



Role of Procurement Audit in Improving Procurement Performance

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Sequence of the Presentation

- Cooperation between the AGP & FPPRA
- Role of Audit In Improving procurement
- Managing procurement risks
- Value for money in procurement
- Evaluations of procurement performance
- Dealing with fraud and corruption in procurement



Cooperation between Auditor-General of Pakistan & FPPRA

- Thanks to the Federal Public Procurement Regulatory Authority, the World Bank, the Asian Development Bank and the Chair of the conference for the invitation to the Conference
- AGP and FPPRA working together for making public procurement systems more effective in utilization of public resources since 2004
- Office of the Auditor-General is committed to introducing best practices in public procurement systems



Role of Audit in Improving Procurement



Pakistan Federal Procurement Baseline Indicator Systems

Assessment report reveals:

- External audit of procurements is carried out annually
- Recommendations responded within six months
- External audit largely limited to financial transactions
- Performance audit used in limited manner
- Established training program for procurement courses
- Auditors with adequate knowledge are selected for audit



Role of Audit in Improving Procurement

- Assessment report encouraging. However ample room for improvement
- Focus of audit on compliance rather than performance was a need
- Audit helped in introducing PPRA rules in Government Departments through its audit observations recommending observance of PPRA rules
- Before 2004 government departments followed general financial rules
- Public sector enterprises followed their own rules
- Persistent audit recommendations for observing PPRA rules by audit established the authority of PPRA rules in government departments
- Now employing resources on performance audits



Role of Audit in Improving Procurement

Audit can make important contributions by adopting a forward looking and constructive approach to:

- Reviewing how departments and agencies determine the need for goods and services
- Highlighting good procurement practice
- Supporting well managed risk taking and innovation
- Ensuring that departments and agencies have overall organizational and management capability to undertake large, novel and/or contentious projects



Managing procurement risks

- External Audits are concerned that risks of waste impropriety and frauds should be minimized
- It is important that controls are in place and the cost of applying these is proportionate to the risk
- Generally speaking the purpose of controls is to contain risk rather than to obviate it
- Auditors examine if organizations operate within a risk management framework
- AGP plans to prepare a guideline with a list of procurement risks



Value for Money in Procurement

- Public procurement must be based on value for money having due regard for propriety and regularity
- Value for money is not about achieving the lowest initial price
- it is defined as the optimum combination of whole life costs and quality
- Form of competition should be appropriate to the value and complexity of the procurement
- Barriers to the participation of suppliers should be removed



Value of money in procurement

Better value for money can be achieved by:

- Avoiding unnecessary purchases
- Ensuring that user needs are met but not exceeded.
- Optimizing the cost of delivering a service or goods over the full life of the contract rather than minimizing the initial price.
- Introducing incentives into the contract to ensure continuous cost and quality improvements throughout its duration.
- Aggregating transactions to obtain volume discounts.
- Collaborating with other departments to obtain the best prices and securing better discounts from bulk buying



Evaluation of Procurement Process

Important questions for auditors while evaluating

procurement performance:

- Are there regular reviews and analysis of the department's total procurement to identify trends on how much is spent, on what and with which suppliers to help in forming the development of procurement contract strategies?
- Are Post Implementation Reviews carried out after procurement exercises to assess whether planned targets have been achieved and to identify lessons learnt?
- Does the contract contain regular reviews, targets and quality standards with which to assess and manage supplier performance? Is this information discussed with the supplier and used to improve performance?



Evaluation of Procurement Performance

- Is information on past performance of suppliers taken into account in making procurement decisions?
- Is information on good practices shared within the departments and more widely in government?
- Does the procurement unit evaluate and benchmark its performance against other purchasers in areas such as practices and procedures, prices paid and transaction costs?



Dealing with Fraud and Corruption in Procurement

ASOSAI guidelines enumerate the following as signs of possible fraud and corruption in procurement:

Red flags at the requirement defining stage

- Inadequate need 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



Dealing with Fraud and Corruption in Procurement

Red flags at the bidding and selection stage:

- The specifications are not clearly defined
- A very limited number of offers 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
- Evaluation criteria are not consistent for different offers



Dealing with Fraud and Corruption in Procurement

Red flags at the bidding and selection stage :

- 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



Dealing with Fraud and Corruption in Procurement

Red flags at the contract performance and evaluation stage:

- Changes in a contract resulting in a 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 over charging and duplicate billings



Dealing with Fraud and Corruption in Procurement

Red flags at contract performance and evaluation stage:

- Dubious invoices
- Insufficient pre-audit of contractor payments
- Contracts repeatedly awarded to one contractor or a group of contractors
- Unduly high labor payments



Conclusion

Procurement is a fairly large business involving billions in spending. It has been observed that failure to make cost effective purchases put the achievement of key objectives at risk.

Auditors –both external and internal- have an important role to play by adopting a constructive approach and highlighting good practices which can be more widely applied



THANK YOU