public administrations often find auditing public procurement processes to be one of the most challenging and complex fields to audit. Misspent public money in low quality services and substandard goods can endanger both the financial and operational integrity of an organisation. Therefore, rigorous audits of procurement and contract management play a key role in assuring efficiency in public administration. Internal and external auditors have to be well prepared to identify weaknesses and assess the risks in procurements to ensure that money is well spent in public administration.

The Guidelines for Public Procurement have been produced as a result of the ASEAN Supreme Audit Institutions (ASEANSAI) Focus Group Discussion (FGD) on public procurement which was initiated in July 2014. The guidelines were developed based on the discussions of the eight (8) ASEANSAI countries which consist of Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines and Thailand. The team met twice in 2015 to discuss the content of which has been agreed upon. The Secretariat of the discussion is SAI Malaysia Subject Matters Experts (SME) team on Procurement Audit.

In general, the Guidelines on Public Procurement have six (6) sections and other parts are the enclosures and references. This guideline outlines general information about the public procurement audit so that all countries can adopt or use it as guidance. This is consistent with the objectives of ASEANSAI Knowledge Sharing Committee which is to improve and assist ASEAN countries in auditing matters.

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, value management and investigate fraud and corruption.

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. These Common 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, with the launch of these guidelines, the ASEANSAL objectives to build capacity and promote cooperation through the exchange and sharing of knowledge and experience would be achieved.



YBHG. TAN SRI HJ. AMBRIN BIN BUANG
AUDITOR GENERAL OF MALAYSIA

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INTRODUCTION

1.1 Background

1.1.1 The value of public expenditure through public procurement has increased rapidly in the last few years. It is for this reason, the money spent to finance the procurement must be used prudently and must comply with the procedures and regulations which differs for every country. Public procurement includes acquisition of services, goods or works. The procurement process can be done by using various modes such as direct purchase, quotations, competitive bidding, tenders, direct award and any other alternative method depending upon the conditions surrounding the procurement at hand. It must be in line with basic procurement principles as follows:

- ❑ **Accountability:** Effective mechanisms must be in place in order to enable Procurement Officers and their equivalents in other government agencies to discharge their personal responsibility on issues of procurement risk and expenditure;
- ❑ **Competitiveness:** Procurement should be carried out by competition unless there are convincing reasons to the contrary;
- ❑ **Consistency:** Suppliers should, all things being equal, be able to expect the same general procurement policy across the public sector;
- ❑ **Effectiveness:** Government agencies should meet the commercial, regulatory and socio-economic goals of government in a balanced manner appropriate to the procurement requirement;

- ❑ **Efficiency:** Procurement processes should be carried out as cost effectively as possible;
- ❑ **Fair-dealing:** Suppliers should be treated fairly and without unfair discrimination, including protection of commercial confidentiality where required. Government agencies should not impose unnecessary burdens or constraints on suppliers or potential suppliers;
- ❑ **Integration:** In line with the government policy on joined-up government, procurement policy should pay due regard to the other economic and social policies, rather than cut across them;
- ❑ **Integrity:** There should be no corruption or collusion with suppliers or others;
- ❑ **Informed decision-making:** Government agencies need to base decisions on accurate information and to monitor requirements to ensure that they are being met;
- ❑ **Legality:** Government agencies must conform to legal requirements;
- ❑ **Responsiveness:** Government agencies should endeavour to meet the aspirations, expectations and needs of the community served by the procurement;
- ❑ **Transparency:** Government agencies should ensure that there is openness and clarity on procurement policy and its delivery which are efficient, effective, transparent, open and competitive, fair/non discriminative as well as accountability;

- ❑ **Economy:** offering the lowest price possible and the best value for money.

1.1.2 The objectives of public procurement are to be able to have an effective, efficient and economical (value for money) procurement systems, to promote growth through local industry/goods, local service sector and state owned enterprise, to enhance the capacity of local industry through technology transfer as well as a tool to achieve national policies.

1.1.3 Parties related to the procurement are subjected to the following code of ethics and norms of conduct:

- ❑ Work professionally, independently and treat with confidentiality all documents to prevent non-compliance with procurement procedures;
- ❑ Perform the task in an orderly and responsible manner to achieve appropriate goals and objectives of procurement;
- ❑ Accept and account for all decisions made in writing by the relevant parties;
- ❑ Avoid and prevent direct and indirect conflict of interest between the parties during the procurement process;
- ❑ Avoid and prevent financial wastage and leakage in procurement;
- ❑ Avoid and prevent abuse of power and/or collusion in the interest of a person, group or another party, directly or indirectly;

- ❑ Not to accept/receive, offer/promise to give or receive presents, rewards, commission, rebates and any forms from or to anyone known or allegedly related to procurement.

1.1.4 Integrity pact for every procurement is applicable in some ASEAN countries. Integrity pact is a statement to pledge to prevent and not to commit collusion, corruption and nepotism in procurement.

1.1.5 The guidelines for procurement audit are prepared based on International Standards of Supreme Audit Institutions (ISSAI) 3000 and 4000 and practical experience. The definition of performance audit under ISSAI 3000 emphasise on economy, efficiency and effectiveness. Whereas ISSAI 4000 is a guideline for compliance audit. Other than that, in order to produce experience-based implementation guidelines, a study has been made based on experience, standards and guidelines from ASEANSAI members. However, it is impossible to produce guidelines that are applicable to all type of procurement audit since comparisons between practices of procurement in different countries show considerable variations in mandate, regulations, organisations and methods used. Thus, this guideline may not comprehensively cover all possible regulations, approaches methods and techniques. Nevertheless, this guideline tried to cover all similarities among ASEANSAI countries.

1.1.6 The basis of procurement audit is public accountability which means the procurement must be carried out economically, effectively and efficiently as well as in compliance with laws, rules, regulations, ministries directives and etc.

1.2 Objective of the Guidelines

1.2.1 The objective of the guidelines is to help the auditor to identify, collect and analyse information as well as provide uniform procurement audit practice in:

- ❑ Planning
 - ✓ Risk assessment
 - ✓ Determination of audit areas, objectives, scope, corresponding criteria and audit techniques
- ❑ Creating the basis for strengthening the methodology and professionalism of procurement audit
- ❑ Providing the foundation for the audit report to be generated professionally.

1.2.2 The guidelines also ensures that the auditor who perform procurement audit have the ability to analyse evidence and draw conclusions from the procurement activity. This also enables the auditors to write a detailed audit report on complex issues.

1.2.2 This guideline should be used with the respective SAI's own guidelines related to procurement audit.

PUBLIC PROCUREMENT

2.1 Definition

2.1.1 Procurement means the management that facilitate the movement of products such as materials, tools, accessory, equipment, machines etc. from manufacturer or distributor to customer or user to meet their objectives in terms of Properties, Amounts, Date, Time, Place and have reasonable Quality.

2.1.2 Procurement also means to manage existing material such as accumulating, storing or reserve including maintenance to keep it in good condition and to increase its life span, until written off when repairing is not the economical way.

2.1.3 Procurement also refers to acquisition of Goods, Consulting Services, and the contracting for Infrastructure Projects by the Procuring Entity. Procurement shall also include the lease of goods or real estate.

2.1.4 The art of management is to support or fulfil any needs in order to bring activities straight to the objectives which may have continuous stages, which cycle begins with policy setting, planning, collecting needs, procuring, allocating, controlling, storing, transporting, maintaining, and writing off in the end.

2.2 Types of Procurement

The types of procurement can be classified as follows:

- ❑ Supply of Goods including Supply and Installation: e.g. Purchasing or lease of commodities, equipment, land, etc.

- ❑ Works: contracting for construction such as Infrastructure and any Civil Works.
- ❑ Services: (Consultancy & Management) e.g. engagement of consultants, contracting for design and work supervision contracting for works.

2.2.1 Supply of Goods/Supply and Installation

Goods are anything tangible and intangible, movable and immovable, tradable, and used or utilized by a Goods User. Supplies cover the purchases of materials, supplies of goods including installation, inspection and other related services to carry out a program, activity or projects.

2.2.2 Works (Construction/Infrastructure/Civil Works)

Civil Works are all works related to the construction of a building or creation of another physical form such as construction of building, airport, port, road, dam and drainage including mechanical and electrical works.

2.2.3 Services (Consultancy and Management)

Services cover the purchases of services or expertise to carry out projects. Services are divided into two categories which are consultancy and non-consultancy services.

Consulting services are professional services with specific expertise in a wide range of sciences giving priority to the presence of brain-ware.

Other services are services requiring specific abilities giving priority to the presence of skill-ware in a governance system widely known to business to do a work or any works and/or provide services other than Consulting Services, and

implement civil works and procure goods such as training, maintenance, cleaning, property leasing and management, advertising, transportation and others.

2.3 Rules and Regulations (Policies)

2.3.1 Public procurement is subjected to laws, rules and regulations including circulars, ministries resolution, government policies, order etc. adopted by the ministries.

2.3.2 The public procurement laws, rules and regulations are designed to regulate the purchasing of goods, works or services and to ensure transparency and competition.

2.3.3 Other laws, rules and regulations are designed 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.

2.3.4 Every ASEANSAI country has its own laws, rules and regulations related to procurement.

2.4 Procurement Procedures

Every ASEANSAI countries have different procurement procedures. The procurement procedures adopted for every ASEANSAI countries can be referred to **Appendix 1**. The description of every procurement procedures are as follows:

2.4.1 Planning Stage

i. Need Assessment

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**

Begin with preparing a plan, work, project or activity in systematic way in order to meet the objectives by clearly stated the starting and finishing point, work area, workforce and responsibility. The budget also must ensure value for money by comparing the benefit and cost as well as its objectives.

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. **Method of Procurement**

There are different methods of procurement to acquire goods and services. There are many factors which determine which method is appropriate, but the most important of these would be: requirements of the Government Regulations, urgency of requirement, estimated dollar value, complexity of requirement, quantities required, commercial availability, source of supply, the Business Incentive Policy, land claim agreements and economic development initiatives (Negotiated Contracts). All of these factors will influence the procurement strategy and the selection of the best method of procurement in a given situation.

Among the methods of procurement are:

a. **Direct Purchase/Award**

Direct purchases are made without tender process or quotation which can select a provider of Goods/ Services directly due to low value of procurement or strategic reasons i.e. to gain competitive advantage in competitive environment.

b. Quotation

For the purposes of this procurement policy, a quotation is a procedure for seeking a price and delivery time for goods which are easily specified and low value of procurement.

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 prices, and within a specified period. A quotation may also contain terms of sale and payment, and warranties. Acceptance of quotation by the buyer constitutes an agreement binding on both parties. A request for quotation (RFQ) is a standard process whose purpose is to invite suppliers into a bidding process to bid on specific products or services. An RFQ typically involves more than the price per item. Information like payment terms, quality level per item or contract length are possible to be requested during the bidding process.

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 selective tendering, single and restricted tendering, and prequalified tendering. The types of tender are:

- Open Tender**
All interested suppliers are invited to express an interest and may submit a tender.
- Restricted/Limited**
Only suppliers invited by the procurement contract authority may submit tenders.
- Competitive Dialogue**
Designed to provide more flexibility in the tendering process for more complex contracts, for example public private partnerships (ppps). 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**
Is a method for selecting a Provider of Consulting Services for work in which all eligible Providers of Consulting Services may participate.
- Negotiated**
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 & supply chain manager can provide more detail regarding this procedure.

iv. Prepare the Schedule/ Project Procurement Plan

Once procurement unit has determined whether it has capacity to procure, it should continue with developing the procurement strategy. In addition to planning for what is being procured, agencies should also consider the procurement strategic directions and ensure that the plan is consistent with the strategic directions, such as:

- 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 (where applicable)
- 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

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.

v. Estimation of Contract Values and Design the Contract

The estimation of contract values 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 procurement authority also should consider other matters:

- 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.
- 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 Drawings and Bill of Quantity & Cost (BQ)) etc.
- Request for Tendering**
Request for Tendering is a request to begin tendering process stating the reasons, needs, budget, tendering method and related details as well as

committee assignment. Request for tendering have to be requested from who has authority over the budget.

Chart 1 : Planning Stage (A)



2.4.2 Bidding Process

After the planning stage and design the contract has been made, the secretariat will start the tendering process. The first step is advertising the tender offer. The bidding process may include:

i. Advertising Procedures

Tender document has to be as they are approved. Tendering announcement has to 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. Set 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 should have the competency, technical knowledge and expertise. Team members should avoid fraternization and other close contact with bidders.

Two options exist for tender, 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 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 the Act, 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.(a)

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.

iv. Consolidation Report/Tender Document

Following advertisement of the tender, ensure that every tenderer who pays the required, non-refundable, fee receives the documents, design drawings, quantities (but no guideline costs), any Community Agreement, the date of the site visit and details on where the tender documents are to be delivered, the deadline for delivery and the location and time of tender opening.

If the deadline is changed, all potential tenderers must be advised either personally (if few in number) or by advertisement in the media.

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. Bidder Gathering Information

Bidder refers to a qualified contractor, manufacturer, supplier, distributor and/or consultant competing for the award of a contract in any procurement by the government. A contractor, manufacturer, supplier, distributor or consultant is said to be eligible if he meets all the eligibility requirements issued by the procuring entity.

vi. Pre-Bidder 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 conference 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.

vii. 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.

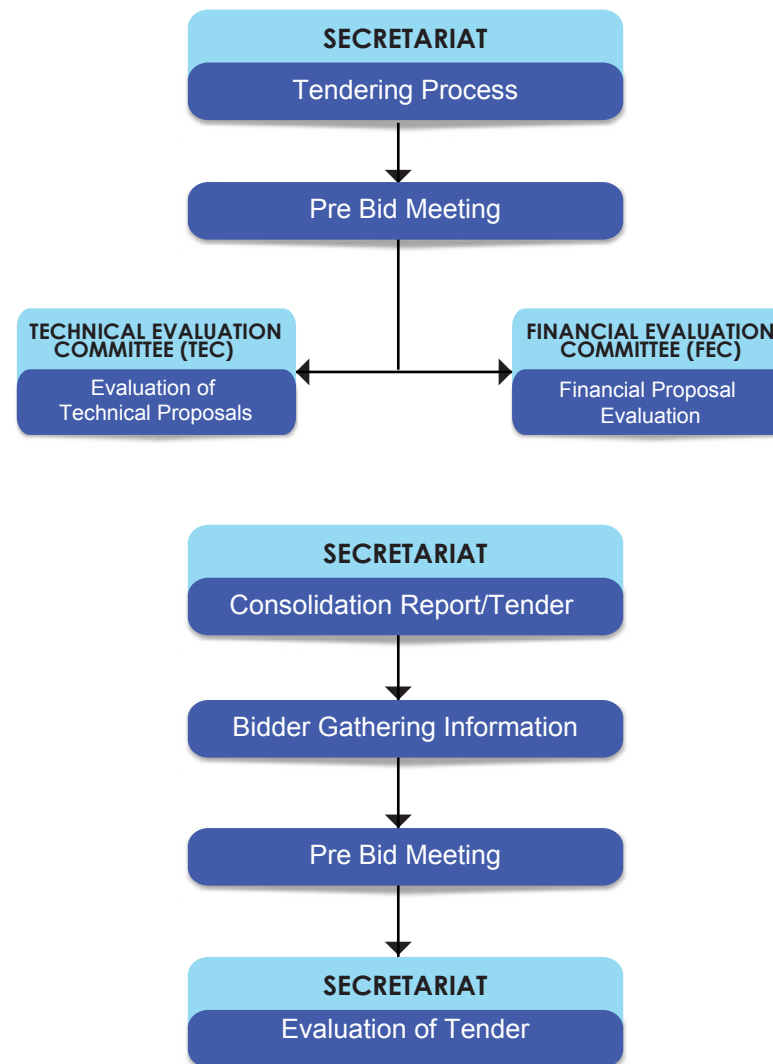
The responsible officer opening the bids should first advise all those present of the procedure he/she will follow. Brief details on the evaluation process (already provided in the documents and based on the guidelines above) should be given to assure potential bidders that the evaluation is to be fair 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.

viii. Evaluation of Bid

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 tenders under each criterion. Tenders who do not comply with the requirements specified in the contract notice or the tender documentation should be rejected. The contract should be awarded to the lowest priced bid or most economically advantageous that meets the relevant criteria.

Chart 2: Bidding Process (B)



2.4.3 Contract Awarding and Signing

2.4.3.1 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 bidders must be listed according to the best criteria match with the specification. If there is additional information, it must be distributed to all bidders.

Disclosure of Information: Notifying Tenderers and Contract Award Notice

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 for any public contract should be informed of the results of the tendering process without delay.

2.4.3.2 Contract Signing

Prepare of Contract Draft.

Determine of the accuracy of the performance bond. Signing of contract and contract documents which should contain the same condition with the Tender documents and of what was mutually agreed upon during the Tendering processes. Contract document should outline both the obligations and the right had 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 vetted 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.

Chart 3: Contract Awarding and Signing (C)



2.4.4 Contract Implementation

i. Contract Management

The contractor must implement 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

Generally 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 period is caused by the delays on the construction project. Delays might be caused by:

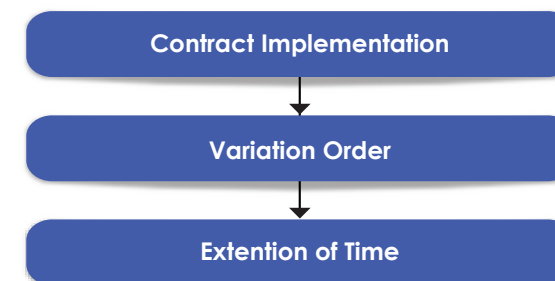
- The uniqueness of the project.
- Speed of decision making.
- Poor or unrealistic scheduling.
- Poor communication.
- Lack of information.
- Labour productivity.
- Availability of resources.
- Adversarial relationships.
- Third party dependencies.
- Lack of funds.
- Availability of the site.

- Site conditions.
- Weather.

Delays can be minimised by:

- Detailed site investigations.
- Careful monitoring and regular meetings.
- Effective site management.
- Collaborative working and effective coordination.
- Careful scheduling.
- Full commitment to the project by all parties.

Chart 4: Contract Implementation (D)



2.4.5 Acceptance, Payment and Usage

i. Receive/Handover/Delivery

Provider has to handover, deliver works, goods and services within delivery schedule. In receiving, works has 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 recorded/registered.

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, if so required, of the contracted goods except for contracts involving installation and commissioning, in which case a portion of the payment may be released only after the supplier has completed installation and commissioning successfully and complied with all its obligations under the contract.

In major contracts, sometime provisions are made for suitable advances/advance payments. The advance payment should be secured by a bank guarantee or performance bond from the supplier in accordance with the rules and regulations of the stipulated contract.

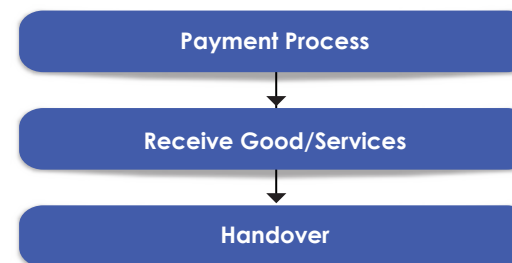
iii. Usage

Usage is about how the goods received are used. Usage also may link with the planning stage in terms of economy, efficiency and effectiveness by referring to the strategic plan, goals and objectives. Other than that, the user also needs to:

- Check for defects before the end of the guarantee period.** If defects are found within the guarantee period, make sure to inform the contractor to do the repairing for the benefit of the public entities.
- Return of the performance guarantee security** after the obligations of the contractor has ended,

the performance guarantee of the contractor should be returned immediately.

Chart 5: Acceptance, Payment and Usage (E)



PUBLIC PROCUREMENT AUDIT

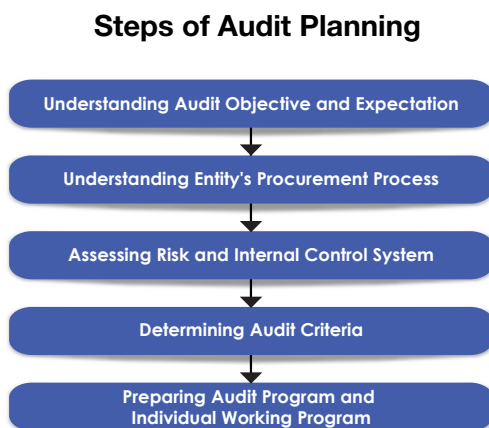
3.1 Audit Planning

3.1.1 Introduction

An audit shall be planned in a proper manner. During audit planning, auditor prepare audit program as a basis for audit so that it could be conducted efficiently and effectively.

Audit Preparation Team conducts the audit planning. The team will eventually be the Audit Team although it is possible that other auditor(s) will do the assignment.

3.1.2 Steps for Procurement Audit Planning



3.1.3 Understanding the Objectives and Expectation of the Procurement Audit

The objective of good/service procurement audit is to ensure that the procurement complies with applicable law, by assessing whether:

- 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.

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 2**.

3.1.3.1 Understanding the Entity

Understanding the audited procurement process can be accomplished through information from previous audit report and its working paper, communication with the previous auditor, and also from audited entity database in regard to: (1) entity/program/activity's objective; (2) main activities of the entity/program, (3) accounting system of the entity, (4) procedure of operation and oversight activity, (5) resource to undertake the activity, and (6) other audit and study report of good/service procurement.

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 3**.

3.1.3.2 Assessing Risk and Internal Control System

Based on Statement of Auditing Standard (SAS) No. 117, the nature and extent of the risk assessment procedures may vary between entities. Factors influence the risk assessment procedures are as follows:

- The newness and complexity of the applicable compliance requirements
- 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
- The nature of the applicable compliance requirements
- The service provided by the entity and how they are affected by external factors
- The level of oversight by the grantor or pass-through entity
- How management addresses findings

Auditor assesses risk and internal control system to determine audit scope and depth. Steps to assess risk are:

1. Identify risks faced by the entity and its impact over entity's objective achievement. This step is documented in risk and internal control system working paper. Example of working paper documentation can be found in **Appendix 4**.
2. Consider the risks caused/influenced by certain regulation and irregularities that might happen.
3. 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.
4. 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.

i. Risk Assessment Procedures

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

Procurement value

The greater the value of good/service procurement, the more it contains irregularities risk.

Type of good/service

Simple and common procurement is less likely to have irregularities risk compared to complex and specific procurement.

Procurement venue

Procurement held on accessible location is less likely to have irregularities compare to procurement held on a remote location.

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.

Key points to consider in identifying and assessing risk based on procurement process are:

1. Risks Associated with Procurement Planning

Procurement planning 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. Auditor should identify risks related to the procurement planning because it could affect the achievement of procurement objectives as well as the organisation goals.

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.
- ✓ Goods/Services/Civil Works that planned to be procured are based on providers' recommendation.
- ✓ General Procurement Plan is not publicly announced. General Procurement Plan should be announced so that the community would know all the entity's procurement plan.
- ✓ Procurement officials do not have experience of procurement process and lack of technical requirement on the goods/civil works/services planned to procure.
- ✓ Absence of Owner's Estimate supporting documents.
- ✓ 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.

- ✓ OE prices leads to a specific brand.
- ✓ Incomplete procurement documents and important terms and conditions are not presented.
- ✓ The terms and conditions in the procurement documents are vague, inappropriate and ambiguous that gives a room for doubt or different interpretations.
- ✓ The selection document is not authorized by the Commitment Making Officials.
- ✓ Technical requirements are more sophisticated compared to the actual procurement needs.
- ✓ Technical specifications were created to lead to a particular products/services or a certain procurement provider.
- ✓ The criteria for bid evaluation stated in the procurement documents does not exist or unclear.
- ✓ Unnecessary additional criteria for bid evaluation.
- ✓ Selection document is not complete.

2. Risks Associated with Bidding Process

□ 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.

□ 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.

□ Bidders Clarification Request

Risks on 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.

□ Bidders Conference/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 1 procurement officer and minimum 1 bidder present. Copies of minutes of meeting should be distributed to all bidders.

Risks on bidders' conference 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.

❑ Bid Prequalification

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 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.

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.
- ✓ The provider may not have enough capacity to meet the requirement of the purchaser within the prescribed delivery schedule.
- ✓ Provider may take more orders than his capacity to supply.
- ✓ Provider may not have adequate after sale support at the desired places of supply.
- ✓ Provider may be dependent on sub-contractors who may not be so reliable.
- ✓ Financial position of the provider may be weak and he may not be able to handle large procurements.
- ✓ The Management may not review the status of the pre-qualified providers from time to time.
- ✓ The information of the approved providers in database is incomplete or obsolete.

- ✓ Inadequate documentation in support of prequalification decision and updating prequalification provider list.
- ✓ Inadequate competition due to insufficient number of pre-qualified providers.
- ✓ The persons assigned the job of evaluating and pre-qualifying the providers may lack technical expertise to evaluate the provider against the laid down criteria or may be too casual in their approach.

☐ Bid Submission

- ✓ Time allocated to submit the Bid is very short. Bidders will not have sufficient time to prepare their responses appropriately.
- ✓ The location to submit the bids is difficult to find. The address given is not complete or the location may be changed before the Bid Closure that may cause confusion to bidders and failure of some potential bidders to submit their bids before the deadline.
- ✓ The Bidder may submit wrong documents.
- ✓ The Bidder may submit incomplete documents.

❑ 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.

❑ 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.

3. Risk Associated with Contract Awarding

The process of awarding contract 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.
- 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.
- ✓ Specifications have been changed without approval to benefit the provider.
- ✓ Contract has been signed without consultation with the legal and financial authority.
- ✓ Goods have been received before signing of the contract.
- ✓ Recommendations of Purchase Committee/ Price Negotiation Committee were not taken into account in awarding of contract.
- ✓ Important General or Special conditions have been omitted from the contract.
- ✓ The obligations of the provider have not been clearly stipulated.
- ✓ Performance security bond is not taken from the provider.

- ✓ Award of contract has been affected due to conflict of interest or corrupt practices in the purchase organization.

4. Risks Associated with Deliverables, Payment and Usage

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.
- ✓ The contract document is not accessible to the consignees and quality inspectors

and they are not aware of quality and quantity requirements.

- ✓ No one is assigned the job of receiving goods, checking quantity and inspecting quality as per contract.
- ✓ Discrepancies noted in the physical verification are not investigated and documented.
- ✓ The procedure to check the quantities of materials at the time of receipt through counting/weighting/measurement has not been prescribed/ stipulated in the contract condition.
- ✓ Records of supply are not maintained properly.
- ✓ There is no monitoring of receipt of supplies and therefore short-supplies and defects may remain undetected or supplies may not be delivered in time.
- ✓ Provider may not be able to supply goods due to limited production or other problems.

5. Fraud Risk

OECD's Guidelines for Fighting Bid Rigging in Public Procurement (2009) mentioned several indications of conspiracy/collusion in the bidding process/auction, which may include:

❑ 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

❑ 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.

❑ 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.

❑ 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.

ii. Internal Control System Assessment

Internal control system 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.

Detailed steps of internal control system assessment:

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.

3.1.3.3 Determine 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.

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.

Steps above are documented on a criteria determination form.

3.1.3.4 Preparing Audit Program and Individual Working Program

Based on audit planning, auditor prepares Audit Program to make it easier when conducting the assignment. Auditor also prepares Individual Working Program to allocate duties and responsibilities among team member.

Information provided in the Audit Plan/Program, may include:

1. Audit legal mandate;
2. Audit standard;
3. Audit objective;
4. Audited entity;
5. Audit scope/target (subject matter);
6. Result of internal control system understanding;
7. Audit criteria;
8. Reason for doing the audit;
9. Audit method;
10. Audit guidelines;
11. Audit time period;
12. Composition of audit team member and detail of audit cost;
13. Audit report framework;
14. Delivery time and distribution of audit report.

3.2 Audit Execution

3.2.1 Entrance Conference

A formal audit commencement meeting with the senior management responsible for the areas to be audited and to finalise the scope. This involves understanding the special concerns, if any, schedule the dates and explain the methodology for the audit where necessary. This helps to fine tune the objectives based on managerial perceptions of the procurement system. Such meeting involves senior

management and allows clarifying issues and underlying business concerns. This would assist the audit team to conduct the audit smoothly besides appraising the data, information and documents that will be required by the audit team.

During the entrance conference, the representatives of the auditee will be informed of the audit objectives, the proposed audit plan and possible areas of concern based upon previous audit findings. Management concerns regarding the procurement system are noted and taken into consideration.

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

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 finalised.

The auditor should ensure that the method of collecting evidence is consistent with the audit criteria. It is also important that the audit is conducted with utmost integrity. The audit program must be followed through and it must be conducted in accordance with the related standards.

During the audit execution, if the audit program needs modification, the auditor has to redefine the audit program such as the audit criteria and the lines of inquiry.

Before commencing the audit, the auditor should list all the relevant documents and information needed in advance (at least a week) to ensure a smooth audit.

3.2.2 Data Collection and Analysis

The auditor should emphasise that the evidence gathered is “Competent, relevant and reasonable to support the auditor’s judgment and conclusions regarding the organizations, program, activity or function under audit”. The auditor should have a sound understanding of the techniques and procedures.

The audit evidence collected must be sufficient, competent and relevant in order to support audit opinion and conclusion on subject of audit. The 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.

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.

Obtaining Audit Evidence

Audit evidence is obtained by carrying out audit tests which should be classified according to their primary purpose. Compliance evidence is used to enable the auditor to make assessment of the effectiveness of internal controls and, thus, reduce the extent of the substantive testing.

Types of audit evidence:

i. Physical Evidence

Evidence obtained from inspection and observation towards individual, assets and events that occurred.

ii. Documentation Evidence

- Information in form of electronic or physical such as letter, memorandum, contract and third party verification.
- Documentary evidence is more reliable than oral/ testimonial evidence;

iii. Testimonial Evidence

Evidence obtained from interview and survey.

iv. Analytical Evidence

Results from data analysis and can be compared with industry standards and benchmark.

3.2.3 Generic Techniques of Audit Testing

i. Inspection: reviewing or examining records, documents or tangible assets. Inspection of records and documents provides evidence of varying degrees or reliability, depending upon their nature and source. Inspection of tangible assets provides reliable evidence as to their existence, but not to their ownership, cost or value. For example (document checking):

- ❖ Choose tenders on which to conduct the audit according to the sampling method and put together all the related documents;
- ❖ Then verify the compliance with the procurement law and regulations, of the procedures used in the contracts award and management;
- ❖ The task is done on all the following steps of procurement process from planning to final acceptance including payments;

➤ Contract Management

Contract has been well managed;

- ✓ If quality, execution period and financial (payments) controls have been well conducted;
- ✓ If the existence and state of structures, equipment or/and materials;
- ✓ If the site meeting (for works tenders) have been conducted;
- ✓ If for the delayed tenders penalties have been imposed.

☐ Works tenders

- ✓ report of the supervising engineer and related department;
- ✓ minutes of site meetings held for the concerned tender;
- ✓ evidence of payment;
- ✓ minutes if both provisional and final reception of works;

☐ Supply tenders and other services

- ✓ delivery notes
- ✓ goods' reception voucher or minutes
- ✓ evidence of payment

☐ Consultancy services tenders

- ✓ approved provisional and final reports
- ✓ evidence of payment

ii. Observation: looking at an operation or procedure being performed by others with a view to determining the manner of its performance. Observation provides

reliable evidence as to the manner of performance at the time of the observation but not at any other time.

iii. Enquiry: seeking relevant information from knowledgeable persons inside or outside the auditee, whether formally or informally, orally or in writing. The degree of reliability that the auditor attaches to evidence obtained in this manner is dependent on his opinion of the competence, experience, independence and integrity of the respondent.

iv. Computation: checking the arithmetical accuracy of accounting records or performing independent calculations.

3.2.4 Appropriateness of Audit Evidence

Appropriateness of audit evidence depends on the source of the evidence and the circumstances under which it was obtained. The following general presumptions are applied:

- ❖ Documentary evidence is more reliable than oral evidence;
- ❖ Evidence obtained from independent sources may be used for further clarification of evidence obtained from the Auditee; and
- ❖ Evidence originated by the auditor by such means as analysis, testing and physical inspection is more reliable than evidence obtained from others.

3.2.5 Sufficiency of Audit Evidence

The auditor is required to obtain sufficient, relevant and reliable audit evidence. In all circumstances it will be a matter

of judgment as to what constitutes sufficient, relevant and reliable audit evidence. For example:

❑ Assess and Award Contract

- ✓ Review proposals
- ✓ Assess the proposals against pre-defined requirements
- ✓ Ensure security requirements are met
- ✓ Ensure requirements are met if dealing with another government agency

❑ Administering the Contract

- ✓ Ensure contracts are executed in accordance to the agreed terms
- ✓ Ensure financial controls are respected (i.e. payment upon delivery, vs. advance payments, etc.) and that delegated financial signing authorities validate payment steps

❑ Post-Contract Administration

- ✓ Delivery according to contract requirements
- ✓ Perform an assessment of whether contract stipulations were met for each stage of the contract, and for the overall contract requirements
- ✓ Consultant's performance
- ✓ Perform contractor performance assessments and kept the assessments on file for future reference
- ✓ Ensure non-performance of a contractor is dealt with according to the outlined steps in the policy, and is documented for future reference.

3.2.6 Other Techniques for Collection of Audit Evidence

□ Interview

- ✓ Auditors can use interviews to obtain both qualitative and quantitative information during evidence collection work.
- ✓ Interviewing is a key skill required of every auditor. Interviews where fraud is suspected require especially careful handling and should always be referred to the Head Audit Directorate for advice before any action is taken.

□ Questionnaires

Questionnaires have been used traditionally to evaluate controls within systems. Auditors can also use questionnaires to flag areas of system weakness during evidence collection. For example, auditors can use questionnaires to assess users overall feelings about procurement system as an indicator of the systems effectiveness. Similarly, questionnaires can be used to identify areas within procurement system where potential inefficiencies exist. Questions must be spelt out clearly, terms must be defined and instructions for completing the questionnaire must be clear. Some general guidelines of questionnaires to be kept in view are:

- ✓ Ensure that questions are specific
- ✓ Use language which commensurate with the understanding of the intended person.
- ✓ The following need to be avoided unless necessary:
 - Ambiguous questions;
 - Leading questions;
 - Presumptuous questions;

- Hypothetical questions;
- Embarrassing questions.

□ Flowcharts

Control flowcharts show that controls exist in procurement system and where these controls exist in the procurement system. They have three major audit purposes:

- ✓ **Comprehension.** The construction of a control flowchart highlights those areas where auditors lack understanding of either the procurement system itself or the controls in the procurement system;
- ✓ **Evaluation.** Experienced auditors can use control flowcharts to recognize patterns that manifest either control strengths or control weakness in procurement system;
- ✓ **Communication.** Auditors can use control flowcharts to communicate their understanding of procurement system and its associated controls to others.

□ Assistance

From experts e.g. using of lab, opinion etc.

3.2.7 Developing Audit Findings and Recommendations

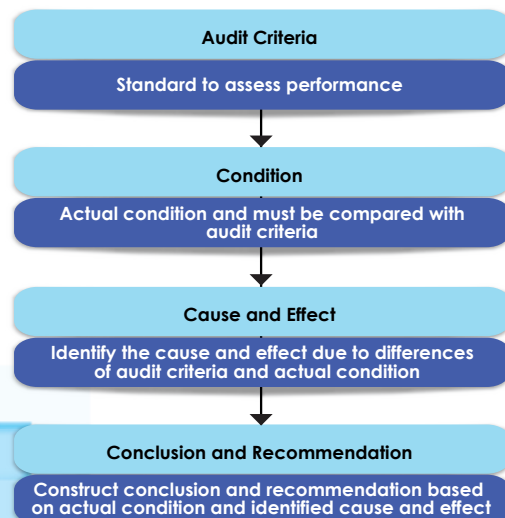
Audit findings are determined by comparing actual condition with the audit criteria and it can also be based on analysis from information obtained during the audit. Audit findings should be generated during the audit execution phase. Potential findings that were identified during planning stage or overview must be followed up in detailed audit phase. Audit findings shall be raised in the Audit Observation

including recommendation for improvement. In addition, consequences from the finding that does not fulfil the criteria and the cause of it should be also included. It will give information on the accountability level and the basic preparation for improvement.

3.2.8 Exit Conference

After the audit scrutiny is completed, the audit findings and suggestions for corrective action to auditee's senior management can be communicated in a formal meeting. This will ensure better understanding and increase buy-in of audit recommendations. It also gives the auditee organization an opportunity to express their viewpoints 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.

3.2.9 Process of Developing Audit Findings and Recommendation:



Detailed valuation on audit findings should be prepared during the preparation of discussion notes. However, sometime the valuation continues until the reporting phase and if the audit finding is arguable, additional evidence must be obtained. At this stage, the final decision of finding and recommendation will be reported.

Recommendation need to be reviewed thoroughly to ensure it is practical and feasible. The auditor must ensure the recommendation is consistent with audit objective in terms of economy, effectiveness, efficiency and accountability.

3.2.10 Documentation and Working Paper

Auditors should adequately document the audit evidence in working papers, 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 to analyse evidence and draw conclusion from the procurement activity and subsequently help the auditors in writing a detailed report.

Auditor must prepare proper documentation in order to record audit planning, execution and findings. Documentation must be complete and detail in order to enable inexperienced auditor to identify the work done to support audit finding, draw conclusion and recommendation. Results from fieldwork, analysis and audit program must be documented to facilitate auditor to review the work done and it has to be done in form of working paper.

Working paper is a relevant document that was gathered and prepared during the detail audit phase. The working paper must consists documents that record the audit planning, duration and the extent of audit procedure has been carried out, finding and conclusion from the audit evidence. The

working paper must consist of 3 stages which are planning, execution and reporting.

A good working paper must have 7 key features which are accurate and complete, relevant, precise, readable, simple format, organized as well as easy to review.

3.2.11 Follow-up

Follow-up process is to measure the effectiveness of the implementation of audit recommendation or action taken on the audit comments. This process also helps the auditee in taking improvements and corrective actions.

REPORTING

4.1 The Audit Report

The Audit report is the output of the entire process for auditing. It is through audit report that the auditors generally communicate with the auditees. Audit report, except where it is addressed to the legislature in terms of the mandate, is generic in expression and include management letter and audit memorandum in the context of each SAI country. Thus, audit reports are indeed means of communication and therefore, the reports must contain the message of what the auditor want to say. Report writing, thus, must be perceived as a continuous activity throughout the audit process rather than the end of audit activity in all audit assignments including for procurement audits. The contents of the audit report can be visualized from the stage of subject matter information and risk analysis and tends to get clearer as the field audit progresses.

4.2 Reporting Standards

“At the end of each audit the auditor should prepare a written opinion or report, as appropriate, setting out the findings in an appropriate form; its content should be easy to understand and free from vagueness or ambiguity, include only information which is supported by competent and relevant audit evidence, and be independent, objective, fair and constructive. With regard to regularity audits, the auditor should prepare a written report, which may either be a part of the report on the financial statements or a separate report, on the tests of compliance with applicable laws and regulations. The report should contain a statement of positive assurance on those items tested for compliance and negative assurance on those items not tested.”

A careful reading of the reporting standards would reveal that it contain the objective of report as well as the criteria for good report.

4.3 Mandatory Nature

It is obligatory for the auditors to issue audit report, by whatever name in vogue, upon conclusion of all audits, irrespective of the nature of findings discovered during audit. This would imply that it is not desirable and acceptable that an audit is not followed by a report. The option of audit report is not related to the seriousness of the audit findings. Moreover, the audit reports are not perceived as having only adverse finding. The audit reports faithfully bring out the results of audit tests and along with the adverse findings, satisfactory findings on financial statements, compliance and performance must be included in the audit reports.

4.4 Purpose of the Audit Reports

- To fulfil the mandate,
- To inform the project management and other stakeholders of the conditions found during the audit and the criteria against which the conditions were evaluated;
- To provide assurance to the stakeholders on financial and program management;
- To provide constructive and practical means to project management to take adequate corrective action to address issues that need improvement.

4.5 Reporting Process

As stated earlier report development is a continuous process. The auditors must be able to foresee the contents and shape of the audit report right through the process of audit,

which becomes clearer as the audit progresses. The written response of the auditee should not only be solicited at the end after issue of the audit reports but should be a regular process. The response could be through recorded minutes of the interviews, reply or recorded discussions of discussion papers, response to audit memorandum etc. which serves to develop the audit reports with accuracy and purpose.

4.6 Structure of the Report

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. An audit report presented as per the following structure (sequence of signature would depend on prevailing instructions) is a good practice:

- ❑ **Title:** the subject of the compliance audit for example the name of the project;
- ❑ **Addressee: The Person**
- ❑ **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 one major theme should be distinctly stated from the other ;
- ❑ **Scope of Audit:** scope of compliance audit along with other compliance or independently of procurements in terms of the period of the procurements covered in audit This section also contains the period during which the audit was conducted and the audit team;

- ❑ **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. The executive summary can be divided into the following three parts;
- ❑ **Main Findings:** Describe the main message of the report. This section might include occasional examples from the findings and conclusions on procurement to facilitate understanding. This section should also contain the main recommendations;
- ❑ **Background and Observation:** 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;
- ❑ **Summary of Project Management Responses:** Briefly describes the entity's commitment to take action;
- ❑ **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;
- ❑ **Audit Approach and Methodology:** used for data collection/evidence gathering and testing may be stated in brief. This adds to the acceptability of the audit findings and forms a statement for transparency of the audit procedure;
- ❑ **Audit findings and Conclusions:** in the sequence of the audit objectives with one-to-one correspondence, the recommendations following each conclusion, where required;
- ❑ **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;
- ❑ **Timely:** communications are opportune and expedient. Audit reports should be presented without delay to enable prompt action on recommendations. Timely reports add value to the project management.
- ❑ **Signature**

MATTERS FOR CONSIDERATION

5.1 Fraud and Corruption

In conducting procurement audit, SAI should consider on fraud and corruption. Fraud and corruption has been the major concern of most countries all over the world. As a major activity in the government sector, procurements of goods and construction are sometimes occurred fraud and corruption. Therefore procurement is one of high risk areas to be audited.

Refer to the definitions of fraud and corruption introduced in the ASOSAI Guidelines on “Dealing with Fraud and Corruption” as follows:

Fraud involves deliberate misrepresentation of facts and/or significant information to obtain undue or illegal financial advantage.

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.

5.2 Types of Fraud and Corruption Practices in Procurement

The following types of fraud and corruption have been reported in contracting for goods:

- ❑ **Bribery and Kickbacks** - Money or any other form of reward or favour is exchanged between a public functionary and a provider of goods and services in order to obtain some benefit e.g. acceptance

of substandard goods or obtaining unauthorized information.

- ❑ **Changes in Original Contracts** - Changes are made in the original contract requiring flow of additional funds from the government to the contractor, which may affect the basis on which the contract was awarded to the contractor in the first instance. This may also involve front-loading of contract in the hope of increasing the price of the original contract through change orders or subsequent modifications to the contract.
- ❑ **Duplicate Payments** - The contractor claims and receives payment for the same service or works done or goods supplied under the same or different contracts.
- ❑ **Collusive or Cartel Bidding** - Contractors form cartels to fix artificially high prices for goods and services supplied by them.
- ❑ **Conflict of Interest** - Contracts are awarded on the basis of vested interests of the decision makers.
- ❑ **Defective Pricing** - The contractor submits inflated invoices.
- ❑ **False Invoices** - The contractor submits invoices for goods that have not been delivered or do not properly represent the quantity or quality of goods and services supplied or work done as per contracted specifications.
- ❑ **False Representations** - The contractor falsifies the goods specifications or his ability to provide certain services.

- Splitting of Purchases** - The purchases of goods and services are split either to avoid open competition or having to seek the approval of higher authority.
- Phantom Contractor** - Purchases are made from a fake supplier or contractor.
- Pilferage of Public Assets** - Public funds are used to acquire goods for personal use or public assets pilfered by officials.
- Tailored specifications** - Specifications and time limits are manipulated to favour a certain contractor or supplier.

5.3 Red Flags of Possible Fraud and Corruption in Contracts

Procurement and contracting of goods and services present different opportunities for fraud and corruption at different stages of the procurement and contracting processes. The auditor would be well advised to look out for warning signs corresponding to each stage. These warning signs indicate the increased risk factor in contracts and serve as red flags for the auditor.

Requirements Defining Stage

- Inadequate needs analysis
- Inadequate information about potential suppliers
- Inadequate review of existing and required inventory
- Unduly short supply period
- Needs analysis is product, rather than, needs oriented
- Someone other than the user defines the user requirements
- Unwarranted involvement of senior officials

Bidding and Selection Stage

- The specifications are not clearly defined
- A very limited number of offers is received
- Documentation indicates unusual involvement of an official
- Suspicion about conflict of interest
- Evidence of early receipt of information by some contractors
- Request for proposal is not properly advertised
- Unusual handling of the bidding process
- Evaluation criteria is not consistent for different offers
- Exceptions to the tender deadlines
- Changes in the bids made after their formal receipt
- Lowest responsive bidder is not selected
- Contractor submits unrealistic bid indicating collusion or bid rotation
- Unusual withdrawal of bids
- Re-bid results identical to original bids
- Successful contractors use competitors as sub-contractors
- Justification for single source procurement is inadequate

Contract Performance and Evaluation Stage

- Changes in a contract result in large increase in the cost of goods and services
- Changes made without adequate explanations
- Unwarranted contract extension
- Complaints about the quality of goods and services received
- Inadequate inspections and quality assurance of goods and services received
- Evidence of overcharging and duplicate billings

- ❑ Dubious invoices
- ❑ Insufficient pre-audit of contractor payments
- ❑ Contracts repeatedly awarded to one contractor
- ❑ Unduly high labour payments

5.4 Auditor's Roles and Responsibility

It is the role and responsibility of the management or audited entity to ensure that there is good control system in place to prevent fraud and corruption. The roles and responsibilities of the auditor are to detect fraud and corruption. 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 and with sufficient knowledge and skills in dealing with fraud and corruption. Auditors should be aware of the possible existence of fraud and corruption in procurement process and they are able to detect and address these matters.

5.5 Communicating Fraud and Corruption to Concerned Parties

Once auditors have strong evidence and indications that fraud and corruption have occurred during their audit of procurement process, some SAIs, under their audit mandate, they have their own special unit to investigate the fraud and corruption. But some SAIs might communicate the fraud and corruption to anti-corruption unit or responsible authority for further investigation if they do not have the right and power under their audit mandate.

GLOSSARY

Thailand

- ❑ **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. As well as the planning of sustainable practices including any constructions in the construction areas.

Building construction has wide range of factors such as building materials, location, weather conditions, ground conditions, environments, specific uses, etc.

- ❑ **Road Construction** means construction, expand or repair of road in the purpose of traffic or travel by land but not including train track.

Road construction also including any constructions along the construction area which is need in construction work and beneficial to road traffic.

Construction process is often begun with the removal of earth and rock by digging or blasting, construction of embankments, tunnels, and removal of vegetation and followed by the laying of pavement material.

Drainage and environmental considerations are a major concern to extend its longevity and reduce maintenance. Erosion and sediment controls are constructed to prevent detrimental effects. Drainage systems must be capable of carrying the ultimate design flow for the land zoning and storm water system.

- ❑ **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.

There are many different designs that all serve unique purposes and apply to different situations such as pedestrian or road traffic, a pipeline or waterway for water transport or barge traffic or for train. A road-rail bridge carries both road and rail traffic. Designs of bridges vary depending on the function of the bridge, the nature of the terrain where the bridge is constructed and anchored, the material used to make it, and the funds available to build it.

- ❑ **Irrigation System Construction** means construction, repair, renovation and demolish of structure which is about water control system for irrigation or others purpose such as fisheries, agricultures, salt water protection, flood control, water allocation, land reforming or electricity generation etc. which is the construction of buildings and other structures such as weir, dam, canal, water-distribution canal, ditch, water-distribution ditch and pump station as well as supporting building and also including any structure which characteristic, purpose or structural basis is similarly to those structures.

Irrigation is the artificial application of water to the land or soil. It is used to assist in the growing of agricultural crops, maintenance of landscapes and reforming of disturbed soils in dry areas and during periods of inadequate rainfall and also used for disposal of sewage and in mining.

Irrigation is often studied together with drainage, which is the natural or artificial removal of surface and sub-surface water from a given area.

- ❑ **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.

- As a public utility is the infrastructure for a public service which is related to very large consumers. It is important that any construction should minimize the possibility of creating conditions that:
 - are hazardous to the general public and to any personnel working on, in, or around supporting structures
 - could impair service or the restoration of service to customers of all parties using the supporting structures

Philippines

❑ **Infrastructure Projects**

Include the construction, improvement, rehabilitation, demolition, repair, restoration or maintenance of roads and bridges, railways, airports, seaports, communication facilities, civil works components of information technology projects, irrigation, flood control and drainage, water supply, sanitation, sewerage and solid waste management systems, shore protection, energy / power and electrification facilities, national buildings, school buildings, hospital buildings and other related construction projects of the government.

❑ **Goods**

Refer to all items, supplies, materials and general support services, except consulting services and infrastructure projects, which may be needed in the transaction of public businesses or in the pursuit of any government undertaking, project or

activity, whether in the nature of equipment, furniture, stationary, materials for construction, or personal property of any kind, including non-personal or contractual services such as the repair and maintenance of equipment and furniture, as well as trucking, hauling, janitorial, security, and related analogous services, as well as procurement of materials and supplies provided by the procuring entity for such services.

❑ **Consulting Services**

Refers 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 such as, but not limited to:

1. Advisory and Review Services
2. Pre-investment or Feasibility Studies
3. Design
4. Construction Supervision
5. Management and related services
6. Other Technical Services or Special Studies

REFERENCES

1. RA 9184, otherwise known as the “Government Procurement Reform Act”
2. ISSAI 3000: Implementation Guideline For Performance Audit
3. ISSAI 4000: Compliance Audit Guideline
4. Malaysia Performance Audit Guideline
5. Malaysia Procurement Audit Guideline
6. ASEANSAI Countries’ act, laws, ministries directives and circular
7. Note on Procurement Audit from Badan Pemeriksa Keuangan Indonesia
8. SAI Thailand, Public Procurement Audit Guideline
9. SAI Cambodia, Public procurement Audit Guideline

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 Project Procurement Management Plans (PPMP) which involves:																		
o identifying the procurement project requirements,	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
o determining the Approved Budget for the Contract (ABC),																		
o identifying the schedule of milestone activities, and determining the method of procurement																		
4. Consolidating all PPMPs into the Annual Procurement Plan (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																			
o Open Tender	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
o Restricted																			
o Competitive Dialogue			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
o Competitive Selection			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
o 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																			
o Infrastructure projects																			
o Goods and Services	*	*	*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
o 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																			
o Infrastructure projects																			
o Goods and Services	*	*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
o 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 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,

The sample form of understanding the audit objective and expectation assignment

Appendix 3

	Procurement Audit For the procurement of goods / services	Index number
	Year	Made by :
		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.

Appendix 4



**Procurement Audit
For the procurement of
goods / services
Year**

Index number

Made by :
Reviewed by :
Approved by :

Name of SAI:

- 1. Audit Mandate
.....
- 2. Audit Standard:
 - a. SAI's Audit Standard
 - b. SAI's Audit Management Guidelines
- 3. Audit objective
 - 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.	Entry meeting 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 Meeting 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.	Audit 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
.....



ASEANSAI FOCUS GROUP DISCUSSION
ON PUBLIC PROCUREMENT