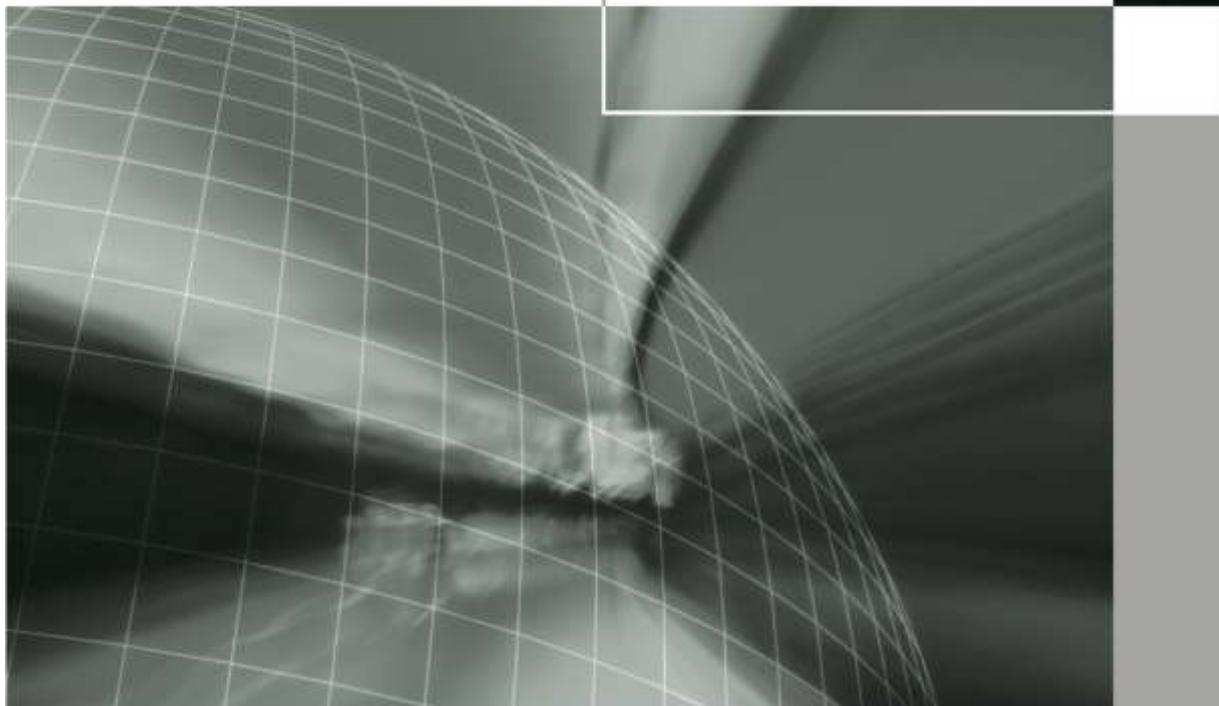




**Public Procurement
Performance Audit
Guideline**

2011





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Preface

AFROSAI-E has declared performance audit as a strategic imperative and decided on an ambitious goal for the development of performance audit within the region. The organisation will achieve this by supporting member SAIs with training, production of training material, website development and quality assurance visits.

The International Standards of Supreme Audit Institutions (*General standards in Government Auditing, ISSAI 200*) issued by INTOSAI¹ stipulate that each Supreme Audit Institution (SAI) should adopt policies and procedures to prepare manuals and other written guidance and instructions concerning the conduct of audits. AFROSAI-E has already developed a template manual on performance audit that member SAIs may choose to customise to their national context. As a continuation of this work, the organisation has decided to develop concrete guidelines for specific audit topics or areas that are often the object for performance audits. This guideline on performance audit of public procurement is the third in this series of guidelines.

The guideline was developed by a working group consisting of Ms Ann-Mari Skorpen and Ms Astrid Hofslagare from our institutional partner, the Swedish National Audit Office, in cooperation with Bengt Sundgren from the AFROSAI-E Secretariat, and finalised by Lars Florin from the AFROSAI-E Secretariat. A number of performance auditors from our SAIs have assisted the working group when compiling the guideline. They have also contributed with comments on the various drafts.

I hope the guideline will assist SAIs in carrying out performance audits of public procurement. If you have feedback on the guideline or suggestions for new topics in this series of guidelines you are welcome to contact the AFROSAI-E Secretariat.

M W Pretorius
Executive Officer
AFROSAI-E Secretariat

¹ International Organization of Supreme Audit Institutions

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1 Introduction

1.1 Purpose of the guideline

The main purpose of this guideline is to provide guidance when conducting performance audits on public procurement and propose applicable working methods. It is too often in the region that procured goods, services or construction work not are provided at the right price, in the right quality and at the right time. Performance audits of the efficiency and effectiveness in the national procurement systems and the processes of the procuring entities is a tool for Supreme Audit Institutions (SAIs) to highlight these problems in order to promote change and improvement.

There are many reasons to carry out performance audits on public procurement. Due to the great financial value of the procurement and the risks involved, an effective procurement system plays a strategic role in avoiding mismanagement and waste of public funds. Failure to procure efficiently and effectively can put the achievement of key government objectives and services at risk. Therefore auditors can play an important role in improving procurement.

The guideline describes the concepts underpinning performance audits of public procurement and explains how these audits could be selected, planned and conducted.

Auditors interested in more detailed information about risks and precautionary measures in public procurement and about ideas for performance audit of procurement, may consult the following materials.

Materials	How to get access to the materials via Internet
<i>Getting value for money from procurement - How auditors can help</i> ¹	http://www.nao.org.uk/guidance_good_practice/good_practice/idoc.ashx?docid=b0e6f6de-a132-4ddc-b723-22986dd05cc3&version=-1
<i>Public procurement audit, different documents</i> ²	You find the <i>Working group for procurement</i> as number seven out of nine listed groups on the website http://eca.europa.eu/portal/page/portal/contactcommittee/workinggroups/reportsproductsOfWorkinggroups
<i>OECD Principles for integrity in public procurement</i>	Can be bought at www.oecdbookshop.org for USD 22 as pdf-file or USD 32 in paperback + pdf-file. Search for the title on the website.

¹ Issued by the National Audit Office and Office of the Government Commerce in United Kingdom

² The Contact Committee of the Supreme Audit Institutions of the European Union, Working Group on Public Procurement

1.2 Application and use of the guideline

The guideline is applicable to performance audits of public procurement within the AFROSAI-E region. It is recommended that users read the *AFROSAI-E performance audit template manual* for detailed explanations of key concepts used in the guideline². The intention is that the guideline should be easy to use for both experienced and inexperienced auditors.

² Request the *AFROSAI-E performance audit template manual* at www.performanceaudit.afrosai-e.org.za.

1.3 Structure of the guideline

The guideline consists of two parts. The first part (Chapter 2) deals with the definition and context of public procurement, and defines the characteristics of performance audits on public procurement. The chapter also deals with the risk of corruption and fraud in public procurement. The second part (Chapter 3) focuses on important steps in the audit process, such as understanding the audited processes as well as assessment and analysis of performance.

A number of practical examples from audits on public procurement are presented throughout the chapters. These examples are mostly based on real situations and audits. In order to clarify and highlight certain issues the content of audit reports have sometimes been slightly modified.

The guideline also contain one appendix with questions for assessing performance in public procurement (Appendix 1) and an one summarising performance audit reports on public procurement from the AFROSAI-E region (Appendix 2).

2 Definition and scope of performance audit of public procurement

2.1 What is public procurement?

Procurement is

"...the whole process of acquisition from third parties (including logistical aspects) and covers goods, services and construction projects. This process spans the whole life cycle from initial concept and definition of business needs through to the end of the useful life of an asset or the end of a services contract."

Source: Getting value for money from procurement, using a definition from Review of Civil Procurement in Central Government, Peter Gershon, 1999

The concept of procurement encompasses the process when the supplier hand over the goods or services, and the responsibility is transferred to someone else. The delivery point may vary and is defined in the contract. This means that when the supplier as part of the contract delivers goods or services to end-users, this distribution is also a part of the procurement process.

Governments and state-owned enterprises procure a wide variety of goods, services and construction projects (hereinafter referred to as "goods and services") from the private sector in order to carry out their activities and deliver services. The goods and services procured vary in price and complexity, ranging from pens, schoolbooks and medicine to hiring of consultants and construction of roads and airports.

Public procurement is a key economic activity of governments representing a significant percentage of the gross domestic product (GDP) generating huge financial flows, estimated on average at 10 to 15% of GDP across the world³. Within the European Union the damage originating from corruption in public procurement is estimated to vary between 10 to 50% of the contract value⁴. In some African countries public procurement accounts for a high propor-

³ OECD Principles for Integrity in Public Procurement

⁴ Public procurement audit. The Contact Committee of the Supreme Audit Institutions of the European Union.

tion of total expenditure, for example 40% in Malawi and 70% in Uganda⁵. Procurement is therefore of central importance for both financial and performance auditors.

2.2 Organisation and principles for public procurement

The set-up of the public procurement system varies between countries in the AFROSAI-E region. Some countries have a centralised procurement system while others have a more decentralised system. Though the system of procurement may vary, some basic principles are common for most countries. The main goal is to get the best value for taxpayers' money for everything that is procured and to act fairly. To achieve this public procurement should be organised to:

- Maximise the economy, efficiency and effectiveness (getting the right goods, services and construction projects at the right cost, to the right quality and at the right time);
- Promote a well functioning market (e.g. promote competition and ensure that competitors are treated fairly and equitably);
- Promote integrity and fairness;
- Increase transparency (in competitive tendering as well as the entire procurement process) and accountability; and
- Increase public confidence.

Getting the best value for money does not necessarily mean buying the cheapest product or service. It means that the procuring entity gets the best deal within the parameters or awarding criteria set by the procuring entity. Besides price these criteria can deal with quality, technical and functional specifications, environmental considerations and after-sale services and support. Also social conditions can be part of the criteria. In some countries in the AFROSAI-E region the procurement is, for example, used to promote local industry or previous disadvantaged groups⁶. Section 2.4 gives a more detailed description on the procurement process.

2.3 Legal framework

The public procurement process is normally regulated in the national legislation of a country, often in a public procurement act⁷. All contracting entities, such as local government agencies, county councils, government agencies as well as certain publicly owned companies must comply with the act when they purchase, lease or rent goods and services.

The law often regulates almost the whole public procurement process, often with detailed regulations on the different steps in the process. For instance, the law often stipulates in detail how calls for tenders are made, time limits for bidding and awarding contracts and what kind of tendering procedure the procurement should follow. The choice of tendering procedure depends on the kind of goods or services that are being procured (standard goods or technically complex goods) and whether the goods or services are over or below certain financial thresholds. These thresholds are set out in the law. The law usually regulates how the evaluation of the tenders should be carried out.

⁵ E Agaba and N Shipman, *Public Procurement Reform in Developing Countries: The Uganda Experience*.

⁶ In Namibia a preference system is considered in the tender procedure which allows the promoting of local companies. In South Africa public procurement has been recognised as a tool to correct South Africa's history of unfair discriminatory policies and practices. When state organs contract for goods or services, they must do so in accordance with a system which is fair, equitable, transparent, competitive and cost effective. But the constitution also allows to make use of "affirmative procurement", "preferential procurement" or "targeted procurement" when awarding contracts (Bolton, Phoebe, 2006).

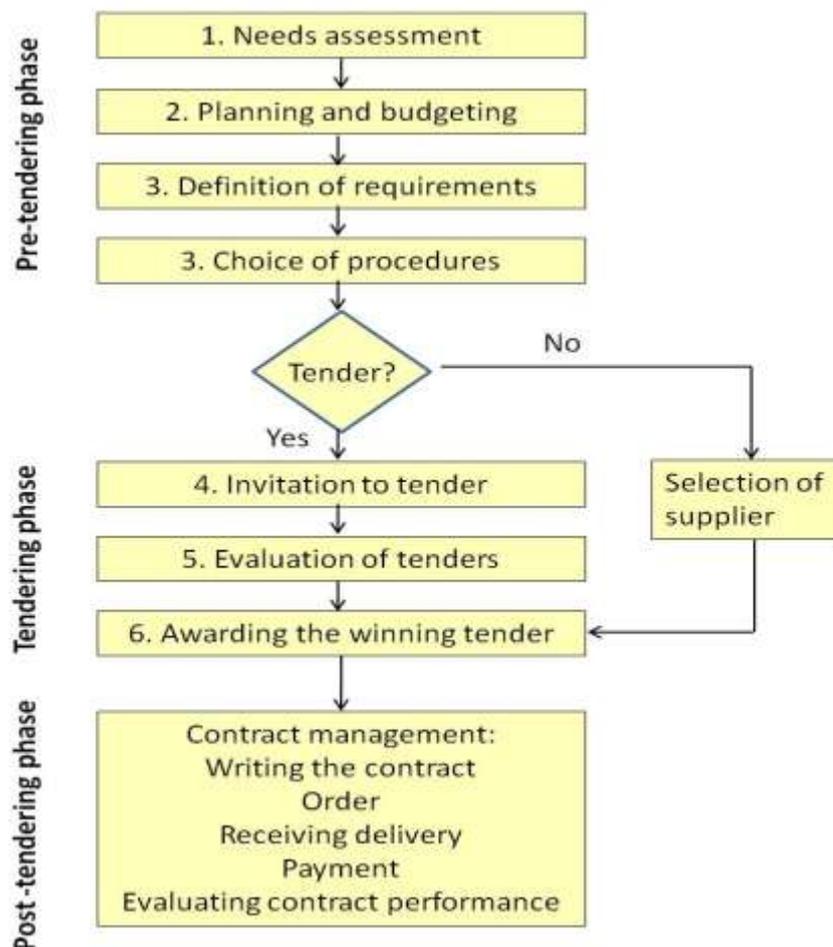
⁷ In some African countries the procurement act also regulates the disposal of public assets.

2.4 The process of public procurement

The procurement process is divided into several steps. When the value of the contract is over the financial threshold set out in the law, the law describes in detail the required procurement process. The law also defines a simplified process for procurement below the financial threshold. The procurement cycle encompasses a sequence of related activities, from needs assessment, to the award stage, up until the contract management and final payment. Even though the procurement systems differ across countries regarding the legal framework, objectives, requirements and procedures, the stages in the public procurement process are similar in most countries.

The different phases and stages in the process are illustrated in Figure 1 and further described below. The description is based on an OECD publication⁸, but also influenced by a guideline on public procurement from United Kingdom⁹ as well as SAI experiences in the AFROSAI-E region.

Figure 1 Phases and stages in the procurement process



⁸ OECD principles for integrity in public procurement, OECD 2009.

⁹ *Getting value for money from procurement – How auditors can help* National Audit Office U.K. and the Office of Government Commerce U.K .

PRE-TENDERING PHASE

Stage 1: Needs assessment

At this stage the procuring organisation assesses the need for the procurement of goods or services. It is done by gathering information on the end-users' needs in a long- and short-term perspective. Existing in-house resources like buffer stocks (if such exist) should be considered.

Stage 2: Planning and budgeting

Efficient planning of the procurement is important for achieving a successful outcome. The procuring organisation must do realistic plans, for example considering how long time the different phases in the procurement process will take and how much resources the procurement will require. The planned procurement must also be aligned with the strategic priorities of the organisation and the budget process.

Stage 3: Definition of requirements

At this stage the procuring organisation determines what goods, services or work that is required to meet the needs identified in the needs assessment. This process will generally result in a description of the goods or services to be procured. What standards and other specifications the goods or services must fulfil and when the goods or services must be delivered have to be defined. The procuring organisation should also conduct a market analysis, in order to get information on the availability of the preferred goods or services on the market. If there only are a few potential suppliers of the preferred goods on the market, there is a risk for a limited competition which may inflate prices. In such situations the procuring organisation may reconsider its requirements in order to broaden the group of potential suppliers and thereby the competition.

Stage 4: Choice of procedures

Depending on the type and complexity of the goods or services in the procurement and the value of the procurement (under or below the stated financial threshold value) the procuring organisation chooses an adequate procurement procedure. The different procedures or methods and when to use them are often set out in the national legal framework.

TENDERING PHASE

Stage 5: Invitation to tender

If the procurement is above the financial threshold the procuring organisation usually has to advertise the procurement. The invitation to tender provides suppliers with different specifications. It should for example be clear what the requirements are on the goods or services, what formal procedures and requirements suppliers need to follow, what criteria that will be used for evaluating the tenders and what the deadline for submitting tenders is.

Stage 6: Evaluation of tenders

When evaluating the tenders the procuring organisation has two options: it can either compare the tenders on the basis of the lowest price alone or on the basis of the most economically advantageous offer. The evaluation criteria are predetermined and published in advance and the evaluation should be done exclusively against the notified criteria. In addition to price, these criteria can, for instance, be running costs, service costs or technical assistance. Each evaluation criterion is given a relative weight or points and the weighting should be known to the bidders in advance. The tender with the best offer according to the notified evaluation criteria should win the contract. Where price is the sole criterion the supplier with the lowest bid will be awarded the contract. Where the most economically advantageous tender is the basis, the contract must be awarded to the tender that best

meets the relevant and notified criteria. The evaluation should be done by more than one official, in many cases it is done by a committee or a team. In some African countries the evaluation is done by a committee in the procuring entity and then submitted to a tender board for approval. The evaluation should be recorded in a written report.

Stage 7: Awarding the winning tender

All participating bidders as well as the wider public should be informed of the outcome of the evaluation immediately or as specified in the country's procurement act. The contract award information should be documented and published.

POST-TENDERING PHASE

Stage 8: Contract management including writing the contract, order, receiving of delivery, payment to supplier and evaluation of contract performance

When writing the contract, the conditions should reflect the awarded tender's price, quality and time frame. It should also clarify expectations, roles and responsibilities for the management of the contract in order to prevent conflict and corruption. At this phase it is also important that the procuring organisation supervises the order, delivery and payment to check that it is in line with the contract and approved budget. The supervision can be done as inspection of work-in-progress (for example, when procuring a construction project) or inspecting the delivered goods against the purchase order and the delivery note and invoice before payment. Monitoring the performance of the supplier throughout the contract period is necessary to be able to make well-informed decisions for future procurements.

The importance of the post-tendering phase varies with the type of goods, services and construction that is procured. For example in large construction projects, contract management is one of the main challenges and involves significant efforts during a long time for the procuring organisation. It may also be different organisational units that are responsible for the pre-tendering and tender phases, on the one hand, and contract management on the other.

In many African countries procured goods are stored at a central governmental store (for example, medicines or schoolbooks). In these cases the procuring organisation often also has the responsibility for distributing the goods to the end-users. This is a reason why some performance audits in the region has covered procurement and distribution.

2.5 High risk of corruption in public procurement

Among all government activities, public procurement is the activity that is most vulnerable to waste, fraud and corruption. OECD points out the complexity in public procurement, the size of the financial flows it generates and the close interaction between the public and the private sectors as the main reasons for this vulnerability.¹⁰

Corruption in public procurement takes place when officials collude with suppliers and contractors and break the law for their own personal interests. Both small and larger procurements can be exposed to corruption and it can take place at any stage of the procurement cycle¹¹. During the pre-tendering and tendering phases, officials or political representatives may favour preferred bidders in exchange for bribes. During contract implementation, officials and representatives may demand bribes in order to approve time extensions or defective work.

¹⁰ OECD principles for integrity in public procurement, OECD 2009.

¹¹ Mawenya: Preventing corruption in African procurement, 2008.

The financial consequences of corruption and fraud alone can be substantial. OECD estimates that on world basis bribery in government procurement adds 10 to 20% to total contract costs, equivalent to a cost of USD 400 billion per year¹². Within the European Union the damage originating from corruption in public procurement is estimated to be 10 to 50% of the contract value¹³. In Sub-Saharan Africa it is estimated that corruption occurs in up to 70% of public procurement contracts. In such cases, corruption increases the project costs by about 20 to 30%.¹⁴

The financial damage does not only hinder the society's growth but also its development. Corruption and fraud also seriously affect people's trust in government agencies and thereby undermine the capacity building of the state.

Many of the countries in the AFROSAI-E region are ranked low on the Transparency International's corruption index¹⁵, meaning that no countries within the region are perceived to be clean or highly clean from corruption. There is no single solution to corruption and many international organisations stress that several measures are necessary to combat corruption. These measures address political will and commitment, good governance, legal and regulatory frameworks as well as transparency and accountability. Many countries in the region have during the last decades initiated far-reaching legal reforms of their public procurement systems. However, many countries still recognise that corruption is a huge problem in public procurement, indicating that legal and regulatory frameworks are not enough to fight corruption.

Even though the reasons for corruption and fraud are complex and hard to fight, the auditors have a responsibility to detect abuse, waste and fraud in the procurement system and should keep the risk of corruption in mind when conducting performance audits of procurement. A costly and non-efficient procurement process is not always only a result of poor planning, lack of competence and weak management; it can also be a result of undue influences and fraud.

According to the 16th INCOSAI¹⁶, SAIs can and should try to create an environment that is unfavourable to fraud and corruption. Therefore it is of great relevance to audit the public procurement system to investigate if it offers a robust protection against corruption and whether the major actors have fulfilled their roles and responsibilities within this system. This kind of audit can be done as part of a financial or compliance audit but it is also possible to conduct such audits with a performance audit perspective¹⁷.

OECD has elaborated 10 principles for enhancing integrity in public procurement for its member countries, principles addressing transparency, good management, prevention of misconduct compliance and monitoring and accountability and control. OECD has also presented a checklist for enhancing integrity, elaborating risks to integrity at each stage of the public procurement process as well as precautionary measures that can be taken to mitigate the risks. The risks to integrity are summarised in Figure 2, providing auditors with ideas for audit problems or audit questions.¹⁸

¹² OECD principles for integrity in public procurement, OECD 2009.

¹³ *Public procurement audit*. The Contact Committee of the Supreme Audit Institutions of the European Union.

¹⁴ Mawenya: Preventing corruption in African procurement, 2008.

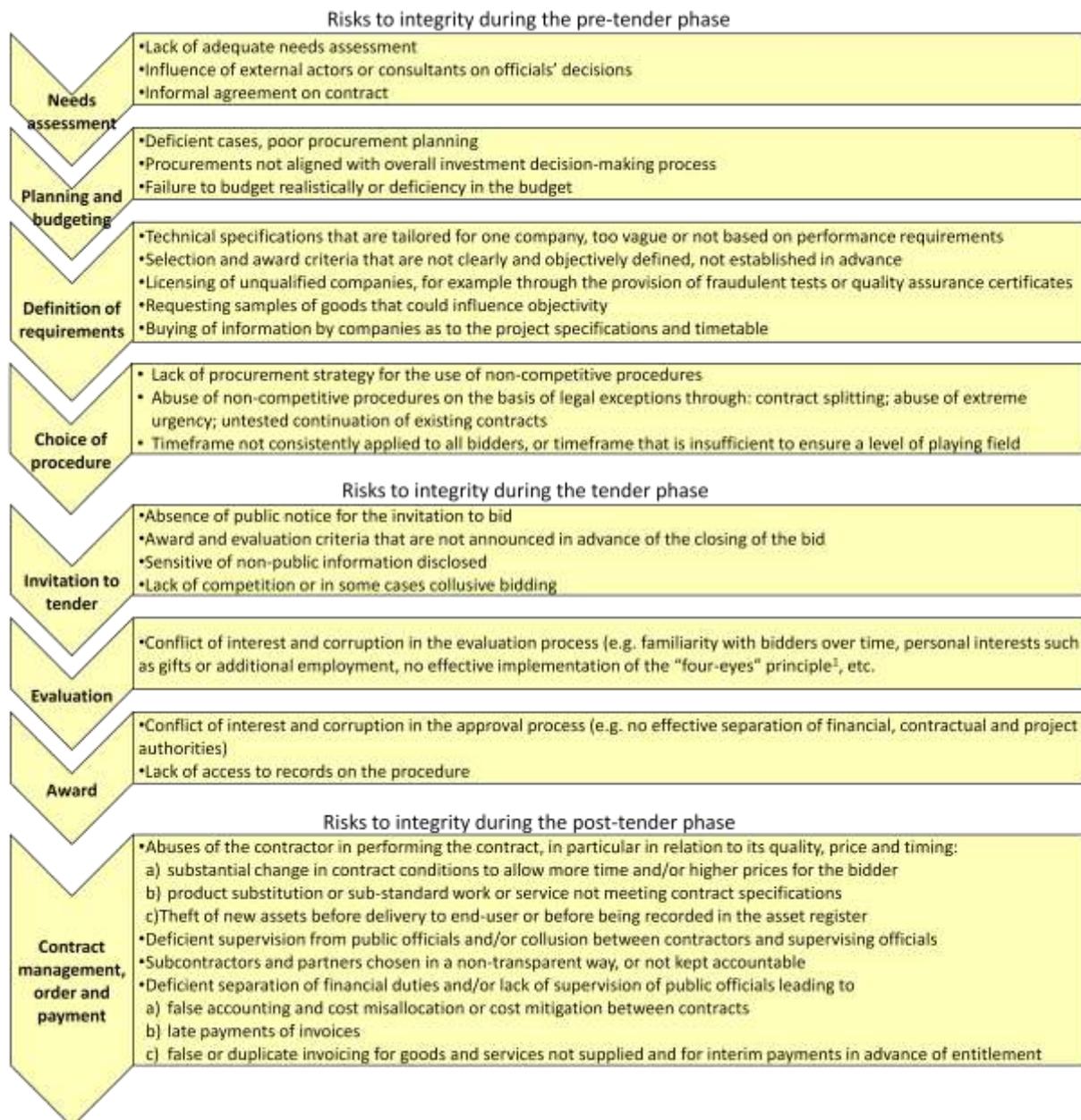
¹⁵ Transparency International, *Corruption perceptions index*, 2010. Every year Transparency International ranks all countries on a corruption perception index on a score from 0-10. The score 10 means highly clean from corruption while the score 0 means highly corrupt.

¹⁶ INCOSAI is a congress held every third year. It is the supreme organ of INTOSAI and is composed of all members.

¹⁷ For further guidance on the different risks in public procurement see for example: *OECD principles for integrity in public procurement*, 2009 and *Public procurement audit*. For problems regarding fraud and corruption in general see *AFROSAI-E guideline for regularity audit*, Detecting fraud while auditing.

¹⁸ OECD Principles for integrity in public procurement, OECD 2009.

Figure 2 Risks to integrity at each step in the procurement process



Source: OECD Principles for integrity in public procurement, compiled from page 53, 63 and 69. OECD's two steps in the post-tendering phase have here been merged to one.

An audit of an organisation's protection against corruption or fraud can either focus on the general control system throughout the whole procurement process or it can deal with a specific procurement project. Many procuring entities are responsible for large contracts and these contracts can be special targets for grand corruption. These procurements are often executed by central or local governments or government agencies, through own or donor funding. Prime targets for corruption can be construction projects, contracts for the supply of goods in large quantities (for example, office supplies, motor vehicles and drugs), contracts for the supply of large equipment items (for example, power generators and aircraft)

contracts relating to concessions to operate public utilities and contracts for the supply of military equipment¹⁹.

2.6 What is a performance audit on public procurement?

A brief summary of performance audits on public procurement carried out in the AFROSAI-E region is provided in appendix 2. Many of the performance audits has covered the whole procurement process, from the needs assessment and planning stages to the delivery of the procured goods, and sometimes also covered storage and distribution.

Though problems can arise in all the various phases and stages of the procurement process, the pre-tendering phase is of special concern in the procurement process. It is in this phase that decisions will be taken both on needs, volumes, requirements of the goods or services and time for delivery. If the needs analysis and planning are poorly accomplished and are not on time, this can affect all the other subsequent phases in the process and in the end the key objective of the government activity.

In for example construction projects, on the other hand, contract management is also a phase of utmost importance. Inefficient and ineffective management of contracts can have serious consequences. This is illustrated by the performance audit of road works conducted by the National Audit Office of Tanzania described in the box below.

Performance audit report on road works, National Audit Office of Tanzania, 2010

The purpose of the performance audit of *The Ministry of Infrastructure Development and TANROADS*' performance in controlling road construction time, cost and quality was to assess whether the government has an effective system of road works in the country. This included assessing the extent the system is working to minimize delays, cost overruns and quality problems in road works.

The audit focused on the post-contract stage with case studies of the 12 road construction projects completed in the three financial years 2004/2005 - 2006/2007. Due to failure in obtaining sufficient data, two projects had to be excluded from the audit. A variety of methods were used, reviewing planning, project and contract documents for the 10 road projects as well as interviewing different stakeholders. Site visits were made for five projects. Development partners funding road projects were also interviewed. The Ministry and TANROADS confirmed the accuracy of the figures used and the information presented in the report. Also, external experts and scientists in the field went through methods, evidence and findings.

The audit showed that:

- Extension of working days was granted as requested by contractors, without independent analysis to verify the adequacy of the time requested;
- Inadequate design and mis-calculations were important, but not the only, causes for cost overruns; and
- The quality control system needed further improvement, in particular improving the control during the design and construction phases, carrying out inspections and monitoring as planned and avoid giving conflicting tasks to consultants without proper follow-up by TANROADS.

¹⁹ Mawenya: Preventing corruption in African procurement, 2008.

The audit concluded that the road works system in Tanzania is not managed efficiently, resulting in significant delays and cost overruns. Engaged consultants have multiple roles and are not managed well. There is serious lack of independent analysis to verify the adequacy of the time extension requested by contractors. Design works is not done properly and efficiently which resulted in redesigning leading to inevitable cost overruns. Further, the management of consultants by the Ministry and TANROADS is not adequate. The Ministry's and TANROADS inspections and evaluations was not able to detect certain weaknesses of the road works, and sanctions were not properly used for addressing and correcting the frequent and extended delays, cost overruns and also quality assurance problems.

The audit recommended a series of measures with the intention to:

- Improve planning of road construction and coordination with other actors;
- Improve budget control and risk management;
- Clarify roles and responsibilities for involved parties;
- Improve inspection and monitoring, including establishing own capacity for inspections;
- Improve documentation and transparency about road projects;
- Improve the management of consultants;
- Institute a mechanism to review the designs and estimates of the projects as they are prepared by the consultants before implementation; and

Improve project management and quality control systems.

2.7 Performance audits on public procurement and the three Es

The three Es – Economy, Efficiency and Effectiveness – serve as the basis for performance audits and can be useful concepts in guiding the auditor when formulating problems and outlining the general direction of the audit. The AFROSAI-E's performance audit template manual gives further guidance and theoretical explanation on the three Es. With references to INTOSAI, the template manual defines the three Es as follows²⁰:

Economy = Minimising the cost of resources used for an activity, with regard to the appropriate quality

Efficiency = The relationship between outputs, in terms of goods, services and other results, and the resources used to produce them

Effectiveness = The extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity

To understand these concepts an input-output model is often used. In the model, inputs are used in activities and processes within the audit entity to produce outputs (products and services) that will lead to effects in society which determines the achievement of the entities overall goals.²¹

²⁰ AFROSAI-E performance audit template manual, page 7.

²¹ For a more detailed description and explanation of this model and the three Es we recommend the AFROSAI-E performance audit template manual and the Handbook in performance auditing from the Swedish National Audit Office.

Economy is about keeping the cost of input to an activity low without compromising the quality; efficiency is about getting the most or best output from available resources used on the activity; and effectiveness is about achieving the stipulated aims or objectives of the activity of the auditee.

Public procurement audits have clear links to the three Es. The procuring entity needs to purchase goods and services of the right quality, at the best price, in the right quantities and ensure that they are available at the place and at the time when needed. Failure to meet any of these requirements can seriously affect the government's ability to meet its objectives or goals and ultimately to deliver services to citizens. The core idea of public procurement is to get value for money for the procuring entity and the tax payers. By procuring goods or services from suppliers competing with each other in a regulated tender process, the procurement is supposed to lead to better value for money than if the goods were to be purchased without competition. The price and quality in the open market or a similar procurement in another organisation can be used as criteria for assessing the procurement by the audited entity.

The meaning of the three E's depends on how the auditors choose to define the audited entity. In for example an audit of procurement in the Ministry of Health, the Ministry as a whole can be defined as the entity for audit. Such an audit would allow the auditors to analyse economy aspects of the Ministry as a whole. More common, however, is to define the procurement functions within the Ministry as the entity for audit, which allows the auditors to analyse the efficiency and effectiveness of the procurement function. Of course the economy of the procurement function itself can also be audited, but usually this is a too limited perspective for a performance audit.

Economy

An audit focusing on the price and quality of how an entity obtains resources for its own activities uses an economy perspective. Since it is common to define the procurement function as the entity for audit, it is not common to limit the audit to an economy perspective. For entities with procurement as a key responsibility the main interest is the procurement services they provide, not the cost and quality for the resources they use themselves, even if this also may be covered in audits with a broader perspective.

Efficiency

Several SAIs in the AFROSAI-E region have audited the efficiency in the procurement process for entities with procurement as a main responsibility or for a group of entities within a sector, relating the output (procured goods or services) to the resources used for the procurement. The audits investigate how the procurement is organised and planned, how many officials are involved and how they interact. These resources are related to the output of the procurement; whether the procured goods are delivered in a timely manner, at the right price, in the right quantity and the right quality. The audits are focused on processes and routines in the pre-tendering phase, but processes in the tendering and post-tendering phases are often also investigated.

Effectiveness

Effectiveness is about achieving the intended effects for the audited entity, or in other words to achieve the overall goals. Government usually also has goals for the procurement system as such (the whole-of government approach), for example to reduce prices, improve quality, improve competition on the market, to increase transparency, to increase the public trust and to achieve certain social goals. Performance audits can focus on shortcomings in the achievements of such goals.

Performance audits can also focus on achievement of goals in a procuring entity or a group of entities, for instance the procurement of schoolbooks and stationery. If procured schoolbooks and stationery are delivered several months after the school's semester has started the entities involved in procurement has not met the goal to deliver books and stationery at the right time. The late delivery also hampers the education, and as a consequence the government's overall goal of providing all children with quality education cannot be met.

3 How to carry out performance audits on procurement

3.1 Main approaches to procurement audit in the AFROSAI-E region

In procurement audits there are different entities that can be chosen for the audit:

- Whole of government;
- Procuring entities:
 - Entities with procurement as a main responsibility for procurement, for example procurement boards or procuring departments;
 - A group of entities defined as a “procurement system” by the auditors, for instance a group of entities involved in the procurement of medicines or school-books;
 - Entities responsible for procurement to provide input for their own activities, for example the Customs or a University²²; and
- A specific procurement project, for example a procurement of police vehicles.

For all these entities it would be possible to audit the economy, efficiency or effectiveness in procurement. For the AFROSAI-E region, however, it will in most cases be appropriate to choose one of the following two main approaches (see Figure 3 – 4):

- Auditing the efficiency or effectiveness in the national procurement system; and
- Auditing the efficiency or effectiveness of a procuring entity, or a group of entities.

Figure 3 illustrates a whole-of-government audit approach aiming at scrutinizing a few aspects of the national procurement system, not individual procuring entities in it. It will generally speaking include studying the implementation of the procurement system in some selected procuring entities as case studies in the audit to find evidence for efficiency and effectiveness problems in the procurement system and causes for such problems. It is important to carefully consider the SAIs audit mandate, as it usually is not possible for audit offices to audit policy issues. Audits can focus on the achievement of certain government objectives, the efficiency or effectiveness of central oversight bodies or the implementation by procuring entities. The audit will look for causes to identified problems related to the operations of oversight bodies or the implementation by procuring entities. It may also be possible to analyse the extent with which other elements in the system (policy, other objectives, legislation and the organisational structure) supports the achievement of selected objectives and inform government and parliament when such elements does not have the intended effects. Sometimes this can be caused by external factors, for example market conditions and behaviour among potential suppliers.

²² Typically, such entities have a function responsible for procurement. If the audit is limited to this function, it will have the same characteristics as audits of entities with procurement as a main responsibility.

Figure 3 Auditing the efficiency or effectiveness in the national procurement system

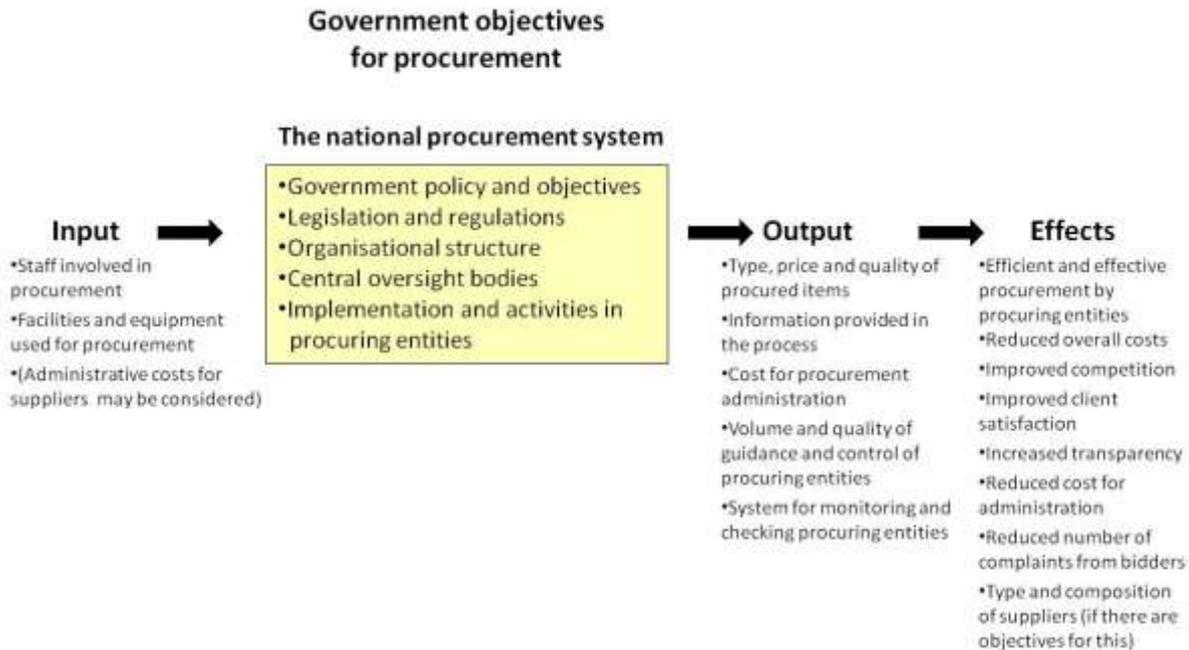
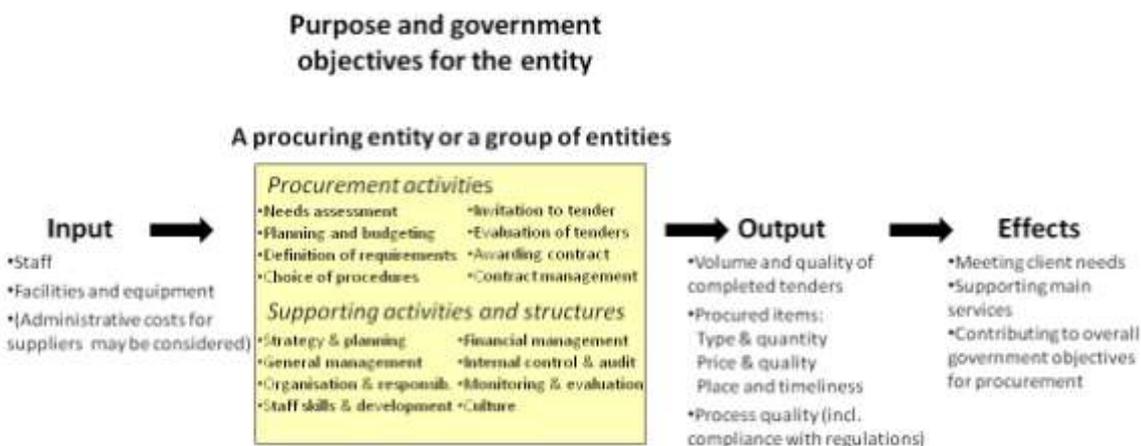


Figure 4 illustrates an audit approach focusing on an entity, or a group of entities, with a main responsibility for procurement. Such entities will procure goods, services or construction work that will be used in the operations of other government entities or used for providing services for the general public (for example roads). With this approach the audit will generally speaking include studying selected procurement projects or other concrete procurements as case studies in the audit, cases used to find evidence for efficiency or effectiveness problems for the entity and causes for such problems. The audit will mainly address causes to identified problems that are within the control of the audited entity: the entities procurement activities as well as supporting activities and structures. It may also be necessary to consider external factors affecting the performance of the entity.

Figure 4 Auditing the efficiency or effectiveness of a procuring entity or a group of entities

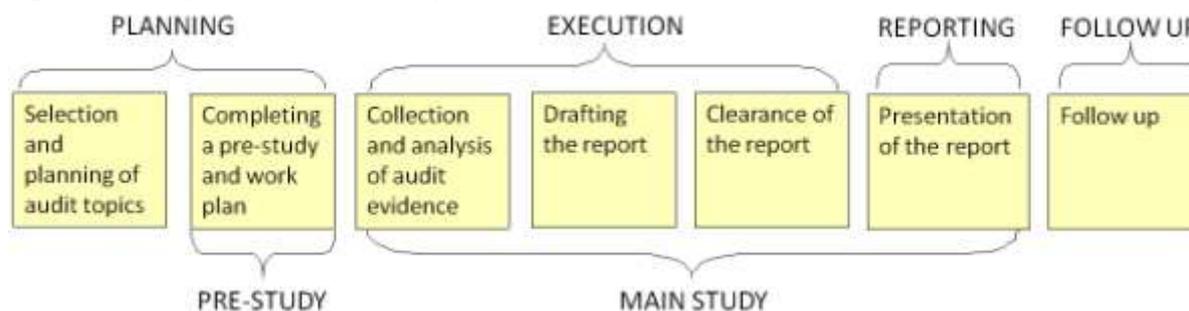


It may be possible to synthesize a series of audits of procuring entities to address problems in the national procurement system, usually with some additional collection of audit evidence.

3.2 The performance audit process

The audit process recommended in the *AFROSAI-E performance audit template manual* can be used also in procurement audits, see Figure 5. After stressing the need for cooperation between performance and regularity auditors (Section 3.3), the rest of Chapter 3 focuses on the planning stage and the first part of the execution stage in the performance audit process.

Figure 5: The performance audit process



Planning – selection of audit problem and audit questions

The discussion focuses on three activities in the pre-study:

- Mapping out the actors and flow of activities to describe the process (Section 3.4);
- Selecting an audit problem (Section 3.5); and
- Formulating audit questions (Section 3.6).

Execution – data collection and analysis of performance

The discussion focuses on three activities in the main study:

- Assessment criteria for the specific procurement problem (Section 3.7);
- Collecting data and assessing the performance for the chosen entity and part of the procurement process (Section 3.8); and
- Analysing the data (Section 3.9).

3.3 A need for cooperation between performance and regularity auditors

There is a need for cooperation between performance and regularity auditors to use the resources of the audit office efficiently in producing good audit reports that are followed up and result in improved procurement. Procurement is one of the processes that are of core interest in regularity auditing. Regularity audits always target individual entities, even if some transversal themes often are chosen for audit across the audited entities. The following links between performance and regularity audit of procurement needs to be considered.

- Annexure A and B of the *AFROSAI-E Regularity Audit Manual* provides examples of risks and controls to mitigate against risks in procurement, as well as generic substantive procedures for regularity auditing of procurement. This can be used by performance auditors to confirm or develop their understanding of financial risks and controls in procurement in general and the type of findings that may be found in the regularity audit reports. There may also be elements in the checklists that are useful also in a performance audit.

- The regularity auditors may, in line with the *AFROSAI-E Regularity Audit Manual*, have checklists for key country-specific financial legislative requirements covering procurement. This can be useful for performance auditors to get an overview of financial requirements as well as to consider in the selection of assessment criteria.
- The audit findings in regularity audits can be used by performance auditors to identify common problems in public procurement cutting across several entities, problems that may be the focus of performance audits targeting the national procurement system (using selected procuring entities as case studies).
- When considering a performance audit of a particular entity, or in a particular sector, performance auditors should find out what information that is available from regularity auditing. For audit entities specialised in procurement, or using significant funds for procurement, regularity auditors can usually provide basic information on the procurement processes in the entity as well as relevant audit findings from previous audits. Regularity auditors may also have access to documents related to the entities procurement – documents that may be useful as sources for information in a performance audit.
- Performance auditors sometimes follow-up on recommendations made in reports, but cannot do follow-ups on a regular basis. Thus, when planning the regularity audit of an entity, it is appropriate to consider the need to follow up on findings made in performance audits, to ensure that identified problems are addressed and actions taken to improve performance.

3.4 Mapping out the actors and the process using flow charts

In procurement audits, as in all performance audits, it's important to be able to describe the audited entity or the audited system and the processes as they are supposed to work. This creates a foundation for checking if the entity or system functions as intended. The description will facilitate the collection of audit evidence and the findings can later be linked to different actors or processes within the system. It is recommended that the auditors study the national laws and rules regulating the public procurement during the pre-study in order to get an understanding of the national procurement system. It is also important that the auditors understand the organisational structure and the kind of procurement to be audited. The relevant questions, assessment criteria and methods for data collection in the audit depend on whether it is procurement of goods, services or construction; whether it is over or under the financial threshold in the legislation; and whether it is a long-term project (for example, constructing a road) or procurement of items to be delivered within a shorter period (for instance, relief items in a disease outbreak).

The audit object can be described in different ways. Sometimes the audited process can be mapped out in a flow chart and further elaborated and explained in a narrative description. Very complex and detailed processes may be difficult to illustrate in flowcharts and the auditors may have to use more than one flowchart or settle for a narrative description only.

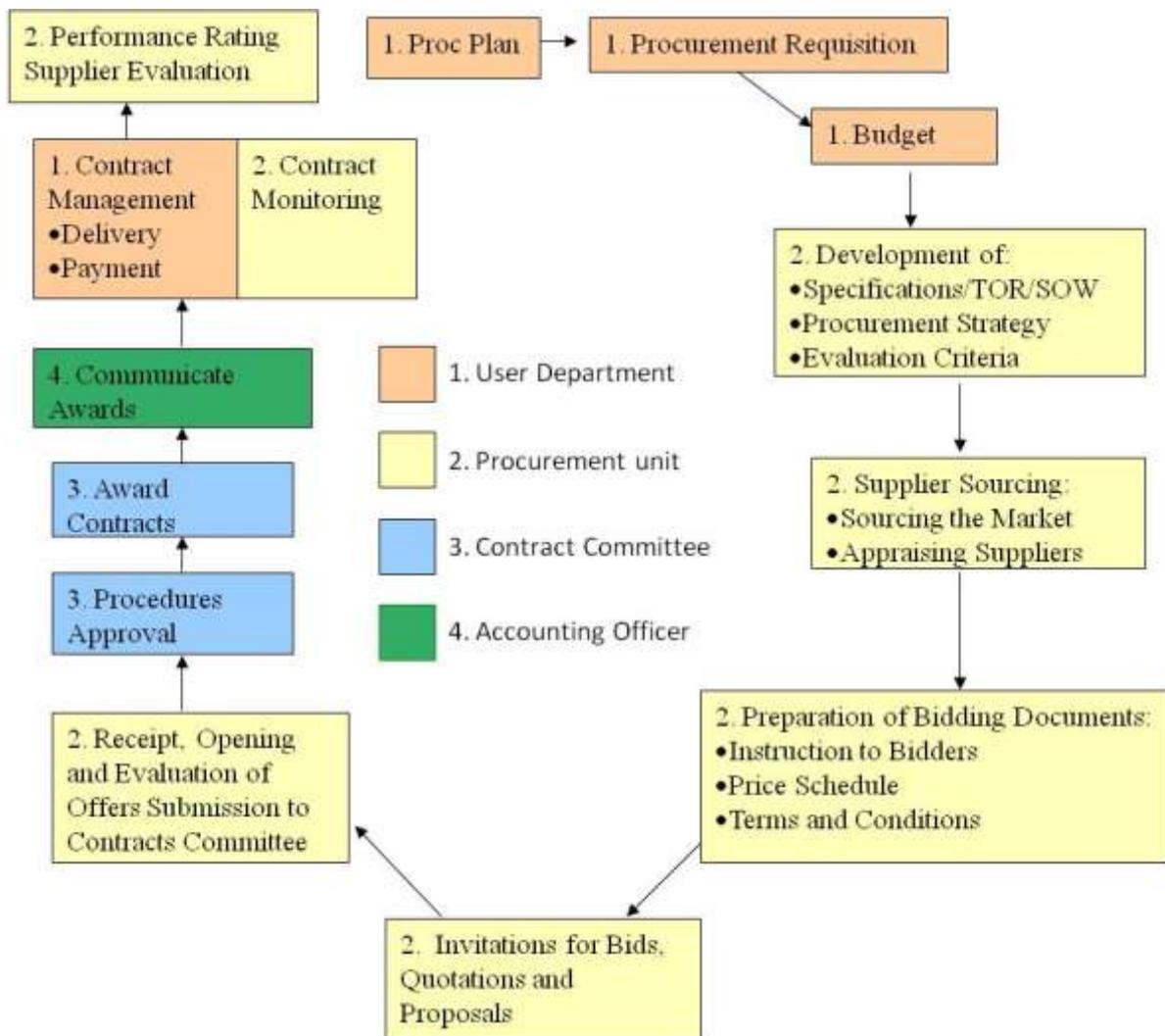
A flow chart is a graphic presentation of a process, depicting inputs, outputs and units of activity. It is an analytical tool facilitating the understanding and overview of the different actors and phases involved. A flowchart may cover the whole procurement process, or a selected part of it. By using the flow chart method the auditors get a description of the different steps in the process, the actions and decisions taken, the actors involved and how they cooperate. The purpose is to identify and describe all important actors or chosen activities within the selected parts of the procurement process. The flow chart can also be

used to identify bottlenecks, time-consuming activities and resources used for the different steps in the work. Which activities to include in a flowchart depend on how critical they are in the audit. The appropriate time for mapping out the audited entity/system and processes are during the pre-study. As the auditors' knowledge increase during the main study, initial descriptions of the system may need to be revised.

Flow-charting can be done in several ways depending on the purpose. Figure 6 illustrates a flow chart for the procurement process in local government, covering the key actors in the local authorities (but not actors such as suppliers, central regulatory authorities etc.). The chosen scope covers the whole procurement process and illustrates different actors' involvement in different stages of the process.

Figure 6: Responsibilities in the procurement cycle – Procurement in local authorities

The actors are different units in the local authorities.



Source: Value for money audit on procurement system in local governments – A case study of 7 Districts, OAG Uganda 2011

The responsibilities and the workflow may be simple and easy to grasp, as shown in Figure 6 or more complex including many more detailed activities. Sometimes the audit can cover the whole procurement process. In case of more complex procurements, the auditors often need to limit the audit to one or a few phases or stages of the process, excluding others.

To understand the workflow the auditors need to collect data from written documents as well as to interview staff and management at the procuring entity, representatives for the end-users and other involved actors like suppliers. When interviewing, the auditors may collect information about the activities as well as the problems in the procurement process. It can also be useful to gather statistics, for instance the time used on different steps or other efficiency or performance information. When the auditors have produced a first draft flow chart describing the process it is a good idea to ask the auditee to comment on it.

The auditors may encounter situations where there is one official procurement process documented in manuals and guidelines and another process for how the procurement actually is carried out. Discrepancy between the official and the unofficial process is an interesting finding and may form the basis for the further work.

3.5 Selecting an audit problem

The criteria for selecting audit problems recommended in the *AFROSAI-E performance audit template manual* can be used also in procurement audits.

The mandate of the SAI usually allows audits on public procurement performed by all kinds of government entities. Auditing the procurement of local authorities or state-owned companies, however, do not always fall within the mandate of the SAI.

Performance audits of public procurement are often easy to motivate from a materiality point of view. Procurement of goods and services constitute, as mentioned earlier, a significant share of the state budget. Failure to procure efficiently and effectively can lead to a huge waste of financial resources as well as put the achievement of key government objectives at risk. Shortcomings in procurement can, for example, have a great impact on the living conditions and welfare of people (e.g. supply of drugs, food relief items and school material). Efficient and effective procurement, on the other hand, can provide the needed goods and services at a reasonable cost as well as stimulate sound competition among suppliers and the achievement of other government objectives. Public procurement can also be used as a political tool to achieve secondary goals, as promotion of local industry, economic development and clean environment.

The risks involved in public procurement are substantial. As mentioned in Section 2.5 public procurement is vulnerable to corruption and fraud. Many audits within the AFROSAI-E region have also shown risks of weak economy and low efficiency and effectiveness in public procurement. These audits have for example pointed out the following risks and consequences:

The pre-tendering phase

- No or insufficient involvement from the regional receivers of the procured items in needs assessments at central level, leading to inadequate needs analysis.
- Poor needs analysis can lead to shortage of important goods needed in society. It can also lead to waste of goods and public funds, because goods are not adapted to end-users' needs or procured in too large quantities.
- A poor contextual analysis, as part of the needs analysis, can also result in that procured goods are not adapted to the end-users' conditions. One example is when a rural hospital receives a machine from the procuring entity that requires a lot of electricity, even though there is a shortage of electricity in the region and frequent power cuts.

- Poor specification of requirements can lead to procuring services or goods that do not meet the required quality standard.
- Poor planning can result in a need to buy out of the contract, at the open market, often leading to higher prices.

The tendering phase

- The procurement procedures are not properly followed so that the most competitive provider is not contracted. This can lead to inflated costs, substandard products and services and delayed delivery.
- The procuring entity underestimates the time needed to prepare the invitation to tender or does not give suppliers enough time to prepare tenders. This can lead to delayed procurement, less participating suppliers, poor competition and more expensive contracts.
- The procuring entity does not carry out a careful evaluation of the competing tenders, resulting in awarding a supplier with less economically advantageous tender.

The post-tendering phase

- The procuring entity does not pay suppliers on time, leading to suppliers losing trust in public entities. This can in the long run lead to fewer suppliers competing for government contracts and thereby result in more expensive contracts.
- Poor or non-existing inspection and evaluation of the supplier's performance during the contract period encourages poor delivery or no delivery at all.
- Lack of consequences for poorly performing suppliers, not applying sanction clauses and with no risk for the supplier to end up in a black list, encourages continuous poor performance of the supplier.

Regarding the auditability, usually common audit methods like document studies, interviews and physical inspections may be used. The internal resources to carry out a performance audit on public procurement are often similar as for other performance audits. Audit of infrastructural projects or other large technical procurements may, however, require use of technical experts.

The potential for change is unique for the specific audit. Even if it is difficult to generalise, the mistakes and problems in public procurement that an audit can reveal are often self-evident and not controversial. Often it is possible for the audited authority to address many of the problems within reasonable time and costs.

In general terms the situation the auditors face in the beginning of a procurement pre-study often falls into one out of two categories:

- A specific procurement problem that is more or less known; or
- That there are indications of problems in a more complex procurement area.

The way to approach the selection of the audit problem and decide whether to start a main study or not will vary accordingly.

Known specific problems

Sometimes the auditors focus on a specific problem already from the start of the pre-study. The auditors may also have an idea of some of the main reasons causing the problem. It might, for example, have been a public outcry about a shortage of medicine in certain areas – or about that some regions lack school materials. Through reports in media there may be reasons to believe that the problems are caused by poor logistical solutions in the procurement, storage management, transport and distribution. In cases like this the auditors will probably know already from the start that the problem area falls within the SAI's mandate. If lack of school materials or lack of medicine is heavily debated in media and pointed out as a problem area by different actors, the problem is likely to be of some magnitude when it comes to materiality and risk. If there are indications that concrete and manageable problems are causing the shortage, it is likely that the audit can contribute to change and improvement of the situation. On the other hand, if the problem and its causes are obvious and clearly known, it is not justified to carry out an audit unless there are reasons to believe that it will lead to important changes that otherwise would not take place.

Consequently, to have a basis for the decision whether or not to proceed with a main study, there are two important things for the auditors to check in the pre-study. The first is auditability, i.e. that it is possible to carry out the audit. The second is to get confirmation on materiality and risk. An audit of procurement can be carried out easily if the problem is already known when starting the pre-study. In this situation it will often be appropriate and sufficient to use *only* one flow chart as a basis for the pre-study. The focus of the flow chart then zooms in on the already known problem area. However, sometimes the initial understanding of a problem and its causes turns out to be based on misunderstandings or insufficient and faulty information. The auditors therefore need to keep an open mind during the audit in order to verify or falsify initial beliefs. Often performance audits come up with important findings that previously were not known by important actors.

Complex situations

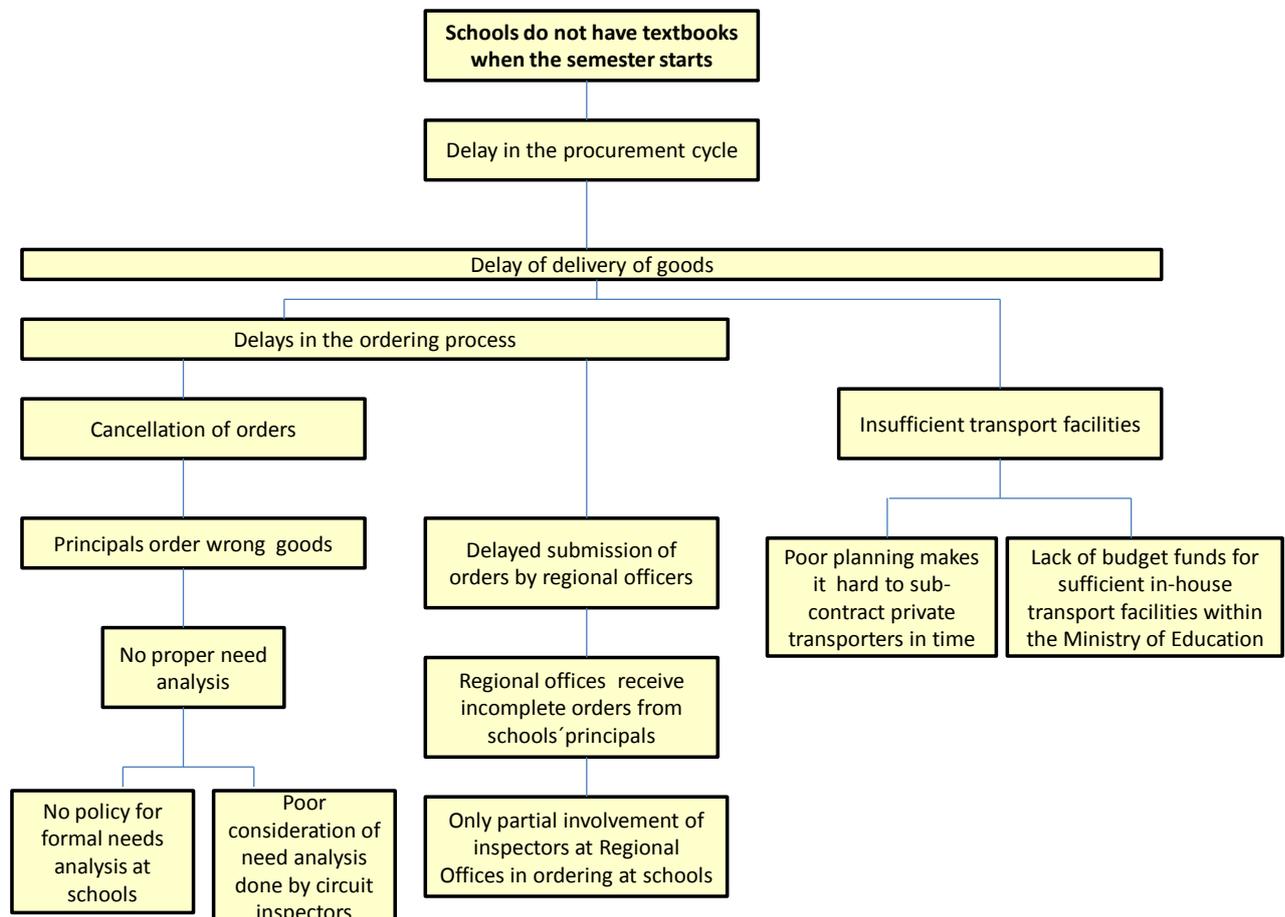
The situation is more complex when the auditors have indications that an area is not functioning well, without initial information about what the main problems and their causes are. In such cases the auditors need to learn more about the area during the pre-study before focusing on a specific problem. For example, the handling of a disaster may have been selected for a pre-study. The pre-study may show that one out of several problems which can be considered to audit is poor delivery of food relief items to people hit by the disaster, while there also are other serious problems relating to the handling of the disaster that may be selected. The auditors will then have to select one main problem for the audit.

Another complex situation can be when the causes for the problem are unknown. The indication of a problem can be shortage of medicine or school material but the causes of the problem can be many and can be hard for the auditors to discover. For example, observed problems can be a result of corruption; the contract may have been awarded to a non-existing company (brief-case-company); or the selected company deliver fewer goods with lower quality than agreed in the contract.

In more complex situations a flow chart is not enough as a basis for selecting the audit problem. The *AFROSAI-E performance audit template manual* presents the problem-tree analysis as an analytical tool that can be used to illustrate how different problems are linked and influence each other. The main purpose is to get a better overview of relevant factors and how they are related. The problem tree can be used to structure the preliminary

observations from the pre-study in order to consider possible audit problems. Figure 7 below presents a problem tree for poor procurement of schoolbooks. Any box in the tree can be defined as a problem. Causes of that problem will then be found as you move downwards in the tree and the consequences as you move upwards.

Figure 7 A problem tree illustrating problems in procurement of school materials²³.



Examples of audit problems that can be considered are listed below, some of them addressing procuring entities and some of them using a whole-of-government approach. The examples have been structured according to the three Es.

Examples of audit problems related to *Economy*:

- The cost for materials for the highway between the countries two main cities exceeds the budget by 15%, as the procuring entity has not ensured appropriate cost controls in the contract.
- On average, government procuring entities pay 20% higher salaries for procurement staff without appropriate qualifications than in the private sector.

²³ The problem tree is to some extent based on a problem tree in a pre-study carried out by the OAG of Namibia.

Examples of audit problems related to *Efficiency*:

- The working methods (poor needs analysis, poor planning) of the procuring entity are inefficient and have bottlenecks, leading to higher costs and delayed procurement?
- Appropriate controls are not in place to ensure that procurement complies with the relevant legislation, leading to higher costs and poor quality in the procurement.
- The performance of suppliers are not adequately managed and monitored by the department, leading to delays and poor quality of services.
- The procuring entity has not taken appropriate measures to mitigate the risks to integrity in the different steps of the procurement process.
- The government's overall procurement strategy is not properly implemented, monitored and evaluated, to ensure efficiency in procuring entities.
- The intentions of centralising procurement of IT equipment to a central agency have not been met, as the administrative costs for procurement has increased at the same time as the quality of the procurement service has decreased.

Examples of audit problems related to *Effectiveness*:

- The department does not meet the expectations in their procurement and contract management of construction of school buildings, with cost overruns, poor quality and delays in the construction.
- The procuring entity is not successful in providing users with the goods and services they need, creating a lot of complaints and dissatisfaction among users.
- The government's goal of procuring needed goods and services of appropriate quality to the lowest cost is not met, as there are large variations in price, quality and other conditions for similar products between different procuring entities.
- Government's procurement strategy and its implementation do not lead to the achievement of the government's policy objectives of fair competition and transparency.

3.6 Formulating audit questions

Recommendations on the formulation of audit questions are given in *AFROSAI-E performance audit template manual*. Techniques similar to the problem-tree analysis and brainstorming are sometimes used at this stage. Once an audit problem has been selected in a problem tree the auditors may further detail preliminary identified causes to this problem, i.e. detail the boxes below the selected problem. Relevant audit questions can be identified by reformulating some of these causes into questions. When answered, the audit questions should provide sufficient information about the audit problem and its causes within the given scope.

Examples on audit questions based on the problem tree in Figure 6 above, on the procurement cycle of school materials, are provided below. Here, the audit problem chosen from the problem tree is *Delays in the ordering process*. The auditee is the Ministry of Education. Based on this problem the following audit questions can be formulated:

1. Are there delays in the ordering from schools to the Ministry of Education? (To verify the audit problem.)
2. Is the needs analysis conducted by the principals carried out in a proper way?
3. How does the ordering process/procedure within the Ministry of Education affect timely submission of orders?

The following three types of audit questions can be included in the audit of procuring entities and entities with a responsibility for the national procurement system, the first two as the main focus and the third as a complement:

- Questions aiming at verifying the audit problem;
- Questions addressing expected causes to the problem within the audited entities responsibility; and
- Questions addressing factors external to the audited entities (out of the entities control), in order to understand the conditions and limitations for good performance.

Questions verifying the audit problem can for example be related to:

- Costs for procured goods and services;
- Volume, quality, specification, timeliness, delivery point of procured goods and services;
- Costs for the procurement processes;
- Volume and quality of services (output) provided by procuring entities (i.e. volume of procurement, meeting end-users' needs, compliance with regulations, client satisfaction, end-user satisfaction);
- The relation between input and output (efficiency); and
- The degree of achievement of intended effects for procuring entities or for the government's procurement system as a whole (i.e. cutting costs, improve value for money, reduce costs for procurement processes, improve competition, improve transparency, reduce corruption, achieve social objectives).

Questions addressing expected causes to the audit problems within the audited entities responsible can for example be related to:

- Internal organisation, regulations, funding arrangements and budgets (within the framework set by government);
- Strategies, policy and planning;
- Management of staff, financial resources, risks, internal controls, external relations and performance (monitoring and evaluation);
- Internal audit
- Design, cost, management, guidelines and implementation of procurement processes (in the different stages of the pre-tendering, tendering and post-tendering phases);
- Skills and experience of staff and quality of other used resources (economic requisition of own resources);
- Organisational culture; and
- Management and result in individual procurements.

Questions addressing external factors can for example be related to:

- The audit entities' mandate and organisation decided by government;
- Government regulations;
- Funding arrangements and approved budgets;

- Other government actors²⁴; and
- Non-governmental actors.

The audit problem and the causes to it within the control of the audit entities are the focus in performance audits. It is also important, however, to take external factors into account to understand under what conditions the auditee operates. Sometimes it may be necessary to include a special audit question to address such external factors.

Appendix 1 further details questions that can be used for assessing performance in public procurement. Auditors can use the questions to generate for the formulation of audit problems as well as for formulating audit questions and sub-questions.

3.7 Identifying assessment criteria

It's often easy to find criteria for compliance in procurement audits, as there is a detailed legislation and usually other regulations and guidelines for the process. It is however usually more difficult to find appropriate criteria for assessing costs and quality – issues which obviously are of core interest. It can also be a challenge to select appropriate criteria among different alternatives. The legislation regarding procurement can be of central importance when deciding on the assessment criteria in audits on public procurement. Usually the legislation is further detailed in policies, guidelines and routines for government entities in general or for a specific entity or sector.

There are also generally accepted international standards for procurement which can be used as assessment criteria, but the auditors then need to analyse to what extent such standards are relevant for the particular country. The general principles are often to maximise economy and efficiency, and promote competition, integrity, transparency and accountability in the procurement. Such values can be re-formulated to more operative criteria for assessing whether these values have been reached.

Another alternative is to identify criteria in consultations with experts or other authorities. The auditors may also base assessment criteria on the in-house standards of the audit entities. When criteria established by the auditee is used, the auditors need to find out what they are based on and consider if they are in line with the legislation, regulations and good practice.

The auditors should consult and try to agree with the auditee on the criteria that will be used in the audit to assess performance. Securing a shared perception reduces the risk for contention on the analysis and audit findings.

3.8 Collecting data and assessing performance

Data has to be collected for different purposes during a performance audit project. The audit team often needs to collect data to describe the auditee, measure and assess output and to explain performance in terms of shortcomings at the auditee. Different types of data are also needed for the internal learning process of the audit team. In the area of public procurement the audit team for example needs to collect data on the legislation regulating the procurement to be able to formulate audit questions and start the main study. The project team also needs to collect data on the auditability – for example, do reliable data sources exist to answer the audit questions?

²⁴ Instead of handling government entities as external factors in the audit it is often possible to include them as auditees.

During the main study data is collected in order to verify the audit problem and answer the audit questions. General methods of data collection are applicable for this. Documentary, testimonial and physical data are useful in a procurement audit. Often the audit requires a mix of data collection methods. A more detailed description on how to collect physical, testimonial and documentary data is found in the *AFROSAI-E performance audit template manual*.

As showed in Section 2.4, the procurement process is divided into different phases and stages. Performance audits on various stages of the procurement process carried out in the AFROSAI-E region show that there can be problems in many phases and stages. Some audits also have assessed the efficiency and effectiveness of the whole procurement process. Some examples on how to assess different problems in the procurement process are presented below.

Assessing the needs analysis and planning of procurement

This approach is generally applicable when the auditors want to measure how the auditee assesses the needs of the end-users and plan the procurement. Such audits often focus on the whole pre-tendering phase, covering the stages of needs assessment, planning, definition of requirements and choice of procedures.

The preparatory stages of any procurement process are crucial. During these stages decisions will be taken on the needs for goods and services, what kind of specifications that the service or goods must fulfil to meet the needs and the volume needed. The decisions also have to take into account the market situation (to secure that there are enough suppliers to provide for a real competition); the budget and existing buffer stock or in-house resources. Problems in this phase will often lead to problems in the subsequent phases in the procurement cycle. Assessing this phase, or different stages in this phase, is therefore often of central importance in a procurement audit.

This approach can be illustrated by an audit done by the OAG of Namibia. When the auditors audited the procurement of police vehicles, a major finding was that the needs analysis made by the head office of the Department of Police had not properly included the regional offices' knowledge of the regions specific travelling conditions. The needs analysis was assessed through comparing the regional commander's statement (obtained through interviews) and documents showing the regional needs analysis with the actual vehicles bought. The audit found that the vehicles were not adapted to the specific travelling conditions and operations in the various regions.

Assessment of the buffer stock of a government store

This approach can be used when the procured goods are stored in a central government store and the auditors want to identify whether the buffer stock is considered in the procurement of new goods and whether the stock is reasonable compared to the demand. This approach can also be used when the auditors want to investigate if procurement is so planned that goods are used before expire date, and when this is not the case assess the value of goods with a critical expiry date like medicines or food relief items.

Assessment of the buffer stock can be illustrated by an audit done by the OAG of Uganda. In Uganda, the National Medical Store (NMS) is responsible for procuring, storing and distributing medicines and medical supplies for use in the medical facilities in Uganda. The policy of NMS is that only stocks that have at least three months of remaining shelf life shall be issued out for sale to customers. NMS has also issued an annual procurement plan to secure a buffer stock in accordance with the needs of their customers. The audit team

wanted to assess whether NMS fulfilled this policy. The audit team reviewed several records to assess whether the buffer stock in the central store was in accordance with NMS policy. The audit team studied both the expired drugs records at the district health offices and at the Ministry of Health as well as delivery notes and packing lists at NMS. The audit found that NMS procure drugs without regard to buffer stock levels. As a result certain drugs exceed the one year's requirement while others were under stocked. Huge stocks of drugs had expired. NMS' needs assessment is not based on the actual needs of the customers. NMS receives stores and distributes drugs procured by third parties but poor coordination leads to duplicate procurement of drugs.

Assessment of quantity and quality of the procured goods

Sometimes it is appropriate to make physical observations or inspections as part of collecting and assessing audit evidence. This approach is useful when the audit problem is shortage of certain goods or when the quality of the goods not is appropriate. The auditors can then use physical observations to check the quantity and quality of the procured goods and compare this with the agreed volume and quality standard agreed in the contract.

In an audit on procurement of school materials carried out by the OAG of Namibia, the auditors assessed the quality of procured school materials through physical observations at the government stores. The auditors found that the supplier had delivered materials of a lower quality than the quality standard set out in the contract.

Assessing the procuring entity's efficiency and effectiveness

This approach can be applied if the project team wants to investigate whether the procuring entity carries out the procurement in an efficient and effective way. These audits usually focus on the operations of the procuring entity, the systems in place and how the evaluation and award of contracts are carried out. The approach can be used on audits of government organisations responsible for procurement (for example, a tender board or a public procurement board) or on a specific government agency or ministry involved in procurement contracts of great financial value. Both the OAG of Botswana and Audit Service Ghana have carried out audits with this perspective.

Botswana's OAG is mandated to audit the Public Procurement and Asset Disposal Board (PPADB) and its committees and disposing entities. The principal mandate of PPADB is to ensure that there is an efficient, transparent and accountable management of public procurement and asset disposal system of the Botswana government, for the achievement of the country's socio-economic objectives, while delivering value for money. PPADB was established because the former central tender board could no longer cope with the procurement demands resulting in delays in adjudication and award of contracts.

For the financial year 2006-07 the OAG decided to assess whether PPADB and its committees operated efficiently and effectively, focusing on examination, adjudication and awarding of contracts. Interviews were carried out with top management, staff of PPADB and its committee members as well as the committees' chairpersons. Information was also gathered from review of documents and from ministerial tender committees, district tender committees and procuring entities. This was done to understand the tendering cycle, the adjudication and awarding of tenders, policies, objectives, budgets and expenditure. Further, tender files, as well as minutes of adjudication and awarding of contracts and correspondence files from the various committees were reviewed.

The audit team found that PPADB managed to meet its targets and was able to adhere to their schedule of board sittings to adjudicate and award contracts within the prescribed two

weeks. The board also complied with the three days prescribed to communicate their decisions to the procuring entities. However, the audit also showed delays in other parts of the procurement process. The aim of the board to reduce deferrals by 10% had not been achieved. The lead times for evaluation had been exceeded even more than previous years. The audit also found that due to poor training by PPADB of the officers in the committees and lack of procurement plans in the committees, the tendering process was delayed.

Ghana Audit Service audited the procurement system at the Ministry of Health (MoH) after previous audits had revealed waste of medicines and leakage of funds within the Ministry and irregularities in a number of budget management centres (BMCs) of MoH. The irregularities were about overpayments, goods paid for but not supplied, purchases not taken on charge, circumventing of laid down rules and non-transparent purchasing procedures. The purpose of the audit was to evaluate the processing control framework and other key success factors that could improve efficiency in the procurement. The project team also wanted to see whether the new public procurement act, which aims at reducing waste in public procurement, had influenced the procurement in MoH.

To assess the efficiency and effectiveness, the audit concentrated on the operations of procurement officers, procurement committees and heads of BMCs. Data was collected from 24 BMCs in five regions across the country, covering five years. The project team reviewed documents provided by the sampled BMCs and interviewed key personnel of these BMCs. The project team also collected financial data as well as records on procurement transactions over the five-year period to analyse the spending on procurement. The data was supplemented with physical inspections at the BMCs. The audit team also identified key initiatives with the aim of improving the performance.

The audit found that basic systems are in place for achieving efficiency in the procurement of MoH and its BMCs but these systems needed to be properly developed to achieve an appreciable level of effectiveness. The audit pointed out areas for further improvements, such as management information, supplier relationship management and quality and training of procurement officers of BMCs.

Assessing the defence against corruption

Government agencies and state-owned companies are assumed to have a control environment as well as general and specific control measures aimed at preventing and, when needed, uncovering corrupt behaviour and measuring the defence. The risk of corruption in public procurement makes it important to assess whether the procuring entity (government agency, ministry or state-owned company) actually has an adequate protection against corruption. This is especially relevant when the procuring entity purchases goods or services of great financial value and therefore is especially exposed and more vulnerable to corruption.

The Swedish National Audit Office (SNAO) has carried out several audits with this perspective. The audits have focused on state-owned companies and government agencies that purchase goods or services of great financial value. The audits investigated whether the companies and agencies had taken adequate measures for protection against corruption.

To assess whether the protection could be considered to be adequate, the auditors designed a checklist with six areas based on the COSO-model²⁵. The six areas were: the company's

²⁵ Based on the Committee of Sponsoring Organisations of the Treadway Commission: Internal Control – Integrated Framework and Enterprise Risk Management – Integrated Framework.

control environment, risk assessment, control activities, information and communication and monitoring. The auditors mapped out the risk exposed to parts of the organisation, reviewed documents and interviewed a large number of the staff in the audited organisations. The audits also investigated in detail some specific procurement projects in order to verify the findings from the interviews and document reviews.

The audits found, among other things, that the risk assessments made at the management level did not cover the risk of bribery. Nor were there any systematic follow ups of the extent to which the rules laid down by the management were followed. No systematic segregation of responsibilities and duties for important decisions had been introduced. Control functions either did not exist or were not designed to discover indications of this form of corruption.

3.9 Analysing the data

When data has been collected, the next step in the audit process is to compile and analyse it. Analysing quantitative and qualitative data is an important step in all performance audits. When analysing the data the auditors should start by revisiting the audit objective and the audit questions. This will help them to organise the data and focus their analysis on the audit problem and the audit questions. In the analysis the assessment criteria are used to assess the information collected on the actual situation – coming up with audit findings showing discrepancies, or in some cases that the criteria has been met. The analysis includes identifying factors explaining the performance of the auditee in order to address causes to the audit problem.

How to analyse data depends on the type of data that has been collected and how the audit questions are formulated. Often there is a mix of sources for data in a procurement audit and each type of data requires its own specific analysis. For further guidance on how to analyse different types of data see the *AFROSAI-E performance audit template manual*.

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Appendix 1 Questions for assessing performance in public procurement

This Appendix includes a list of questions and sub-questions as reference pointers for auditors assessing performance in public procurement. The questions are divided into three levels, the whole-of government level, the procuring entity level and the procurement project level. The list is based on questions included in the Procurement Performance Model developed by the Contact Committee of the Supreme Audit Institutions of the European Union. The list has, however, been amended, changed and elaborated to serve the purpose of inspiring performance auditors in the AFROSAI-E region and provide ideas for the formulation of audit problems, audit questions and sub-questions.

The questions in the list can be reformulated to procurement audit problems. They can also be used as or inspire audit questions and audit sub-question addressing causes to the selected audit problem. Questions on a lower level in the list can be relevant for audit problems on the same or a higher level. For example, if the efficiency in a procuring entity shall be audited the questions on the procurement entity level can be relevant. However, it is also likely that the audit will include a review of the management of a sample of projects, a review that can be inspired by the questions on the project level. There is a natural overlap between the questions; similar sub-questions can be listed for different main questions.

All-of-government level – assessment of the national procurement system	
1. To what extent do government policies and their implementation promote fair competition?	<ul style="list-style-type: none"> • Is free and fair competition promoted by government policies and legislation, in line with international trade organisations and other policies? • Are regulations on taxes, fees, duties, excises, tariffs etc. not impeding competition? • Do government agencies oversee that rules of competition are adhered to? • Does government impose sanctions on companies unduly limiting competition? • Are regulations and protective measures in place to avoid corruption? • Is government transparent about winning bids and prices?
2. How is government's overall procurement strategy/policy implemented, monitored and evaluated?	<ul style="list-style-type: none"> • Are the overall objectives for the national procurement system clear and understood by relevant agencies? • Does government have an overall strategy/policy on public procurement, providing guidance for procuring entities? • Is the strategy for how to reach the overall objectives for the national procurement system realistic and well known by the relevant agencies? • Does the government policy include: <ul style="list-style-type: none"> - Performance targets on value for money obtained and cost savings? - Ethical guidelines for public procurement? - Provisions for obtaining overall management information on public procurement? • Are there appropriate structures and mechanisms in place to regulate, guide and support the processes and performance of procuring entities? • Are the relevant agencies implementing the strategy/policy as intended? • Are there appropriate structures and mechanisms in place for an appropriate oversight of procuring entities performance and compliance with regulations? • Is the achievement of the overall objectives for the national procurement system monitored and evaluated, and corrective measures taken as appropriate?
3. To what extent are procurement policies and practices in line with international good practice?	<ul style="list-style-type: none"> • Does government learn from benchmarking its own practices with international standards?

<p>4. How is the performance of different procuring entities benchmarked with comparable entities?</p>	<ul style="list-style-type: none"> • Is the procuring entity compared with other procuring entities? • To what extent are there variations between procuring entities in the economy, efficiency and effectiveness in do the various stages in competitive procurement, for example: <ul style="list-style-type: none"> - Assessing the need for the goods and services; - Specification of requirement; - Agreeing list of potential suppliers; - Invitation to tender; - Evaluation of bids; - Selection of supplier; - Agreeing form of contract; - Formal awarding of contract; • Evaluation of contract performance?
<p>5. To what extent are different procuring entities effective in obtaining competitive prices, qualities and other conditions compared to potential alternatives?</p>	<ul style="list-style-type: none"> • How do different procuring entities compare regarding: <ul style="list-style-type: none"> - Value for money obtained, comparing the quality of service and costs. - Improving value for money by for example: (a) reducing the cost of purchasing and the time it takes; (b) negotiations with suppliers; (c) improving project-, contract-, asset- and/or risk management. • How do the procuring entities manage the procurement risks (for example: the risk if the supplier does not deliver on time, to budget and of appropriate quality; the risk of indiscretion, fraud and waste)? • Which forms of contract strategies are used by the procuring entities and is the choice of a specific contract strategy guided by the interest of economy, efficiency and effectiveness of the procurement? • Are alternative procurement strategies considered before selecting the most beneficial strategy? • Do the procuring entities work in compliance with proper project management procedures; so that projects are delivered on time, within cost limits, meeting quality standards and with minimum disruption of services?

Procuring entity level – assessment of the procuring organisation, unit or group of entities	
<p>6. To what extent is procurement integrated in the Ministry's/organisation's overall planning, ensuring it contributes to the achievement of overall goals?</p>	<ul style="list-style-type: none"> • Do needs analyses and specifications ensure that the right items are acquired in the right quantity and quality, and at the right time and cost, to meet the users' needs? • Does the tender process ensure economic, efficient and effective acquisition? • Are the procurement processes within the objectives and framework set by the legislation and the central procurement authority's regulations? • Are the different steps in the procurement process efficiently and effectively managed? • Are contracts managed to ensure successful completion of them in accordance with the specifications and the agreed quality, cost and time? • Is the adequacy of the procurement process and its results assessed ex-post?
<p>7. To what extent are outsourcing and Public Private Partnerships considered as alternatives to in-house work when appropriate?</p>	<ul style="list-style-type: none"> • Are decisions to outsource and establishing Public Private Partnerships made in the interest of supporting the organisation's core services and functions? • Are the advantages and disadvantages of in-house production, outsourcing and Public Private Partnerships considered? • Is it tested periodically, whether the public entity is competitive in relation to price and quality compared to other alternatives (if any)? • Is it when appropriate examined whether it is both beneficial and possible for government to enter into Public Private Partnerships with private suppliers? • Are public services and tasks designed so that the market is used where relevant?

	<ul style="list-style-type: none"> • Is it assessed whether well-functioning markets exist able to provide the services and tasks as an alternative to the public entity? • Is it considered whether services/tasks are of a sufficient volume to make it attractive to outsource these services/tasks? • Are procedural costs in connection with tendering or entering into Public Private Partnerships appropriately considered?
<p>8. To what extent does the procuring entity have a procurement strategy and is it implemented?</p>	<ul style="list-style-type: none"> • Is the importance of compliance with regulations as well as the economy, efficiency and effectiveness in all steps of the procurement process appropriately recognised? • Is the relationship between in-house and external work considered in the strategy? • Does the strategy ensure that needs are met, but not exceeded? • Does the strategy ensure that the concepts of standardisation and coordination of procurement are used to take advantage of the organisation's collective buying power? • Does the strategy discuss the best manner of purchase, considering the types of goods and services needed? • Does the strategy ensure that the best supplier is chosen considering: price, quality, service, dependable operation, internal operation costs, life time operation costs and codes of ethic? • Does the strategy include a policy for identifying and training suitable procurement staff? • Does the strategy ensure that appropriate controls are in place to: <ul style="list-style-type: none"> - Ensure propriety and regularity in delivery? - Address risk of fraud and corruption? - Monitor behaviour of procurement staff? • Does the strategy promote evaluation of the performance of the procuring entity? • Is the strategy implemented across the entire organisation?
<p>9. To what extent is the procuring entity well organised?</p>	<ul style="list-style-type: none"> • Is there an overall mission for the procuring entity and is it determined which tasks it should carry out? • Has guidelines been set up for how the procuring entity should carry out its procurements? • Has it been determined which areas of procurement the entity should cover? • Has it been determined how large a portion of the procurement portfolio that should be managed by the procuring entity and how large a portion that should be managed locally? • Is the procuring entity organised in the most appropriate way taking into consideration the actual tasks which the organisation has to carry out? • Is the performance of the procuring entity regularly evaluated?
<p>10. To what extent is the procurement process well organised?</p>	<ul style="list-style-type: none"> • Has the procuring entity identified and described the different steps in the procurement process? • Has guidelines been set up for how the procurement process should be conducted? • Is the procurement process organised in the most appropriate way, taking into consideration the volume and type of procurement? • Is the procurement process digitalised when appropriate? • Is electronic procurement applied to reduce transaction costs when appropriate? • Is basic information about the procurement produced, e.g. the type, volume and costs of procured items from individual suppliers? • Is the efficiency of the procurement process regularly evaluated?

<p>11. To what extent do the employees have the necessary skills and experience to carry out procurements efficiently and effectively?</p>	<ul style="list-style-type: none"> • Does procurement staff have recognised professional procurement qualifications or sufficient training? • Does procurement staff have skills to procure complex/special items (i.e. IT)? • Does the procuring entity understand customer needs, supply markets and suppliers? • Does the procuring entity have the ability to negotiate with customers and suppliers? • Does the procuring entity have the ability to apply public procurement principles and to prepare tender and contract documents? • Does the procuring entity have the ability to apply electronic procurement? • Does the procuring entity have the ability to secure best performance from contractors?
<p>12. To what extent are their appropriate controls in place to ensure that procurement complies with the relevant legislation?</p>	<ul style="list-style-type: none"> • Are there internal control systems in place to secure that laws and regulations are observed? • Are the internal control systems operational? • Do the internal control systems function appropriate? • Has management taken the necessary steps to ensure that relevant control systems are always up to date?
<p>13. Are there adequate mechanisms in place to monitor and evaluate the performance of the suppliers and address underperformance when appropriate?</p>	<ul style="list-style-type: none"> • Are there mechanisms for regular monitoring and evaluating the entities' suppliers' performance in relation to price, quality, delivery, agreed budget and other contract provisions (e.g. privacy, security, record keeping, reporting)? • Is the performance regime cost effective to administer for both parties? • Are the skills available to assess whether or not supplier/contractor performance is satisfactory? • Do contracts contain regular reviews, targets and quality standards in order to objectively assess suppliers' performance? • Is the performance measures understood by all parties? • Do the measures assess all the important aspects of performance, rather than what is easy to measure? • Do the measures include bases for comparison; are the performance measures allowing judgements to be made about supplier/contractor performance? • Do the measures focus supplier/contractor performance on the outcomes to be achieved? • Do the measures encourage performance improvement over the life of the contract? • Has consideration been given to the collection and analysis of performance data for example, is it better to use an independent third party or technical expert? • Does supplier/contractor performance against the measures provide the basis for making payments? • Is there a forum where the procuring entity regularly discusses the suppliers' performance with them? • Does the entity take appropriate measures to address underperformance of suppliers, invoking penalties and liquidation clauses, when appropriate?
<p>14. To what extent are risks managed to provide reasonable assurance regarding the organisation's procurement objectives?</p>	<ul style="list-style-type: none"> • Are information gathered to produce knowledge about procured goods and services, prices paid and supplier performance? • Are risks in the internal environment identified, for example: <ul style="list-style-type: none"> - Inadequate organisation of the procuring entity? - Dysfunctional culture? - Inferior competencies among procurement staff? - Ineffective internal communication in the procuring entity? • Are risks in the external environment identified, for example:

	<ul style="list-style-type: none"> - Budgetary constraints? - Competition on procurement staff? - Threats to supplier relations? - Stakeholder-dissatisfaction? • Are required quality and service standards set? • Are behaviour modification applied to change procurement of goods and services if procurement is not functioning properly? • Is there an effective risk management system continuously monitoring procurement risk? • Have adequate measures been taken to mitigate risks for integrity in the different steps of the procurement process?
15. To what extent are there regular reviews and analysis of the performance of the procuring entity?	<ul style="list-style-type: none"> • Does the organisation have a system for capturing performance data of the procuring entity, and does the information include information on: <ul style="list-style-type: none"> - What is bought? - The prices paid? - Who are the key suppliers? - Ways of achieving goods and services? - Process cost of the procurement function? • Does the organisation evaluate and benchmark the performance of the procuring entity against other comparable entities? • Are there systems for recording and monitoring in order to discover malpractice and fraud in the procurement function/unit?

Project level – assessment of a single procurement project	
16. To what extent does the procurement project have a clear goal and does the goal meet the needs of the users?	<ul style="list-style-type: none"> • Is there a need for the procurement project at all? • Are user's needs clearly defined and has the expected outcome or mission been clearly identified and communicated in measurable terms? • Has alternatives been considered for the specified procurement project? • Has an upper limit of cost been fixed? • Has the expected benefits from realisation of the procurement project been calculated?
17. To what extent is the procurement project efficiently managed?	<ul style="list-style-type: none"> • Are the right skills, experiences and competencies present in the acquisition workgroup and are the necessary outside specialists involved in part of the process? • Does the procurement unit have sound commercial awareness and knowledge of suppliers and the market, being able to make use of available information? • Do procurement staff, supplier and end-users communicate properly? • Is confidentiality guaranteed during the whole process? <p>Pre-tendering phase:</p> <ul style="list-style-type: none"> • Is it calculated whether aggregated procurement can be more cost-efficient? • Are the requirements on the goods and services properly specified? • Are the requirements for affected related services properly specified, for example water, electricity and sewage systems when constructing roads? • Are Terms of Reference for consultancy contracts clearly stating the objectives and the required outputs and deliverables for the assignment? • Is existing standards for product and services respected to an appropriated degree? • Is the foreseen budget compared with similar projects or procurements in the past (historical standards)? • Is a cost/benefit analysis, a cost/effectiveness or a financial analysis considering life-cycle costs performed; and is the funding of the procurement guaranteed?

	<ul style="list-style-type: none"> • Is a risk evaluation performed? • Is the appropriate procurement approach chosen (considering for example the possibility of contracting out work or procuring low value items through a specific low cost procuring system)? • Are incentives for the supplier to deliver on time and in quantity properly specified? <p>Tendering phase:</p> <ul style="list-style-type: none"> • Are there written rules on requirements for the specific quote and tender used in the transaction and are they applied? • Are there complementary rules to be used and are they applied? (e.g. emergency) • Is the tender opportunity properly published? • Is there time wasted during tendering? • Are information technology resources (e-procurement) used to reduce costs when appropriate? • Is the tender properly specified, include evaluation criteria, is based on knowledge about the market (not over-prescriptive) and receptive to innovation? • Are prequalification criteria of suppliers properly defined and applied (e.g. size of company, track record and experience of the company, capacity to take on risk from the contracting body, price, environmental criteria)? • Are tenders not complying with the requirements specified rejected? • Is evaluation of tenders objective and transparent, based solely on published criteria? • Is the contract awarded to the tender who best meets the relevant criteria? <p>Post-tendering phase:</p> <ul style="list-style-type: none"> • Is the chosen supplier a key supplier and part of the procuring entity's database? • Does the contract meet criteria of completeness and consistency? • Are unsuccessful companies informed why their tender failed? • Does the contract include performance-based clauses? • In case of time- and material- and labour-hour contracts, does the surveillance give an adequate and reasonable assurance that the contractor is using efficient methods and effective cost controls? • Are review meetings organised during contract execution meeting demand? • Are requirements on the procuring entity met timely according to the contract, e.g. read draft reports from consultants and submit comments on time? • Is the contract flexible enough to accommodate reasonable variations in the requirements of the procuring entity? • Are significant changes in circumstances or requirements appropriately dealt with as contract changes, rather than accommodates as contract variations? • Are contract changes after awarding properly justified and timely executed and managed? • Are there mechanisms in place to inspect and approve delivered goods and services, ensuring delivery on time according to the required specification? • Are internal control mechanisms performed before payments? • Are the established budget and timetable (milestones) respected? • Has late payment interests to be rewarded and could they have been avoided? • Are there any complaints of the suppliers and/or end-users? • Are disputes with suppliers managed and resolved appropriately and timely? • Are conditions for the warranty followed?
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<p>18. Are there appropriate controls in place to ensure that the procurement project complies with relevant legislation?</p>	<ul style="list-style-type: none">• Is there a legal authority for the procurement project?• Are existing suppliers with a special right to be consulted being contacted?• Does the procurement project comply with national regulations and rules?• Do appropriate controls ensure that procurement decisions are not biased by conflicts of interest or corruption?
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Appendix 2 Performance audits of public procurement - AFROSAI-E region

In this appendix a brief summary of audits on public procurement carried out in the AFROSAI-E region are presented. The reports available at the AFROSAI-E Secretariat at the time for issuing the guideline have been included.

Performance audit report on road works. *The Ministry of Infrastructure Development and TANROADS' Performance in Controlling Road Construction Time, Cost and Quality, National Audit Office of Tanzania, 2010.*

See description in text box in Section 2.7.

Performance audit of the Public Procurement and Asset Disposal Board (PPADB) for the Financial Year 2006/2007. Office of the Auditor General of Botswana. 2008.

See description in Section 3.8.

Performance audit of the infrastructure delivery process at the provincial departments of Education and Health, Auditor-General of South Africa, 2011.

The performance audit was conducted at the provincial departments of Education and Health and their implementing agents, with audit reports submitted to Parliament as well as well as to the legislature in each province. The audit focused on infrastructure projects that were completed recently or that were scheduled to have already been completed. The infrastructure budgets for these departments accumulated to more than Rand 32 billion for the 2008-09 (R9,3 billion), 2009-10 (R10,7 billion) and 2010-11 (R12,7 billion) financial years.

Two hundred and forty seven (247) projects amounting to Rand 6,635 billion were selected for detail auditing. Although the number of projects selected at health and education were similar, the average value of hospitals and clinics far exceeded the average project value of the construction of schools and classrooms. Most of the projects audited were running over a number of financial years. In the four phases addressed in the audit, between 42 and 87 projects could not be assessed due to lack of supporting documentation.

The audit focused on the phases of:

- Demand management;
- Acquisition management;
- Project management; and
- Commission and utilisation.

The main findings of the audit were that:

- The process of needs determination and planning was found not to be effective giving rise to unused and underutilisation of completed infrastructure.
- A robust procurement system was not consistently applied thus compromising the transparency, accountability and economy with which decisions/commitments were made; and
- Project management was not effective resulting in projects that were not completed on time and at the required level of quality and cost.

The underlying causes for the identified deficiencies as set out above, includes poor planning and co-ordination by and between departments, as well as a lack of skills and capacity in government to oversee complex infrastructure projects.

The audit recommended a national policy dealing comprehensively with the infrastructure delivery process and guidelines to be developed and implemented. National norms and standards for infrastructure should also be developed and incorporated into standard and uniform designs to reduce professional fees. On the provincial level the recommendations among other things covered strengthened leadership during all phases of the infrastructure delivery process and training of staff.

Already before reporting, management committed to immediate and drastic action to address the deficiencies in the report, including investigations and constant follow-up on corrective action. It is also reported that the knowledge and insights obtained during the completion of the performance audit have been integrated into the annual regularity audits. In addition to following up on corrective actions taken by auditees, future regularity audit coverage will include auditing the acquisition (supply chain

Value for money audit on procurement system in local governments – A case study of 7 districts, Office of the Auditor-General of Uganda, 2011.

According to a survey by the Public procurement and Disposal of Public Assets Authority, over 60% of the budgets of local governments are spent on goods and services. However, the procurement of goods and services is reported to be a very high risk area characterised by irregular sourcing of suppliers due to influence peddling, massive complaints of shoddy works, substandard quality of goods and services, inflated cost of inputs and poor management of contract processes, among others. This motivated the Auditor-General to carry out a performance audit on the procurement systems in local government.

The audit was carried out in seven districts and focused on the performance of the procurement system over the three financial years 2007/2008 - 2009/2010. The audit sampled 109 procurements worth Shs11.4 Billion for the study.

For the sampled projects it was found that:

- 49% of the value of procurements were made without needs assessments;
- 24% of the value of procurement were made outside the procurement plans;
- 29% of the value of the procurement were entered into without confirmation of funds;
- The competition was limited as the procurement entities on average just evaluated 1,23 bidders per procurement.

Other findings were related to recordkeeping and monitoring the execution of contracts. There was also delays in constituting district contracts committees (6 – 24 months), resulting in that contracts were not awarded in time, funds remained idle and services were not delivered to the people.

Some consequences of observed problems were that projects remained uncompleted, not always met the needs and that the quality of goods not always met specification.

The audit recommended improvement of needs analysis, procurement planning, the procurement process, monitoring and supervision as well as to fill vacant posts in the procurement entities and encourage competition between suppliers by complying with the procurement regulations.

Financial and value for money audit of building and construction under justice, law and order sector, Office of the Auditor General of Uganda, 2011.

The Office of the Auditor General contracted two consultancy companies to undertake a financial and value for money audit of buildings under the Justice Law and Order Sector (JLOS) constructed during the period 2005/06 to 2007/08. The purpose of the audit was to provide an independent opinion as to whether the funds and other resources that had been applied to construct buildings for various JLOS Institutions were:

- Inadequate, adequate or excessive;
- Well utilised on planned activities; and
- Have provided the intended outputs and thus achieved value for money.

After review of work plans and consultation the Consultancy team identified 80 projects in eight institutions relevant for the assignment, and selected 56 of them for the audit (corresponding to 68% of the project value). The audit included a thorough desk document review and physical inspections.

The audit findings included that there in general was compliance with planning and procurement guidelines, but different shortcomings were identified with a varying frequency, for example shortcomings related to:

- Participation of beneficiary departments in identification and prioritization of development issues;
- Weaknesses in cost control and cost control documentation;
- No systematic mechanisms for the supervision and monitoring of project implementation;
- Time overruns (some projects even taking more than double the contract period) reflecting inadequate initial planning;
- Delays in payments to contractors due to bureaucracy and poor documentation, which sometimes could have affected the timely delivery of services by limiting the contractors' cash flow and causing works to stall; and
- Inadequate provision for the operation and maintenance of completed projects
- Very poor standard of work, in a few cases.

The audit recommended measures for improved planning, implementation of contracts and financial management to address identified shortcomings.

Value for money audit report on procurement and storage of drugs by National Medical Stores (NMS). Office of the Auditor-General of Uganda, 2010.

The value for money audit of the National Medical Stores (NMS) had the overall objective to assess the operations of NMS in the areas of procurement and storage of drugs. The audit was initiated after it was reported that people were dying of treatable diseases such as malaria because of lack of medicines in the public health facilities. At the same time drugs worth billions of Uganda shillings remain expired in the national medical stores, stores of referral hospitals, district health offices and health units. NMS's mandate is to ensure continuous distribution of pharmaceutical products in a financially viable and sustainable manner to meet the needs of public health services in the country.

After a pre-study it was decided to carry out a main study covering 10 districts, sampled from all four regions in Uganda. Stratified random sampling method was used to select the districts with the highest, medium and smallest number of health units. The study covered data for four years. The main study scrutinised the following audit questions.

- To what extent are customer's drug needs and requirements met in NMS's procurement and distribution systems?
- To what extent are drugs procured according to the procurement plan of NMS?
- What efforts have been made to ensure that drugs do not expire in NMS' premises?
- To what extent are procedures for the retrieval and destruction of expired drugs followed by NMS and health units?

A main finding of the audit was that NMS does not collect appropriate data to procure the right type and quantities of drugs to meet customer requirements. NMS in a number of cases did not supply drugs to public health units' needs according to their orders and cannot fulfil its obligation to supply drugs to all public health units. Furthermore, NMS procured drugs without taking into regard buffer stock levels. As a consequence, NMS stocked drugs in excess of the one year's requirement while others are under stocked. As a result NMS also has huge stocks of expired drugs within their stores.

The audit recommended that management of NMS put in place appropriate systems and develop staff capacity for collection, processing and use of appropriate data for decision making in conducting the needs assessments. The auditors also recommended NMS to consider opening regional stores where health units could themselves collect their individual orders.

Value for money audit report on procurement and distribution of relief food items in the Office of the Prime Minister - Department of Disaster Preparedness and Refugees in Uganda. Office of the Auditor-General of Uganda, 2010.

Between the years 2005 and 2009 several disasters like floods, landslide, war and famine hit various parts of Uganda. Concern was raised in the public debate about the untimely and insufficient delivery of food. The OAG in Uganda therefore decided to conduct an audit on the procurement and distribution of relief food items by the Office of Prime Minister-Department of Disaster Management and Refugees (OPM-DDMR).

The audit found that the disaster time response to some districts affected by disasters far exceeded the international standard of 48 hours. The delays were attributed to OPM-DDMR's inability to maintain an adequate stock of emergency food relief items at their stores. Lack of reliable data to forecast the occurrence and effect of disasters led to inappropriate decisions on procurement and distribution of food relief items. The audit also found that disaster reports from the districts did not show information on key issues such as number of persons affected, damage suffered or the financial and other resources required. The centralised procurement and storage of emergency food relief items in the capital Kampala also contributed to the delays in the delivering of the food relief items to the disaster affected areas in the regions. The audit concluded that the inability by OPM to offer immediate response after the occurrence of a disaster led to starvation and deterioration in the living conditions of the victims.

The audit recommended:

- OPM-DDMR to maintain an adequate stock of emergency food relief items to enable the department to respond to disasters promptly;
- OPM to increase the number of staff in DDMR and improve the management;
- OPM to consider procuring food relief items from the suppliers nearest to a disaster affected area in order to reduce the delivery time; and.
- Better coordination from OPM with the various humanitarian agencies involved in relief work and procurement of food disaster items to the disaster areas.

Payment of suppliers, Office of the Auditor-General of Lesotho, 2008.

It is the policy of the government of Lesotho to empower local businesses by acquiring goods and services from the local suppliers. There has been an outcry from the suppliers that government ministries and departments delay payment to suppliers, complaining that it took about three months or more for ministries to pay for provided goods and services.

In a pre-study it was observed that delayed payments made some suppliers to increase prices for government purchase orders. In catering services, for example, a lunch pack costs M50 per person in cash while on government order is M70. In one of the hotels contacted during the audit, accommodation was M200 per person per night if accounts are settled in cash and M300 on government orders. Other suppliers have stopped accepting government purchase orders and demanded cash payment.

The purpose of the main study was to establish the time taken by each actor in the payment process and the factors that hinder timely payment of suppliers; as well as proposing measures to facilitate efficient payment of suppliers.

As there were no standard for how fast each actor should process payments, the audit team agreed with the financial controllers of selected ministries and departments that the payment process should be completed within ten working days (two weeks - one week at the ministry or departmental level and another week at Treasury Department). It was established during the audit that ministries or departments took much more time than the two weeks to process supplier's payments before they could be passed to treasury. It could, for example, take 73 days (Ministry of Tourism) or 160 days (Agric Planning).

The following causes for late payments of suppliers were identified:

- Ministries and departments did not inform suppliers when documents necessary for payment was missing, but waited for the supplier to make contact;
- Some ministries and departments submitted payment orders to the Treasury even when necessary documents according to the distributed checklist were missing; and
- Ministries and departments did not inform suppliers that cheques were ready or distributed them to suppliers with the required five days.

It was concluded in the audit that delays in the processing of payments of suppliers are more prevalent at ministerial or departmental level than at the Treasury Department.

The audit recommended the Accountant-general to establish standard criteria for timely payment of suppliers. Such criteria could also be used in performance assessment of stores and accounting personnel. The audit further recommended a checklist for necessary documents to be attached when ordering goods, better use of the checklist before submission of payment orders to Treasury and timely delivery of cheques to suppliers.

Performance audit of entities that are connected with government employees and doing business with national or provincial departments, *the Auditor-General of South Africa, 2008.*

Based on the Auditor-General's previous reporting to Parliament, a transversal performance audit was conducted on government employee-related entities doing business with national and provincial departments. Separate reports were produced for doing business with national departments and doing business with the departments in each province.

Computer assisted audit techniques were used extensively to compile exception reports from different databases. And the exceptions were followed up by for following up by requesting the relevant supporting documentation from the departments for audit.

Regarding business with national departments the audit revealed that

- A total of 46 employees were directors or members of companies doing business with national departments without approval to perform other remunerative work;
- Employees were directors or members of companies doing business with national departments at a value of Rand 30,6 Million without having declared their interest to the Public Service Commission;
- Tenderers made misrepresentations by not declaring in the tender documentation that employees are related to the companies; and
- Managers in national departments did not adhere to the procedures and regulations in awarding tenders and contracts to employee-related entities.

The extent of business done by employee- or spouse-related companies at provincial level for the period 1 April 2005 to 31 January 2007 amounted to approximately Rand 540,2 million. In the majority of cases such employees did not have approval to perform other remunerative work. There were inconsistencies between departments in rectifying the problems when discovered. The following findings were made on the provincial level, which could be an indication of preferential treatment of such employee-related entities or of fraudulent activities in the awarding of tenders or contracts. Provincial departments:

- Did not always obtain three quotations when required
- Did not always apply the procurement policy when evaluating quotations
- In certain instances, did not invite competitive bids when required, and had awarded the contracts to employee-related entities.
- Did not always score bids correctly (the evaluation committees) and as a result the bids were incorrectly awarded to employee-related entities; and
- Awarded contracts to employee-related entities that had not scored the highest points during the evaluation process, without providing justifiable grounds for doing so.

Already before reporting to Parliament, departments and the Accountant-General had started to take action to address the problems.

The procurement cycle of school materials, *Office of the Auditor-General of Namibia, 2007.*

The Office of Auditor-General (OAG) in Namibia audited the procurement cycle of school materials and found that schools received their annually ordered materials up to three months after the new school year had started. The reasons for the delayed deliveries were found in the ordering process. Schools submit their orders as late as in August because they

receive the order forms and allocated funds from the regional offices in June, just before the schools close for a month. The approval of orders for purchase from the government store takes as long as seven to eight weeks since the orders from the schools are manually transferred or copied onto the form “Orders for purchase from government store”. The audit also revealed that there was no penalty clause in the contract if the suppliers did not meet the three months delivery period as stipulated in the contract.

The audit concluded that the regional offices do not have a consistent timetable for annual ordering of school materials. The delayed delivery of school materials and text books hampers the education in the schools.

The audit recommended that:

- The regional offices should implement and enforce a consistent timetable which enables all schools to have school materials delivered before the schools start in January;
- Regional offices should provide schools with catalogues with order forms in April each year, to allow schools to start ordering earlier in a given year;
- The principals at the schools should do the needs analysis and calculate the quantities of schoolbooks and school materials they have on hand prior to the information on funds from the regional offices in order to cut on the duration of the ordering process;
- The procurement section at the government store should develop prescribed order forms for schools to do away the time-consuming manual transfer of orders completed by schools; and.
- The Ministry of Education should implement and enforce a penalty clause in the procurement contract payable by all suppliers not adhering to the agreed delivery time.

Performance audit of the Auditor-General on procurement of drugs and other items in the Ministry of Health. Audit Service Ghana, 2006.

In an audit from 2002 the Auditor-General in Ghana highlighted irregularities in the procurement in a number of the Ministry of Health’s (MoH) budget management centres (BMCs) such as overpayments, goods paid for but not delivered and circumventing of laid down rules. In 2003 a new Public Procurement Act was passed with the aim to reduce waste in public procurement. The Auditor-General of Ghana decided to do a follow up on the 2002 audit and to investigate how the new act had influenced MoH in its procurement.

The new audit showed that basic systems were in place in MoH and BMC for achieving efficiency in procurement but these needed to be properly developed to achieve an appreciable level of effectiveness. But the audit also concluded that:

- BMCs often bought medicines from the local market since the medicines were out of stock at the central medicine store (CMS);
- The procurement information system and management is weak;
- Very little is done to ensure timely delivery of commodities and therefore it is a potential achieving reduction in cost and increase speed of delivery;
- There is no system in place for measuring procurement performance and no systematic training programme for procurement officers; and
- Little attention is paid to develop strategies for implementing annual plans.

The audit presented the following recommendations.

- MoH and BMC to improve their management information system, in order to make it possible for BMCs to provide basic information on procurement; this will in turn facilitate the setting, achievement and monitoring of savings over time within MoH.
- MoH to establish local area networks for BMCs to enhance work efficiency and communication within the organisation;
- The BMCs to develop a database of approved suppliers, proper vetting of new suppliers and a formal system for monitoring the performance of supplies;
- MoH to develop a system that measures the performance of BMCs against objectives and improve its training programmes for procurement officers;
- BMCs to inspect donated drugs to ensure that they conform to medicines on the essential drugs list and their expiry dates are within acceptable limits; and
- CMS to restructure to be able to stock medicines at all times and MoH to continue to rehabilitate the medical stores to ensure properly stored medicines.

Lack of transport (police vehicles), *Office of the Auditor-General of Namibia, 2003.*

This report scrutinised the problem of lack of transport within the Department of Police in Namibia. The mission of the Department of Police is to ensure the safety and security of all persons in Namibia. However, without sufficient transport it is not possible.

The audit revealed discrepancies in the process of purchasing, allocation and maintenance of police vehicles contributing to the unavailability of transport within the department.

One of the major findings relating to procurement was that the regional needs were not being properly addressed by the head office. The head office was purchasing vehicles without adequate consultation with regional commanders who have a clear knowledge of the travelling conditions in their regions of operations. This lack of adequate consultation and involvement in the needs analysis resulted in the head office buying vehicles that were not suitable for the relevant region's needs. This in turn led to a lack of transport within the Department of Police. Another reason for the shortage of vehicles was poor maintenance. The lack of transport led to a need of hiring vehicles from the government garage. This caused an increased departmental expenditure.

The audit also found that it was no standard for the allocation of the procured police vehicles to regions and stations. Vehicles were being allocated according to resources available and not always according to regional requests and needs. The auditors also noted that the department's manual, which is the regulatory instrument for the acquisition and management of transport facilities, was outdated and not fully implemented resulting in no effective acquisition and management of the transport facilities.

Based on the findings, the auditors concluded that transport facilities have a major impact on the effectiveness of the Department of Police in rendering their services to the public. Without suitable vehicles the police force will not operate effectively.

The recommendations regarding procurement were mainly:

- The head office should involve the regional commanders in the needs analysis when purchasing vehicles for the police force. A more comprehensive needs analysis would also serve as a better tool for proper and equal allocation of vehicles to regions.
- The Department of Police should revise, update and implement their manual to guide the management regarding transport facilities.