

A Study on Public Procurement Auditing in Bangladesh: Current State and Challenges

A Dissertation

by

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Submitted

to

BRAC Institute of Governance and Development

BRAC University

Dhaka

**In Partial Fulfillment of the Requirement for the Degree of
Masters in Procurement and Supply Management (MPSM)**

BRAC Institute of Governance and Development

BRAC University, Dhaka, Bangladesh.

Dedicated
To
Maliha and Nafis.

Certificate from Supervisor

This is my pleasure to certify that the dissertation titled “**A Study on Public Procurement Auditing in Bangladesh: Current State and Challenges**” is the original work of ASM Lukman and it is completed under my direct guidance and supervision. So far I know, the dissertation is an individual achievement of the candidate’s own efforts, and it is not a conjoint work.

I also certify that I have gone through the draft and final version of the dissertation and found it satisfactory for submission to the BRAC Institute of Governance and Development (BIGD) of BRAC University in partial fulfillment of the requirements for the degree of Masters in Procurement and Supply Management (MPSM).

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Declaration

I hereby declare that the dissertation titled “**A Study on Public Procurement Auditing in Bangladesh: Current State and Challenges**” submitted to the BRAC Institute of Governance and Development of BRAC University for the degree of Masters in Procurement and Supply Management is exclusively my own and original work. No part of it in any form, has been submitted to any other University or Institute for any degree, diploma or for other similar purposes.

Dhaka: August, 2016.

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Acknowledgements

I express my gratitude to almighty Allah, who provided me the opportunity to study public procurement and helped me to prepare this dissertation paper.

My sincere gratitude goes to my supervisor Professor Dr. Niaz Ahmed Khan, Department of Development Studies, University of Dhaka without his cooperation and guidance this research could not succeed. He helped me in many ways, from inception to end. Even he was so kind to select my research topic.

I like to express my gratitude to the Controller General of Accounts, who nominated me for the ‘Three week Long Training’ arranged by CPTU. This nomination is the basis for my joining to this course.

Special thanks also go to the respondents of my questionnaire and those who attended the focus group discussion. I appreciate their patience in replying my questions and giving invaluable suggestions.

I am grateful to my family members and friends who assisted me in many ways. Studying at this stage is basically snatching time from my kids and wife.

Finally, I offer my thanks and appreciation to them who have not been mentioned here due to lack of space, but have contributed to the work in different ways.

Dhaka: April, 2016.

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List of Abbreviations

C&AG- Comptroller & Auditor General
CCGP- Cabinet Committee on Government Purchase
CPAR-Country Procurement Assessment Report
CPTU- Central Procurement Technical Unit
CQAT- Central Quality Assurance Team.
DESCO-Dhaka Electric Supply Company
DoFP-Delegation of Financial Powers
DPDC-Dhaka Power Distribution Company
EOI- Expression of Interest
FA&CAO- Financial Advisor and Chief Accounts Officer
FIMA-Financial Management Academy
GoB-Government of Bangladesh
GPA- Government Procurement Agreement
LTM-Limited tendering Method
NOA- Notification of Award
OCAG- Office of the Comptroller & Auditor General of Bangladesh
OTM-Open Tendering Method
PAC- Public Accounts Committee
PPA-Public Procurement Act
PPR- Public Procurement Regulations
PPRP-Public Procurement Reform Project
QCBS- Quality & Cost Based Selection
RFQ- Request for Quotations
STD-Standard Tender Documents
TEC-Tender Evaluation committee
TOC-Tender Opening Committee
TSTM-Two Stage Tendering Method
UCPDC-Uniform Customs and Practices for Documentary Credit
UNDP-United Nations Development Programme

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Chapter-1: Introduction

1.1 Context and Background of the Study

Public procurement is evolving both conceptually and organizationally. That evolution got momentum in 1990s as governments of both developed and developing countries faced increasing pressures to “do more with less.” Indeed, all governmental entities of rich and poor countries are struggling in the face of unrelenting budget constraints; government downsizing; public demand for increased transparency in public procurement; and greater concerns about efficiency, fairness, and equity.

Public procurement accounts for the lion’s share of government budget especially in development budgets. The annual volume of public procurement is around \$3 billion, out of which about \$2 billion is externally funded¹. This huge expenditure is now guided by the Public Procurement Act 2006 and Public Procurement Rules 2008. It can be safely said that this act of parliament and the rules framed thereon impacts public fund to an extent that all other provisions in total cannot.

Like every public expenditure, the spending on procurement is audited by the Comptroller and Auditor General of Bangladesh. This is a gigantic task and auditors face various problems while auditing this spending. This research will throw light on how to make the procurement audit an effective one.

1.2 Statement of the Problem

To provide many basic services like health, education, defense and infrastructure government has to procure goods, construction and services from the open market. A public authority can either choose to provide a publicly funded welfare service through in-house production or through entering into a contract with a private supplier (Strömbäck, 2015). This huge spending program has profound political as well as economic implications in developing countries like Bangladesh. From 31st January 2008 a new regime introduced to regulate public procurement regime.

¹ Bangladesh Country Procurement Assessment Report 2002 by World Bank.

Though the new regime was expected to bring about significant changes in line with the objectives establishing transparency and accountability in the procurement using public funds, giving equitable treatment and ensuring free and fair competition, the perception of procuring entities and general public is not satisfactory. Auditing procurement activities is one of the ways to judge actually what happens to that huge spending. This regime also impacts the way procurement auditing is being carried out.

For effective audit of procurement activities the provisions related to procurement must be systematic, comprehensive and flawless. Sometimes confusion arises between procuring entities and the auditors about the interpretation and application of rules and regulations. It may be due to lack of clear conception of the either party. This study will identify these issues and provide recommendations for improvement.

Besides the area of public procurement is relatively under-researched area amongst economists, lawyers, procurement practitioners and other social scientists (Kashap, 2004). Although public procurement has a quite long history and the earliest procurement order(found in Syria) dates from between 2400 and 2800 B.C. to procure 50 jars of fragrant smooth oil for 600 small weight in grain (Coe, 1989), the area being less attended by the academicians.

1.3 Rationale of the Study

Every year the government of Bangladesh spends huge amount of money to buy goods, constructions and services. Public procurement of Bangladesh accounts for 13.95% of the GDP and it is increasing every year with the increase of GDP (Audet, 2002). Since the adoption of privatization as an economic policy reform in 1976, public procurement by contractual means in Bangladesh has been increasing day by day(Mahmood,2013).Inevitably, governments are the biggest "spenders" i.e. buyers all over the world (World Bank, 2007) and public procurement is increasingly recognized as essential in service delivery (Basheka & Bisangabasaija, 2010). It has thus become a sector that impacts the Gross Domestic Product (GDP) of any country especially the developing countries. Procurement is done not only to provide goods and services to the taxpayers but also used to implement national policies and to achieve social and other objectives (Thai, 2005). In procurement process the government entities generate scope of trillions of dollar business for private entities.

Current regime which was introduced from 31st January 2008, aimed at providing for procedures to be followed for establishing transparency and accountability in the procurement using public funds, giving equitable treatment and ensuring free and fair competition among all persons wishing to participate in such procurement process². So the regime has multifarious objectives and meeting these objectives is a daunting task. Basically this regime is the extension of the Public Procurement Regulations 2003 before which there was no unified provision for procurement and the public procurement legal regime was incoherent and fragmented.

Auditing is of the one the ways that can ensure the propriety of any expenditure. In Bangladesh all public bodies are audited by the Comptroller and Auditor General (C&AG) of Bangladesh. C&AG has a constitutional mandate as per Article 128 of the Constitution of the Peoples' Republic of Bangladesh through which he has access to all documents and stores. Thus statutory audit has both mandate and scope to oversee this huge expenditure.

Even before the present unified regime auditing was there but the present regime is more comprehensive and powerful as it is now an act of Parliament. This piece of law doesn't appear overnight as it was part of series of reform process undertaken by donor fund back in 2001. Capacity building with new regime was a key issue. Both the auditors and the personals of procuring entities have been trained up. Thus to see whether the objectives of the current regime have been met or not we need to see how the monies are being spent. Auditing which is the examination of the books of accounts, other documents, stores, assets etc relating to the receipts and expenditure of the Government should be an effective tool for judging this huge expenditure related to procurement. Hence this study attempted to examine the effectiveness of auditing of expenditure related to public procurement in Bangladesh. And this study will add something new to the existing level of knowledge on procurement practices in Bangladesh.

² The objectives have been stated in the preamble of the Public Procurement Act 2006.

1.4 Research Methodology

Both qualitative and quantitative methods have been employed here. Qualitative data is collected through interviewing target groups comprising 20 respondents. Quantitative data is obtained through questionnaire survey comprising officials of both procuring entities and audit directorates, the number being 50. In both cases it was tried to balance the presence of both field workers and the managers. The method of sample selection was purposive because the information required by the study could best be provided by field officers whose job schedule was auditing of public entities. Techniques of data collection entail both primary and secondary modes. The collected data looked out for the challenges, weaknesses and problems indicated by the respondents.

Questionnaires were distributed face to face almost in all cases to ensure quality of response. Questionnaires contain both close-ended and open-ended questions enabling them to provide both quantitative (factual) and qualitative information. Sample questionnaire is given in Appendix-1.

The area of public procurement being an under researched area, there is paucity of literature available especially in Bangladesh context. So literature available in the context of other developing countries are also reviewed. Besides review of the audit reports of the Comptroller and Auditor General of Bangladesh submitted to parliament for onward disposal at the Public Accounts Committee³ have been done. Mentionable that reports that are related to public procurement and issued after the date of enforcement of Public Procurement Act 2006 and Public Procurement Rules 2008 i.e. 31st January 2008 have been taken under consideration.

³ The Public Accounts Committee (PAC) of Bangladesh Parliament derives its mandate from the Article-76 of the Constitution and the Rule-233 of the Rules of Procedure of Parliament. The functions of PAC are to examine reports submitted by the Comptroller and Auditor General (C&AG) with an aim to identifying financial issues to be resolved as well as making recommendations on how to improve performance in the future.

Various articles have been accessed through the websites of the specific country or institutions of interest or Google search. Google Scholar is used as database to find papers of interest as this amasses the collection of hits when searching for key words compared to other databases. The key words that are used to search articles are ‘public procurement’, ‘procurement auditing’, ‘public procurement regime’, ‘problems of procurement auditing’ and ‘effectiveness of auditing’ etc.

A focus group discussion is also held with senior audit officials who have practical experience in auditing public procurement.

Being an insider to the public procurement auditing system the author had the opportunity to be involved in procurement auditing. So this personal observation and experience also influences the whole process.

1.5 Objectives of the Study

General Objective: The purpose of this study is to assess the effectiveness of public procurement auditing under current regime in Bangladesh. The regime mainly comprise the Public Procurement Act 2006 and Public Procurement Rules 2008.

Specific Objectives

- i. To study the current procurement regime from the view point of an auditor.
- ii. To analyze procurement procedures in public institutions in Bangladesh.
- iii. To identify the loopholes and challenges that stand against effective procurement and thus effective audit of procurement.
- iv. To furnish recommendations towards effective public procurement auditing.

1.6 Research Questions

1. Does the introduction of PPA and PPR as the main public procurement regime enhance the effectiveness of procurement audit in light of the selected indicators?

Selected Indicators-

- i. Meeting challenges to procurement in the public sector.
- ii. Sufficiency of current regime related to procurement.
- iii. Provisions are well coherent to each other, not contradictory to each other ,i.e consistency among the provisions.

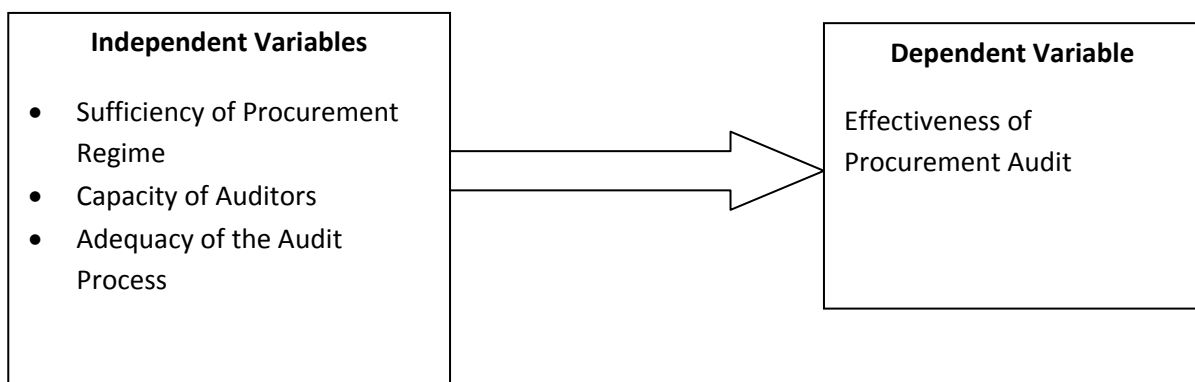
2. What are the barriers to effective audit related to procurement?

3. How can we improve the effectiveness of procurement audit?

1.7 Analytical Framework of the Study

The analytical framework of the study has been formed on the basis of the auditors' role in the principal-agent relationship as well as the general standards of auditing provided in the government auditing standards. It needs be stated clearly that from functional viewpoint, the effectiveness of procurement audit will depend upon two kinds of activities: first, functions directly related to the audit process, e.g. audit planning, programming and processing, audit methodology and secondly the adequacy of the regime under which procurement is being carried out.

Figure- 01 : Framework for Analyzing Effectiveness of Procurement Audit



1.8 Scope and Limitations

Public procurement is a vast area and thus its scrutiny. Every organization in the public sector is some way or other doing some procurement. Besides procurement is of varied types and of varied scale. It is not possible to find the whole picture of the effectiveness of audit within this short span of time and capacity. The research work will be limited within the impact of procurement regime on the effectiveness of procurement audit. This is an area where not much procurement has been done before. So there is lack of literature in this area. All these place some limitations the scope of the study.

1.9 Structure of the Dissertation

This thesis has been divided into five chapters. Chapter 1 presents the introduction and context of the study. It includes the research objectives, research questions, rationale of the study, research methodology and theoretical framework. Chapter-2 includes the literature review and definition of key terms. Chapter -3 discusses the existing public procurement regime in Bangladesh. Chapter 4 summarizes the research findings and furnishes recommendations based on the findings. The recommendations based on discussions with the respondents, are also developed from certain ground realities that both the auditors and procuring entities (auditees) come across in the audit fieldwork. Finally Chapter -5 comes with a conclusion.

Chapter-2 A Review of Literature: Concepts and Contexts

2.1 Introduction

This research mainly aims at investigating the extent to which the procurement audit is effective in the current legal regime. With a view to support answering the research questions a descriptive literature review is carried out to gather and discuss evidence of other researchers. Thus the literature review acts as the secondary sources such as scientific articles published in academic journals.

2.2 Public Procurement Framework

The United Nations thought public procurement as an “overall process of acquiring goods, civil works and services which includes all functions from the identification of needs, selection and solicitation of sources, preparation and award of contract, and all phases of contract administration through the end of a services’ contract or the useful life of an asset” (United Nations Development Programme, UNDP, 2007). Although procurement process is the heart of a sound procurement system public procurement, it “involves more than the procurement process alone” and it should not only consist of supporting, but also “important components” including strategy and policy of the organization, methods and procedures, personnel and organization, and information (Harink, 1999). The World Bank has also developed a framework of procurement assessment under its “Country Procurement Assessment Review.” This framework consists of four elements: legal framework, institutional framework and capacity, procurement operations and practice, and integrity of the procurement system. This framework provides basic guidelines or a procurement benchmarking tool for assessing the quality and performance of country procurement systems. But according to Araujo (2004) the detailed areas are legal framework, institutional framework, procurement execution capacity, procurement procedures/ tools, control system, anticorruption initiatives, private sector participation, contract management and system for addressing complaints. This framework is an important tool for periodic procurement assessments and reforms thereon.

2.3 Public Procurement- Scenario of Developing Countries

Public procurement means purchasing by local or central governments of the goods, works and services they usually operate that range from simple office items to sophisticated high tech equipments (Kashap, 2004). Procurement regime in Bangladesh also includes hiring as procurement. An effective and well functioning public procurement system is a pre-requisite for efficient government procurement, the achievement of value for money⁴, the elimination of fraud and corrupt practices, promotion of competition, transparency and accountability (Osei-Owusu and Gyapong, 2013). This fact has been recognized by donor agencies and they are insisting on reforming procurement process. It is also not surprising that developing or transition countries in need of foreign aid are sometimes forced to balance several competing interests in the area of procurement reform and external pressure in the form of conditions made part of loans or grants from donor institutions is often the major reason for reform efforts (Witting & Jeng 2004). Several countries that introduced new regime of procurement under World Bank guidance are Afghanistan, Bangladesh, Ghana, Peru, Rwanda, Sierra Leon, Tanzania and Uganda (Oppong, 2013).

Even some nations and economic forums are trying to enshrine public procurement in their supreme legal instrument i.e. their respective constitutions (Kashap, 2004). South Africa is one them who provided for special attention through section 217 of post-apartheid Constitution in 1995 (ibid).

Poor documentation and improper record keeping; habitual violation of public procurement laws and regulations; incompetence of procurement and audit personnel; and inadequate supply of resources for the audit function are the main barriers of effective public procurement audit in Ghana (Etse & Asenso-Boakye, 2014).

⁴ Chartered Institute of Procurement & Supply (CIPS) defines value for money as 'the optimum combination of whole life cost and the quality necessary to meet the customer's requirement'

Procurement can significantly influence the overall success of an emergency response depending on how it is managed. For developing countries the stark reality is that they are in general faced with challenges of poor management, sub-standard professional and institutional capacity, absence of state institutions and lack of political will to review procurement related issues and punish offenders duly, legislative bottlenecks and resource constraints of public auditing institutions (OECD, 2008). Besides it is widely believed that procurement in the government machinery is the highest source of corruption all over the world. So the necessity of strict regulation and control over public procurement activities cannot be over emphasized.

Public procurement is gradually becoming an issue of politics between the developing and developed countries. This can be realized from the fact that Government Procurement Agreement (GPA)⁵ was signed in 1979 and it expanded ten times during Uruguay Round negotiations and ultimately this process resulted in the formation of World Trade Organization (Kashap, 2004).

2.4 Bangladesh Context

In spite of the provisions and each sincere effort of the law, the procurement processes in Bangladesh are characterized by over-bureaucratization. The procedure are exceedingly lengthy, causing delays and thereby discouraging genuine and potential bidders. The complex bureaucratic procedure underpinned by open-ended legal discretion may foster practices of corruption. Corruption has indeed been a major problematic for business and efficiency in the administration, and thus calls for special attention while reforming the public procurement regime. A source of corruption in public procurements might be, for example, the administration's discretionary power to overlook lack of experiences of certain contractors involving works of a prescribed financial value (Hasan, 2012).

Although restricted tendering method or direct procurement method can be used for some specific reasons, procurement and contracts in Bangladesh often take place through open competitive biddings (Islam, 2007).

⁵ So far only 26 countries signed GPA(WTO website), which means that public procurement is an area which can be thought as an important item for future liberalization.

2.5 Procurement Audit

The procurement audit is an independent evaluation to determine whether the activities and the results of these activities correspond to the planned demands of goods, constructions and services and whether these demands are effective and suitable to achieve the objectives. In every government system, so far the government spending is concerned, procurement accounts for a lion's share. So expenditure audit mainly entails procurement audit because other expenses are mainly pay and allowances and scope for misappropriation there seems to be limited and even if it is, the amount will be smaller. Not only the compliance issue but also quality and probity of expenses has thus become essential. Spending is done to achieve some results and when results are unsatisfactory, the spending become useless. This has made the scrutiny of public procurement an indispensable part of development activities. Due to the colossal amount of money involved in public procurement and the reality that such money is taxpayers' money, there is a need for accountability and transparency (Willy & Njeru, 2014).

Effective public procurement audit ensures that public entities achieve best value for money and probity and by so doing secure public confidence. Public procurement audits are expected to: determine whether proper procedures have been followed by a procurement entity in its procurement administration; ascertain whether activities of the entity are in accordance with relevant laws and regulations; determine whether proper records have been maintained with respect to the entity's operations; assess the adequacy of rules and procedures applied in procurement operations with regard to the protection of public assets and property and ; ensure that procurement activities of the entity are undertaken within the budgetary limits set by Parliament. (The Ghana Audit Service, 2010)

Audit of procurement play two fold roles- it gives psychological pressure on the procuring agencies that they will be held responsible for their activities and helps the regulator understand the level of compliance to the existing regime (Sabiiti & Muhumuza, n.d.).

Public procurement is a very risky process and thus the audit of procurement. It is complex and challenging as well. Public procurement practitioners have and will always face many challenges (Thai et al,2005). Each country has its own economic, social, cultural and political environment, and each country's public procurement practitioners face different types of challenges, or the same types of challenges but at different levels from their counterparts in other countries.

Rules and regulations if not followed and enforced, cannot deter further occurrence of wrongdoings. There are various approaches that be adopted to guard against the breaking of procurement laws with impunity (Etse & Asenso-Boakye, 2014). For instance people who are found to have benefited from violation of the procurement regulations must not be left to enjoy their loots, they should be made to refund what has been misappropriated, mismanaged or stolen with high enough rate of interests which will serve as a deterrent for further occurrence (ibid). On the other hand measures to safeguard are useless if there are no means to ascertain whether procurement entities perform as expected of them and that public interests are being served.

Personnel involved in procurement audit must be given proper training in rules and regulations guiding procurement so that violation of the law could not be as result of ignorance (Etse & Asenso-Boakye, 2014). Training would ensure a purchasing practitioner to be someone who can make sound and credible decisions that can add value to the organisation. Besides there is a need for adoption of professional procurement practices. If organisations in all sectors were to adopt professionally the Purchasing practices, this would result in a positive impact on the Gross Domestic Product of the country since input (purchasing) costs constitutes about 30-40% of costs to every final product (Musanzikwa, 2013).

2.6 Definition of Key Terms

2.6.1 Procurement Related Terms⁶

"Goods" means raw materials, products and equipment and objects in solid, liquid or gaseous form, electricity, and related Services if the value of such Services does not exceed that of the Goods themselves.

"Intellectual and Professional Services" means Services performed by Consultants with outputs of advisory, design, supervision or transfer of a knowhow nature.

"Procurement" means the purchasing or hiring of Goods, or acquisition of Goods through purchasing and hiring, and the execution of Works and performance of Services by any contractual means.

⁶ These definitions have been quoted from PPA-2006 and PPR-2008.

"Procuring Entity" means a Procuring Entity having administrative and financial powers to undertake Procurement of Goods, Works or Services using public funds.

"Public funds" means any funds allocated to a Procuring Entity under Government budget, or loan, grants and credits placed at the disposal of a Procuring Entity through the Government by the development partners or foreign states or organisations.

"Services" means goods related Services, physical Services, or intellectual and professional Services.

Sourcing refers to process of identifying and working with the potential suppliers (Mangan et al, 2008)

"Works" means all Works associated with the construction, reconstruction, site preparation, demolition, repair, maintenance or renovation of railways, roads, highways or a building, an infrastructure or structure or an installation or any construction work relating to excavation, installation of equipment and materials, decoration, as well as physical Services ancillary to Works, if the value of those Services does not exceed that of the Works themselves.

2.6.2 Audit Related Terms⁷

"Audit" includes an examination of the books of accounts, other documents, stores, assets etc. relating to the receipts and expenditure of the Government, statutory public authorities and public enterprises with a view to ensuring that rules and orders framed by the competent authority in regard to financial matters have been followed; that sums due have been properly assessed, realized and brought to account; that expenditure has been incurred with due regularity and propriety; that assets have been properly utilized and safeguarded, that public resources have been used economically, efficiently and effectively, and that the accounts truly represent facts.

⁷ Taken from Audit Code issued by the Comptroller and Auditor General of Bangladesh.

Chapter-3: Public Procurement Regime and Procurement Auditing in Bangladesh

3.1 Introduction

Procurement system in any country shares some common objectives such as value for money, fair treatment, non-discrimination, integrity and socio-economic development. Before the introduction of PPR 2003 there were no unified regime guiding the procurement and different agencies used to adopt different methods and practices. Earlier the rules were intended to accomplish the purchasing only. But in course of time mere purchasing attitude cannot cater the desired needs of the taxpayers and this warranted the enactment of a unified regime to be followed by all public bodies. Not only the procuring entities but also the procurement providers have the right to be well treated. Thus the public procurement regime has sought to ensure transparency, accountability and fairness in government procurements.

3.2 Public Procurement Regime

3.2.1 Background of the Regime

The World Bank prepared a Country Procurement Assessment Report (CPAR)⁸ during 2000-02 in consultation with Government of Bangladesh (GoB). CPAR identified loopholes and limitations of existing procurement regime and furnished some recommendations. Following the recommendations of CPAR, GOB has undertaken a comprehensive reform program in this arena. Public Procurement Reform Project (PPRP) was initiated with support of IDA credit. The main objectives of the project are to –

- improve governance in public procurement
- increase efficiency, transparency and accountability in public procurement and
- to regain peoples' confidence, reduce corruption and strengthen country's utilization capacity of available resources.

⁸ Country Procurement Assessment Report was published by World Bank in May 2002.

CPAR identified the following deficiencies-

- Absence of a legal framework
- Bureaucratic procedures resulting in delay of decision making
- Lack of competent staffs to carry out procurement functions
- Poor quality documentation
- Ineffective contract administration

In this key recommendations of CPAR to GoB were:

- Set up a Public Procurement Policy Unit
- Issue Public Procurement Rules
- Streamline Proc. Process & Financial Delegation
- Develop Procurement Management Capacity
- Publish Contract Awards
- Introduce Appeal Procedures

In line with the objectives and recommendations stated above, the reform process ultimately led to the promulgation of Public Procurement Regulations (PPR) in 2003 on 24th October 2003 encompassing a unified procurement processing system for the first time. The PPR 2003 was supplemented by Public Procurement Processing and Approval Procedures (PPPAP), several Standard Tender Documents (STDs) and Standard Request for Proposal Documents for the procurement of goods, works and services. The Delegation of Financial Powers (DOFP) was also revised accordingly by Ministry of Finance.

In order to further consolidate the legal regime related to procurement, the Parliament of Bangladesh enacted the long cherished law, the Public Procurement Act 2006 (PPA 2006). Under the Act of 2006, the Public Procurement Rules 2008(PPR 2008) were issued. Though PPA 2006 was enacted in July 2006, these came into force⁹ on 31st January 2008. On the same date PPR 2008 also became effective. With the commencement of PPA 2006 and PPR 2003 became repealed. These two legal instruments together offered a uniform procurement system within the public sector through clearly defining the processes, criteria and specifying the roles and responsibilities of procurement entities plus the bidder community.

⁹⁹ Usually an Act becomes effective as soon as it is passed in the Jatiya Sangsad and the President gives assent to it. But in case of PPA 2006, this convention was not followed. Later, on 27th January 2008 GOB issued a gazette notification to the effect that PPA 2006 will be effective from 31st January 2008.

Another important activity was the formation of Central Procurement Technical Unit (CPTU) under Internal Monitoring and Evaluation Department (IMED) of the Ministry of Planning to perform the following activities¹⁰-

- providing for monitoring compliance with and implementation of this Act
- arranging for performance of the necessary functions & responsibilities incidental thereto and
- performing any other responsibilities as prescribed by government.

CPTU has been working since 2002. It provides for, among other things, information and technical know-how required in public procurements.

Mentionable that there is no direct provision in the Constitution of the People's Republic of Bangladesh that governs the public procurement. However, the Constitution has expressly stated the rule of law, democracy and justice and these can be treated to be the sources of public obligation of integrity in state machinery. Public Procurement System in Bangladesh is decentralized i.e. every department has some delegated authority up to certain level.

3.2.2 Principles of Procurement

The public procurement is based on the following general principles:

- (i) Non-discrimination and equality of treatment¹¹;
- (ii) Transparency;
- (iii) Confidentiality

The principle of “non-discrimination” is a cornerstone of Public Procurement. This principle prohibits any discrimination on grounds of nationality, meaning that all participants shall be treated in the same manner, unless the difference is objectively justified. Both direct and indirect discrimination is prohibited. Transparency in the context of public procurement is the ability of all interested parties to know and understand the actual methods and processes by which contracts are awarded and managed. It represents a key pre-condition to promote wide participation in procurement. The principle of confidentiality obligates the procuring entity to keep the evaluation procedure fully confidential.

¹⁰ As per Section 67 of PPA 2006.

¹¹ Rule 47 of PPR.

3.2.3 Procurement Process/Cycle

According to Chartered Institute of Procurement and Supply a generic procurement cycle consists of the following steps-

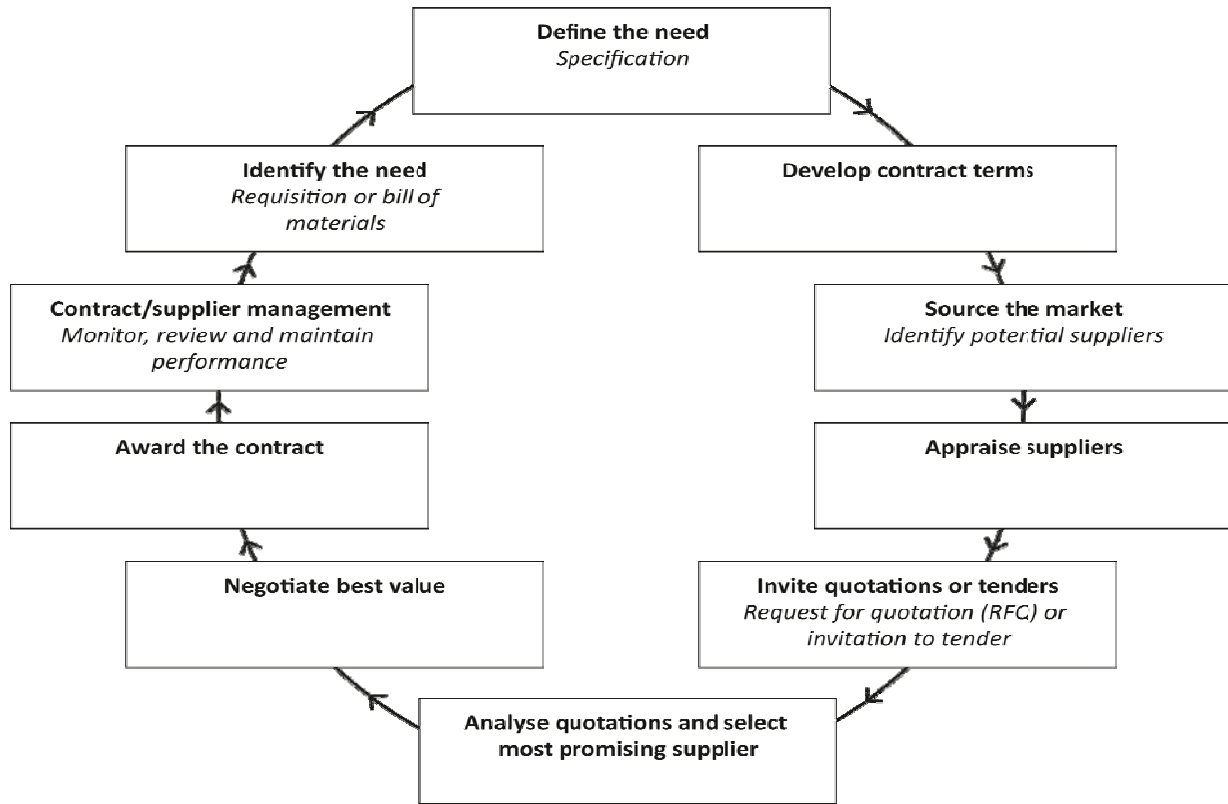


Figure-1: Procurement Cycle

Source- CIPS Study Materials

PPA and PPR together describes the procurement process which can be stated as follows-

1. Identification of need: This is an internal step for a procuring entity that involves understanding of the organization’s needs by establishing a short term strategy. Provisions related to procurement planning¹² stage describe this indirectly. This is followed by budgetary provisions as no steps for procurement is taken unless the budget is ascertained from the Ministry of Finance.

¹² Section 11 of PPA and Rule 16-17 of PPR.

2. Supplier Identification: Once the procuring entity accomplishes the first step, then it needs to identify who can provide the required product/service. In case procurement above certain threshold prequalification is done for procurement of goods and services. For service procurement supplier identification is carried out through short listing.

3. Supplier Communication /Invitation of Tender: When one or more suitable suppliers have been identified or it is known that potential suppliers and contractors are available in the market then tender is invited. There are various methods of tendering based on whether the intended procurement is for goods, works or services.

4. Processing of tenders: Tenders received and evaluated based on the criteria stated in the tender document. Negotiation is only allowed in case of direct procurement method and in service procurement negotiation is mandatory.

5. Contract Award: Contract is awarded to the lowest evaluated tenderer. Unsuccessful tenderers are informed of the accordingly. Performance security is taken in case of goods and works and it is usually 10% of the contract price.

6. Execution of Contract: The contracts are executed through actual delivery of goods, performance of works and services.

3.2.4 Main Legal Instruments

Two main legal instruments are Public Procurement Act 2006 (hereinafter PPA) and Public Procurement Regulations 2008 (hereinafter PPR). Though PPA 2006 was enacted in July 2006 it came into force in 31st January 2008 when Care taker government was in power. It has 73 sections and 14 schedules. As per section 70, PPR 2008 was framed. PPR was made effective on the same date as PPA. PPA describes the basic provisions while PPR furnishes the detailed procedure.

Schedule-1 of PPR gives a list of Standard Tender Documents (STD) for Goods, Works and Services. Schedule-2 is very important and it states the limits of various issues. A checklist of approval procedure is given in Schedule-3. It also presents a detailed step for opening tenders. Format for procurement planning is given in Schedule-5. Schedule-6,7 and 8 respectively presents 'Format for Reporting Contract Award', 'Notification of Award' and 'Records of Procurement to be Maintained by a Procuring Entity'. A range of possible causes for conflicts of interests on part of consultants is shown in Schedule-9.

Formats of advertisements for prequalification, enlistment and invitation of tenders are found in Schedule-10 and a format for request for expression of interests is given in Schedule-11. Schedule-12 is related to tender submission forms. The code of Ethics for Public Procurement is furnished in Schedule-13. Finally Schedule-14 prescribes a format for purchase proposal that will be sent to Cabinet Committee on Government Purchase (CCGP). All these schedules supplement the original rule and make the implementation smooth and easier.

Both PPA and PPR amended three times. PPA amended on 18th July 2010, 25th February 2009 and 15th July 2007. PPR amended on 01st April 2012, 27th March 2011 and 12th August 2009. If any contradiction arises between PPA and PPR, then PPA shall prevail as it is an Act of Parliament.

3.2.5 Methods of Procurement

According to PPR, 2008 for goods & related services and works & physical services there various methods for procurement. These are Open Tendering Method (OTM), Limited Tendering Method (LTM), Request for Quotation (RFQ), Direct Purchasing Method (DPM), Two-Stage Tendering Method and Single Stage Two Envelope Method. There are also various Methods for Procurement of Intellectual and Professional Services. These are Quality and cost Base Selection (QCBS), Selection under Fixed Budget (SFB), Least Cost Selection (LCS), Single Source Selection (SSS), Selection of Consultants Based on Consultant's Qualifications (SBCQ), Selection amongst Community Service Organizations (CSOs), Selection of Consultants by a Design Contest (DC), Selection of Individual Consultant (SIC).

3.2.6 Secondary Provision Related to Public Procurement

In order to supplement the main legal instruments various provisions have been issued from time to time. These are

- i. Central Public Works(CPW) Code
- ii. General Financial Rules(GFR) issued by Ministry of Finance
- iii. Treasury Rules and Subsidiary Rules framed there under
- iv. Codal Rules of Bangladesh Railway
- v. Defence Purchase 35(applicable for the units of Armed Forces only)
- vi. Development Credit Agreements signed with donors
- vii. Circulars issued by different ministries¹³
- viii. SROs related to VAT and Tax issued by National Board Revenue(NBR)¹⁴

However, the list is not exhaustive and there are many provisions that directly or indirectly affects the procurement process.

3.2.7 Key Ministries and Divisions Responsible for Making Policies on Procurement

The Ministries and Divisions that are mainly responsible for making policies in the procurement area are :

- (i) Cabinet Division
- (ii) Ministry of Finance
- (iii) Ministry of Planning
- (iv) ERD- Economic Relations Division
- (v) IMED- Implementation, Monitoring & Evaluation Division

Each of these Ministries has some contribution in their field as per Rules of Business. The concerned agency or Ministry first proposed a project and its associated procurement. The Ministry of Finance and ERD assist in deciding on the funding source, either from revenue budget or Development Budget or through foreign aid. The association IMED of the Ministry of Planning and different Ministries take place during the approval process of the project embodying the procurement.

¹³ If the government hospitals want to procure medicine, then a non-availability certificate from

¹⁴ Different rates of tax and VAT exist for goods and works.

The Ministry of Finance issues from time to time, instructions as to financial powers which public entities may exercise in procuring goods or services. Cabinet Division plays the main role in securing the approval from the Cabinet Committee on Government Purchase (CCGP)- the highest body to grant purchase permission above a certain limit¹⁵.

3.2.8 Lope holes in Existing Regime

Hoque (2010) identified the following lope holes in the existing regime-

- the discretion of procuring entities in choosing one or the other methods of procurement
- the judiciary has not developed a searching review of public contracts, thereby effectively leaving out certain government procurement decisions out of the bounds of judicial constitutional review
- lack of adequate professional competence of the public officials
- review and appeal processes are exceedingly bureaucratic, and multi-layered, discouraging an aggrieved tenderer/applicant to seek legal remedies.

3.3 Public Procurement Auditing

3.3.1 History of Public Auditing

Bangladesh as an independent country came into being in 1971. Its constitution incorporating democracy as fundamental principle was framed and made effective in 1972. Accountability being the essence of democratic form of government, provisions were made under Article 127-132 of the Constitution for the creation of an oversight body for the independent and objective scrutiny of public funds. This body is the Office of the Comptroller and Auditor General of Bangladesh (OCAG) headed by the Comptroller and Auditor General of Bangladesh (C&AG) . This office is entrusted both with the comptrollership responsibilities and auditing functions. The CAG has been responsible for both the auditing and accounting of public receipts and expenditures.

¹⁵ Currently concerned minister can give approval up to 25 crore for Goods and Works, 5 crore for Services, beyond which approval from CCGP is needed.

3.3.2 Legal Mandate of OCAg

The CAG heads the SAI and is appointed by the President of the Republic. He derives authority for exercising his functions from the Constitution of the Republic and relevant acts and ordinances. Article 128(1) of the Constitution mandates the CAG or any other person authorized by him, unrestricted access to any records in the possession of any person in the service of the Republic. Article 128(4) ensures complete independence of the CAG in the exercise of his functions. Under the authority of Article 131 CAG fulfills his comptrollership functions through prescribing the form and manner of keeping public accounts, and certifying annual appropriation and finance accounts of the government.

3.3.3 Structure of Procurement Auditing

OCAg has ten Audit Directorates. These are Local and Revenue Audit Directorate, Commercial Audit Directorate, Works Audit Directorate, Civil Audit Directorate, Defense Audit Directorate, Performance Audit Directorate, Railway Audit Directorate, Mission Audit Directorate and Post, Telephone & Telegraph (PT&T) Audit Directorate. Work area varies among these offices but all the Directorates except Civil Audit Directorate perform procurement audit.

Works Audit Directorate audits public works expenditures of Public Works Department, Roads and Highways Department, Bangladesh Water Development Board, Bangladesh Power Development Board, Dhaka Electric Supply Authority, Water and Sewerage Authority, Bangladesh Civil Aviation Authority, Local Government Engineering Department, Education Engineering Department, Public Health Engineering Department and City Development Authorities etc. During documents reviews reports of Works Audit Directorate and Local & Revenue Audit Directorate were given emphasis.

3.3.4 Limitations of Auditing

Transparency International Bangladesh¹⁶ identified the following limitations of audit reports of SAI, Bangladesh-

The audit process is a time consuming matter. If auditors give audit objections to an office, the office will need to provide necessary explanations or documentary evidence. If explanations and evidence are not acceptable or further clarifications are required, the auditors may seek further clarifications. Getting response from the public offices is also lengthy. As a result, an audit cannot be completed within 90 days deadline.

On the other hand, audit reports are always riddled with numerous errors for lack of efficient audit managers and proper supervision. Even getting the schedule of BG Press for the publication of audit report takes time. Besides during audits, objections are made based on the documents of last two years. In such a situation, when audit reports are made available before the Public Accounts Committee (PAC), old audit reports loss their significance. Moreover, sometimes more time is required to get feedback on audit reports from Quality Assurance Committee of CAG Office.

When audit reports are finalized after such a lengthy process, additional six months are required to get appointments from the President and the Prime Minister. Thus, audit report preparation and subsequent submission to the President require at least one and a half year. Because of this lengthy audit process, only a few audit objections can be settled properly. Therefore, since independence altogether one lac and 52 thousand audit objections have been waiting to be settled.

¹⁶ Institutions of Accountability Series-2009, Joint Study by BIGD and Transparency International Bangladesh.

3.4 Conclusion

Laws are of no effect if they are not enforced, and enforcement is of no consequence if it does not prevent future occurrence of the wrongful act. A number of approaches can be adopted to guard against the breaking of procurement laws with impunity. For instance people who are found to have benefited from violation of the procurement regulations must not be left to enjoy their loots, they should be made to refund what has been misappropriated, mismanaged or stolen with high enough rate of interests which will serve as a deterrent for future occurrence. Moreover, personnel in charge of procurement and audit must be given thorough education and training in the Acts and Regulations guiding procurement, this is needed so that violation of the law could not be as result of ignorance.

Chapter-4: Major Issues, Challenges and Suggested Remedies

4.1 Introduction

This chapter summarizes the research findings and furnishes recommendations based on the findings. The recommendations based on discussions with the respondents, are also developed from certain ground realities that both the auditors and procuring entities (auditees) come across in the audit fieldwork. The personal experience of the researcher from his day to day work has also been reflected here.

4.2 Adequacy of Procurement Regime

4.2.1 Lack of clarity in definition of Procurement

Rule 2(13) defines procurement as the purchasing or hiring of Goods, or acquisition of Goods through purchasing and hiring, and the execution of Works and performance of Services by any contractual means. If we explain the definition literally then we see that items that are living things like fish fry, tree sapling and livestock etc are not covered by this definition. So audit cannot question the procuring entity if PPA-2006 and PPR-2008 are not followed in procuring these items.

Recommendation

Definition of procurement should be amended to include living things. Besides existing definitions need to be made more comprehensive so that current regime can be applied without any confusion.

4.2.2 Inconsistency in Existing Provisions

So far the procurement is concerned, PPA and PPR are the two main legal instruments. These instruments are supplemented by Delegation of Financial Powers for procurement under revenue and development budget. There are also other provisions that directly or indirectly. A list of such provisions is given in Art 3.1.6 of Chapter- 3.

According to Section 4 of PPA 2006, the provisions of this Act shall prevail notwithstanding anything contained in any other law. So if any provision is inconsistent or contradictory with PPA, then this provision shall to the extent of inconsistency be void. But the question is, Should the procuring entities still follow the other provisions that are not inconsistent with PPA? For example Railway codal rules require that for every item of expenditure, financial advice from Financial Advisor and Chief Accounts Officer (FA&CAO) is mandatory. A bit same provision also exists in defense procurement. But in PPA and PPR there is no provision for such advisory functions. Sometimes it becomes a matter of tension between railway executive office and the finance department.

Sometimes audit objections also arise due to non-compliance of these supplementary rules but the auditee organizations always claim that after introduction of PPR such supplementary rules became obsolete. Auditors think that following these supplementary rules are mandatory so long these are not inconsistent with the PPA and PPR.

Recommendations

A clear instruction from cabinet is needed in this regard. It may require inter ministerial meeting as it involves decision of several ministries. Procurement rules also need to address these areas.

4.2.3 Difficulty in Fixing Lowest Evaluated Tender

As per Rule 98 of PPR lowest evaluated bidder shall be selected for award of the work order and very often lowest bidder is selected instead of lowest evaluated bidder. Lowest evaluated bidder and lowest bidder are two very different things. Lowest bidder means the lowest quoted price but lowest evaluated price considers the true economic value of the tender price over the whole life span costs such as cost of spare parts, fuel, performance or productivity of the equipment, etc. So to evaluate truly on 'lowest evaluated price basis' the specification and evaluation criteria must include such criteria in tender documents and this will depend on the particular item that is being procured. The procuring entity must have adequate knowledge about that item. Another important thing is that specification must be non-restrictive and non-discriminatory. So given these conditions, preparation of suitable specification becomes cumbersome.

Consequently the procuring entities do want to take risk of complains against them and select the lowest priced tender not the lowest evaluated one. As a result, procurement using public funds suffers seriously in terms of quality.

It is very difficult to raise questions about the quality of procurement as the provisions of quality assurance are not sufficient.

Recommendations

CPTU should prepare some standard specification in cases where handsome money is being spent. For example every year hundreds of cars are purchased and different procuring entities use different specifications. In most of the cases one entity copies specification from other without considering what is their specific needs.

4.2.4 Inadequate Provisions of Procurement in Foreign Missions

High Commissioner or an Ambassador or a Head of Bangladesh Mission overseas can procure only by means of the RFQ Method in accordance with Rule 69 for the Procurement of readily available, standard Goods and unforeseen urgent physical Services and the current limit is Tk 15 lac only. With this limit and method it is not possible to buy a car and embassies often face difficulty in such procurement.

As per Rule 8(2) procuring entity shall include two external members The Evaluation Committee formed under Sub-Rule (1) shall include external members having knowledge required for evaluation in Tender or Proposal Evaluation Committees but how the procuring entity can do it where there is no other office of Bangladesh Government. Even many embassies cannot fulfill the requirement of minimum number of TEC members due to shortage of officers.

Sometimes foreign missions have to make high value procurement e.g. to construct embassy office building. In such cases problem arises as to what country law would govern the contract clauses. CPTU usually persists in the application of Bangladeshi law whereas bidders prefer the local law.

Last but not the least the procedure stated in Rule 69 for RFQ doesn't support the local environment and procurement activities varies widely across the embassies.

Absence of regulations begets unnecessary delay in procurement and there is less scope to raise audit objections.

Recommendations

A comprehensive and detailed section should be inserted in the PPR so that all necessary procurement in embassies can be done without confusion. Provision may include the application of local law to facilitate the smooth execution of contracts.

4.2.5 No Clear Ruling regarding Forfeiture of Performance Security

There is no clear provision in PPA or PPR as to how to forfeit performance security (which is usually 10% of the contract price) in case of default by contractors or suppliers. Although there exists clear and comprehensive provisions about the forfeiture of tender security which is only 1-3% of estimated contract price. Due to this suppliers or contractors often resort to create unnecessary delay in delivery of goods and performance of works and procuring entities cannot take appropriate measures against this. Audit objections are very common in this area and every year new objections are being piled up.

Recommendations

Clear provisions regarding forfeiture of performance security need to be inserted so that appropriate measures can be taken against the defaulters. It will save public fund as well as reduce delay in project implementation, cost of procurement and improve quality of procurement.

4.2.6 Limited Scope of Public Fund in New Definition

As per PPR 2003 the definition of public fund included among others the revenues generated by statutory bodies and corporations but PPR 2008 public fund means funds allocated to a Procuring Entity under Government budget, or loan, grants and credits placed at the disposal of a Procuring Entity through the Government by the development partners or foreign states or organisations. Besides nothing is said about the revenues generated by public sector companies like DESCO, DPDC etc. That means own fund of statutory bodies, public sector companies and corporations are out of the purview of new PPA and PPR and they can follow their own rules if any.

Such bodies are taking advantage of this provision and spending their own funds arbitrarily. When objections raised the auditee simply refer to the new definition of public fund.

Recommendations

Scope of public fund should be broadened so that all procurements of public bodies can be brought under a unique legal regime. Almost all respondents were in the view that the definition of public fund should cover the funds generated by statutory bodies, public sector companies and corporations. At least provisions should be there to follow PPA and PPR unless they can have their own procurement guideline in consultation with CPTU.

4.2.7 Lack of Clear Authority in Provisions of Procurement Planning

Preparation of a Annual Procurement Plan is mandatory for all Procuring Entities. Separate plan is prepared for Development Projects or Programme and of Revenue Budget. This plan requires approval of the Head of the Procuring Entity or an officer authorized by him or her. Now the question is - whether the Head of the Procuring Entity or an officer authorized by him can approve it if there is an item of procurement for which approval from CCGP is required.

Recommendation

CPTU should clarify of this ambiguity by inserting clear instructions.

4.2.8 No Explicit Provision as to where to ask Tender Security Mandatorily

Both in PPA and PPR there is no clear instructions that tender security is mandatory in Open Tendering Method (OTM) and second stage of Two Stage Tendering Method (TSTM). On the other hand it has been stated several times where tender security is not required or not mandatory. For example tender security is not required in LTM [Rule 63(5)], first stage of two stage tendering method [Rule 66(3)], Request For Quotation (RFQ) Method [Rule 70(6) & 22(6)] and Direct Procurement Method (DPM) [Rule 75(5) & 22(6)].

Mentionable that in case of Single Stage Two Envelope method it is only explicitly stated that tender security (in a rounded fixed amount) is required.

But In practice tender security is taken in case of OTM though there is no provision in support of this.

Recommendations

It is essential to state explicitly that tender security is essential in OTM.

4.2.9 Inadequate Provision regarding Formation of Committees

Tender Opening Committee (TOC)- TOC is a three member committee of which one member from the TEC or PEC and two other members from the concerned Procuring Entity [Rule 7(1)] as below –

- (a) Chairperson;
- (b) Member;
- (c) Member-Secretary.

So the question is whether the TEC or PEC member in TOC can be external member of TEC or PEC or the internal members. Usually an internal member of TEC or PEC is included. But for more transparency external member should be included.

Sometimes only one tender is dropped and in that case there is scope to tamper the price or even price can be changed up to a maximum possible amount. Audit unearthed such instances but it was difficult to prove. So proper control and monitoring during the process of procurement is very essential.

Recommendation- In TOC an external member of TEC or PEC to be included. It will ensure transparency and accountability and prevent tampering of quoted price in case of a single tender.

Tender Evaluation Committee- Inclusion of two external members in TEC is mandatory [Rule 8(2)] and in this case a symbiotic relationship is seen. For example if LGED takes members from PWD then PWD again takes members from LGED. That cross membership in evaluation committees are found. Though it is not contrary to existing provisions but it is against transparency and principles of good governance. The purpose of inclusion of external members has become useless. It is not unlikely that TEC reports are signed even without attending the meetings.

Recommendations- Provision should be there that cross members is not allowed. That is if LGED takes external members form PWD then PWD cannot take external members from LGED.

4.2.10 Misuse of LTM

Rule 63 prescribes the circumstances where LTM can be used. For example, when there is an urgent need for Procurement of Goods, Works or Services and appear as such that open national or international competitive Tendering would be impractical and when the circumstances giving rise to the urgency were neither foreseeable by the Procuring Entity nor caused by delay on its part. Procuring entities seem to misuse the application of LTM in procurement of works stating that it is urgent. During audit it is not possible to determine whether the procurement was urgent or not and thus justify the use of LTM.

Recommendation

CPTU should devise a way so that indiscriminate use of LTM is stopped. Close monitoring is required in this regard.

4.2.11 Lack of Link between Procurement Regime and Budgeting Process

Government budget is given under an economic code. For example 6800 is the budget code for procurement of fixed assets. It is essential to link different limits for procurement to the budgetary codes.

For example- Value of Direct contracting of goods, works, services of very urgent or essential nature [Rule 76(1)(j) and (k)]

- Maximum Tk. 2,000,000 (two million) in each Procurement up to annual aggregate amount of Tk. 3,000,000 (three million for emergency procurement of Goods, Works and Services arising from natural disasters
- Maximum Tk.50,000 (fifty thousand) in each Procurement up to annual aggregate amount of Tk.100,000 (One hundred thousand) with the approval of the HOPE for procurement of Goods, Works and Services of very urgent or essential nature such as catering services, ambulance services, transportation services, event management services, repair/maintenance services, plumbing services, carpentry services, masonry services.

Such limits are also found in some other rules.

So how to determine the amount the aggregate amount is posing a dilemma. Is it aggregate for the procuring entity as a whole or for a particular code of budget?

Recommendations

CPTU should link these limit with budgetary code so that procuring entities cannot take advantage of this ambiguity. Besides this linkage will streamline the budget with procurement process and the Delegations of Financial Powers. This linkage is a must for budgetary control and proper utilization of public funds.

4.2.12 Contradictory Provisions

Rule 26(3) and 102(13) seems to be contradictory to each other. As per Rule 26(3) tender securities other than 1st , 2nd and 3rd lowest responsive Tenderers shall be returned after the Evaluation Report has been approved by the Procuring Entity subject to provisions of Section 53 and if asked by the tenderers. That means there is less scope to give Notification of Award (NOA) to the 4th lowest bidder and so on or it is discouraged to give NOA to them. On the other hand as per Rule 102(13)-

‘if the successful Tenderer fails to provide the required Performance Security as stated in Sub-Rule (7) or fails to sign the Contract as stated in this Rule, a Procuring Entity shall proceed to award the Contract to the next lowest evaluated Tenderer, and so on, by order of ranking, provided that such action shall only be taken if the evaluated cost of the Tender is acceptable to the Procuring Entity’.

It means even 4th lowest and so can be awarded NOA subject to budgetary provisions and the price is consistent with the estimated price.

- For Works Tenders invited on lot-by-lot basis, the TEC shall award the lots considering the least cost combination of the lots. There is no such provision for procurement of goods.

Recommendations

Contradiction can be solved by deleting the Rule 26(3). This deletion will not create any deficiency in application of PPR.

4.2.13 Insufficient Limit for Direct Cash Purchase Method

This method is used almost daily by every procuring entity. As per Rule- 81 the Procuring Entity may undertake direct cash purchase of low value Goods and urgent and essential Services such as maintenance, repairs, transportation up to taka twenty five thousand in each case and an annual aggregate amounts of five lac. Such petty expenses are met from economic code no 4899 where budget is far more than five lac taka in many procuring entities. Consequently this limit of taka five lac is crossed automatically. Auditors think that this rule has indirect link with GFR 140 related to permanent advance because to pay supplier in cash procuring entities need cash in hand which is determined by limit of permanent advance.

Basically procuring entities do not have clear idea of this method and they follow rules of permanent advance in such procurements. Most of the cases procurement is not through a formal committee of not more than three members as required by Rule 81(2). Also it is not clear that whether inclusion of an external member is mandatory or not in that committee.

Recommendations

The use of this method should be made more clear and systematic. The limit of taka five lac may be withdrawn. Rules on committee formation in this regard also need to be made clear.

4.2.14 Budgetary Limit Problem in Procurement of Service

In service procurement there are two main methods and six sub methods. The first step is to issue request for Expression of Interest (EOI) through advertisement in newspaper. There is no minimum limit for that and this means that advertisement is compulsory to procure intellectual service whatever may be the value of it.

As per Rule 103(4) Quality & Cost Based Selection (QCBS) is these preferred method that shall be used in most cases and shall take into account-

- (i) the quality of the Proposal; and
- (ii) the cost of the Services

Quality gets preference over cost and usually 80:20 ratio is used in evaluation and the combined score gets the award. It may happen that highest score holder has not quoted the lowest price and the quoted is higher than the budget for that item. In that case it will be difficult to buy services using QCBS method.

4.2.15 Discretionary Evaluation Criteria

Evaluation criteria are determined by the procuring entities and there are different guidelines given in PPA and PPR. For buying the same thing different procuring entities adopt different evaluation criteria and auditor face problems while comparing audit findings and drawing conclusion thereon.

Recommendations

Provisions should be there for uniform evaluation criteria for procuring the same thing. CPTU may fix qualification criteria for the items that are most frequently purchased.

4.2.16 Contractor without Experience

In case of procurement of works valuing up to two crore using LTM, no previous experience is needed. LTM can be adopted when the circumstances giving rise to the urgency were neither foreseeable by the Procuring Entity nor caused by delay on its part. Procuring entities are taking advantage of this. They are using LTM indiscriminately and it is very difficult to verify the justification of urgency because much time elapsed between the event and the audit.

Recommendations

Provisions in this regard should be made more comprehensive so that procuring entities cannot misuse the method. CPTU may impose restrictions that procuring entities cannot use LTM up to a certain percentage of total budget.

4.2.17 Scope of Collusive Practice International Procurement

Another grey is the international procurement where rules and regulations are not sufficient. Here the problem is the synchronization of procurement rules with rules of the international trade especially with Uniform Customs and Practices for Documentary Credit (UCPDC) clauses.

In case of local procurement ‘Single Stage Two Envelope Method’ is available, which restricts the collusive practice to a great extent as the financial offer of only technically qualified bidders are evaluated. But there is no such method for international procurement. This encourages the formation of illegal syndicate and procuring entities have to pay much higher than it is estimated. Besides implementation delay also occurs due to ill motive of the bidders.

Recommendations

Synchronization of procurement rules with UCPDC and insertion of ‘Single Stage Two Envelope Method’ in international procurement.

4.2.18 Miscellaneous Deficiencies

- Standard tender documents are not available for procurement of goods through framework contracts.
- Authentic English text is yet to be published by CPTU. Both Act and the Rules are in Bangla whereas all standard documents are in English. This may create problems in interpretation of rules and regulations because in case of any conflict between Bangla Text and the English Text, the Bangla Text shall prevail. So CPTU should publish authentic English Text of both PPA and PPR.
- There is no clear instruction as to how to procure stand alone services like security service, cleaning service, transport service or catering services. Also STD related to procurement of standalone services is not available.
- For calculation of official estimated price there is no systematic way. Besides procuring entities have a general tendency to prepare high estimate of the items that will be procured.
- Rule 39(3) describes limit of percentage for extending the limit if a Compensation Event occurs or a Variation Order is issued which does not make it possible to complete the Works by the Intended Completion Date without the Contractor incurring additional cost. This limit here is 20%. But there is no such limit in case of repeat order. Absence of such limit may hamper execution of contracts.
- There is no provision for formation of receiving committee. To ensure right quality and quantity of goods delivered it is essential to make formal provision of receiving committee for goods.

- Standard Tender Documents (STDs) are still draft and procuring entities are using these draft documents since 31st January 2008.
- Text of both PPA and PPR are written in Bangla and still CPTU does not publish authentic English Text though it is said in Rule 13(a) that CPTU will publish authentic English text of PPA and PPR. The danger is that STDs are in English whereas the original text of law is in Bangla. CPTU should translate the STDs in Bangla. This will eradicate many confusions that arise due to use of complex terminology in STDs.

4.2.19 Perception about the Sufficiency of Existing Regime

In the questionnaire there was a question – ‘**Do you think that the provisions related to procurement are sufficient?**’ and the response of the 40 respondents is given below:

	More than sufficient	Sufficient	Sufficient except some few areas	In many areas it is insufficient	Not at all sufficient
No of Participants	0	5	18	13	4

Source: Author’s Survey

Surprisingly no respondent think that the regime is more than sufficient. Most of the respondents seem to be in the middle line. A few think that the regime is either ‘sufficient’ or ‘not at all sufficient’ .

4.3 Capacity of Auditors

Competence and skill of Auditors - In general auditing is a highly technical work and audit of public procurement is not an exception. Both auditing skill and in depth knowledge of procurement are essential to be an auditor of public procurement. Any incompetency and negligence may be disastrous and it may create media attention. In present days skill and expertise are treated as its most valuable assets. An auditor has to furnish audit opinion on financial statements prepared by management that requires sound understanding of the system. Moreover, most of the tender documents are prepared in English; knowledge of language is of vital importance. So both technical skill and language proficiency are vital.

A total of 47 respondents from auditors of different level were first asked whether they have experience in procurement auditing and among them 30 were picked for questionnaire response. The following is the profile of auditors in various aspects-

Training on Public Procurement- Only 13 respondents have training on procurement and among them only 5 has more than two week long training. Surprisingly 3 has no training even they are doing procurement audit for more than 5 years. Mentionable that new regime of public procurement was made effective from 31st January 2008. Almost 8 year passed but the number auditors trained is barely insufficient.

Training on Public Procurement- As mentioned earlier 13 out of 30 respondents have training on procurement but they do have any training on ‘Public Procurement Auditing’. In fact there is no course in Financial Management Academy (FIMA)¹⁷ that is solely for procurement audit. Even the Procurement Audit Manual is still in the draft stage.

Auditors are only given training on general auditing technique and this is not sufficient enough for a procurement auditors. This has a bad impact on the quality of audit reports. A review of the audit reports reveals that most of the audit objections are raised quoting GFR-10 not PPA-2006 and PPR-2008. Most of the auditors even do not know when this new regime came into force. They rightly pointed out that ‘lack of adequate training’ is the most prominent barrier against effective procurement auditing.

Document review also reveals that auditors sometimes raise wrong audit objections. For example, if an item of works is divided into more than one package then a bidder can participate in more than one packages and the bidder with combined lowest evaluated price will be the winner [Rule 98(20) of PPR 2008] ,not the lowest evaluated bidder in each individual package. Due to the provisions of cross discount for more than one packages, the individual lowest bidders’ sum total may be higher than the combined sum-total. But auditors stress that lowest bidder in each individual package will be the winner.

¹⁷ FIMA is the training wing of the Comptroller and Auditor General of Bangladesh.

Recommendations- Proper training of auditors is essential. It should be noted that ‘training on procurement’ and ‘training on procurement audit’ are two different things. For auditors, ‘training on procurement audit’ is more important. A comprehensive checklist based on all provisions of PPA and PPR can be developed. Every year a review of the audit objections raised by different audit directorates can be conducted to see the direction and quality of audit objections.

4.4 Adequacy of the Audit Process

Independence of auditors- The Comptroller and Auditor General (C&AG) of Bangladesh derives its authority from the constitution through Article 127 to 132. As per Art 128 the C&AG while discharging his audit functions shall not be subject to direction of any other authority. So as per legal mandate auditors are fully independent. But sometimes they face difficulty in the field work. Auditee organizations do not cooperate and create barriers like delay in presenting documents etc. The problem is severe in revenue audit where auditors are constantly facing injunctions from court.

Code of Ethics for Auditors- Code of ethics is very vital for auditors. This is essential in attaining the audit objective of ensuring accountability of public expenditure. If the auditor’s integrity is compromised, the independence of auditor is impaired and the role of watchdog is undermined and audit report to Parliament will no longer serve the purposes for which budget is approved. There is no denying the fact that management level has to rely on personal morality and firmness of the officials and staff for performance. It is sometimes alleged that audit teams cannot always adhere to the values of code of ethics for auditors, like integrity and objectivity, while performing their duties (Chowdhury, 2011).

Quality Control- Usually three layers of quality control is found in the audit process. First when field audit reports are placed to concerned Deputy Director (DD), DD then review it. After then a review at Director General (DG) is level is held to fix up whether there is any Serious Financial Irregularities (SFI) or not. The third review is carried out by the Central Quality Assurance Team (CQAT) at OCAG. CQAT is headed by Deputy Comptroller and Auditor General (Senior) .

But there are no benchmarks for quality in the audit process and a relatively small number of generalist audit managers, who themselves lack sufficient audit training and experience, are expected to provide direction, guidance and supervision to a huge number of largely unqualified and untrained auditors (Chowdhury, 2011).

Monitoring and Supervision- This seems to be the weakest area monitoring is done merely as a routine task. It does not bear any impact on the audit process. Almost all the inspection of audit teams is done with prior notice- so the negligence like absence in audit work remains unearthed. There is quite a few surprise visits from OCAg but very insufficient for monitoring large number of audit teams launched by ten audit directorates.

Audit Man-days- Ten directorates of OCAg are over burdened with audit units. No of manpower is insufficient to audit this huge activity of the government.

Role of Public Accounts Committee (PAC) - Now PAC is very active in disposing the audit reports. But the problem is the decisions of PAC are mere recommendations and the auditee organizations usually do not feel obligated to follow these recommendations. Another problem is PAC being a standing committee; it stands up to the duration of the parliament and when there is no parliament, the audit reports become piled up due to absence of disposal process. In India PAC is always exists even there is no parliament.

Recommendations- Auditors independence must be ensured- both theoretically and practically. Mere constitutional provisions are not enough; an audit act supplementing the constitutional provisions is pending at the Ministry of Finance since long. OCAg doesn't enjoy independence status like the Supreme Court and Election Commission. There is no arrangement for any kind of penalty for not following audit recommendations. So Audit Act must be enacted as early as possible. Audit objections must be settled promptly and the defaulters need to be brought to book.

A benchmarking in quality control needs to be introduced to ensure consistency in quality reporting. Monitoring from OCAg must be strengthened and audit man-days for procurement auditing should be increased. Role of PAC can be made more effective by making mandatory the directions of PAC.

Chapter-5: Recapitulations, Summary Responses to Research Questions and Clues on future Research

5.1 Introduction

This is the last chapter of this dissertation. This can be treated as the recapitulations of the whole process. Summary responses to research questions and clues on future research are presented here. This research paper focuses on the public procurement auditing in Bangladesh. It assesses the current state and challenges thereon. Every year government spends huge amount of money in procurement of goods, works and services and thus the procurement audit is a gigantic task. The main objective of this paper is to the barriers against the effective public procurement auditing and framing recommendations towards removing these barriers.

5.2 Responses to Research Questions

Question 1-Does the introduction of PPA and PPR as the main public procurement regime enhance the effectiveness of procurement audit in light of the selected indicators?

Indicator-i: Meeting challenges to procurement in the public sector.

Indicator-ii: Sufficiency of current regime related to procurement.

Indicator-iii: Provisions are well coherent to each other, not contradictory to each other, i.e consistency among the provisions.

There are many challenges in public procurement and thus the public procurement audit. The challenges of public procurement are buying right quality, quantity of goods works and services in right time. It seems to be very difficult to accomplish this if a procuring entity follows PPR meticulously. In the field level there is huge misuse of LTM for procurement of works. One good thing is that the current is a unified one and to be followed for all procurement using public funds. This leads to following a unique style and procedure while auditing public procurement activities.

No doubt the current regime is a comprehensive one but it is characterized by many insufficiencies. Even the definition does not cover all procurement activities (for example living things). Insufficiency exists in several other areas like procurement in foreign missions, guidance in fixing lowest evaluated bidder, forfeiture of performance security, explicitly asking tender security, link between procurement regime and budgeting process, limit for direct cash purchase, international procurement etc.

There are several provisions that are contradictory to each other. As per new regime the provisions of PPA-2006 and PPR-2008 shall prevail if there is any provision contradictory to PPA and PPR. In Railways and Defence purchases there are some peculiarities and they follow both new regime. Many other circulars of different ministries also affect procurement process directly or indirectly. In many instances there are differences between auditor and auditee .

Question 2- What are the barriers to effective audit related to procurement?

Procurement is specialized area and it entails numerous provisions. Sometimes some provisions are not clear and in some cases contradictory to each other. Insufficient provisions also exist in several areas. The auditors and auditee bear different views over the same issue. The auditors also do not have proper expertise on this area due to lack of training and proper orientation.

Question 3-How can we improve the effectiveness of procurement audit?

In one word the answer is to remove the barriers. Specifically, we need to improve the skills of auditors through proper training, adequate risk assessment, close monitoring of audit teams and allowing adequate time for field audit. It is also necessary to amend the provisions that are not clear and comprehensive one. For example there is no clear provision as to how to confiscate performance security (which is usually 10% of the contract price) in case of default by contractors. Although there exists clear and comprehensive provisions about the confiscation of tender security which is only 1-3% of estimated contract price. Another important thing is to consult with CPTU when before issuing any circular that may affect the procurement in some way or other.

5.3 Clues of Future Research

Procurement audit being a vast area it cannot be explored in this dissertation and within this short span of time. The following recommendation can be made for the extension of this study:

- i. taking a bigger sample size consisting of both auditors and auditee
- ii. systematic document review of all audit observations that were included in the C&AG's final audit report in the last five years
- iii. review of all rules and regulations affecting public procurement directly and indirectly.

5.4 Conclusion

Public procurement is the largest item of expenditure in the annual development budget of and the size of the public procurement in Bangladesh is increasing every year. Major areas of public procurement are construction of civil works, machineries and equipments, consultancy and stand one service, food grains etc. After introduction of PPA 2006 and PPR 2008, a uniform procedure has been started in all government agencies. Like every public expenditure, the spending on procurement is audited by the Comptroller and Auditor General of Bangladesh. This is a gigantic task and auditors face various problems while auditing this spending. These are lack of proper expertise on their part, in consistency in provisions, absence of provisions in certain cases stand in way of effective auditing. This study has attempted to study these and framed recommendations thereon. Suggested remedies are to improve the skills of auditors through proper training, adequate risk assessment, close monitoring of audit teams and allowing adequate time for field audit. It is also necessary to amend the provisions that are not clear and comprehensive one.

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Appendix-1 The Survey Questionnaire

This Questionnaire has been designed to collect data from the auditors who are engaged in audit of procurement activities. The responses will be solely used for academic purpose as part of dissertation under M.Sc. in Procurement and Supply Management (MPSM) Program of BRAC University. Respondents' anonymity will be ensured.

Title of the thesis is '**A Study on Public Procurement Auditing in Bangladesh: Current State and Challenges**'.

From: **ASM Lukman**

Student of: M.Sc. in Procurement and Supply Management Program of BRAC University

(Please tick or write as the response requires)

Basic Information about respondent

1. **Name:**

2. **Job Title and Office:**

.....

3. **Do you have experience with auditing of public procurement?**

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

If yes then how many years?

Less than 3 years	3-5 years	More than 5 years
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. **Do you have training on public procurement?**

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

If yes then how many days?

Less than 7 days	7-14 days	More than 14 days
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. **Do you have training on public procurement auditing?**

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

If yes then how many days?

Less than	5-14 days	More than
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7 days		14 days

6. Do you think that the provisions related to procurement are sufficient?

More than sufficient	Sufficient	Sufficient except some few areas	In many areas it is insufficient	Not at all
5	4	3	2	1

7. If you think that the provisions are insufficient then state areas where insufficiency exist

(tick as many areas as appropriate):

Tick	Procurement Planning
	Tender or Performance Security
	Procurement Methods
	Tender Processing
	Tender Evaluation
	Tender Approval
	Delegation of Financial Powers
	Contract Management
	Time Extension
	Price Escalation
	Receipt of Goods
	Post Procurement Review
	Non-uniformity of rules and regulations across the procuring entities
	Others such as

8. Please give some example in support of your response in question 7.

9. According to your own experience what are the barriers of effective procurement auditing?

(Here effective means a quality audit report)

	Inadequate audit planning
	Lack of proper audit guideline related to procurement auditing
	Audit man days is insufficient
	Lack of expertise on procurement auditing
	Inappropriate training
	Lack of adequate training
	Lack of clarity in rules and regulations
	Other such as

10. Please explain your response in question 9 briefly.

**11. What is the severity of the barrier against effective procurement auditing?
(i.e. how strong the barrier is)**

Very much	Higher Moderate	Moderate	Slightly	Not at all
5	4	3	2	1

12. Please rank the following efforts towards the making procurement audit an effective one.

(For example if you think that ‘Proper training of Auditors ‘is the most important factor the put ‘1’ in the box left to it and put 2,3,4,5 etc accordingly)

	Adequate audit planning
	Proper audit guideline related to procurement auditing
	Sufficient audit man days
	Proper training of Auditors
	Proper monitoring
	To make procurement regulations more comprehensive and clear one (i.e. to eradicate confusion in procurement regulations, if any)

Signature of the respondent (optional)

Date :

Thank you very much for your co-operation and valuable response.