

PROCUREMENT AUDIT

MANUAL 2025

VOLUME-I

FINANCE DEPARTMENT

GOVERNMENT OF UTTARAKHAND.

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Preface

This Procurement Audit Manual has been prepared to provide a guideline to audit staff and officials of Directorate of Audit (DoA), Government of Uttarakhand (GoUK) for conducting audits in various departments of Uttarakhand. The purpose of this manual is to provide guidance to Directorate of Audit (DoA), and other stakeholders about the professional standards, principles, and procedures that are to be adhered to when conducting performance audits. The manual would be applicable to all the departments in the state of Uttarakhand. This manual is aligned with the audit principles, standards and guidance issued by the International Organization of Supreme Audit Institutions (INTOSAI).

The manual aims to provide guidelines on the entire audit life cycle i.e., from audit planning to audit monitoring, follow-up, and compliance. This manual also covers standardized formats and illustrative audit checklists that would facilitate execution of audit assignments.

This manual has been divided into two volumes, Volume-I of the manual focuses entire audit life cycle viz. audit planning, audit execution, audit reporting, audit follow up & compliance. Volume-II of the manual provides audit checklists and forms & formats.

This manual is expected to enhance the professional capacity of the officials of the Finance Department, Directorate of Audit (DoA) and Audit Cell in achieving the following objective and goals.

- follow-up, and quality control assessment.
- Enhance the quality and effectiveness of Audit functions by paving the way to put procedures and processes that confirm with Uttarakhand Audit Act, 2012, Professional Standards and best practices.

I would also like to express our gratitude to Shri Amit Singh Negi (Former Secretary, Finance & Project Director), Shri Dilip Jawalkar, IAS (Secretary Finance), Ms. Sowjanya-IAS (Former Secretary, Finance), Shri S. Murugesan-IAS (Former Director, Audit), Shri Surendra Narayan Pande-IAS (Former Secretary, Finance & Director Audit), Dr. V. Shanmugam- IAS (Former Director, Audit), Dr. Ahmed Iqbal-IAS (Project Director), Shri Khajan Chandra Pandey (Joint Secretary Finance Audit Cell), Shri Vipin Bihari Lal (Former Deputy Director Audit), Shri Sobhan Singh Nagnyal (Former Deputy Director, Audit), Shri Raghuraj Singh (Deputy Director, Audit), Shri Rahul Kumar Jha (Audit Officer, Finance Audit Cell) Shri Mahip Kumar Singh (Asst. Director, Audit) consultants and all other Officers of the Principal Accountant General (Audit), Uttarakhand, Directorate of Audit who contributed extensively in the development of this Performance Audit manual. The comments and suggestions provided by the World Bank Team have been pivotal in improving the quality and practicality of this manual.

I would be appreciative of suggestions for further improvements, if any, and to bring to our notice any error, inaccuracy, or omission to be incorporated in the next edition.

Place: Dehradun

Anand Bardhan-IAS
Additional Chief Secretary, Finance
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Definition

Administrative approval: For every procurement of Work, Goods and Services it is necessary to obtain in the first instance the concurrence of competent authority of the administrative department. Formal acceptance of the proposal by that authority is termed “Administrative approval” for the Work/Goods/Services and it is the duty of officers of the department to obtain the requisite approval to it.

Advance Payment: Means a payment made to a contractor/supplier before the Work/Supply is not completed.

Appropriation: An appropriation or re-appropriation represents the allotment of a sum of money to meet expenditure on a specific object. It can be authorized within the grants of year at any time before but not after the expiry of the year through an Appropriation Bill presented in the legislative assembly of Uttarakhand.

Bid (including the term ‘tender ‘offer’, ‘quotation’ or ‘proposal’ in certain contexts): An offer to supply goods, services or execution of works made in accordance with the terms and conditions set out in a document inviting such offers.

Bidder (including the term ‘tenderer’, ‘consultant’ or ‘service provider’ in certain contexts): any eligible person or firm or company, including a consortium (that is an association of several persons, or firms or companies), participating in a procurement process with a Procuring Entity.

Standard Bidding documents (including the term tender, enquiry documents or ‘Request for Proposal Documents’ – RFP documents in certain context): A document issued by the procuring entity, including any amendment thereto, that sets out the terms and conditions of the given procurement and includes the invitation to bid. A Standard Bidding Document is the standardized template to be used for preparing Bidding Documents after making suitable changes for specific procurement in certain sections.

Bidder registration document: A document issued by a procuring entity, including any amendment thereto, that sets out the terms and conditions of registration proceedings and includes the invitation to register.

Bid security (including the term Earnest Money Deposit (EMD), in certain contexts): A security from a bidder securing obligations resulting from a prospective contract award with the intention to avoid: the withdrawal or modification of an offer within the validity of the bid, after the deadline for submission of such documents; failure to sign the contract or failure to provide the required security for the performance

of the contract after an offer has been accepted; or failure to comply with any other condition precedent to signing the contract specified in the solicitation documents.

Central Purchase Organization: Departmental procurement organization, as declared by the State or Central Government.

Competent Authority: The term “Competent Authority” means the Government or any other authority to whom the relevant power may be delegated by Government.

Consultancy services: A one-off (that is, not repetitive and not routine) services, involving project specific intellectual and procedural processes using established technologies and methodologies but the outcomes – which are primarily of non-physical nature – may not be standardized and would vary from one consultant to another. It may include small works or supply of goods which are incidental or consequential to such services.

Contract: The term contract, as used in volume VI of FHB, means any kind of undertaking written or verbal, express or implied, by a person, not being a government servant, or by a syndicate, or firm, for the construction, maintenance, or repairs of one or more works; for the supply of materials or for the performance of any service in connection with the execution of works or the supply of materials

Contractor: The term contractor means a person, syndicate or firm that has made such an undertaking, but often its use is restricted to contractors for the execution of works or for services in connection therewith.

Deposit Work: The term is applied to the works of construction or repairs the cost of which is not met out of government funds but out of funds from non-government sources which may either be deposited in cash or otherwise placed at the disposal of divisional officer

Detailed Estimate: Complete and comprehensive estimate of a work, based on the rates given in the SOR for those items covered by it and on market rates for the remaining items, supported by detailed drawings and specifications.

Deviation in Quantities: Variation in quantities of items of the contract as given in the schedule of quantities and executed.

Divisional Officer: This term is used for an executive officer of the department who oversees the division and is usually of the rank of executive engineer.

Engineer-in-Charge: The Officer or his representative entering into the agreement with the contractor

Expenditure sanction: Expenditure sanction means the concurrence of the government to the expenditure proposed, where applicable

e-Procurement: The use of information and communication technology (specially the internet) by the procuring entity in conducting its procurement processes with bidders for the acquisition of goods, works and services with the aim of open, non-discriminatory, and efficient procurement through transparent procedures.

Final payment: Means the last payment on a running account made to a contractor on the completion or determination of his contract and in full settlement of the account.

Goods: All articles, products, materials, commodities, livestock, furniture, fixtures, raw materials, spares, equipment, machinery, industrial plant, stationary etc. excludes books, publications, periodicals etc. for a library.

Head of Department: Such office bearer appointed by the State Government, who have been declared as Head of the Department under the financial rules of the State.

Head of Office: The senior most Gazetted officer in an office or establishment, declared as such by the Government or by the Head of the Office as per financial rules.

Issue rate: This term denotes the cost per unit fixed in respect of an article borne on the stocks of the department at a valuation, for the purpose of calculating the amount creditable to the stocks account by charge to the account or service concerned, when any quantity of that article is issued from stock.

Indenter (or the term ‘User (Department)’ in certain contexts): The entity and its officials initiating a procurement indent, that is, a request to the procuring entity to procure goods, works or services specified therein.

Inventory: Any material, component or product that is held for use later.

Item Rate Tender: Tenders in which the contractors are required to quote rates for individual items of work as given in the schedule of quantities.

Notice inviting tenders (including the term ‘Invitation to bid’ or ‘request for proposals’ in certain contexts): A document and any amendment thereto published or notified by the procuring entity, which informs the potential bidders that it intends to procure goods, services and/or works.

Management refers to Head of Office (HoO)/ Head of Department (HoD), wherever applicable.

Measurement Book: Payments to contracts and suppliers for all works (susceptible for measurements) and for all supplies are made based on measurements recorded in the predefined format which is referred as measurement books.

Pre-qualification (bidding) procedure: The procedure set out to identify, prior to inviting bids, the bidders that are qualified to participate in the procurement.

Pre-qualification document: The document including any amendment thereto issued by a procuring Entity, which sets out the terms and conditions of the pre-qualification bidding and includes the invitation to pre-qualify.

Procurement or public procurement (or ‘Purchase’, or ‘Government Procurement/ Purchase’ in certain context): Acquisition by way of purchase, lease, license or otherwise, either using public funds or any other source of funds (e.g. grant, loans, gifts, private investment etc.) of goods, works or services or any combination thereof, including award of Public Private Partnership projects, by a Procuring Entity, whether directly or through an agency with which a contract for procurement services is entered into, but does not include any acquisition of goods, works or services without consideration, and the term “procure” or “procured” shall be construed accordingly.

Procurement contract (including the terms ‘Purchase Order’ or ‘Supply Order’ or ‘Withdrawal Order’ or ‘Work Order’ or ‘Consultancy Contract’ or ‘Contract for Services’ under certain contexts): A formal legal agreement in writing relating to the subject matter of procurement, entered into between the procuring entity and the supplier, service provider or contractor on mutually acceptable terms and conditions and which are in compliance with all the relevant provisions of the laws of the country. The term “contract” will also include “rate contract” and “framework contract.”

Procuring authority: The officer who finally approves as well as those officials and committee members who submit the notes/reports for the approval for any decision.

Prospective bidder: Anyone likely or desirous to be a bidder.

Public Works Organization: The organization, authorized to carry out construction works.

Rate of cost and inclusive rate of cost: Rate of cost means generally the total cost of a work or supply divided by its quantity. In the accounts it represents the recorded cost per unit, as arrived at by dividing up to-date final charge on a sub-head by the up-to-date progress thereof.

Registering authority: An authority which registers bidders for different categories of procurement.

Registered Supplier: Any supplier who is on a list of registered suppliers of the procuring entity or a Central Purchase Organization.

Reverse auction (or the term ‘Electronic reverse auction’ in certain contexts): An online real-time purchasing technique utilized by the procuring entity to select the successful bid, which involves presentation by bidders of successively more favorable bids during a scheduled period and automatic evaluation of bids.

Running Bill account: Is a term applied to the account with a contractor when payment for work or supplies is made to him at convenient intervals, subject to final settlement of the account on the completion or determination of his contract.

Secured Advance: Is a term applied specifically to an advance made, on the security of materials brought to site of work, to a contractor whose contract is for the completed item of work.

Service: Includes professional services, technical services, management services, maintenance services, consultancy services.

Specialized Works: Specialized works /items/ jobs are those works that require expertise/specialized skill and are executed after pre-qualification of agencies.

Sub- Divisional Officer: This designation is applied primarily to the official, whether a gazetted government officer or not, who holds the charge of a recognized sub-division in subordination to a divisional officer.

Sub-work: In the case of a large work consisting of several buildings or smaller works, or groups thereof, the term sub-work is often applied to a district unit of the same if that unit is sufficiently large or important to be kept distinct for the purpose of accounts. For example, the outer wall, the solitary cells, the cookhouses, the jailor’s quarters, etc. In the case of a large central jail. In the case of irrigation, navigation, embankment, drainage and water storage projects, the headwork ‘s, mainline, each branch of a canal, each group of distributaries relating to each branch separately, the drainage and protective works, the water course scheme, and special tools and plant, all forms separate sub-works.

Subject matter of procurement: Any item of procurement whether in the form of goods, services or works or a combination thereof.

Technical Sanction: Order of Competent Authority sanctioning a properly detailed estimate of the cost of a work of construction or repair proposed to be carried out based on detailed design and estimates.

Works: The term Works, when by itself, is used in a comprehensive sense and applies not only to works of construction or repair but also to other individual objects of expenditure connected with the supply, repair, and carriage of tools and plant, the supply or manufacture of other stores, or the operations of workshop.

Urgent Works: Urgent works are works which requires fast start/completion within compressed schedule and are to be taken up on topmost priority at the instructions of competent authority or on specific request of the user department.

Year is the financial year beginning on the 1st of April and ending on the 31st of March of the following year.

Abbreviations

AA	Administrative Approval	LCS	Least Cost Selection
ADB	Asian Development Bank	LD	Liquidated Damages
AG	Auditor General	LOA	Letter of Award
BG	Bank Guarantee	LOI	Letter of Intent
BOQ	Bills of Quantity	LTE	Limited Tender Enquiry
CEC	Consultancy Evaluation Committee	MB	Measurement Book
CIPP	Code of integrity for Public Procurement	NGO	Non-Government Organization
CVC	Central Vigilance Commission	NIT	Notice Inviting Tender
DD	Deputy Director	OAMS	Online Audit Management System
DGS&D	Directorate General of Supplies and Disposals	ODA	Official development assistance
DoA	Directorate of Audit	OTE	Open Tender Enquiry
DOP	Delegation of Power	PG	Performance Guarantee
DPR	Detailed Project Report	PPP	Public Private Partnership
DSR	Delhi Schedule Rate	PPR	Preliminary project Report
EA	Expenditure Approval	PQB	Pre-Qualification Bidding
EMD	Ernest Money Deposit	PQC	Pre-qualification Criterion
EOI	Expression of Interest	PSU	Public Sector Undertaking
EPC	Engineering, Procurement and Construction	PWD	Public Works Department
FHB	Financial Handbook	QA	Quality Assurance
GeM	Government e-Marketplace	QCBS	Quality & Cost Based Selection
GO	Government Order	RA	Reverse Auction
GOI	Government of India	RBA	Risk Based Audit
GoUK	Government of Uttarakhand	RC	Rate Contract
GRN	Good Receipt Note	RFP	Request for Proposal
GST	Goods & Service Tax	RFQ	Request for Qualification
GTE	Global Tender Enquiry	SOR	Schedule of Rates
HMM	Half Margin Memo	SSI	Small Scale Industry
HOD	Head of Department	STE	Single Tender Enquiry/ Single Source Enquiry
INR	Indian Rupees	TA/TS	Technical Approval/Sanction
IPF	Investment Project Financing	TC	Tender Committee
IT	Information Technology	TCS	Tax Collected at Source
ITC	Information to consultants	TDS	Tax Deducted at Source
JBIC	Japan Bank for International Cooperation	TEC	Tender Evaluation Committee
JICA	Japan International Cooperation Agency	TOR	Terms of Reference
JV	Joint Venture	VfM	Value for Money

Structure of the Manual

Chapter	Heading	Brief Description
Chapter – 1	Introduction to Procurement Audit manual	About the Manual, objective, governing rules & documents, applicability of this manual and general provision of procurement.
Chapter – 2	Procurement process	Overview of procurement process for acquisition of goods, works and services.
Chapter – 3	Procurement under Externally Aided Projects/Programs	Overview of procurement under externally aided projects along with the list and source of key procurement related guidelines and policies followed by major funding agencies.
Chapter – 4	Risk Associated with various stages of procurement process	Illustrative List of risk associated with various stages of procurement process along with possible mitigation action.
Chapter – 5	CVC Guideline	Key Provision of CVC guideline for Procurement
Chapter – 6	Audit Process	Activities to be performed at each stage of audit life cycle for audit of procurement process i.e., Audit Planning, Audit Execution, Audit Reporting and Audit Follow-up and compliance. This chapter is supplementary to the audit process provided in Internal Audit Manual (Volume I - Part I) and shall be read in conjunction with provisions mentioned in Internal Audit Manual.
Volume II		
Chapter – 7	Annexures and Audit Checklists	Forming part of the chapters and expand upon the guidance provided in this manual and cover the audit execution checklists.

Table 1: Structure of the Manual

Chapter 1: Introduction to Procurement Audit Manual

1.1 About the Manual

1. The Directorate of Audit (DoA) is empowered for carrying out Audit of various department in government of Uttarakhand, audit as per the provision of Uttarakhand Audit Act, 2012. As an auditor, Directorate of Audit (DoA) also conducts audit of the procurement activities carried out by various government departments and ULBs and RLBs etc..
2. The manual contains guidelines given in Uttarakhand Procurement Rules, 2017 or as amended from time to time and explains important steps about the audit of procurement processes in government departments and ULBs and RLBs etc..
3. This manual aims to assist the auditors to review and analyses procurement procedures to identify areas which needs improvement, ensure compliance with internal controls, standards & legal requirement and reduce risk, fraud & wasteful expenditure through optimization of procurement process.
4. The manual provides information which would assist auditors in identifying various risks associated with procurement process along with checkpoints for examining the procurement processes of government department, and ULBs and RLBs etc..
5. This manual aims to bring a uniform and systematic risk-based approach in conducting audit of procurement activities through a clearly defined audit process.
6. This manual is supplementary to Internal Audit Manual, 2021 and shall be read in conjunction with the same. In case of any conflict between the two, the latter shall prevail.

1.2 Objective of Procurement Audit Manual

7. The main objective of this manual is to familiarize & strengthen the understanding of the auditors with respect to all the stages involved in a procurement process i.e., from requisition approval to award & execution of contract along with the governing rules and regulations. Procurement is one of the most essential function for any organization or department and is inherently considered a riskier process, therefore this manual aims to empower and assist the auditors to identify the risk involved in a procurement process for providing strengthening solutions and highlighting any deviation in adherence to the applicable rules. The Procurement audit manual is prepared to achieve the following objectives:

- a) Promote professionalism and competence of auditors in carrying out audit of procurement process.
- b) Ensure consistency in audit approaches and help to achieve high quality in procurement audits.
- c) Assist auditors to check whether laid down procedures/requirements are strictly complied with by the staff, and if not, the reasons for non-compliance.

1.3 Objective of Procurement Audit

8. The goal of the public procurement audit is to provide to all interested users with independent, objective, and reliable information and conclusions. The objective of the procurement audit is as under:

- a) Set out a basic framework within which professional judgement may be exercised on analyzing transaction carried out related to a procurement, Verifying achievement of Economy, Transparency and Fairness in implementation of a Procurement.
- b) Assess the adequacy of the management controls for detection and prevention of frauds.

The audit objectives may also be detailed according to the stages of the goal-oriented procurement process. Important issues to be audited at the several stages of the public procurement cycle include:

At the stage of substantiation of the procurement:

1. Provision of the procurement with the necessary resources in accordance with the plans
2. Degree in which experience gained in previous procurements has been considered in following procurement planning
3. Whether needs assessment performed to ensure that goods or services are acquired to address the need.
4. Whether requirements are linked to the budget.

At the stage of preparation of the procurement:

1. Correctness of the procurement procedures' choice
2. Compliance of the procurement procedures' implementation with applicable standards and objectives
3. If there is a certain classification of contracts, correctness of the contract type choice
4. Whether the specifications for a particular procurement been determined?

At the stage of implementation of the procurement:

1. Evaluation of the contract implementation management process; identification and management of implementation risks
2. Control of contract deliveries: compliance to the contract and to regulations; timeliness and quality, process of acceptance
3. Compliance, timeliness and/or efficiency of the payments' process
4. Evaluation of the procurement results

At the stage of the usage of the procurement results:

1. How the actual qualitative and quantitative characteristics of the product obtained because of the procurement correspond to the planned indicators and standards
2. Procurement outcomes: assessment on whether procurement results are used in accordance with the intended goals and on how the consumers are satisfied with them
3. Results of analysis and assessments on the procurement implementation, including measures to eliminate identified deviations

At the stage of completion of the use:

1. Organization and performance of the disposal procedure in terms of minimization of expenditure and impact on environment
2. Implementation of the possible reutilization of certain components of the product used
3. Results of analysis and assessment of the procurement implementation and experience gained and how it is used for the planning of forthcoming ones

Following additional points should also be considered while conducting audit of any public procurement:

- ▶ Whether the structure, organization, planning and monitoring of procurement processes management and internal control are efficient and effective and adequately address identified risks
- ▶ Whether the procurement and its resourcing were consistent with Procurement Plan
- ▶ Whether the procurement scope, size, quantity, variety, price, and amount were justified and reasonable towards needs and expected results
- ▶ Whether the procurement and the related transactions, processes and procedures complied with applicable laws, regulations, and statutory requirements
- ▶ Whether the terms of contracts were complied with, whether the payments made corresponded to products received and whether the works, goods or services provided met the expected standards
- ▶ Auditors are required to verify that procurement is carried out as per the rules and procedures laid down in the guiding documents.

1.4 Governing Rules and Documents

9. This manual is governed by various rules, guidelines and notification issued by Government of Uttarakhand from time to time with respect to procurement. The below mentioned is the list of rules and guidelines governing the matters related to procurement. The auditors involved in audit of procurement process should obtain good understanding of the provisions of the following documents:
- a) Financial Handbook Volume V, Part - 1.
 - b) Financial Handbook Volume VI.
 - c) Delegation of Power, Financial Handbook Volume I
 - d) Budget Manual, Govt. of Uttarakhand.
 - e) Standard Bidding Document 2014 and as amended from time to time
 - f) Provisions of GPW-9 (Currently applicable to works valuing below Rs. 1 Crore or as amended from time to time)
 - g) The Uttarakhand Procurement Rules, 2017 and any amendment from time to time.
 - h) GOI's General Financial Rules, 2017 as amended from time to time (For GeM procurement)
 - i) Orders issued from time to time by the Government /Department

1.5 Applicability of this Manual

10. This manual shall be read in conjunction with Internal Audit Manual and shall be referred to Finance Department, Directorate of Audit and any other official/ agencies appointed for carrying of Procurement Audit in the State.
11. This manual is prepared in accordance with the guidance provided under clause 8 (c) of notification no. 584/XXVII (6)/1466/Three/2021 dated December 06, 2021. The manual contains comprehensive instructions and minimum requirements for smooth operation of activities in relation to performance audit by Directorate of Audit (DoA).
12. Roles as defined under the Preamble and Chapter 2 (Internal Audit Institutional Arrangement) of Uttarakhand Internal Audit Manual 2021, Volume I will be applicable for the Procurement Audit Manual.

1.6 General Principles related to Procurement

13. The entire process of procurement is designed to achieve a right balance. The word ‘right’ is used in the sense of ‘optimal balance’. In every procurement process, the basic aim is to achieve the right balance between costs and requirements concerning the following five parameters called the Five Rs of Procurement.



Figure 1: Five Rs of Procurement

S. No.	Heading	Description
1.	Right Quality	► Procurement shall aim to buy the right quality which shall meet the specific needs of the procuring entity in line with the specification & requirement ► For procuring the right quality, the most vital pre-requisite is a well-defined technical specification ► It is essential to give due consideration to Value for Money (FM) while defining the technical specification
2.	Right Quantity	► There are extra costs and systemic overheads involved while procuring a requirement too frequently in small quantities or while buying large quantities for prolonged use. ► Therefore, procurement process shall aim to procure the right quantity (in appropriate size of contract) which balances extra costs associated with procuring larger or smaller quantities.

S. No.	Heading	Description
3.	Right Price	► Price should be just right and reflect the quality, quantity and other factors involved (should not be abnormally low for a facilities/works/services which could lead to a situation of non-performance or failure of contract). ► The concept of price can be refined further to consider not only the initial procurement price but other costs also, such as maintenance costs, operational costs, and disposal costs (life cycle costing)
4.	Right Time and Place	► Procurement of goods, works or services shall also aim to ensure compliance to time and place adequacy ► If any goods, works, or services is needed by an organization in three months' time, it will be costly to procure it too late or too early. ► Similarly, if the vendor delivers the goods, works, or services in another city, extra time and money would be involved in logistics.
5.	Right Source	► Source of procuring goods, works or services of any requirement must have the right financial capacity and technical capability to meet the organization's needs (demonstrated through satisfactory past performance of contracts of similar nature).

Table 2: Five Rs of Procurement

Some of the general principles related to procurement process are defined in below table¹:

Sr	Heading	Description
1.	Transparency Principle	► Procuring authorities are responsible and accountable to ensure transparency, fairness, equality, competition, and appeal rights. ► It involves simultaneous, symmetric, and unrestricted dissemination of information to all likely bidders, sufficient for them to know and understand the availability of bidding opportunities and actual means, processes and time-limits prescribed for completion of registration of bidders, bidding, evaluation, grievance redressal, award, and management of contracts. ► It implies that such officers must ensure that there is consistency (absence of subjectivity), predictability (absence of arbitrariness), clarity, openness (absence of secretiveness) and equal opportunities (absence of discrimination) in processes.

¹ Manual for Procurement of Goods, 2017, Ministry of Finance, Government of India

Sr	Heading	Description
2.	Professionalism Principle	► Procuring authorities have a responsibility and accountability to ensure professionalism, economy, efficiency, effectiveness, and integrity in the procurement process. They must avoid wasteful, dilatory, and improper practices violating the Code of integrity for Public Procurement (CIPP). They should, at the same time, ensure that the methodology adopted for procurement should not only be reasonable and appropriate for the cost and complexity but should also effectively achieve the planned objective of the procurement. Fundamental principles of public buying (for all procurements including procurement of works) ► Every authority delegated with the financial powers of procuring goods in public interest shall have the responsibility and accountability to bring efficiency, economy, and transparency in matters relating to public procurement and for fair and equitable treatment of suppliers and promotion of competition in public procurement. ► The procedure to be followed in making public procurement must conform to the following yardsticks: - (a) Objective, functional, generic, measurable and specify technical, qualitative and performance characteristics (b) Not indicate a requirement for trademark, trade name or brand. (c) The specifications in terms of quality, type etc., along with quantity of goods to be procured, should be clearly spelt out keeping in view the specific needs of the procuring organization. The specifications so worked out should meet the basic needs of the organization without including superfluous and non-essential features, which may result in unwarranted expenditure. (d) Where applicable, the technical specifications shall, to the extent practicable, be based on the technical regulations or recognized standards or building codes. (e) Care should also be taken to avoid purchasing quantities more than requirement to avoid inventory carrying costs. (f) Offers should be invited following a fair, transparent, and reasonable procedure

Sr	Heading	Description
		(g) The procuring authority should be satisfied that the selected offer adequately meets the requirement in all respects (h) The procuring authority should satisfy itself that the price of the selected offer is reasonable and consistent with the quality required (i) At each stage of procurement, the concerned procuring authority must place on record, in precise terms, the considerations which weighed with it while taking the procurement decision (j) A complete schedule of procurement cycle from date of issuing the tender to date of issuing the contract should be published when the tender is issued
3.	Broader Obligations Principle	► Over and above transparency and professionalism, the procuring authorities also have the responsibility and accountability to conduct public procurement in a manner to facilitate achievement of the broader objectives of the Government - to the extent these are specifically included in the 'Procurement Guidelines'
4.	Extended Legal Responsibilities Principle	► Procuring authorities must fulfil additional legal obligations in public procurement, over and above mere conformity to the mercantile laws.
5.	Public Accountability Principle	► The Procuring Entity shall maintain and retain audit trails, records and documents generated or received during its procurement proceedings, in chronological order. The files shall be stored in an identified place and retrievable for scrutiny whenever needed without wastage of time. The list of key documents is provided below: (a) documents pertaining to determination of need for procurement. (b) description of the subject matter of the procurement. (c) statement of justification for choice of a procurement method other than open competitive bidding. (d) documents relating to pre-qualification and registration of bidders, if applicable. (e) particulars of issue, receipt, opening of the bids and the participating bidders at each stage. (f) requests for clarifications and any reply thereof including the clarifications given during pre-bid conferences.

Sr	Heading	Description
		(g) bids evaluated, and documents relating to their evaluation. (h) contracts and contract amendments; and (i) complaint handling, correspondences with clients, consultants, banks etc.

Table 3: General principles related to procurement

Please refer to The Uttarakhand Procurement Rules, 2017 and as amended from time to time for fundamental principal of procurement.

1.7 Code of Integrity for Public Procurement (CIPP)

14. Procuring authorities as well as bidders, suppliers, contractors, and consultants should observe the highest standard of ethics and should not indulge in the following prohibited practices, either directly or indirectly, at any stage during the procurement process or during execution of resultant contracts:

- a) **“Corrupt practice”**: making offers, solicitation or acceptance of bribe, rewards or gifts or any material benefit, in exchange for an unfair advantage in the procurement process or to otherwise influence the procurement process or contract execution
- b) **“Fraudulent practice”**: any omission or misrepresentation that may mislead or attempt to mislead so that financial or other benefits may be obtained, or an obligation can be avoided. This includes making false declaration or providing false information for participation in a tender process or to secure a contract or in execution of the contract
- c) **“Anti-competitive practice”**: any collusion, bid rigging or anti-competitive arrangement, or any other practice coming under the purview of The Competition Act, 2002, between two or more bidders, with or without the knowledge of the Procuring Entity, that may impair the transparency, fairness, and the progress of the procurement process or to establish bid prices at artificial, non-competitive levels.
- d) **“Coercive practice”**: harming or threatening to harm, persons, or their property to influence their participation in the procurement process or affect the execution of a contract.
- e) **“Conflict of interest”**: participation by a bidding firm or any of its affiliates that are either involved in the consultancy contract to which this procurement is linked; or if they are part of

more than one bid in the procurement; or if the bidding firm or their personnel have relationships or financial or business transactions with any official of Procuring Entity who are directly or indirectly related to tender or execution process of contract; or improper use of information obtained by the (prospective) bidder from the Procuring Entity with an intent to gain unfair advantage in the procurement process or for personal gain; and

- f) **“Obstructive practice”**: materially impede the Procuring Entity’s investigation into allegations of one or more of the above-mentioned prohibited practices either by deliberately destroying, falsifying, altering; or by concealing of evidence material to the investigation; or by making false statements to investigators and/or by threatening, harassing or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation; or by impeding the Procuring Entity’s rights of audit or access to information;

1.8 Legal aspects governing Public Procurement²

- 15. A procurement contract besides being a commercial transaction is also a legal transaction. There are several commercial/mercantile laws that are applicable equally to the private sector and public procurement, such as the Indian Contract Act, Sales of Goods Act, Arbitration and Conciliation Act, etc. Therefore, audit parties are expected to have basic knowledge of these acts and rules related to the procurement contract.

² Manual for Procurement of Goods, 2017 & Manual for Procurement of Works, 2019, Ministry of Finance, Government of India

Chapter 2: Procurement Process

16. The procurement activities in the departments under GoUK may include acquisition of one or more of following:

- ▶ Procurement of Goods
- ▶ Procurement of Works
- ▶ Procurement of Services

17. The Uttarakhand Procurement Rules, 2017 and as amended from time to time provides general as well specific provisions regarding the procurement of goods, works and services. The broad steps for procurement process are same for procurement of the goods, works and services. However, this chapter provides detailed overview of the procurement process with specific rules mentioned in The Uttarakhand Procurement Rules, 2017 related to procurement of goods, works and services.

2.1 Procurement of Goods

The process for Procurement of goods is depicted below. The detailed process and key activities involved in procurement of goods in line with the relevant rules and procedures laid down in the Uttarakhand Procurement Rules, 2017 and as amended from time to time is provided in Annexure 1.

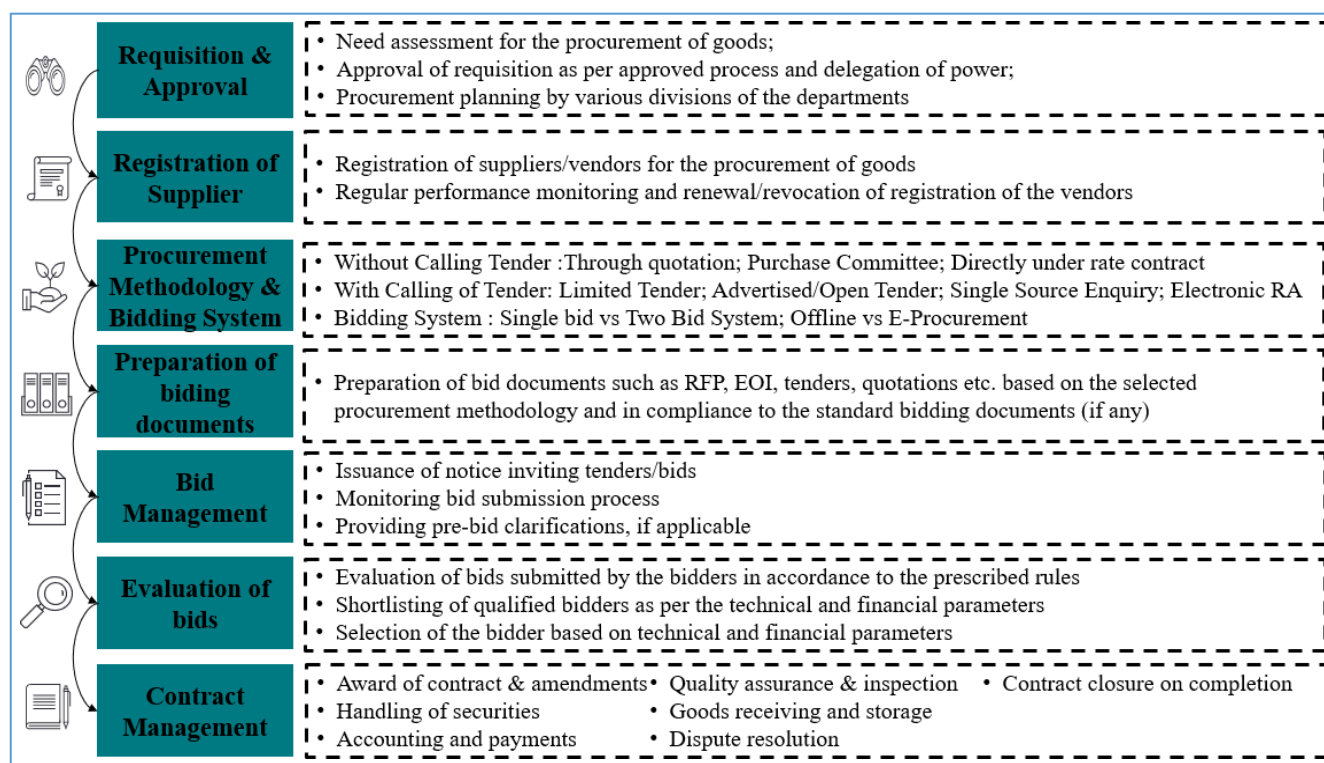


Figure 2: Procurement process for Goods

2.2 Procurement of Works

The process for Procurement of Works is depicted below. The detailed process and key activities involved in procurement of works in line with the relevant rules and procedures laid down in the Uttarakhand Procurement Rules, 2017 and as amended from time to time is provided in Annexure 1.

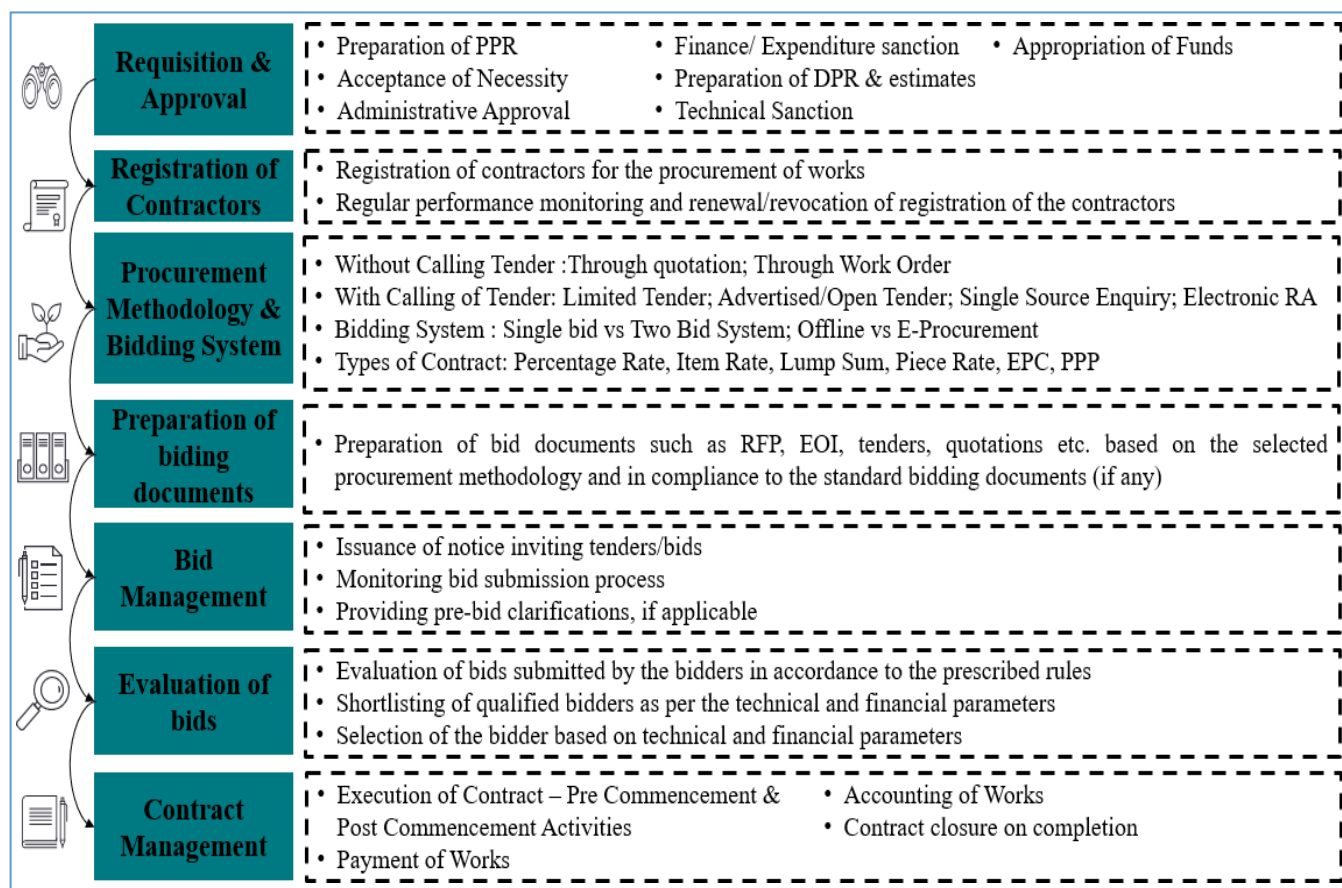


Figure 3: Procurement process for Works

2.3 Procurement of Services

The process for Procurement of Services is depicted below. The detailed process and key activities involved in procurement of services in line with the relevant rules and procedures laid down in the Uttarakhand Procurement Rules, 2017 and as amended from time to time is provided in **Annexure I**.

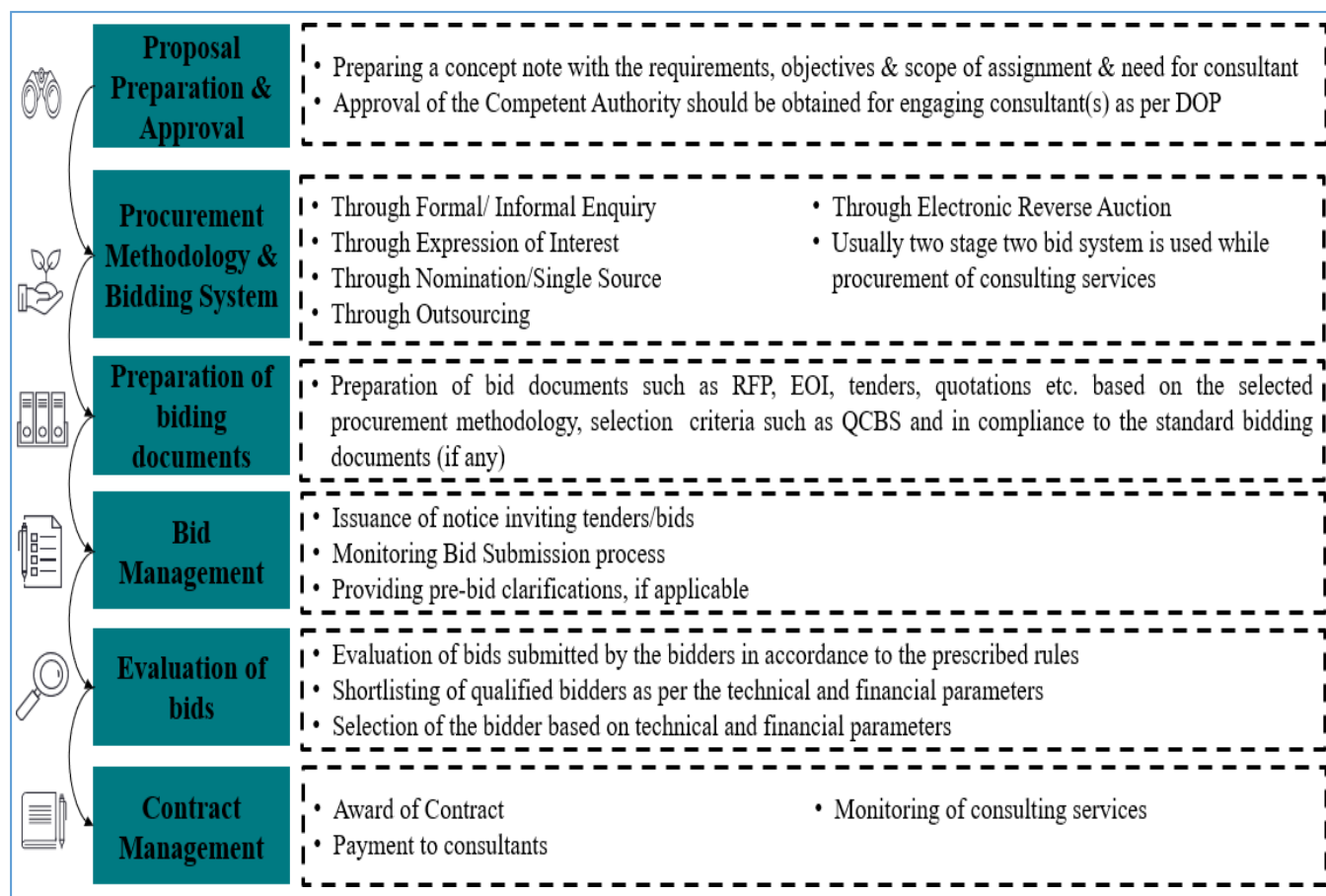


Figure 4: Procurement process for Services

Chapter 3: Procurement under Externally Aided Projects/Programs

18. External aids from international financing institutions such as World Bank, Asian Development Bank etc. have been an important source for augmenting the States' resources and thereby external assistance plays a significant role in the development process. External assistance has gained significance to acquire competitive strength under the globalized economic framework for social and infrastructure sectors. The availability of external aid has enabled the implementation of several developmental schemes in the State of Uttarakhand.
19. There is substantial amount of procurement carried out under the external agencies aided projects which includes procurement of goods, works, consulting and non-consulting services. Each external agency has their own set of procurement rules and guidelines (although the broad principle remains the same) which are made part of the agreement between the international financing institutions and the borrower. Therefore, the procurement procedures, as finalized and incorporated in the Agreements are to be followed accordingly.
20. As per para 1 of The Uttarakhand Procurement Rule, 2017 and as amended from time to time, the procurement under the externally aided project/program shall be done in accordance with the terms and conditions mentioned in the agreement. Therefore, the audit of procurement activities under externally aided project shall be done in accordance with the procurement guidelines, if any, of the funding agency such as World Bank, ADB etc. The checkpoints for audit of procurement activities under externally aided project is provided at annexure-VII (D)
21. The following table provides the list of key documents related to procurement policies and guidelines of three major funding agencies i.e., World Bank, Asian Development Bank (ADB) and Japan International Cooperation Agency (JICA). This would provide guidance to the auditors with regards to the applicable procurement process and rules needed to be referred while auditing the procurement done under the projects funded by multilateral agencies. However, auditor shall firstly refer to the agreement with the funding agencies to ensure the applicable procurement rules and guidelines.

Multilateral Agency	Procurement policies and Guidelines
World Bank	▶ Procurement Policy in Investment Project Financing (IPF) and Other Operational Procurement Matters, Revised November 2, 2017. ▶ Procurement Regulations for Investment Project Financing (IPF) Borrowers, November 2020

	▶ Bank Directive in Procurement in IPF and Other Operational Procurement Matters, June 2019 ▶ A Beginner's Guide for Borrowers - Procurement under World Bank IPF ▶ Standard Bidding Documents issued from time to time to be used for procurement of Goods, Works, Consulting and Non-Consulting Services ▶ Other templates and guidance notes, as applicable. Reference: The above documents are available on Website of World Bank. The link is provided below: https://www.worldbank.org/en/projects-operations/products-and-services/brief/procurement-new-framework
ADB	▶ For concept notes approved before 1 July 2017: • Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers, March 2013 • Procurement Guidelines, April 2015 ▶ For concept notes approved after 1 July 2017: • ADB Procurement Policy, 2017 • Procurement Regulations for ADB Borrowers, October 2017 Reference: The above documents are available on Website of ADB. The link is provided below: https://www.adb.org/documents/procurement-guidelines
Japan International Cooperation Agency (JICA)	▶ Guidelines for Employment of Consultants under JBIC ODA Loans ▶ Guidelines for Procurement under JBIC ODA Loans ▶ Handbook for Procurement under JBIC ODA Loans Reference: The above documents are available on Website of JICA. The link is provided below: https://www.jica.go.jp/english/publications/jbic_archive/others/index.html

Table 4: List key reference documents for procurement under the projects funded by World Bank, ADB & JICA

Chapter 4: Risk associated with various stages of Procurement Process

22. In the previous sections, various stages of procurement processes for the purchase of goods, works and services have been explained. There are various risks associated at all the stages of the

procurement process which an organization shall mitigate adequately to achieve efficiency, effectiveness, and economy in the procurement process. In this chapter, a few risks (not exhaustive) associated with various stages of the procurement process are elaborated along with a possible mitigation action.

Sr. Risk	
Stage I: Requisition and Approval	
1.	Volume and number of contracts awarded- the more the volume, the higher the risk.
2.	Amounts of budget allocated for public procurement – the higher the figure, the higher the risk.
3.	Degrees of separation of duties complex or, vice versa, too soft system are exposed to high risk.
4.	A high probability or possibility of staff misconduct (availability of high level of interest, probability of collision, increased staff turnover, etc.)
5.	Analysis of the procurement system in the audited entity.
6.	Identification of critical components of the system, such as special funds, end users, sole suppliers, etc.
7.	Assessment of main risks affecting these components and analysis of the gravity of such impact
8.	Poor internal needs analysis; Overstatement or Understatement of the need; Unrealistic schedule; Inadequate budget; Poorly designed requirements
9.	Creation of need artificially or exaggerating with the intention to channel benefits.
10.	Incorrect and inadequate approval; post facto approval
11.	Delays in assessment of requisition & generation may lead to inadequate procurement procedures that dilute transparency leading to non-achievement of value for money.
12.	The estimate of the cost is erroneous leading to poor response from the bidders / unfair comparison / poor planning of the budget which may adversely affect the quality of supply.
Stage II: Registration of Vendor/Supplier/Contractor	
1.	Inherent risk is the risk that resources controlled by the procurement system are compromised as a result of misappropriation of material values, destruction, disclosure, unauthorized changes, etc.
2.	Control risk is the risk that an error might occur in the audit, and which might be material alone or in combination with other errors will not be timely prevented or detected and corrected by the internal control system.
3.	Detection risk is the risk that even in the frame of the main audit procedure, the auditor will not identify errors and violations evaluated as material ones as taken alone or in combination with other errors.

Sr.	Risk
4.	Inadequate and limited list of registered contractor/ suppliers
5.	Ambiguous or unfair eligibility criteria for registration of the contractor/supplier
6.	Unsatisfactory performance of registered contractor/supplier
7.	Providing new work to contractors/ suppliers whose registration has been expired
Stage III: Selection of Procurement Methodology and Bidding Systems	
1.	Slicing of requirements is done to avoid open competition or reduce competition. Combining of requirements to make it too large to make it difficult for MSEs to participate
2.	Direct Procurement without Quotations / Purchase Committee: Splitting of demand to avoid higher approvals or higher modes of procurements.
3.	Direct Procurement without Quotations / Purchase Committee: Over a period intentionally or otherwise, the due diligence of enquiries from the market may degenerate into a mechanical obtaining of quotations, leading to the development of nexus and crony suppliers. Vendor selection may be manipulated with fake supporting vouchers. Since such small value materials do not undergo accounting and inventory control, the risk of development of a nexus, leakages and fake procurements and payments are there.
4.	Limited Tender Enquiry: Once approved, there is a risk of a nexus getting developed and the mode may continue to be used for many years, without fresh application of mind.
5.	Limited Tender Enquiry: The demand may be intentionally split to avoid open tender enquiry or higher-level approvals.
6.	Limited Tender Enquiry: The bidder may charge a price higher than the market.
7.	Limited Tender Enquiry: There is a risk that LTE may not attract enough bids and sometimes there may be a single acceptable offer. This may be because of an insufficient database of registered/known vendors. It could also be due to bid documents not reaching the targeted bidders – intentionally or otherwise. It could also be due to bidders not getting adequate time for submission of bids. On the other hand, unsolicited bidders may also quote – causing a transparency dilemma about consideration of such offers
8.	Rate Contracts: Rate contract used for procurement for critical, strategic, and vital requirements. Rate contract purchase used for requirements which are prone to sudden technological and price changes

Sr.	Risk
	E.g., PCs, Laptops, Tablets, Servers, Mobile Phones, where the price of older models may crash as soon as a model is announced.
9.	Rate Contracts: The existence of rate contract may not be adequately made known to possible users. Moreover, the reverse risk is that many different offices may keep procuring the same item independently, thus missing the potential benefits of bulk prices and simplified processes if such items were brought under an RC.
10.	Rate Contracts: Rate contract procurements are at risk of being ordered more than actual requirements.
11.	Pre-qualification Bidding: A pre-qualification criterion has the potential of getting misused. These criteria should be clear, unambiguous, exhaustive, and specific. Also, there should be fair competition.
12.	Pre-qualification Bidding: Since in a two stage PQB, shortlisted bidders are announced, there is high possibility of these bidders forming a cartel and quoting anti-competitive prices in the second stage of bidding. Two Stage pre-qualification bidding is a time-consuming process.
Stage IV: Preparation of Bidding Documents	
1.	Evaluation criteria are not set from the beginning or are not objective or not clearly stated the bid documents, thereby making them prone to being abused. Standard bidding document not followed or incomplete/ambiguous bid documents.
2.	Description/ specifications of goods/works and terms of reference are disproportionate to the need identified or made to tilt in favour of one or a group of vendor(s) or contractor(s) to intentionally restrict competition.
Stage V: Bid Management	
1.	Absence of sufficient number of bids due to: ▶ An insufficient database of registered/ known vendors. ▶ Bidders not getting adequate time for submission of bids. ▶ Insufficient publicity ▶ Hindrances in availability of bid documents Due to onerous cost of bid-documents or EMD
2.	E-procurement mode not followed
3.	Accepting late submission of bids
4.	Involvement of agents of foreign bidders

Sr.	Risk
Stage VI: Bid Evaluation	
1.	Selection of vendors may not be transparent. Some Tender Committee (TC) members may not be independent or neutral or may have conflict of interest.
2.	Hospitality (including facilitation of travel, lodging, boarding and entertainment during official or unofficial programs) from suppliers/contractor. Officials sent to firm's premises for inspections/ meetings may mistakenly presumed as entitlement to hospitality from the firm.
3.	Gifts from suppliers/contractor may tend to cross the limits of ethical/ occasional routine /modest/ normal business practice, especially on festive season. Similarly, sponsorship of events by suppliers or prospective bidders to seek financial favours e.g., donations, advertisements etc.
4.	Unwarranted rebidding: Rejecting all bids and calling for rebidding on the pretext of prices being high, change of specifications, budget not being available etc.
5.	Sudden quantity reduction/increase or splitting of quantity work at the time of award: Many organizations have provisions for change/ splitting in the bid quantity at the time of award. Some organizations vary quantity even without such provisions.
6.	Unwarranted negotiations: Negotiations are called without justification. Sometimes a counteroffer is made to discourage lowest acceptable bidder
7.	Acceptance of incomplete bids
8.	Delay in finalization of bid evaluation resulting in expiry of bid validity period
9.	Inappropriate Selection of QCBS: There is a possibility that QCBS system is selected where LCS or other systems would have been more appropriate considering the quality requirements or the capability of Procuring Entity to monitor the assignment.
10.	QCBS Technical criteria may not be relevant to realization of quality of assignment.
Stage VII: Contract Management	
1.	Unwarranted delays in finalizing or varying the terms of preannounce contract agreement.
2.	Advance payments: This is an area of risk in public procurement with undue and unintended benefits to the contractor, which vitiates the original selection criteria.
3.	Contract changes and renegotiations without adequate approvals
4.	Performance guarantee, Performance security and security deposit not obtained or obtained of lesser amount
5.	Fake or invalid bank guarantees submitted by the contractor/vendors

Sr.	Risk
6.	Supervising agencies/individuals are unduly influenced to alter the contents of their reports so changes in quality, performance, equipment, and characteristics go unnoticed.
7.	Contractor's claims are false or inaccurate and are protected by that in-charge of revising them.
8.	Payment to the contractor is delayed intentionally or otherwise.
9.	Contractor gets final payment, but contract closure has not been formally done. As a result, material/asset loaned to him is not accounted for.
10.	Substitution of key experts in implementation: When the contract progresses, over a period, the request for substitution of key staff is made by the firm citing reasons of non-availability, health and so on.

Table 5: Risk and mitigations associated with procurement process

Chapter 5: Key Provisions of CVC Guideline for Procurement

23. Purchase Manual

- ▶ It is essential to have uniform and well documented policy guidelines in the organization so that this vital activity is executed in a well-coordinated manner with least time and cost overruns and the manual has regularly been updated by the department.

Filing System

- ▶ The filing system adopted in most of the organizations is not satisfactory.
- ▶ The decisions/deliberations of the individuals or the Tender Committees are not properly documented or recorded which dilutes the accountability of the officers and may result in the 'interested' officers going Scot free, even if serious lapses are established against them.
- ▶ The procurement files are very important and sensitive documents and thus there is a need to have a single file system with proper page numbering.

24. Provisioning/Planning/Sanction

- ▶ Submission of forecast too late to be acted upon resulting in unrealistic budget provisions.
- ▶ Purchases made without administrative approval/sanction by component authority.
- ▶ Splitting and substantial purchases often made to keep competency sanction and lower levels and to favour suppliers.
- ▶ Purchases not properly scheduled, resulting in delays in procurement, purchases at higher prices quality deficient purchases, from non-reliable agencies.
- ▶ Purchases made at the far end of the financial year, which could have been planned waiting advance to avoid higher prices, interior quality etc.
- ▶ Estimates did not include specific description of items, resulting in purchase of items which were not useful, loopholes in the description or/and in the specifications of items favoring the selected firms.
- ▶ Financial commitments made without the availability of funds.
- ▶ Premature purchases of huge materials and large stale equipment made, resulting in the block up of the capital and deterioration of the materials/equipment received.
- ▶ Indents for purchases put up without verifying the availability from the stores or and without indicating budget provisions. Indents did not include the probable date by which the articles were required for use.
- ▶ In certain cases excessive, fraudulent, and infructuous purchases were may have been made without taking into consideration the important aspects like available stocks, outstanding dues/supplies, past consumption patterns, and average life of the equipment/items, etc. These

excessive /infructuous purchases were at times made in collusion with the firms. This resulted in not only the material lying unutilized for years together with no residual life but also a lot of extra expenditure was incurred on the inventory carrying cost.

- ▶ The provisioning of the stores needs to be done with utmost care considering the available stock, outstanding dues/supplies, the past consumption pattern, average life of the equipment / spares.
- ▶ Creating avoidable crisis by not taking timely action and advance planning of procurement of materials and making purchases at the last moment in the name of urgency/emergency/short supply etc. bypassing various procedures.

25. Appointment of Consultants

- ▶ It has invariably been noticed that the appointment of consultants is not being done in a transparent manner and their working is also not properly supervised.
- ▶ The appointment of consultants is often made in an arbitrary manner without inviting tenders and without collecting adequate data about their performance, capability, and experience.

26. Estimated Rates

- ▶ It was observed that the estimated rates are being worked out in an unprofessional and perfunctory manner, at times by extrapolating the price of the lowest capacity equipment or by applying a uniform yearly compounded escalation over the prices of similar equipment purchased a few years ago. Consequently, the inflated estimated rates prepared by the organizations resulted in acceptance and payment of higher prices to the firms.
- ▶ Certificates regarding reasonability of rates as we refurnished on the requisitions without actual assessment of prevailing rates.

27. Notice Inviting Tender

- ▶ In case of advertised tenders, sale of tender documents were closed, in unreasonably short period of time.
- ▶ In case proprietary purchases, the detailed justification not placed on record.
- ▶ Against the most preferred and transparent mode of Global tender enquiry/Advertised tender enquiry, some of the organizations are generally issuing limited tender inquiries to select vendors, irrespective of the value of purchase.
- ▶ To give wide publicity, generate enough competition and to avoid favoritism, as far as possible, issue of Advertised/Global tender inquiries should be resorted to and published in ITJ and select National Newspapers.

- ▶ It has also been noticed that for Advertised/Global tenders, against a normal time of two weeks/ three weeks, there are instances wherein time for tender opening of only 7 - 10 days were given. Similarly, in case of limited tenders, against a normal time of two weeks, there are cases where tenders were opened in a short period of only 7 days.
- ▶ List of registered vendors not updated regularly by procuring authority.
- ▶ For some sizeable purchases pre-qualification of agencies not done after opening the tenders, the capabilities of agencies superficially examined several tenders were considered nonresponsive based on such examination. For purchases of items of common use like pumps and accessories pipes of all types. cables, rigs etc. prequalification are essential, but criteria for pre-qualifications not fixed in advance of the short listings.
- ▶ In many invitations, the notice appeared late in newspapers leaving very little time for fair Competition.
- ▶ To induce competition, tender notices should be properly published and should furnish adequate information like quantity, period of delivery place of delivery etc. along with the usual dates for issue acceptance and opening of tenders.
- ▶ In some instances of huge purchases, wide publicity through local and national newspapers was not done.
- ▶ For some huge purchases tender notices did not mention quantities, thus averting fair competition. Large orders subsequently placed at high rates on favored firms.
- ▶ Deliberately restricting issue of tender notices to only selected agencies malpractices in Issue of Tenders.
- ▶ In several cases, tender papers were not kept ready before issue of the tender notices. When interested agencies did not get tender papers despite several inquiries, they were discouraged from purchasing tender only preferred agencies having inside information and submitting high offers in specified time, were subsequently favored Opening of Tenders

28. Pre-Qualification Criterion

- ▶ Pre-Qualification criteria will be decided by the appropriate authority, and it will depend on the nature of tender, tender amount, tender duration, location, and other factors as the appropriate authority deemed necessary.

29. Tender/ Bid Document

- ▶ The terms and conditions being stipulated in the bid documents by some of the organizations are quite insufficient and sketchy. Sometimes, the bid document contains obsolete, unwanted matter

and conflicting and vague provisions, resulting in wrong interpretation, disputes, and time & cost overruns.

- ▶ The evaluation/loading criteria not specified in the bidding documents in unambiguous term.
- ▶ The detailed generic technical specifications including performance parameters and technical evaluations criteria not specified in unequivocal terms.
- ▶ Objective criteria for short-listing not fixed in advance.

30. Receipt of Tenders

- ▶ Some of the organizations do not have proper arrangement for receipt of tenders.
- ▶ A proper arrangement for receipt of tenders at scheduled date and time through tender-box needs to be adopted.

31. Postponement of Tender Opening

- ▶ To give equal opportunity to all the bidders and to maintain sanctity of tendering system, it is of paramount importance that any change in the tender terms & conditions, specifications and tender opening date etc. be notified to all the bidders, sufficiently in advance of the revised tender opening date.

32. Opening of Tenders

- ▶ Procedure to be adopted at the time of opening of tenders is as follows
- ▶ To be opened at the advertised time and place in presence of tenderers or their representatives, who may like to attend.
- ▶ All the corrections and over-writings in the tender to be attested and numbered in red ink on each page with dated initials of the officer opening the tender and to get them attested invariably by the tenderers, before acceptance of the tender.
- ▶ On each page of the schedule, the number of corrections and over-writings to be clearly mentioned at the end of each page and to be properly attested with the dates. Any omission observed to be brought out clearly on each page.
- ▶ Each tender should be numbered serially, initialed and dated on the first page
- ▶ Any ambiguity in rates quoted by the tendered in words and/or figures to be clearly indicated on each page of the schedule.
- ▶ Where the contractors have omitted to quote the rates in figures or in words, the omission to be recorded by the officers opening the tender, on each page.
- ▶ After opening of the tenders, the officer should read out the rates as well as any correction, contained in the forwarding letter or separately attached to the tender and should get the signature

of the contractor/representatives present on these. In many cases, the procedures laid down above were not followed scrupulously. This left scopes for malpractices. In some instances, the officer opening the tender did not attest the corrections scrupulously. Omissions in writings of rates in words were not brought out. Subsequently the rate was increased by correction without altering the total and the payments were made at the increased rate

► Interpolation of special conditions by favored tenderers after opening and before finalization of tender negotiation.

- In case of recorded emergencies though, these short terms tenders were invited expressing urgency of requirement cases, were processed in a very routine and casual manner.

33. Post Tender Negotiations

- As per CVC guidelines circulated vide letter No. 8 (1) (h) / 98 (1) dated 18.11.98, it has been brought out that the tenders are generally a major source of corruption. To avoid corruption, a more transparent and effective system must be introduced.
- Negotiations are normally not allowed. In certain exceptional cases, where price quoted by all suppliers are unreasonably high and re-tendering is not considered advantageous or there is no time for that in view of genuine emergencies, negotiations could be held. Also, in cases where attempts to get reasonable competitive rates have failed, rates can be negotiated. In several cases, no serious efforts were made to obtain reasonably low prices during negotiation. No efforts were made to break the ring formation of bidders. Negotiations were held and rates were only nominally reduced to indicate that efforts were made to lower the rates which were high and then the high negotiated rates were accepted. Irregularities in Tender Acceptance

34. Evaluation of Tenders

Once it has been established that the offers meet the laid down specifications, the question of 'grading' as well as any 'pick and choose' should not arise. The contract needs to be awarded to the lowest bidder meeting the laid down specifications.

- Names of agencies which were not manufacturers, included in the shortlists in which only the manufacturers were to be included.
- Considerations given to criteria which were vague and could not be defined.
- Criteria deliberately fixed to include or exclude certain agencies otherwise than in public interest.
- In case of an item-rate tender, all items were not brought out in the comparative statement only the total amount was indicated.
- Instances were observed in which the lowest tenders were let off on flimsy grounds allowing other of the same group to get tenders at high prices.

- ▶ Technical evaluations did not reflect in comparative statement. It was not brought out in the comparative statement that the articles offered were not as per the tender specifications
- ▶ Considerable time was taken in finalizing tenders after they were opened the time taken exceeded the validity period. Irregularities occurred by such intentional delays in two ways
 - (a) Favorable offers were allowed to lapse
 - (b) Goods were purchased at high rates from favored agencies
- ▶ The terms and conditions of the tenders were not properly evaluated and placed in agenda for Consideration by the committee. The committee gave sanctions without proper verification
- ▶ Minutes of the Committee's meetings in which the sanctions were given for the purchases, did not include the basis on which the purchases were sanctioned.
- ▶ Single high tenders accepted without justification and without sanctions from competent authorities.
- ▶ Cases of re-invitation of tenders on rejection of favorable offers on technicalities and acceptance of tenders when circumstances did require re-invitation
- ▶ Time barred repeat orders given at the rates previously sanctioned, to favor an agency. The quantum of the repeat orders far exceeded the quantity for which the rates were invited in the first instance
- ▶ In case of recorded emergencies

35. Reasonableness of Prices

- ▶ It is very important to establish the reasonableness of prices based on estimated rates, prevailing market rates, last purchase prices, economic indices of the raw material/labour, other input costs and intrinsic value etc. before award of the contract.
- ▶ Bulk or large purchases made of unusually higher rates from co-operative society recognized institutions without inviting tenders.

36. Advance Payment & Bank Guarantees

- ▶ Despite provision in the contracts for releasing advance payment against Bank Guarantee, the advance payment released without taking Bank Guarantee.
- ▶ Though the prospects of supply were bleak, timely action for revalidation/encashment of Bank Guarantee for advance payment was not taken, and the Bank Guarantee was allowed to lapse, jeopardizing Government interest.
- ▶ Detailed guarantee/warranty clause embodying all the safeguards not incorporated in the tender enquiry and the resultant contract irregularities connected with a contract.

37. Performance Bank Guarantee

- ▶ Most of the organizations are not stipulating the requirement of Performance Bank Guarantee while others are stipulating different amount of Security deposit / bond. In some cases, it has been noted that the amount of PBG is too low in comparison to the contract value. The validity of Bank Guarantees is also not being scrupulously monitored and the extension in the Bank Guarantees commensurate with the delivery period extensions is not being sought resulting in loss to the Govt. in the event of non-performance of the contract.
- ▶ To safeguard the Govt. interest, it would be appropriate to take reasonable amount of Performance Bank Guarantee valid up to warranty period for due performance of the contract. The validity of the Bank Guarantees needs to be carefully monitored and whenever extension in the delivery period is granted, the validity of Bank Guarantee should also be appropriately extended to protect the Govt. interest. The genuineness of the BGs should be checked from the issuing bank.

38. Stipulation of delivery period in the contract

- ▶ Delivery schedules not respected for delays in supplies, liquidated damages not recovered. Purchases approved by purchase committees beyond their competence. The approvals were based on inadequate information supplied in agenda notes Total amounts involved in purchases not furnished in the agenda, yet purchases were approved.
- ▶ Periods of supply were specified, not from the dates of the order but subsequently. Delays in technical/commercial clearance to suit late supply
- ▶ Delivery period is the essence of any contract. Specific delivery period with reference to the terms of delivery was not incorporated with the necessary provision for liquidated damages/penalty clause in the event of delay in supply/installation

39. Post-contract Management

- ▶ In some cases even after expiry of delivery schedule stipulated in the contract and without extension of time granted by the purchaser, the consignees keep on exchanging correspondence with the suppliers and thereby keep the contract alive. This may result in serious legal complications if it is intended to cancel the contract. It has also been noticed that even the materials are being accepted and payments are released as and when the supplier makes the supplies. There is utter disregard to the contracting norms relating to delivery period, which is the essence of the contract.
- ▶ It is essential to accord priority to the post contract follow up. The delivery period should be extended on bonafide request and not in a routine and casual manner. After expiry of delivery period, the consignees should be refrained from exchanging correspondence with the supplier. In

case of delay in supplies by the supplier, the liquidated damages to the extent possible need to be recovered. Also, in case of delay attributable on the part of the supplier, the L/ C (Letter of credit) extension charges should be recovered from the suppliers' account. In nutshell, there is a need to discipline the suppliers so that the non-performers could be weeded out and the suppliers who can be relied upon with consistent performance, in terms of quality and delivery schedule are encouraged.

40. Modification of contract terms / specifications

After award of the contract, amendments/modifications having financial implications are authorized in the contract terms/specifications giving undue benefit to the suppliers. Some of these are enumerated below: -

- ▶ The specifications are diluted e.g., though specific makes/models of an equipment are specified in the contract as per firm's tender, however, subsequently supply of some more alternative makes/models of the equipment are authorized without considering the financial implications thereof. It has been observed that generally lower priced alternative makes/models are being included subsequently in the contract giving undue benefit to the supplier.
- ▶ The payment terms are amended favorable to the supplier e.g., advance payments are authorized even when there was no provision in the contract for making advance payments. At times higher advance payments other than stipulated in the contract against the Procurement rules, are authorized.
- ▶ The Pre-dispatch inspection though was incorporated in the contracts but, the same was subsequently waived without any reasons, thus jeopardizing the quality aspects as per contractual requirement.
- ▶ The submission of Performance Bank Guarantee was waived off against the Procurement rules.
- ▶ Even though the contracts were placed on FOR (Free on road/rail) destination, the locations of the consignees were changed nearer to the supplier's premises without considering the benefit of freight charges.
- ▶ After conclusion of the contract, any relaxation in the contract terms / specifications should be severely discouraged. However, in exceptional cases where the modifications/amendments are essential, the same should be allowed after considering the financial implications for the same.

41. Post-contract Monitoring

- ▶ The post contract monitoring is being handled in a very casual and lackadaisical manner. It has been noticed that due to lack of coordination and diversified approach followed by various agencies in the implementation of the projects, the same resulted in time and cost over-runs.
- ▶ In some cases even after the expiry of delivery schedule stipulated in the contract and without an extension of time granted by the purchaser, the consignees keep on exchanging correspondence

with the suppliers and thereby keep the contract alive. This may result in serious legal complications if it is intended to cancel the contract. It has also been noticed

that even the materials are being accepted and payments are released as and when the supplier makes the supplies. There is utter disregard to the contracting norms relating to delivery period, which is the essence of the contract.

- ▶ Generally, the purchaser extends the delivery period of the contracts. However, in some cases it was recorded that the 'Supplier' has extended the delivery period of the contract.
- ▶ Some of the organizations do not incorporate Liquidated damages / Penalty clause for imposing the penalty in case of failure of the suppliers to deliver the equipment within the stipulated schedule. The suppliers quote short delivery period and in absence of deterrent conditions in the contract, manage repeated extensions. In some of the cases, it has been observed that Liquidated Damages for delay in supplies are not being levied and recovered from the suppliers.
- ▶ Although there had been delay attributable on the part of the supplier in making the timely supplies, however, the organizations are extending the letter of credit with the proviso that the L/C extension charges shall be borne by the organization, thereby giving undue benefit to the suppliers.
- ▶ It is essential to accord priority to the post contract follow up. The delivery period should be extended on bonafide request and not in a routine and casual manner. After expiry of delivery period, the consignees should be refrained from exchanging correspondence with the supplier. In case of delay in supplies by the supplier, the liquidated damages to the extent possible need to be recovered. Also, in case of delay attributable on the part of the supplier, the L/ C extension charges should be to supplier's account. In nutshell, there is a need to discipline the suppliers so that the non-performers could be weeded out and the suppliers which can be relied upon with consistent performance, in terms of quality and delivery schedule are encouraged.

Detailed CVC's case study in this regard is placed at annexure VI.

Chapter 6: Audit Process

42. This section provides the overview of the audit life cycle for conducting the audit of procurement process. Detailed audit processes are provided in the Uttarakhand Internal Audit Manual (Volume I - Part I) and this manual shall be read in conjunction with the Internal Audit Manual (Volume I & Volume II).

43. The major steps involved in an audit life cycle of audit of procurement process has been explained in the below flowchart:

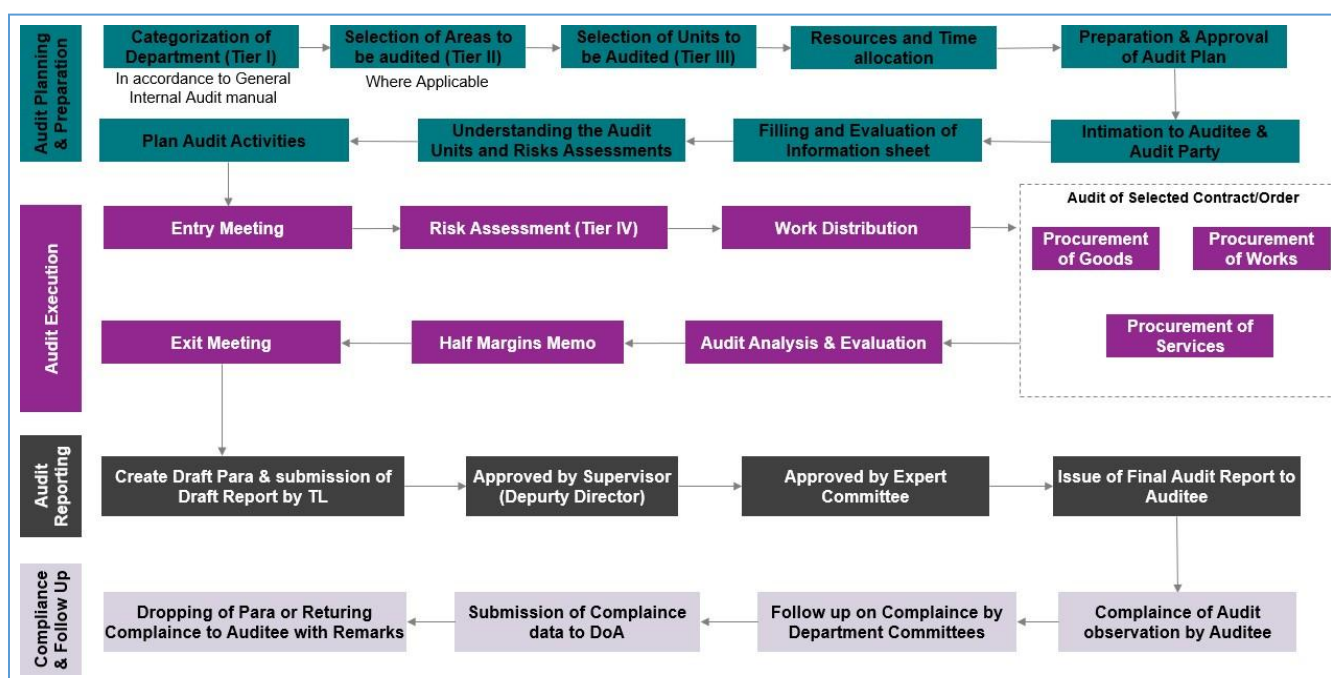


Figure 5: Overview of Audit Life Cycle for Audit of Procurement Process

The activities to be carried out at each stage of audit life cycle has been explained in the below section:

6.1 Audit Planning

6.1.1 Audit Planning Activities

44. The preparation of the audit plan and program, risk assessment and materiality degree should be determined when planning Procurement Audit. Besides, the audit should be planned in such a way that guarantees high-quality auditing, i.e., that the audit engagement would be performed on time, cost-effectively and with professional competence.

The plan of the audit should be formed in such a way that its exact implementation would ensure proper and efficient organization of work for each audit engagement.

45. This is a long-term plan, which, due to its nature, should cover all audited entities providing the solution of such issues as:

- ▶ long-term goals and objectives of the audit activities in public procurement.
- ▶ re-orientation of applicable audit techniques and methods in accordance with requirements of changing external environment.
- ▶ preparation of staffing and resource support of Public Procurement Audit

46. Strategic plans should be flexible and generalized enough so that the priorities can always be reviewed and previous plans may be adjusted accordingly..

The availability of this plan ensures system sustainability and necessary adaptivity of the entire audit in public procurement, which is focused primarily on the most effective and complete coverage of public procurement.

47. Annual Plan

At this level, planning is an aggregate presentation of future activities of audit teams and is aimed largely at building the audit engagement portfolio. The document compiled at this level may be considered as a preliminary planning schedule of audit throughout the specified period.

The annual audit program should be drawn up by the beginning of a new budgetary period and should consider the number of entities covered by the audit, the scope and specificity of public procurement carried out by them.

Thus, at the planning stage, main priorities should be determined, and final objectives of Public Procurement Audit should be defined. This will make it possible to properly distribute human and material resources to carry out regular audits and ensure necessary consistency and completeness of the coverage by audit of the entire planned audit area.

48. Technically, various techniques and methods may be used for this purpose, starting from the compilation of spreadsheets to modern methods of network planning. Annual audit plan is a document, the purpose of which is:

1. To build audit engagements for Public Procurement Audit
2. To assess the volume of expected and actual funding necessary for the implementation of planned audit engagements for Public Procurement Audit
3. To assess staffing and material resources necessary for the implementation of audit engagements for Public Procurement Audit.
4. To analyze and assess the risks of non-performance or incomplete performance of audit engagements.

5. To plan the time limits and periods of performing audit engagements for Public Procurement Audit.
 6. To plan the distribution of responsible persons throughout the audit engagements for Public Procurement Audit.
49. The annual audit plan may be adjusted, updated, and even change during a year. Therefore, it is expedient to draw up a quarterly updated plan of audits in the same format as was used for the annual plan. Adjustments in the quarterly plan may take place if any significant circumstances or new audit engagements occur.
50. This is an operating plan for a particular audit engagement with a detailed specification of objectives to be achieved in the time frame. This is where the main technical details of the future audit are determined and the issues of operative planning of the audit team activities are addressed. Thus, the following considerations should be considered in final planning:
- ▶ risk level, degree of materiality, priorities of efficiency assessment at each stage of public procurement.
 - ▶ information of the problems identified in the past or expected in the future.
 - ▶ available procedures of public procurement.
 - ▶ information of any irregular circumstances, events, external and internal factors able to influence the outcomes of the activities of the audited entity in public procurement.
 - ▶ technologies and technical solutions applied in public procurement.
 - ▶ technical, regulatory, economic, ecological, and other changes able to influence the activities of the audited entity.
 - ▶ staffing requirements and distribution of working hours among the audit team members, etc.
51. All plans are not static, but they should be regularly reviewed based on the changes in the context of the audit and risk assessment.
- After the risk assessment has been completed and the degree of materiality has been determined for each objective set in the frame of the audit engagement, a detailed audit program is drawn up considering all identified aspects of the audit, including the impact of risk factors, specific features of the internal control system operation, types and volumes of public procurement, and existing technologies of implementation thereof. The final plan of the audit will include the following headings:
1. Name of the auditee and the period covered by the audit

2. List of objectives and issues to be addressed during the audit (including those that may influence the procurement)
3. Review of all possible risks (for each audit objective)
4. List of tasks for the audit team with specification of the time of beginning and deadlines.

52. The process for procurement audit is initiated with preparation of a procurement audit plan which includes assessment of risk, selection of departments, selection of areas to be audited, selection of audit units, allocation of resources, finalization of timeline for conducting the audit etc. The preparation of procurement audit plan and assigning of a procurement audit to an audit team shall be done in accordance with the provisions and procedures mentioned in Internal Audit Manual (Volume I - Part I), through Online audit management system (OAMS). The risk assessment process for preparation of annual audit plan is provided in Internal Audit Manual (Volume I - Part I) **[Refer chapter 8 of the Internal Audit Manual (Volume I - Part I)]**.

53. The specific considerations related to audit planning for internal audit of procurement process is provided below:

Risk process	Responsibility	Objective and Activities to be conducted
Tier – I: Selection of Department to be Audited	Directorate of Audit (DoA)	This step is to categorize the departments according to its risk-profile and shall be done in accordance with Internal Audit Manual (Volume I - Part I)
Tier – II: Selection of Key Auditable Areas	Directorate of Audit (DoA)	This step will identify the Key Auditable Areas and the Auditable Sub Areas which will be subjected to risk assessment to determine the areas to be prioritized for audit. The process to be followed for risk assessment of the Key auditable Area and Auditable Sub Areas is mentioned in detail in the Internal Audit Manual (Volume I - Part I). [Refer Section 8.2.2.2 of Internal Audit Manual (Volume I - Part I)] The Key Auditable Areas and Auditable Sub Areas specific for procurement process are reproduced from internal audit manual at below table:

Risk process	Responsibility	Objective and Activities to be conducted			
		Sr	Key Auditable Area	Illustrative Auditable Sub Areas	Reference to the Audit Program
		A	Procurement of Goods	F1 Procurement Process including compliance with procurement guidelines	Annexure-VII (A)
				F2 Vendor registration	
				F3 Procurement administration and management	
				F4 Payment to Vendors	
				F5 Contract Management	
				F5 Statutory Compliance	
		B	Procurement of Services	G1 Procurement process including compliance with procurement guidelines	Annexure-VII (B)
				G2 Procurement administration and management	
				G3 Payment to Consultant	
				G4 Statutory Compliance	
		C	Procurement of Works	H1 Procurement process and administration including compliance with procurement guidelines	Annexure-VII (C)
				H2 Contractor registration	
				H3 Procurement administration and management	
				H4 Payment to contractors	
				H5 Statutory Compliance	

Risk process	Responsibility	Objective and Activities to be conducted						
		The list of above Key Auditable Areas and Auditable Sub Areas shall be reviewed and updated periodically by Directorate of Audit (DoA) based on the findings during the latest audits. Directorate of Audit (DoA) shall carry out the risk assessment of all the Auditable Sub Areas under each Key Auditable Areas through situational analysis of the risk listed for all such auditable sub areas. The risk listing/identification for each Auditable Sub Area would be done from various sources such as past audit reports, best practices, review of control environment, experience, and professional judgement of officials of Directorate of Audit (DoA) conducting the risk assessment.						
Tier – III: Selection of Audit Units in Department	Directorate of Audit	The process to be followed for selection of units to be audited in a selected department shall be in accordance with the Internal Audit Manual (Volume I - Part I). Risk Profiling of the units under the selected department shall be based on financial, non-financial parameters and special parameter as defined in the Internal Audit Manual (Volume I - Part I). [Refer Section 8.2.2.3 of Internal Audit Manual (Volume I - Part I)] An illustrative list of parameters along with their score, range and weightage are provided below:						
		Sr. No.	Parameter Name	Description of Parameters	Scoring			Weightage
					Variable	Range	Score	
		Specific Parameters for Key Auditable Areas for Audit of procurement process						
		1	Procurement of Goods	Total Value of payment towards procurement of goods in	Value of payment made towards procurem	< INR 5 Cr.	3	30%
				INR 5-25 Cr.	6			

Risk process	Responsibility	Objective and Activities to be conducted						
				the immediately preceding financial year	ent of goods	>25 Cr.	10	
		2	Procurement of works	Total Value of new tenders/bid invited for all original works in the immediately preceding financial year	Value of new tenders/bid invited for major the Unit	< INR 1 Cr.	3	25%
						INR 1-5 Cr.	6	
						>5 Cr.	10	
		3	Procurement of Services	Total Value of payment towards procurement of services in the immediately preceding financial year	Value of payment made towards procurement of services	< INR 0.5 Cr.	3	25%
						INR 0.5-2.5 Cr.	6	
						>2.5 Cr.	10	
		4	Other Key Auditable Area – e.g.,	Establishment expenses as % of total Expenses for the immediately	Establishment expenses as % of total Expenses	0-30%	3	20%
						30-50%	6	
						>50%	10	

Risk process	Responsibility	Objective and Activities to be conducted						
			Payroll & Establishment expense	preceding financial year	of the unit			
Tier – IV: Selection of Contract/ Transaction to be audited and extent of check		Audit Party		The above parameters and their score ranges are illustrative in nature and Directorate of Audit (DoA) may add/delete/modify the same related to the key auditable areas selected for audit.				
				The Tier-IV risk assessment process is carried out to identify the contracts/transactions along with the extent of check for which the selected key auditable area shall be audited at the audit unit level. The detail process is provided in the Internal audit manual (Volume I, Part I). The same is also reproduced at section 6.2.3 below. However, for works department for which Works Audit Manual is applicable, the procurement process shall be audited for the contracts selected as per the provisions of Works audit manual [Refer Section 4.2.3 of Works Audit Manual (Volume I - Part I)]				

Table 6: Matrix for Risk Assessment Process

54. The categorization of the department (Tier I), selection of area to be audited (Tier II) and selection of units for audit (Tier III) shall be done by the Directorate of Audit on annual basis and the outcome shall be mentioned in the annual audit plan which shall be issued in accordance with the provision of Internal Audit Manual (Volume I).

55. Post selection of units to be audited, other steps such as allocation of resources, finalization of timelines etc. shall be done as per the provision mentioned in the Internal Audit Manual (Volume I - Part I). **[Refer Chapter 8 of Internal Audit Manual (Volume I - Part I) for details]**

6.1.2 Audit Preparation

56. Before proceeding to conduct an audit of procurement process, the auditors shall ensure that below mentioned activities are undertaken:

► **Audit risk in Public Procurement Audit**

One of the paramount objectives of Public Procurement Audit is to achieve required balance between expenses on risk management in public procurement and possible consequences of occurrence of risk events. Successful solution of the said problem implies that principal risks are controllable and are at an acceptable level.

Thus, the assessment of sustainability of procurement process should obligatorily imply the analysis of risk management policy and processes of the auditee. If the assessment shows a high- risk level, there is a need for more detailed audit procedures.

- When planning an audit, an auditor is obliged to carry out an assessment of audit risk. Besides, it is to be understood that high risk zones are subject to audit on a mandatory basis, while the areas with medium and low risk may become a subject of the audit on a sample basis. Among the factors determining the increased risk level in public procurement, the following are the most important:
- volume and number of contracts awarded – the more the volume, the higher the risk.
 - amounts of budget allocated for public procurement – the higher the figure, the higher the risk.
 - relative complexity of the procurement system,
 - internal controls and the degree of separation of duties: complex or, vice versa,- too soft systems are exposed to high risk.
 - availability of the conflict of interests or
 - a high probability or possibility of staff misconduct (availability of high level of interest, probability of collusion, increased staff turnover, etc.)
- Main activities that can be implemented in the frame of implementation of the risk-oriented approach in the development of the audit plan involve:
- Analysis of the procurement system in the audited entity.

- identification of critical components of the system, such as special funds, end users, sole suppliers, etc.
 - assessment of main risks affecting these components and analysis of the gravity of such impact.
- Risks affecting the procurement system should be considered at the time of planning of the audit and may be considered as elements of inherited risk, risk of controls and detection risk. Each of these elements directly influences the scope of general audit risk, which may be defined as the risk that information on public procurement might contain material errors that might remain unnoticed during the audit.
- Inherent risk is the risk that resources controlled by the procurement system are compromised because of misappropriation of material values, destruction, disclosure, unauthorized changes, etc., subject to the availability of appropriate internal controls.
 - Control risk is the risk that an error which might occur in the audit, and which might be material alone or in combination with other errors will not be timely prevented or detected and corrected by the internal control system.
 - Detection risk is the risk that even in the frame of main audit procedures the auditor will not identify errors and violations evaluated as material ones as taken alone or in combination with other errors

57. Activities to be carried out for all the units in a department at the global level

Activity 1: Understand the Department and its operation (Refer Section 8.3 of the Internal Audit Manual (Volume I - Part I))

Activity 2: Understand the legal and regulatory framework (Refer Section 8.3 of the Internal Audit Manual (Volume I - Part I))

Activity 3: Preparation of Planning Memorandum: (Refer Section 8.3 of the Internal Audit Manual (Volume I - Part I))

Activity 4: Understand about the procurement process and associated risks (Refer Chapter 2, 3, 4 & 5 of this manual)

58. To perform the above activities for audit preparation, an ~~internal~~ auditor requires information from the audit unit. Therefore, such information shall be gathered through information sheet on OAMS which contains data such as organizational structure, functions, status of projects undertaken, details of the personnel, budget, details of past audit etc. of the audit unit.

6.1.3 Obtain Additional Information for Procurement Audit

59. The additional information to be obtained in the information sheet through OAMS for conducting the procurement audit activities are provided below:

- a) Outstanding advances with details of Date from which it is outstanding, Name of Party, amount, and account code.
- b) List of works under arbitration/ legal issues along with their status.
- c) Monthly progress reports.
- d) Status of the procurement under execution or completed in immediately preceding financial year in following template:

i.) Cases of tenders discharged or proposed for re-tendering

Sr.	Tender No. & Opening Date	Item/Work Code and Description	Quantity & Value	Reasons of Discharge/ Retendering	Level of Approval	Is it a Case of Repeat Retendering	Actions Taken to Avoid Repetition

ii.) Top 10 Contractors during the current year

Sr.	Vendor Name /Code	Item/Work Code and Description	Number and Value of Orders			Remarks
			O/S As on April 1____	Further order Since then	Value of Supplies since April 1, -----	

iii.) Delays by over three months in Performance of Contract

Po No & Dt.	Item/Work Code & Description	Vendor Name/Code	Original Delivery Period	Delay in Weeks/Months	Indicative Delivery Period	Remarks

iv.) Delays in payment by over three months from due date

Po No & Dt.	Item/Work Code & Description	Vendor Name/Code	Date of Delivery/ Performance	Payment Due date as per contract	Date of Signing Payment Voucher	Likely Date of Payment

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v.) KPIs during last financial year

Workload & Throughput	Number/Value/Ratio
Number and Value of Indent pending contract placement	
Number and value of indents received annually	
Number and value of tenders floated annually	
Number and value of tenders finalized annually	
Number and value of contracts signed annually	
Number and value of payments made for deliveries/performance annually.	
Efficiency of procurement process	
Productivity– number and value wise tenders finalized/on hand per head of staff	
Average time taken for award decision for OTE, LTE, Single Source, Electronic RA categories of procurement	
Proportions of tenders on limited/selective bidding with reference to the total number/value of tenders	
Proportion of tenders through e-Procurement with reference to the total number/value of tenders	

6.1.4 Key Points for Procurement Audit

The following areas at the Procurement Audit should be considered for inclusion in the Audit Program

1. Procurement Planning:

- a. Compliance with Procurement Guidelines.
- b. Adhering to Procurement Principles.
- c. Need Assessment.
- d. Strategy Development.
- e. Procurement Packaging.
- f. Master Procurement Planning.
- g. Annual Procurement Planning.
- h. Procurement Time Scheduling and Detailed Planning.

- i. Selection of Procurement Methods.
- j. Procurement Preparatory /Preparedness Planning;
- k. Sanctioning / approval of Plan.

2. Technical Specification:

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

3. Preparation of Cost Estimates

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

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

- a. Use of SBDs and GPW-9.
- b. Customized SBDs.
- c. Critical information.
- d. Vetting and approving.
- e. Assess the knowledge and skills of TEC/PC.

5. Bid Invitation /Request for Quotation:

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

6. Pre-bid meeting and Submission of Bids:

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

7. Receiving, Closing and Bid Opening:

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

8. Bid Evaluation Process:

- a. Bid Evaluation Principles.
- b. Bid Evaluation Criteria.
- c. Preliminary Examination and rejection of Bids.
- d. Detailed Bid Evaluation and Principles.
- e. Imbalanced Bids.
- f. Post Qualification.
- g. Negotiations.
- h. Recommendations.
- i. Time of Evaluation.
- j. Approval of Awards Determinations.

9. Pre-qualification:

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

10. Compliance with Rules and Regulations:

- a. Conflict of Interest.
- b. Different Procurement Committee.
- c. Delegation of Financial Authority.
- d. Inventory of Procurement Regulations.
- e. Integrity of Committee members/ procurement officers.
- f. Compliance and violation of rules.

11. Contract Implementation:

- a. Authority and signing of contracts.
- b. Performance security and additional performance security.
- c. Contract Administration Plan.
- d. Kick off meeting.
- e. Contract Monitoring.
- f. Advance payment and part payment including delays.
- g. Variation, Additional Claims, and approval.
- h. Time Extension.
- i. Quality control/assurance.
- j. Inventory Records.
- k. Dispute resolution.
- l. Taking over and COC.

12. Selection of Consultants:

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

13. Complaint Process:

- a. Debriefing.

- b. Handling of Complaints.

14. Areas of Particular Attention:

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

15. Indication of irregularities, including criminal acts, such as:

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

6.2 Audit Execution

61. Audit Execution is the stage where audit plan which is prepared in the previous stage is executed through audit engagements and observations are noted through systematic application of audit procedures.

62. Following are the steps that should be followed to conduct internal audit of procurement process

Sr No	Activity
1.	Entry Meeting
2.	Update/Revision of Audit Planning Memorandum
3.	Tier IV Risk assessment
4.	Work Distribution among team member
5.	Audit of the procurement process and transactions
6.	Audit Analysis and Evaluation
7.	Issuance of Audit Memo (Half Margin Memo)

8.	Exit Meeting
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Table 7: Activities in Audit Execution

Refer **Annexure VIII** for guidance on how to conduct procurement audit

The detailed steps to be undertaken in audit execution shall be referred from Internal Audit Manual (Volume I - Part I). In this section, the specific considerations related to audit execution for internal audit of procurement process are elaborated:

6.2.1 Entry Meeting

63. Refer Chapter 9.1 of the Internal Audit Manual (Volume I - Part I).

6.2.2 Update/Revision of Audit Planning Memorandum

64. Refer Chapter 9.2 of the Internal Audit Manual (Volume I - Part I)

6.2.3 Risk assessment -Tier IV

65. The Tier IV risk assessment process shall be carried out by the audit team for identifying the transaction and finalizing the extent of checking to be carried out. The transaction should be selected based on different parameters of sampling and risk involved. Following is the list of risks involved in the Procurement process:

- Unauthorized purchase commitments
- Responsibility for excess/ delayed procurement cannot be affixed on any department
- Inadequate budget
- Poor vendor selection
- Unauthorized amendment to Vendor Master
- Materials purchased at higher rates
- Delayed procurement of material
- Standard contract terms do not exist and are not used
- Contracts are not renewed on a timely basis
- Goods received not as per PO
- Goods physically received is less than the invoice quantity
- Invoices processed/ and paid without goods being received
- Unauthorized/ Inaccurate payments to vendors
- Cash discount not availed

66. If all the information is available, respective audit team shall conduct the Tier IV risk assessment process at audit planning and preparation stage. However, in case of non-availability of information, the Tier IV risk assessment process shall be done after entry meeting. The process of risk assessments shall be different in following two scenarios:

Scenario 1: Tier IV risk assessment process for units under High-Risk Department

Step 1: Extraction of report with expenditure towards procurements

67. The audit team shall first extract the expenditures report towards the procurement of the audit unit from the IFMS software integrated with OAMS or from any other software/application being deployed by the concern department.

Step 2: Percentage of Transaction to be selected for Audit

68. The approach to be followed for extent of check of transactions to be audited by the audit team is as under:
1. **Key Auditable Areas/ Auditable Sub Area selected for audit as per Tier -II:** At least 60% of transactions (*in terms of value*) or at least 60% of number of transactions as may be defined by the Directorate of Audit (DoA) in annual audit plan for selected Key Auditable Area or Auditable Sub Area. The above extent of check would be indicative, and an auditor may increase the same based on their professional judgment and findings during the audit.
 2. **For Remaining Key Auditable Areas/Auditable Sub Area:** The decision regarding the audit of the other remaining key auditable areas and the extent of check shall be decided by the auditor based on their professional judgment and findings during the audit. However, the audit team leader shall obtain necessary approval from Directorate of Audit (DoA) and update the audit planning memorandum as explained. The auditor may take guidance from **Annexure II** for the transaction's selection and extent of checking.

Scenario 2: Tier IV risk assessment process for units under Medium and Low Risk Department:

Step 1: Extraction of report with expenditure towards procurements

69. The audit team shall first extract the expenditures report towards the procurement of the audit unit from the IFMS software integrated with OAMS or from any other software/application being deployed by the concern department.

Step 2: Percentage of Transaction to be selected for Audit

70. Till the time the Tier II risk assessment process is not applicable for medium and low risk departments, the process for selection of transactions and the extent of checking for the Key Auditable Area/ Auditable Sub Area of units under such departments will be done as provided in **Annexure II**. The extent of check mentioned in **Annexure II** is indicative, and an auditor may increase the same based on their professional judgment and findings during the audit. Post applicability of Tier II risk assessment process on medium and low risk department, the extent of check shall be in accordance with the scenario mentioned in Scenario 1 above.
71. However, for works department for which Works Audit Manual is applicable, the procurement process shall be audited for the contracts selected as per the provisions of works audit manual [**Refer Section 4.2.3 of Works Audit Manual (Volume I - Part I)**]
72. A guidance on **Red Flags in Procurement of General Audit Observations** is provided in Annexure III.

73. Methods and main procedures of Public Procurement Audit

One of the most important objectives of the audit is to collect, accumulate and process a variety of information about the audited entity and the subject of the audit. Classified, properly processed and well-documented information forms complex, systematically organized audit evidence.

The information can be both quantitative and qualitative. Quantitative information is readily measured and is generally used for illustration of statements and conclusions made during the audit. Qualitative information refers largely to the formation of general audit context (rules, instructions, regulations, etc.) or plays the role of addition and extension in respect to quantitative data, making it possible to make more profound and valid conclusions.

Data collection may be implemented on the single basis, on a regular basis or directly during the measurements. Methods and techniques for collecting information for procurement are quite diverse

and are determined primarily by the nature and features of the audit engagement. They include the physical proof availability, analysis of various documents, oral interviews, etc.

Main tools for data collection and processing used in the frame of Public Procurement Audit may be characterized as follows:

- ▶ **Tools of audit surveillance:** Surveillance is a systematic information collection from certain sources carried out through surveys and questionnaires. The tools of surveillance are aimed at formation of detailed and specific information regarding the procurement process. They are especially useful when it is necessary to obtain information from many sources related to a narrow theme or problem (for instance, observance of the established procedure for the conclusion of public contracts for the supply of a specific nomenclature).
- ▶ **A questionnaire survey** is implemented out to obtain audit evidence, which is best of all to obtain directly from responsible employees or, if necessary, from other persons. Answering the questionnaire may be implemented in different ways. Electronic Internet communication channels should be actively used in modern conditions. Among other methods, there can be sending questionnaires by mail, telephone surveys and personal interviews. Questionnaire survey is currently the most widespread, inexpensive, and efficient method of surveillance despite technical difficulties of processing many questionnaires.
- ▶ **Implementing an interview** could be considered as an expanded form of survey, the main purpose of which is to deepen the understanding of some issue. An interview may be implemented at various stages of the audit, and it can have both structured and unstructured nature. Depending on the nature and specific features of their implementation, interviews may take on the character of:
 - preliminary interviews, which are primarily used for planning or examining problem domains
 - interviews to collect materials and proof on a certain theme – they are intended mainly to obtain necessary evidence and arguments for developing the auditor’s opinion
 - interviews for the purpose of discussing problems and violations identified – they are used, as a rule, to develop recommendations and search for ways to address risks
 - analytical interviews aimed at identification of new ideas or proposals.
- ▶ The results of an interview should be obligatorily documented and generalized on various bases: types of problems identified, areas of ongoing procurements, types of public contracts, etc.

This procedure should be implemented in several stages:

- preparation stage,
 - initial stage,
 - survey or interview by itself,
 - final stage,
 - processing and analysis of results.
- **Direct observations** - they are not widely used in the audit; however, they might be effective enough. This tool makes it possible to understand how operations are carried out, study the opinion of those directly responsible for them, as well as to obtain direct understanding of audited processes. The observation procedure may take on two forms: passive and active.
- **Passive observation** suggests that the member of the audit team stays at the same place to directly observe the action of a certain individual, a group of individuals, the flow of the work process, and specific operations. Observation may be performed either on a target-focused or anonymous basis. Besides, third parties (experts) can be involved in the observation process, if necessary. The latter can take place when the member of the audit team is unable to carry out observation by himself/herself.
 - **Active observation** implies following the responsible employee (employees) along the entire chain of the audit procedure.
- Secondary analysis and search in external sources. Secondary analysis is used more in assessment of efficiency and is implemented through the review of any sources not directly related to the audited entity. These may be scientific developments and reports, the results of research and development and regulatory documents defining the specifics of public procurement at the audited entity, external statistical and analytical reviews, expert opinions, etc.
- Process-oriented approach suggests that the issues of proper organization of the procurement process, justification of the outcomes and search for the ways of their improvement become the key issues of the Public Procurement Audit. The main tools of the audit, accordingly, should be focused on the search for and confirmation of the following aspects:
- What steps and processes are involved and what is the degree of efficiency and effectiveness of this involvement?
 - What are system constraints of the operation of the audit process?

- What are main risks of the project implementation?
- Such approach is especially effective in the audit of major, complicated procurement programs, which are long-term in their nature. However, it might be successfully applied in other cases as well.
- **The most widespread types of analysis are the following: cost-benefit analysis, assessment of the effect according to the “what if” principle and application of benchmarking technologies (comparative analysis).**
 - Cost-benefit analysis is based on the comparison of expenses and usefulness (benefits), both direct and indirect, provided by public procurement. Comparison is usually performed in terms of value. This approach is often used in assessment of investment projects, which might be considered as a certain case of infrastructure procurement (for instance, construction of roads or facilities for a football championship). The main questions asked by the auditor in the implementation of the said approach is whether budgetary expenses incurred meet the criteria of pay-back or economic efficiency.

A version of this approach is the choice of the analysis methodology according to the cost-benefit criterion, which examines the relations between the costs of designing and results expressed per unit of the outcomes obtained. In the frame of the second approach, the outcomes might be expressed not in value indicators, which allows expanding the number of criteria and methods of evaluation.
 - “What if” assessment makes it possible to carry out evaluation and analysis of various scenarios and alternatives showing possible gains and losses from changing procurement parameters. The sense of this approach is to identify the factors that can affect the outcomes of the public procurement procedure. A special case is the consideration of situation where the given procurement or program is not implemented at all.
 - **Comparative analysis** (benchmarking) is aimed mainly at assessing trends and identifying alternatives. Comparisons may be implemented on various bases: between those working well and working badly; between standard and actual result; between fact and plan; between similar procurement contracts or between entities or units that are similar by performance indicators, etc. One of the main questions of comparative analysis is whether there was the opportunity to obtain better result in comparison with the achieved one.

- ▶ Various methods may be used to carry out such examination: estimation of coefficients, trend analysis, construction of time schedules, alternative calculations, etc.
- ▶ Methods of qualitative analysis are mainly used to analyze the results of surveys and interviews. In the frame of studying documents, orders, contracts, regulations, and other documents such qualitative analysis always implies building thematic information blocks and their classification in accordance with pre-determined criteria.
- ▶ Quantitative analysis technologies used in Public Procurement Audit are aimed at the search and processing of information distributed by time and other quantitative parameters. This may be the data on procurements completed within the period, arrival of purchased nomenclature inflow, progress of construction, release of material values within the period, performance of the schedule of funding, etc. The variety of methods and approaches of quantitative analysis allows considering tools used therein separately. Their full listing is beyond the scope of this section; however, for methodological purposes it is advisable to describe briefly at least two types of such tools:
 - **Methods and tools of descriptive statistics** aimed at the analysis and processing of data on the distribution of assessed values. Such distribution, as a rule, may be expressed in a form of a diagram based on estimates of the analyzed variables. Principal areas of such analysis, which might be used in the frame of Public Procurement Audit, are:
 - ✓ assessment of the main trend in distribution with the definition of its key features (mode, median, mean, etc.).
 - ✓ the nature of information dispersion and volatility (assessment of dispersion, minimum and maximum level, etc.)
 - ✓ main characteristics of data (standard deviation, Gaussian distribution, evenness, etc.)

UOAMS functionality – the aforesaid Methods and tools of descriptive statistics should be incorporated into the UOAMS portal.

- ▶ Information on parameters and characteristics of information arrays is very important for Public Procurement Audit and may be used in a very effective manner. Thus, conclusions are made on the basis thereof on the need to carry out these or those audit procedures, assess audit risk and reliability of internal control systems, analyze the relevance of data obtained for the achievement of objectives set for the auditors, etc.
- ▶ Regression and correlation analysis may be used to establish interrelations and determine the

degree of influence between variables, as well as to identify unusual or undesirable relations between expected elements.

- The independent areas of the use of quantitative information processing tools are the methods for evaluation of the quality of nomenclature purchased in the frame of performance of public procurement contracts.

The main purpose of control testing is to provide for the necessary objective level of the auditor's confidence that the audit process, procedure, and outcomes have been carried out or achieved exactly in accordance with the evaluated criteria or standards. Besides, it is possible to distinguish three types of tests widely used in Public Procurement Audit:

- Compliance test
- Independent confirmation based on an audit sample sampling (independent testing)
- Analytical reviews.

Below are the features of each of the methods listed above:

- **Compliance test** is aimed, first, at the confirmation of compliance with applicable laws and internal regulations on procurement. Its principal goal is to assess the compliance of procurement processes and procedures performed with established standards and assessment criteria. The results of testing may serve as audit evidence of efficiency and quality of the internal control system. Such tests may also be used to check the quality of this or that process and assess the outcomes thereof (for instance, documentation of procurement, meeting the delivery deadlines and quality requirements for the nomenclature delivered, etc.). The confirmation of the compliance test may be carried out both based on standard documentary evidence and using automation means and electronic documents.

General conclusions made based on the compliance test should confirm or fail to confirm the reliability of control systems, which, in its turn, should influence the choice of the set of independent audit tests. The results of compliance test largely determine the degree and scale of subsequent independent testing.

- **Independent confirmation based on the audit sampling (independent testing)** is aimed at obtainment of objective validations and evidence regarding correctness, reliability, and completeness of quantitative and qualitative data on the results of public procurement, public contracts awarded, legality and substantiation of budgetary funds spending, as well as appropriate data of budgetary accounting.

Random sampling implies that all selected elements are taken at random from any pre-determined data. The random nature of the sample suggests the equality of the choice of any

element. Such approach works well in situations where documents or operations with a unique registration number are subjected to audit (for instance, uniform public contracts, invoices, delivery documents, payment orders, etc.). To ensure the randomness of selection, a table of random numbers or computer random number generator may be used.

After the formation of the sample, pre-determined audit tests are applied thereto. It should be noted that a random sampling can also be used in audit procedure on the merit, for instance, when assessing the quality of delivery in the frame of performance of a public contract for the delivery of a large homogeneous nomenclature with pre-determined quality and quantity. Stratified sampling - is carried out with respect to an examined population, the constituent elements of which can be grouped (stratified) on certain generally quantitative grounds. The established level of materiality is very important for the choice of a group (strata). Thus, in the frame of the entire population of procurement all public contracts may be grouped, for instance, on the cost basis:

- minimum - up to RS. 100,000
 - medium - from RS. 100,001 to RS. 1,000,000.
 - upper-medium level - from RS. 1,000,001 to RS. 10,000,000.
 - large - above RS. 10,000,000.
- Analytical reviews are prepared based on the results of a random testing and special examination of audit evidence obtained based on study and comparison of financial, legal, and other information regarding procurement processes and procedures of the audited entity. The most important coefficients, trends, standards, results of the procurement system operation are studied, and unusual deviations and fluctuations of values are examined during an analytical review. Analytical reviews are often considered as an element of independent testing. But for the purpose of development of the Guide on Public Procurement Audit this element should be considered separately.

- ▶ Audit Evidence should be: Relevant, Sufficient, and Objective
- ▶ Evidence can be- Photography of a record from the entity, Copy of external but authoritative record, printout of an electronic database /web / page, photograph, extract from an authentic report / book, Result of a Survey conducted by audit / other agency analysis of data, physical verification, discussion paper.

6.2.4 Work distribution among audit team members

6.2.5 Audit of the Procurement process

75. The audit program for conducting the audit of procurement of goods, works and services is provided in **Annexure X**. This audit programs provides a comprehensive checklist for auditing of various stages of procurement process. The checklist prepared is comprehensive but not exhaustive and auditor shall

apply his own professional experience and unbiased judgment during the verification of any process or transaction related to audit of procurement process. An illustrative list of documents which shall be made available to the auditors for carrying audit of procurement process is enclosed as **Annexure IV**

76. **Physical Verification of a Procured item:** Apart from checking vouchers in the premises, an auditor may, in case of any major deviations observed, opt for physical verification of an article/ goods procured with the stock register or tools and plant register or measurement entered in the MBs. The auditor may also use empaneled experts for conducting physical inspection for certain specialised works/articles/goods/services.

77. **Detection of Frauds:**

Professional skepticism - Audit teams / ~~officers~~ should maintain an attitude of professional skepticism (an attitude that includes a questioning mind and a critical assessment of audit evidence) throughout the audit.

Fraud: Fraud is an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. Fraud involves deliberate misrepresentation of facts and / or significant information to obtain undue or illegal financial advantage.

In the event of Auditors finding anything likely to lead to the discovery of a defalcation or fraud or any serious irregularity, the circumstances should be communicated to their supervisor and para should be incorporated in the audit report as a serious irregularity. Some of the illustrative fraud cases related to procurement process may include:

- ▶ Duplicate payments
- ▶ Collusive or cartel bidding to fix artificial high price for goods or services
- ▶ Defective pricing by submitting inflated invoices
- ▶ Splitting of purchases to avoid open competition
- ▶ Supply order more than requirement/need
- ▶ Undue benefit to ineligible beneficiary / person, etc.

78. The efficacy of audit of procurement process depends largely on the intelligence, thoroughness and

resourcefulness which are brought to bear on it. Even an apparently minor defect or irregularity might conceal a potential fraud or misappropriation which may come out through intelligent probe. An illustrative list of important points to be seen while conducting an audit of a procurement process is enclosed as **Annexure V**

79. For better understanding the general lapses and failures in public procurement, few cases studies have been provided at **Annexure VI**

6.2.6 Audit Analysis and Evaluation

80. Refer section 9.6 of the Internal Audit Manual (Volume I - Part I).

6.2.7 Issue of Audit Memo/Half Margin Memo

81. Refer section 9.7 of the Internal Audit Manual (Volume I - Part I)

6.2.8 Exit Meeting

82. Refer section 9.8 of the Internal Audit Manual (Volume I - Part I)

6.3 Audit Reporting and Documentation

6.3.1 Audit reporting

83. An audit report is a written document, which is responsible for formally communicating the results of the audit to the audit unit. The audit team would consolidate the unresolved Half Margin Memo (HMM) issued during the execution stage which will then discuss the same with the audit unit during the exit meeting.
84. The process, guideline, and methodology for preparing, approving, and issuing of the audit report shall be in accordance with the provisions mentioned in the Internal Audit Manual (Volume I - Part I). The preparation, approval and issuance of the audit report shall be done through OAMS. **[Refer Chapter 10 of Internal Audit Manual (Volume I - Part I) for details].**

6.4 Preparations of Report on the Public Procurement Audit Findings

6.4.1 Procedure of preparation and presentation of the audit conclusion

85. The final stage of Public Procurement Audit is post-contract analysis and follow-up control of implementation of recommendations made on the basis of the audit findings. Its main aim is to establish feedback, continuously monitor the implementation of recommendations in the practice of the audit entity and assess the final effect of such implementation.

Besides, special attention should be paid not so much to the process of implementation of recommendations, but to the outcomes, which should manifest themselves in the improvement of the internal control system efficiency, elimination of weaknesses in the procurement process management and, ultimately, reduction in the number of violations and errors in implementation of procurement rules, minimization of unjustified budget spending and overall growth of the efficiency of procurement activities. The choice of priorities of the post-contract analysis should be ultimately determined by the overall strategic objective of Public Procurement Audit at the level of the annual audit plan.

86. It is also necessary to understand that during the final stage of Public Procurement Audit, should ultimately accomplish internal objectives of the following three types:

- to increase the audit efficiency - recommendations made in the frame of the audit should be practical and yield a tangible economic effect;
- to ensure the required quality control of the audit – the results of implementation of recommendations make it possible to characterize the overall quality of the audit and subsequently assess the activities of the entire audit team;
- to create incentives for the development and improvement of audit methods and tools – in the process of the implementation of recommendations the best and most efficient proposals may be monitored, which becomes the basis for the development of the “best practice” of Public Procurement Audit.

87. Feedback is implemented in this case through the assessment of the effects of a corrective action. Besides, it should be taken into account that there is an objective time lag between the beginning of the implementation of recommendations and the intended effect. Therefore, the assessment should be carried out not earlier than after a year.

6.4.2 Requirements to the composition and contents of the report on the results of Public Procurement Audit

88. Main requirements to an audit report are determined on the basis of general requirements of

international audit standards:

- a report should be timely, complete, accurate, objective and should contain compelling evidence to support the validity of the conclusions made by the auditor;
- a report should contain clear and well-defined wordings, be well-structured and contain only the information and data that meet the established criterion of materiality.

89. The final report should present main data and information about the course of the audit, main facts identified by the auditors regarding the condition of the procurement system of the auditee entity, the status of internal control, as well as an objective assessment of the efficiency of procurements completed.

Following is the Structure of presenting information on the practice of Public Procurement Audit

A format of presenting information on the public procurement audit results

1. Conditions of audit:

- 1.1 name and time frame of the audit;
- 1.2 time period chosen to evaluate the activities of the auditee entity;
- 1.3-time limits for putting control, expert, and analytical measures in place;
- 1.4 composition of those participating in the audit;
- 1.5 substantiation of the audit and authority of its participants;

2. The audit entities and domains:

- 2.1 auditee entities;
- 2.2 domains (scope) of the audit and the authority of those participating in the measure to check them

3. Data used in the audit:

- 3.1 information used to carry out the audit;
- 3.2 information sources;
- 3.3 indicators provided by the auditee entity;
- 3.4 indicators used while conducting the audit

4. Methodology used:

- 4.1 types and forms of audit used;
- 4.2 international and national standards and guidelines used;
- 4.3 methodological techniques developed for the particular audit

5. The tools used to make measurements and evaluations:

A format of presenting information on the public procurement audit results

5.1 the scales and criteria selected for making measurements and evaluations;

5.2 data processing methods used;

5.3 information technologies used while handling the information (data)

6. Audit results:

6.1 flowcharts of the activity of the auditee entities;

6.2 results of data processing and evaluations for each type and form of the audit conducted and the audit domain;

6.3 risks evaluated and deficiencies uncovered, including their costs assessment;

6.4 visualization of results (if any)

7. Findings and recommendations:

7.1 auditor's opinion - executive summary;

7.2 response of the auditee entities;

7.3 corrective actions advised;

7.4 results of maintenance of the corrective action process;

7.5 final result and recommendations on follow-up actions

6.4.3 Public Procurement Audit in the context of application of modern Information Technologies

90. Please refer **Annexure IX** for detailed check points for audit in IT Environment.

6.4.4 Drawing up conclusions based on the Public Procurement Audit findings

91. Before the final compilation of the audit report, the audit team / members should determine the fundamental ultimate results of the audit, draw up necessary conclusions and prepare recommendations.

Conclusions prepared on the basis of the audit findings may contain any information related to the public procurement process, for example:

- outcomes of procurement, both planned and actually achieved;
- statistical information used to estimate the probability of a positive or negative impact of the results of which public procurements are implemented;
- the results of evaluation of whether financial, and social requirements were complied with during the public procurement process, as well as whether this process entailed unforeseen additional budgetary expenses, either direct or indirect, etc.

92. In order to prepare conclusions in all three areas, it is advisable to carry out a quantitative and qualitative analysis of the information collected. Prior to the final wording of conclusions on the basis of the findings, it is possible to carry out an internal (in the frame of the audit team only) or extended (with the participation of experts or representatives of stakeholders) discussion should be taken into consideration before.

93. The process flow for the submission, review, approval, and issuance of a Procurement Audit Report for individual audit is explained below:

- ▶ **Audit Team Member**, will convert HMM to Draft Para & submit to Team leader for consolidation of report
- ▶ **Audit Team Leader**, will convert own HMM to Draft Para, review Draft Para of Team member, consolidate Draft Procurement Audit Report & submit to Supervisory officer for review
- ▶ **Supervising Authority**, will review the draft Procurement Audit Report submitted by team leader and forward the reviewed report to Expert Committee for Quality Assessment
- ▶ **Expert Committee for Quality Assessment**, review and recommend for issuance of the Procurement Audit Report submitted by the Supervisor

- ▶ **Auditee for Compliance**, Final Procurement Audit Report is issued to the auditee for compliance based on the recommendation of the Expert Committee for Quality assurance by the officer authorized by the Director, Audit.

6.5 Audit Documentation

94. Collection and analysis of audit evidence

- Audit evidence collected should support the auditor's opinion on the audited procurement system as accurately and completely as possible.
- The main sources of audit evidence include the data of accounting and internal control system, electronic procurement system, other primary or supporting documents of the auditee entity, stock-taking materials, information obtained from the management and employees, clients, suppliers and other third parties, if necessary.
- The main methods of collection of external and internal evidence are the preparation of requests, receipt of confirmations and application of analytical procedures.
- The preparation of requests and receipt of confirmations are considered as principal methods of audit evidence obtainment. Such requests can be direct: requests for information on procurement operations, availability of delivered assets, sums paid according to invoices. Evidence can also be received as written and internal allegations and provision of confirmations directly from the personnel of the auditee entity.
- Analytical procedures are intended for the review of information on the procurement system, financial and other accounting data in order to find operations or actions that are unusual or deviate from established rules. Carrying out analytical procedures involves, inter alia, the examination of specifications, terms of reference and estimates attached to public contracts, accounting registers and accounting statements, analysis of certificates, delivery documents, bills, invoices, inventory control data, etc.

95. Audit documentation

- An auditor should be able to present all necessary audit evidence confirming the audit findings presented in the audit report. Besides, a necessary condition of a high-quality and efficient audit is the availability of duly prepared and executed working documents.
- The following set of audit files should be made up for the storage of audit documentation:
- permanent file;
- file of planning and quality control;
- working files (working documentation).

- The permanent file should include general information on the auditee entities and, as a rule, contains the following documents:
- information on the auditee entity, copies of foundation documents, registration, and approval documents, etc.;
- characteristics of the organizational structure, names of key employees, etc. (such data should be updated as and when necessary);
- characteristics of the procurement system of the auditee entity;
- all correspondence with the auditee entity regarding general issues and the issues of the audit organization;
- copies of previous reports of the auditor, etc.

96. The file of planning and quality control should contain information on the audit engagements, the plan and program of the audit, documents on the organization of the audit process, information on the audit team, etc. It is used as a depository of organizational documents and contains the information on the progress of the audit, as well as on various issues related to various stages of the audit. In particular, as for the ex-ante stage, it contains the information on which engagements have been planned and in what sequence. During the audit, it may accept the information on any changes in objectives, adjustments on the audit plan, and changes in the time and deadline of the audit, etc. At the final stage of the audit, this file accumulates the information on the actual completion of the work, responsible persons, and the time of completion.

97. The working file (working documentation) is the main audit file containing a detailed disclosure of the process of the audit program implementation and all working documents prepared by the audit team. Upon the completion of the audit, this file is reviewed and finally compiled by team leader and submitted on the UOAMS.

98. The final summary of the audit findings is prepared, and the auditor's report is compiled on the basis of the documents accumulated in the working file. The contents of the working file reflect the volume of the work performed and gives an idea of the array of audit evidence gathered during the audit on each item of the audit engagements section is dedicated to the using of Information Technologies for the benefit of improvement of the audit quality.

99. Big data in Information Technologies is a series of approaches, tools, and methods of processing of huge amount and large variety of structured and non-structured data, the use of which makes it possible to obtain fundamentally new results by taking into account multi-dimensional links.

Big data is information that is characterized by a complex structure and huge volume in excess of the traditional capabilities of IT infrastructure, collected from all possible sources, which allows its advantageous use as one of major assets.

It includes:

- Structured / non-structured data
- Internal / external data
- Official and non-official communication channels

100. Data mining - it is proposed to be used as a tool to assess fraud schemes in procurement.

6.6 Audit Follow-up and Compliance

101 The detailed methodology for follow-up and compliance on the audit para related to internal audit shall be done in accordance with the provision of Internal Audit Manual (Volume I - Part I). [Refer Chapter 12 of Internal Audit Manual (Volume I - Part I)].

102 Inventory of Recommendations - As part of the follow-up procedures, DoA should maintain a comprehensive inventory of recommendations in OAMS. The inventory should be maintained audit wise which must consist of all recommendations, with appropriate grading under 'vital or critical', 'significant' and 'important'.

The database should also contain other relevant information viz. the year of audit report, status of acceptance viz. accepted, partially accepted, not accepted, and not replied, nominal implementation reported by the entity and the time of such reporting, risk associated with non-implementation or poor implementation, besides follow-up reviews. This inventory should be maintained as a permanent database, which will assist in planning of detailed audits in future.