IPPF

International Professional Practices Framework

Supplemental Guidance
Practice Guide

Auditing Procurement in the Public Sector

The Institute of Internal Auditors | *Global*

About the IPPF

The International Professional Practices Framework® (IPPF®) is the conceptual framework that organizes authoritative guidance promulgated by The IIA for internal audit professionals worldwide.

Mandatory Guidance is developed following an established due diligence process, which includes a period of public exposure for stakeholder input. The mandatory elements of the IPPF are:

- Core Principles for the Professional Practice of Internal Auditing.
- Definition of Internal Auditing.
- Code of Ethics.
- *International Standards for the Professional Practice of Internal Auditing.*
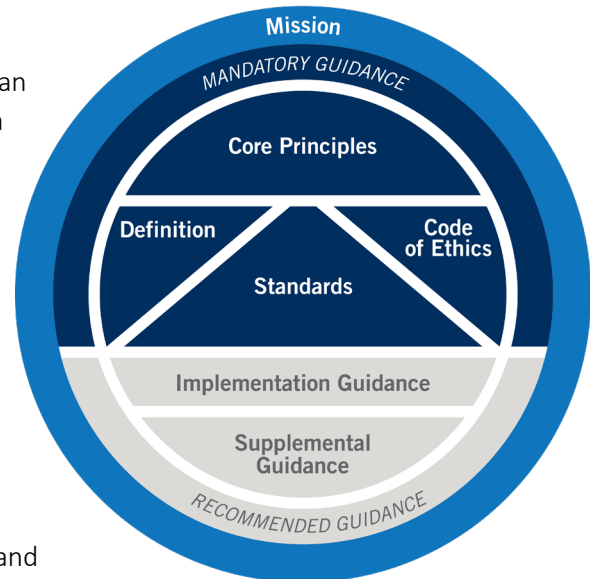
Recommended Guidance includes Implementation and Supplemental Guidance. Implementation Guidance is designed to help internal auditors understand how to apply and conform with the requirements of Mandatory Guidance.

About Supplemental Guidance

Supplemental Guidance provides additional information, advice, and best practices for providing internal audit services. It supports the *Standards* by addressing topical areas and sector-specific issues in more detail than Implementation Guidance and is endorsed by The IIA through formal review and approval processes.

Practice Guides

Practice Guides, a type of Supplemental Guidance, provide detailed approaches, step-by-step processes, and examples intended to support all internal auditors. Select Practice Guides focus on:

- Financial Services.
- Public Sector.
- Information Technology (GTAG®).

For an overview of authoritative guidance materials provided by The IIA, please visit www.theiia.org.

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Executive Summary

Procurement, the act of obtaining goods or services, is an essential component of all business. In the public sector, procurement activities are expected to be performed in a way that ensures such goods and services are appropriate, are obtained effectively, and are readily available to achieve the organizational mission and objectives. Ultimately, public procurement should provide the best value to the public for the money expended.

In *Report to the Nations: 2020 Global Study on Occupational Fraud and Abuse*, the Association of Certified Fraud Examiners identified the most common type of **asset misappropriation** fraud to be billing schemes, or fraudulent disbursement schemes, in which a person causes their employer to issue a payment by submitting inflated invoices or invoices for purchases of personal or fictitious goods or services.[1] Additionally, vendors can defraud organizations that purchase from them. Ineffective processes, poor use of funds, and lower-than-expected quality of procured goods and services may have a significant adverse effect on the organization's overall reputation and ability to achieve its goals. Therefore, procurement is a vital area for public sector organizations to monitor closely.

Public sector internal auditors can **add value** to the organization by providing assurance that the organization's procurement activities and practices comply with laws, rules, regulations, and policies and that controls are in place to ensure public funds are safeguarded and used appropriately and effectively. Additionally, internal auditors may perform consulting services to help organizations improve the efficiency of procurement processes and to emphasize important procurement principles, such as ethics, equity, fair competition, quality, sustainability, and value for money.

After reading this guide, internal auditors will be able to:

- Appreciate the context and the importance of public procurement in overall government expenditures and the delivery of public services.
- Recognize the range of risks (including strategic, operational, financial, compliance, value for money, **fraud**, and **corruption**) particular to procurement in the public sector.
- Appreciate the consideration of risks at all levels of government.
- Effectively consider risks particular to public sector procurement when developing the internal audit strategy, medium- and long-term audit plan, and individual **engagement** plans.
- Effectively consider risks particular to compliance with laws and regulations.

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1. Association of Certified Fraud Examiners, *Report to the Nations: 2020*, 13.

Introduction

Procurement is a strategically, economically, and socially essential business activity for any society. In fact, the Organisation for Economic Co-operation and Development (OECD) surveys have found that procurement represented 13% of the gross domestic product in OECD countries and one-third of overall government expenditures.[2]

> **Note**: Terms in bold are defined in the Glossary. Appendix C describes additional terms that may be used in public sector procurement.

Public procurement relies on taxpayer money. For good reason, citizens want to be sure tax revenues are spent efficiently and effectively — that the money achieves the goals promised by government officials. By its nature, procurement may be risky and complex. These characteristics make strong **governance** and **risk management** especially crucial.

Maintaining a system of effective, efficient, and ethical procurement is fundamental to the economical delivery of quality goods and services to the public. Ethical goals for procurement may include considering social issues, such as ensuring equal opportunities for and equitable treatment of all potential vendors. Another concern for public sector procurement projects may be environmental sustainability and **compliance** with related environmental laws and regulations.

Because governments have such substantial buying power, they may leverage public procurement as a strategic instrument to pursue **complementary policy objectives**, such as stimulating innovation, pursuing environmental sustainability, supporting small- and medium-sized enterprises, and promoting responsible business conduct.[3] However, when governments pursue these goals, they must weigh the benefits against potentially increasing the costs and complexity of procurement.

This practice guide will help internal auditors in the public sector to understand public procurement. Additionally, the guide describes how the **internal audit activity** uses tools and techniques to provide independent, objective assurance and advice to improve procurement processes. The guide deconstructs the procurement process to provide a deeper look at the **risks**, **controls**, and internal audit considerations during each phase of procurement.

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2. OECD, "Public Procurement," OECD Recommendation on Public Integrity (webpage), under Public Procurement tab, accessed November 9, 2021, https://www.oecd.org/gov/ethics/recommendation-public-integrity/.

3. OECD, *Public Procurement Review*, 60.

Risk Environment

Public procurement involves significant financial interests, numerous transactions, and close interaction with third parties. These characteristics make it highly vulnerable to inefficiency (waste), bias, abuse, corruption, and fraud. Consequences of risk occurrences may include public backlash, reputational harm, and damage to public trust. Minimizing these negative outcomes is a matter of **public interest**. Governments should consider these citizen concerns when developing strategies to increase the efficiency and integrity of public sector organizations.

Resource

For more information on the business significance of procurement projects and their associated risks, see IIA Practice Guide, "Auditing Third-party Risk Management."

The internal audit activity is responsible for assessing the quality of management's procurement framework (if one exists) and process to determine whether it is adequate in design and operation. Management's procurement process should account for the financial, operational, and regulatory impacts of third-party risks, as well as nonfinancial impacts, such as damage to the organization's reputation or relationships with customers/stakeholders. Some risks may appear insignificant on their own but should be considered in the context of the organization's overall procurement framework and process.

Regulatory Requirements

Typically, public procurement is regulated extensively by governments. Most countries have laws or a legal framework governing public procurement, along with regulations and mandated policies and procedures. Often, this information is published online for the public. Internal auditors evaluating public procurement should understand such information for all jurisdictions within which the organization operates. Internal auditors may identify:

- Regulatory bodies that set procurement policy.
- Governmental procurement objectives, strategies, policies, principles, and frameworks (at international, national, regional, and local levels).
- Special rules, such as buy local, imported content, regional preference, free trade agreements, value for money, and fairness and impartiality of processes.
- Limitations on the use of lobbyists.
- Legal rights of tenderers (or bidders).
- Level and timing of involvement in the process by government officials and regulators.[4]

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4. Linden, *Whitepaper: Public Sector Procurement*, 3.

Generally, public sector organizations must comply with more restrictive legislative and regulatory requirements than organizations in the private sector. Public accountability requires organizations to follow the procurement process and related policies strictly and with transparency, which includes providing adequate evidence (such as documentation and measures of outcome). Government regulations, legislation, and policies may vary widely among countries, which introduces the potential for legal and compliance risks when procurement involves international or interjurisdictional suppliers. The complexity of legislation and regulations requires internal auditors to elevate their competency on public procurement regulatory requirements. In highly complex procurement audits, internal auditors may need to engage independent subject matter experts, whether internal or external to the organization.

Some government legislation and regulations are excessively rigid and impose strict exclusion grounds that result in inefficient procurement processes. Also, government bodies with elected members may introduce policies consistent with the promises made throughout their political campaigns, which may add time and expense to the procurement process. If requirements for accountability are too demanding, bidders may be discouraged from participating or may risk rejection due to a technicality, such as not providing a required document, even though their **tenders** (or bids) are otherwise suitable.

Internal auditors may add value by evaluating trends and reporting excessive losses of bidders, when applicable. Audit reports may contribute to improvements in legislation in some countries, especially where a body oversees, or governs, public procurement.

The IIA's Public Sector Construct

Public sector internal auditors should consider several unique aspects of working in this environment. These factors, which are illustrated in **Figure 1: The IIA's Public Sector Construct**, include:

- Accountability in public funding.
- Nature of politics.
- Governance.
- Public good/public interest.
- Transparency, ethics, and integrity.
- Legal, regulatory, and fiscal compliance.
- Efficiency, effectiveness, and equity in public service delivery.

Figure 1: The IIA's Public Sector Construct
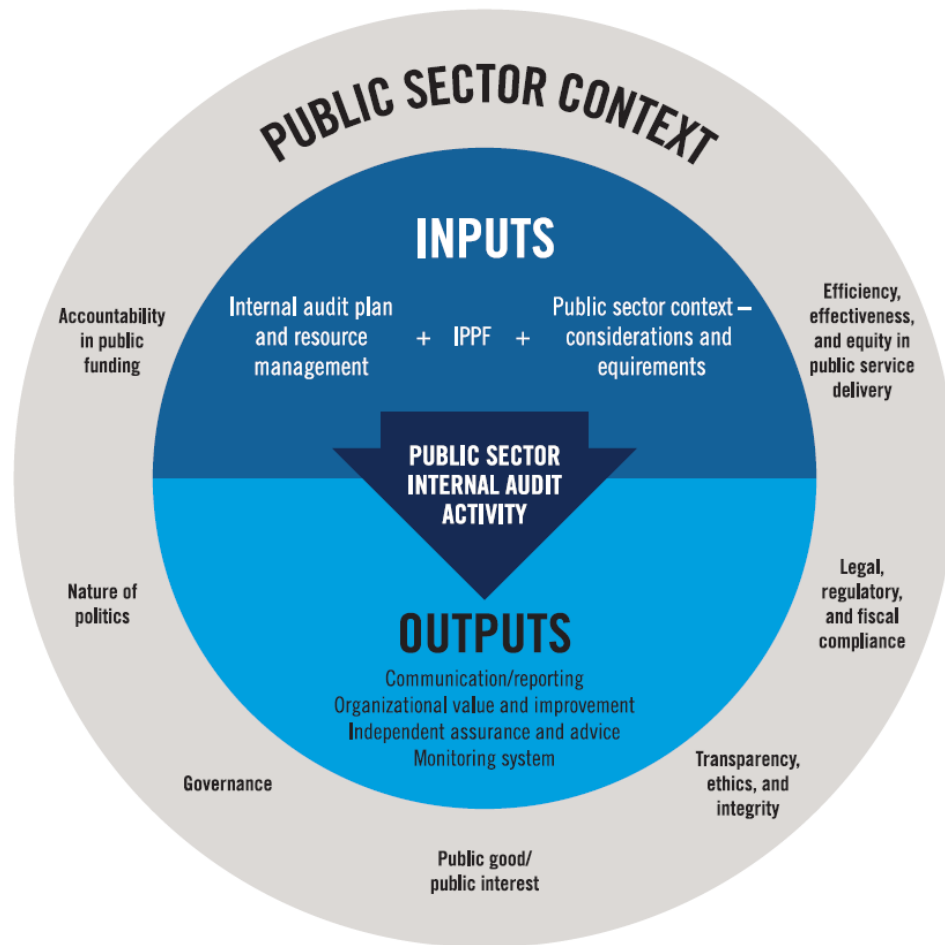
Figure 1 illustrates a fundamental goal of public sector organizations: to achieve balance between serving citizens and addressing the interests of other stakeholders within a political context.

To audit procurement, internal auditors should understand how these factors affect the organization and its procurement function and process. This information forms a basis for identifying the risks to achieving those objectives. The organization's high-level procurement priorities and objectives should align with its long-term strategic planning and public procurement policy.

Ethics in Public Sector Procurement

Although individual organizations vary, the mission, objectives, principles, and strategies of public sector organizations generally serve the public interest. The fundamental objective of public procurement is to fulfill myriad public needs with scarce funds, which are derived primarily from taxes and fees that have been levied on the public.

> **Resource**
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> The IIA's Practice Guide, "Unique Aspects of Internal Auditing in the Public Sector" provides more information on ethical principles.

Because citizens contribute public funds, governments and public sector organizations are expected to adhere to certain ethical principles when spending the funds. These principles include achieving the best value for money spent (that is, efficiency in output, effectiveness in achieving outcomes, and economy of costs); promoting equity; and maintaining integrity, accountability, and transparency. Internal auditors should assess whether the organization's governance, risk management, and **control processes** are designed to encourage value, equity, integrity, transparency, and accountability.

Integrity

To maintain public trust, those in public sector roles must demonstrate integrity when managing and spending public funds (that is, taxpayer money), using public resources and assets, and exerting authority. Integrity requires taking actions that align with the public interest and the intended purposes established through laws, regulations, or similar official rulings of the government. Increasing efficiency reduces waste, which supports integrity by reducing opportunities for fraud and corruption. Transparency and accountability work together to ensure integrity.

Transparency

Governments typically implement ethical standards and codes of conduct as well as policies, laws, and regulations to protect the public trust. Transparency is a safeguard that supports and protects the competitive elements of procurement by ensuring procurement processes are open to review by stakeholders. When governments fail to implement a transparent and ethical public procurement process, they may face devastating consequences: an unethical and biased public procurement environment that reduces competition, value for money, and the ability to attract foreign investments.

Although stakeholders may not participate in every part of public procurement, stakeholder participation often helps ensure transparency and accountability. When stakeholders remain aware of the procurement process, they may better understand, evaluate, and affect the procurement process and decisions. For example, laws and regulations may specify procurement

award criteria or rules for setting such criteria and may require such information to be published publicly. Requirements may apply to the following:

- Design of the public procurement system (for example, institutional frameworks, laws, and regulations).
- Phases of specific procurements (for example, calls for tender or award announcements).
- Performance of the public procurement system (for example, benchmarks and monitoring results).

Published data should be relevant and meaningful for stakeholders, including all parties involved in the procurement process and members of the public. This requirement for relevant and meaningful data may at times conflict with the goals of politicians who may seek to minimize or hide risk occurrences despite transparency requirements. Thus, effective governance and oversight are necessary to ensure transparency.

Accountability

Stakeholder participation drives accountability, an ethical principle and strategic approach aimed at ensuring that public resources achieve value for money. In the public sector, the output — the delivery of public goods and services — may be assessed against predefined criteria, such as key performance indicators and/or requirements in service level agreements, to determine whether the procurement achieved the intended outcomes. These assessments, which are performed to help ensure accountability, may be known as "performance audits" or "program evaluations."

Complementary Policy Objectives

Procurement policies and practices comprise a long-term strategy to serve the public interest. Complementary, or secondary, policy objectives in procurement refer to the indirect or secondary values that public procurement can pursue in addition to the best value for money.[5] Good examples of such values are the United Nations' Sustainable Development Goals, which include corporate social responsibility, social inclusion, and stimulation of the economy and innovation. Complementary policy objectives are not directly related to the core mandate of the procuring organization but can be supported or promoted by leveraging the buying power of the procurement. Typically, these objectives are long-term and may be categorized as economic, environmental, or social. Examples of specific objectives include promoting locally sourced or innovative goods and services, giving preference to small- and medium-sized enterprises or those

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5. OECD, *Public Procurement Review*, 60.

owned by a member of a minority group, and encouraging the use of sustainably sourced raw materials.[6]

Equity

Equity involves the fairness and responsibility with which public sector officials exercise power and apply resources entrusted to them by the public. In procurement, ensuring equity also involves ensuring fair opportunities for all bidders. Implementing equity within the procurement process is intended to increase competition and may accomplish a complementary objective of social policy. Some jurisdictions implement specific regulations or requirements to encourage diversity among bidders, such as bid quotas or weighting factors in bid evaluation for minority-owned or small- and medium-sized enterprises.

Value for Money and Risks to Fair Competition

The objective of procuring goods and services at the lowest price possible may need to be balanced against the objective of having quality goods and services delivered on time. Basing decisions on evidence helps procurement professionals demonstrate an appropriate balance between securing value for money and fulfilling other policy objectives. However, politics may also influence such decisions. Thus, auditing procurement decisions requires care and sensitivity.

Risks to competition include:

- Development or existence of monopolies and cartels, and price fixing (bid rigging).
- Collusion between bidders (potential suppliers) and employees (officials).
- Overly complex **tendering** procedures and bureaucracy.

In many countries, legislation and regulations dictate procurement policies and procedures as controls to mitigate risks. Certainly, public entities must comply with the legislation and regulations to avoid fines and other penalties. However, that should not prevent internal auditors from also evaluating whether controls are overly bureaucratic as this brings risks of decreasing competition and inciting vendors to attempt to circumvent the complexity.

6. OECD, *Public Procurement Review*, 60.

The Procurement Process

Internal auditors should become familiar with the organizational structure and the processes of governance, risk management, and control related to procurement. The organizationwide risk assessment (if one exists) provides information about the organization's most significant risks overall, its risk management strategies, and the **risk appetite** set by the governing body (**board**).[7] Before performing an assessment of the procurement process, internal auditors should become familiar with the details of how the procurement process works in the organization.

Overview

Although the terminology of the public sector differs from that of the private sector, the elements of the process to manage third-party providers in the private sector, shown in **Figure 2**, parallels those of the procurement process in the public sector.

Figure 2. The Elements of a Third-party Provider Management Process
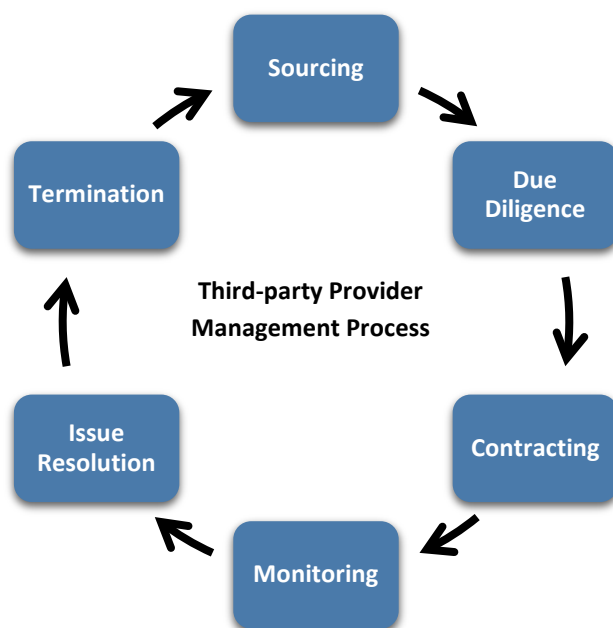
Source: IIA Practice Guide "Auditing Third-party Risk Management."

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7. According to the glossary of the *Standards*, "if a board does not exist, the word 'board' in the *Standards* refers to a group or person charged with governance of the organization." This part of the definition accommodates the public sector context by recognizing that various other roles or titles may be responsible for governance (for example, parliament, ministers of state, accounting/accountable officers, or members of public authorities).

In the public sector, the procurement process may be broken down into three main phases:

- Pre-tendering, which incorporates the "Sourcing" and "Due Diligence" elements of Figure 2's third-party provider management process.
- Tendering, which aligns with the "Contracting" element of Figure 2.
- Post-award, which incorporates the "Monitoring," "Issue Resolution," and "Termination" elements of Figure 2.

Creating a process map or flowchart of the procurement phases, or locating such maps if they already exist, may help internal auditors to better conceptualize the inputs, outputs, workflows, risks, and the controls expected in an effectively designed and operating procurement process. **Figure 3** provides an example of a basic map of the procurement process.

Figure 3. Sample Process Map for Procurement

1. Pre-tendering	2. Tendering	3. Post-award
• Assess needs and analyze market. • Choose procurement procedure. • Develop specifications and criteria. • Plan and budget.	• Issue invitation to tender. • Receive and evaluate bids. • Award contract; publicly disclose bid evaluation and award results.	• Administer contract. • Place orders and pay vendors. • Assess and close contract.
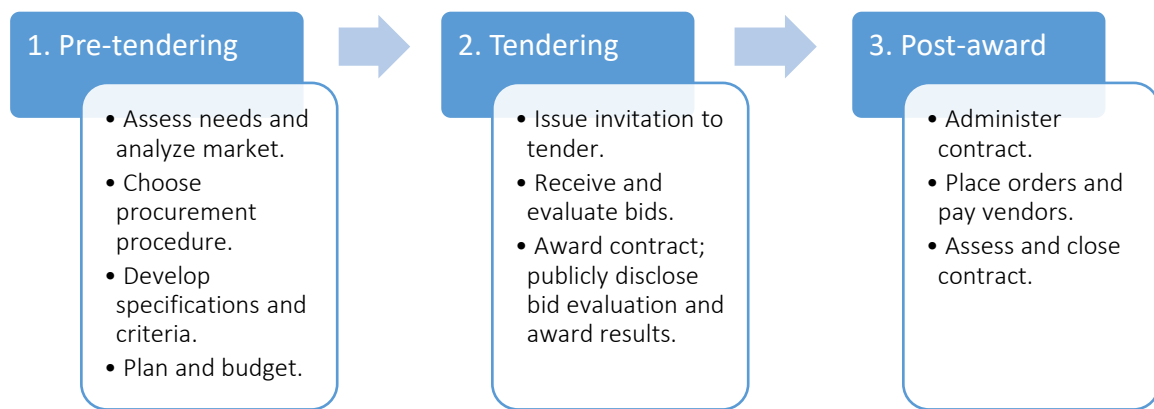
Source: The IIA. Adapted from *OECD Principles for Integrity in Public Procurement*, 52.

Internal auditors should seek to understand how the procurement process relates to the organization's strategic objectives, who is involved, how those involved are expected to perform the process, and how the process is executed on a day-to-day basis. Additionally, internal auditors should identify the key performance indicators that management uses to determine whether the process has been executed successfully.

Internal auditors may add detail to the map by reviewing documented policies and procedures and/or by "walking through" phases of the procurement process with the personnel performing those functions. Internal auditors may use the map to visualize points where they would expect to see active risk management and control processes.

Phase 1. Pre-tendering

Assessing procurement may start with a review of the organization's policies and procedures for pre-tender planning. The best techniques to mitigate procurement risks often start with proper planning, strategies, policies, and procedures, designed in advance. Evaluating how these policies and procedures perform in practice requires ongoing monitoring as well as a thorough follow-up assessment.

1.1 Assess Needs and Analyze Market

In the pre-tendering phase, the organization assesses its needs for goods and services and analyzes the market. Usually, a procurement specialist is assigned to identify the need for procurement, and this role is separate from the manager who authorizes the procurement. Before pursuing public procurement, the specialist may be required to demonstrate a diligent effort to identify reasonable alternatives to external procurement, such as fulfilling the need internally.

If the specialist identifies a gap in the organization's ability to deliver goods or services as mandated or in its ability to improve its performance, procurement may be the best way to fill the gap. Then the organization must specify and justify its needs (in terms of economy, effectiveness, and efficiency). Considerations include the size, frequency, and timing of procurement transactions as well as the structure of the organization and its procurement function (for example, the degree to which procurement is centralized).

1.2 Choose Procurement Procedure

Once the need for external procurement has been approved, the most appropriate tendering [8] procedure must be selected. Internal auditors should be familiar with the various tendering procedures and terminology and the benefits and risks posed by each type. **Appendix C** describes the most common procurement methods.

> **Resource**
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> Examples of risks and controls in the three-phase procurement process are listed in Appendix D.

> **Fraud Risk Considerations**
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> Key fraud risks that may occur when choosing the procurement procedure include:
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> - Eliminating competition by merging disparate, small procurement projects (for which there are many competitors) into a larger project for which there is only one qualified provider.
> - Minimizing competition by splitting large procurement projects into smaller parts to lower cost thresholds.

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8. In this guide, "tendering" is defined as a formalized process in which organizations invite providers to bid on contracts to supply good and/or services. The term "tender" is interchangeable with "bids" or "proposals."

Mandated Procedures

Because procurement in the public sector is usually more highly regulated than in the private sector, the tendering procedure may be mandated by laws and regulations in some jurisdictions, especially for procurements above certain estimated cost thresholds. Thresholds may vary depending upon whether the object being procured is a good, service, or project. In cases where the procedure is mandated, selecting the tendering procedure is a matter of compliance only; yet achieving compliance is important in terms of managing risks associated with public perception and trust.

Impacts of the Chosen Procedure

Depending on the cost, complexity, and level of risk associated with the particular procurement, the organization may allow the management responsible for purchasing to have some decision-making discretion or to recommend a procedure to senior management and/or the governing body.

The procedure selected determines the details of the procurement request and the criteria by which the contract will be awarded. The procedure may impact the overall effectiveness and efficiency of the procurement process. Inefficiencies, such as a lack of automation, and/or overly restrictive regulations and procedures may limit the number of bidders, slow down the processing of bids, and reduce competition. This could result in difficulty procuring goods and services in a timely manner.

1.3 Develop Specifications and Criteria

Based strictly on the completed **needs assessment** and market analysis research performed in the previous stages, procurement professionals translate the procurement objectives into operational terms. These include developing purchase descriptions, specifications, requirements, a statement of work, and award criteria. The request for proposal (or similar request) should be designed to attract a sufficient number of qualified bidders and should be issued publicly, thereby maximizing competition and preventing insider bidding, bid rigging, bias, bribery, and similar forms of corruption and fraud.

Fraud Risk Consideration

When developing specifications and criteria, a key fraud risk is that customization of specifications and/or requirements that result in only one specific provider or product being able to fulfill the requirements may occur.

The award criteria may be designed to promote value for money in a way that accounts for objectives beyond obtaining the lowest price. Criteria that focus only on the lowest price, rather than on a broader definition of economic value, may result in procuring low-quality products or services. Such procurements may lead to negative effects, such as casualties, damage to or premature depreciation of public facilities, and long-term limitations to economic development.

Besides price, the criteria may take into account the quality of the proposed good or service; the potential supplier's level of service and understanding of the organization's needs; the total life cycle cost; environmental, social, and governance (ESG) objectives; and other predetermined objectives, such as promoting innovation. The input of potential suppliers may be solicited when developing specifications that are especially complex or highly technical. If additional objectives are desired, they should be expressed clearly in the criteria.

1.4 Plan and Budget

A key step in the pre-tendering phase is estimating the resources needed and organizing the information into a plan that includes a budget and perhaps a timeline of transactions. Sound procurement processes require criteria that enable the organization to select and budget for procurement expenditures accurately. Those who manage the procurement process are responsible for mitigating the risk of an improper or insufficient budget estimation. The risk is especially significant the first time an organization is acquiring a certain product or service or when a procurement project is complex and/or innovative.

To accurately estimate the budget, management must forecast the costs in each phase of the procurement, which requires understanding all phases and may involve obtaining specialized advice from technical experts. Governments may maintain databases of cost estimates for products and services based on past procurements. Even without a centralized database, cost information for recently completed public procurements is usually documented and retrievable and may be used as the basis for estimates.

> **Pre-tendering Consultations**
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> In certain jurisdictions public pre-tendering consultations are mandatory for high-value procurement projects.
>
> The purpose of these pre-tendering consultations is to inform potential bidders so they have enough time to prepare bids and therefore increase competition once the tender is open.
>
> Pre-tendering consultations also provide additional information to the public buyers before launching the tender procedure in order to avoid the risk of underestimating the complexity of the procurement relationship.

Management may prepare a project-specific procurement plan, including specifications for project management and even a business case and feasibility study, especially for complex or highly risky projects.[9] Senior management and the governing body may need to approve the procurement plan. Separating budget estimation duties from authorizations and approvals and establishing independent oversight (for example, peer review) are techniques to ensure accuracy and proper checks and balances. Policies or regulations may require the budget holder to review the budget and verify that it accurately reflects the funds available for the procurement.

For major procurements, this budget estimation and approval process is likely to occur annually as part of the organization's larger budget planning. However, a process may be developed and

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9. Linden, *Whitepaper*, 4.

approved to manage procurements that are routine, of low significance (below a given cost threshold), or ad hoc, such as those typically initiated at lower levels of the organization (individual departments or project areas).

Phase 2. Tendering

2.1 Issue Invitation to Tender or Request for Proposal

During the second phase of procurement, called tendering (or "solicitation"[10]), those responsible for the procurement develop a request. The type of request issued depends upon the procurement procedure determined in Phase 1.

In the public sector, common terms include "call for bid," "invitation to tender," "request for tender," "request for quotation," and "request for proposal (RFP)." The specific term for each type of request may vary by country and industry, and the same terms may be defined or interpreted differently depending upon these contexts. Internal auditors should have a good understanding of the terms used in the jurisdictions within which their organization operates.

With an RFP (or other specific type of solicitation), the procuring organization requests detailed information from bidders about how the work will be carried out. Terms that describe supplier responses to a request include "tender," "bid," and "propose an offer."

Additionally, an organization may need to initiate a rebidding process during any phase for various reasons. For example, if a procurement process is unsuccessful in meeting its intended outcome, the organization may need to restart this phase in order to find a new third party to meet the intended objectives.

Designing the Request to Mitigate Risk

The request may be designed by the same specialist who assessed the need in Phase 1, or it may involve a specialist team or an outsourced professional. Open tendering or competitive bidding is the process of designing and publicly issuing a request that attracts a sufficient number of qualified bidders, maximizes competition, and helps prevent insider bidding, bias, bribery, and similar forms of corruption. If a more restrictive process is followed, management is responsible for ensuring it is performed in compliance with jurisdictional regulations.

A poorly prepared request may result in an insufficient number of qualified bidders and lost opportunities to obtain the best quality products or services at the best value. In some countries or jurisdictions, an oversight body may establish models of requests for each type of procurement

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10. In the Federal Acquisition Regulation of the United States, "solicitation means any request to submit offers or quotations to the government. Solicitations under sealed bid procedures are called 'invitations for bids.' Solicitations under negotiated procedures are called 'requests for proposals.'" 2.1-18.
https://www.acquisition.gov/sites/default/files/current/far/pdf/FAR.pdf.

(such as goods, services, systems and applications acquisition, and construction works or projects.) This may help mitigate the risk that requests will be poorly designed.

Specifications and Other Criteria

RFPs (or other specific types of solicitation) include predefined criteria against which proposals will be evaluated and may include:

- Technical specifications and qualification and award criteria (which may include complementary policy objectives).[11]
- Expected time for administrative handling of the transaction and delivery of the good or service.
- Expectations for controls over ethical behavior, such as disclosures of conflicts of interest and right-to-audit clauses.

Bidders may be asked to submit administrative documents, such as warranties, maintenance specifications, insurance information, and a contingency plan. Additionally, potential suppliers may be asked to submit information about their relevant qualifications and experience, proposed approach or methodology, and the price they would charge to provide a good or service in response to the identified problem, requirement, or objective. Because estimated costs may bias the tendering process (or increase the risk of bid rigging), a separate process may be established for the submission of estimated costs, discounts, and other financial information. Often, the financial information is submitted in a sealed envelope that is opened by the people within the organization designated as the "bid evaluation committee" once all bids have been received.

2.2 Receive and Evaluate Bids

Organizations usually require bidders to submit technical and business proposals for review to determine whether they:

- Comply with applicable laws and regulations.
- Adhere to the instructions in the request.
- Fulfill the predetermined evaluation criteria.
- Are consistent with the organization's strategy and policies.

For significant procurements, a temporary or permanent group of internal (and sometimes external) experts may be brought together as a bid evaluation or procurement committee, or something similar to decide which bidder(s) will be awarded the contract after the bidding period closes.

Typically, public sector organizations are prohibited from contracting with companies that are not in compliance with laws and regulations, such as tax regulations. The submitted administrative

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11. O'Regan, *Auditing the Procurement Function*, 42-45.

documentation allows the procurement function to assess whether the bidder is in good standing with government requirements. Significant documents should be verified to ensure that they are authentic and have not been forged.

2.3 Award Contract and Publicly Disclose Results

The organization chooses the supplier that fulfills its criteria and provides a technically acceptable offer with the best value for money. The selection may take into account expressly requested noneconomic factors. Some organizations use a system in which weighted scores represent the importance of various criteria such as price and quality. These scores are combined to evaluate and rank potential suppliers. The contract is prepared by a specialist and approved by management. The contract is awarded to the supplier that fulfills all the mandatory terms and conditions and achieves the highest overall rating based on the weighted criteria. The bidders that did not win are formally notified of the award decision and debriefing sessions may be conducted. Additionally, the award announcement should be made publicly (for example, posted via a procurement website), with a statement that disclosable documents are available for review upon request.

Phase 3. Post-award

After a contract has been awarded, contract administration begins. While the term "**contract management**" refers to the entire contracting process from pre-tendering through contract closeout, "**contract administration**" comprises observing and monitoring the contractor's performance, managing changes to the contract, maintaining contract-related documents, handling claims and disputes, and closing out the contract.[12] Contract management as a whole may be the responsibility of a chief procurement officer (or similar role), but post-award contract administration may be delegated to a contract manager and/or administrator(s).

3.1 Administer Contract

A contract manager or administrator(s) may develop a contract administration plan containing the operational details of the contract necessary to monitor contract performance. For example, the plan may identify contract milestones and deliverables and may describe how inspection and reporting on the contract will be carried out. Administration involves monitoring and evaluating performance against the contract's terms and conditions as well as identifying and helping resolve any instances of noncompliance.

3.2 Place Orders and Pay Vendors

In this stage, the procurement process may be especially vulnerable to fraud. Segregating the duties of receiving, paying, and providing program or operational expertise helps prevent such abuse. Purchase orders should express the specified quality, quantity, conditions, and timeline for the delivery of goods or services in accordance with the contract. The buyer, or the individual who

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12. National Association of State Procurement Officers, "NASPO Contract Administration Best Practices Guide," 2017.

orders the payment to be processed, should differ from the receiver; that is, the individual who verifies the invoice against the received goods and services. A receiving inspection should occur before an invoice is paid to ensure the appropriate goods or services are received. For additional assurance of quality and to prevent fraud, inspections may be verified by more than one official of the procuring organization and may involve an independent party, such as a public oversight participant or committee.

3.3 Assess and Close Contract

Contracts typically require specific payment terms; thus, the procuring organization should have the funds allocated promptly upon the award of the contract and should have a system in place to ensure payments are issued promptly. Management may assign responsibility to another individual to monitor outstanding payments and the timeliness of payments. Before closing the contract, the contract administrator may issue a closing report that includes a reconciliation of the planned budget against the delivery budget. Internal auditors should be aware that in some instances contracts have provisions for ongoing service during any rebidding process that may be required to ensure continuity of service. The internal audit activity may provide independent assurance over the closing and share information with external auditors or other oversight bodies.

Procurement Strategies

The OECD has issued guidance to help governments improve the efficiency of their procurement systems, reduce duplication, and achieve greater value for money. [13] Recommended actions include:

- Identifying functional overlap and other sources of waste and implementing initiatives to reduce administrative complexity (for example, shared services).
- Developing performance measurement systems with key performance indicators focused on the outcomes of procurement processes.
- Using the performance data to inform strategic policy-making and to develop strategic plans that articulate expectations and responsibilities.
- Developing sound technical specifications and criteria.
- Ensuring technical expertise among bid evaluators.
- Ensuring adequate resources and expertise for contract management.
- Implementing centralized purchasing, joint procurement, and electronic procurement systems.
- Implementing other procurement improvements, such as framework agreements, dynamic purchasing systems, e-catalogs, and e-auctions (reverse auctions).

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13. OECD, *Checklist for Supporting the Implementation*, 35-41.

Centralized Versus Decentralized Procurement

A strategy to achieve efficiency must include consideration of how procurement is structured on an organizational level. Procurement may be centralized or decentralized, but most often, the process involves a combination of both techniques.

Centralization typically reduces risks related to third-party outsourcing and leverages purchasing power to maximize value. Yet the risks of centralization may include increasing bureaucracy and decreasing the number of qualified vendors, as well as reducing the geographic diversity of applicants and the ability to respond to localized concerns quickly. Other factors that affect whether or not centralization is beneficial include the degree of geographic dispersal and the administrative costs of implementing the strategy.[14]

Central procurement groups may exist at the national or organizational level and perform risk management and control functions, such as cross-departmental control and monitoring, while operational management may perform regular procurement transactions and be responsible to implement and maintain effective controls in individual enterprises, agencies, departments, programs, or phases of the procurement process.

Procurement transactions below a certain threshold may be handled locally, while those above a certain monetary value or technical complexity may call for secondary controls or may be completely centralized. For example, at a certain monetary value, a purchasing manager may be required to perform a market consultation with at least three suppliers and ultimately to justify to a central purchasing group its choice of supplier. At even higher thresholds, representatives from throughout the organization may need to meet with the governing body to discuss the procurement.

Electronic Procurement

OECD also recommends implementing an automated procurement process that relies on digital technology. Often known as e-procurement, an automated process enhances integrity, equity, and competition by increasing the accessibility of public requests for tenders and decreasing direct interactions between officials and potential suppliers. E-procurement also enhances transparency, accountability, efficiency, and the ability to track all phases of the procurement process. The consistent and reliable data collected continuously in the e-procurement system can be used to evaluate the effectiveness of the procurement process overall (that is, outcomes).

The internal audit activity may review the e-procurement process from its supporting information technology infrastructure to the user experience. Ideally, the infrastructure supporting e-procurement should be flexible, modular, scalable, and secure.[15] The user interface should be simple and appropriate to its purpose. Access and authentication controls should properly secure

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14. O'Regan, *Auditing the Procurement Function*, 42.

15. OECD, *Checklist for Supporting the Implementation*, 42-45.

data and protect user privacy. When the e-procurement system is complex and/or to satisfy compliance requirements, the **chief audit executive** (CAE) may need to outsource, cosource, or hire an information systems auditor to be able to conform with Standard 1200 – Proficiency and Due Professional Care and Standard 1210 – Proficiency.

The Role of the Internal Audit Activity

Internal auditors play an important role in helping assure senior management, the governing body, and the public that risks and opportunities have been identified comprehensively (throughout the entire organization) and that key controls are operating effectively to mitigate risks. The public expects controls to minimize costs and opportunities for fraud, waste, and abuse and to maximize the value achieved for money spent in procurement operations. Stakeholders count on the internal audit activity's integrity, objectivity, confidentiality, and competency — all principles in The IIA's Code of Ethics that are detailed within the Code's rules of conduct and in the *Standards*.

Internal auditors may add value in public procurement by providing independent assurance and advice over the controls implemented by management to mitigate the risks related to procurement, both as a whole and for individual phases and transactions. This assurance typically addresses:

- The adequacy and effectiveness of governance and oversight.
- Compliance objectives, including those related to public reporting and disclosure.
- The organization's ability to measure its procurement performance, recognize deficiencies, and take corrective actions.
- The integrity of the procurement process and the achievement of the desired objectives.
- Process efficiencies and improvements.
- Information systems specific to procurement processes.

Planning and Performing the Engagement

Gather Information

When developing the individual engagement plan, internal auditors gather information through procedures such as reviewing prior assessments (such as risk assessments, or reports by assurance and consulting service providers), understanding and mapping of process flows and controls, and interviewing relevant stakeholders. To identify key risks and controls, internal auditors should have a thorough understanding of the organization's procurement process. Based on the information gathered and the results of engagement planning efforts, internal auditors establish the engagement objectives (Standard 2210 – Engagement Objectives).

> **Resource**
>
> For more information on auditing specific procurement practices, see "Audit Focus: Public-Private Partnerships," a Knowledge Brief published by The IIA.

Context and Structure

Reviewing documentation about these elements is recommended:

- Laws, rules, regulatory requirements, and standards or other expectations relevant to the organization and the jurisdictions within which it operates.
- Phases of the procurement process at the organizational and project levels.
- Procurement roles, responsibilities, and activities across the organization.
- Contracted parties engaged by the organization.
- Reporting related to contracted party risks and incidents.
- Past issues encountered with contracted parties in terms of contracts, performance, quality, or other issues.
- Project management notes regarding major and complex projects including public-private partnerships (also known as P3 or PPP).
- Systems used and data available including the content of standardized and customized internal and external reports.

Policies and Procedures

Ensuring an effective, efficient, and ethical procurement process often starts with specific policies and procedures, designed to deter unethical and wasteful procurement practices that conflict with the organization's larger goal to serve the public interest. Such policies and procedures may address:

- Contracts (for example, establishing work objectives, performance measures, and reporting requirements clearly).

- Approvals.
- Quality.
- Ethics and **probity**.
- Right-to-audit clauses in third-party contracts, including auditing for ethical behavior.
- Conflicts of interest, including disclosure requirements.
- Transparency throughout the process.
- Handling feedback, derogations, and complaints, including anonymous whistleblower reporting.
- Changes in contract periods (for example, extensions or early terminations).
- Subcontracting.
- Reporting and handling fraud incidents.
- Retention of documentation, such as tender documents.
- Assessment of deliverables for compliance with the contract terms.

Risk Management and Control Frameworks

Organizations may use globally accepted frameworks to guide their governance, risk management, and control processes, such as the Committee of Sponsoring Organizations of the Treadway Commission's frameworks of enterprise risk management and internal control. In addition, specific legal, regulatory, and policy frameworks may apply to the procurement process in a country or other jurisdiction. Management should know which frameworks are mandated and which criteria will be applied when their procurement processes are assessed by external auditors or regulators. For example, external auditors reviewing public procurement processes in the European Union may refer to *Public Procurement Audit*, a 2018 publication of the Contact Committee of the Supreme Audit Institutions of the European Union.

If the organization uses certain frameworks, then internal auditors should refer to those frameworks and provide assurance that the organization has a process in place to align with elements of the framework(s). However, if the organization does not use a framework or if the organization's procurement process needs improvement, internal auditors may refer to guidance on governance over procurement from other globally recognized resources. Internal auditors may recommend implementing the principles from such documents or may use them as benchmarking criteria when evaluating their organization's procurement process. Examples include the OECD's *Checklist for Supporting the Implementation of the OECD Recommendation of the Council on Public Procurement* (2016) and the *Methodology for Assessing Procurement Systems* (*MAPS*) (2018).

This practice guide provides internal auditors with a synthesized overview of the concepts presented in such globally recognized guidance. A list of additional reference materials appears in **Appendix E**.

Coordinating with Other Providers of Assurance Services

The CAE, senior management, and the governing body should discuss risks and controls related to procurement, as well as the coverage by providers of **assurance services** over areas involving significant levels of risk related to procurement. Other internal stakeholders in the risk management process include:

> **Resource**
>
> For more information, see IIA Practice Guide "Coordination and Reliance: Developing an Assurance Map."

- Operational management, which implements controls within the procurement process.
- Quality assurance.
- Compliance.
- Risk management.

The internal audit activity is a source of assurance, independent from management, that offers a broad organizational perspective. The internal audit activity may provide advice on risks and controls as well as foresight into potential risks and opportunities not yet recognized and strategies not yet implemented.

Coordinating with Management and Stakeholders in the Risk Management Process

With the various individuals responsible for procurement, internal auditors should inquire about recent risk assessments and risk occurrences, including instances of noncompliance, inefficiency/waste, and other suspected or discovered fraudulent activities. Internal auditors may review records from ethics hotlines and/or whistleblower reports as well as past assessments that include procurement.

Standard 2050 – Coordination and Reliance calls for the CAE to share information, coordinate activities, and consider relying upon the work of other providers of assurance and advisory services. Compliance personnel may review and verify procurement activities, monitoring, and quality assurance. Working closely with compliance personnel and/or reviewing the results of their work may help internal auditors plan and perform relevant engagements.

Internal auditors may evaluate how well the procurement function (or unit) is organized and whether procurement professionals are sufficiently skilled and qualified to navigate the complex legalities of public procurement and ensure procurement occurs timely, efficiently, and achieves the appropriate quality of goods or services with the best value for money. Beyond value for money, complementary policy objectives may need to be considered.

Throughout the audit process, internal auditors may need to meet with various experts. Some countries or jurisdictions may require at least one of these experts to be certified or to have had specific training or credentials related to procurement. For example, the procurement process may involve an expert on public procurement legislation whose role is to minimize the organization's

risk of noncompliance with laws and regulations. Another individual may be responsible for assessing the organization's procurement needs. The same individual or yet another may be responsible for setting the tender specifications accordingly and developing the tender documentation. Once a bid has been accepted and a contract has been established, other procurement specialists may manage the contract. Internal auditors also may meet with experts responsible for ethics and fraud investigations.

Coordinating with External Auditors

The internal audit activity may also refer to the results of recent procurement audits completed by external auditors (for example, supreme audit institutions) or other responsible entities. Although the mandates of regulators and external auditors vary, external providers of assurance services typically assess procurement as part of auditing the use of public resources. To minimize the duplication of assurance work and maximize the provision of assurance and advice, the CAE should again consider such assurance service providers (Standard 2050 – Coordination and Reliance). Such considerations are part of determining which audit engagements should be included in the internal audit plan.

In the public sector, laws and regulations often dictate the extent and direction of coordination and reliance. In many cases, the internal audit activity may take into account the conclusions of external auditors or other relevant independent bodies responsible for other functions, such as dispute resolution. These bodies focus on public procurement issues and therefore have relevant expertise and sufficient autonomy.

Risk Assessment

Understanding the organization's procurement objectives and key processes for achieving those objectives enables internal auditors to identify the risks and opportunities that could affect procurement. Internal auditors start with the objectives of each phase or element of the procurement process and determine the relevant risks and opportunities. Internal auditors may then assess the impact and likelihood of the risks, possibly utilizing feedback from management. Because any single internal audit engagement cannot cover every risk, internal auditors assess the significance of the risks relevant to the procurement area or activity under review. Risks may be identified by management, as well as by internal auditors independently during previous internal audit engagements, and audits or assessments conducted by other internal or external entities or consultants.

Standard 2210.A1 requires objectives to be established for each engagement, based on a preliminary assessment of the risks relevant to the activity under review. Internal auditors may interview relationship owners, business managers, procurement managers, legal personnel, and other relevant personnel who have technical knowledge that can assist in identifying risks to the procurement process.

Planning the Engagement

Procurement is an element of almost every public sector area and encompasses a broad range of activities occurring in a complex process. Any of these activities may be subject to internal audit review. Because the internal audit activity cannot provide assurance over every risk, the CAE must ensure the risk-based audit plan that determines the priorities of the internal audit activity is consistent with the organization's goals (Standard 2010 – Planning).

> **Resource**
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> For more information, see IIA Practice Guide "Developing a Risk-based Internal Audit Plan."

To provide assurance, the internal audit plan must be based on a documented risk assessment (Standard 2010.A1), undertaken at least annually, and must take into account the expectations of senior management, the governing body, and other stakeholders for internal audit opinions and other conclusions (Standard 2010.A2). In the public sector, other stakeholders include civil society, and the CAE should consider internal audit's responsibility to the public throughout the planning process.

Internal auditors may assess procurement in the public sector at several organizational levels:

- National or organizational, which looks at a government or an organization's overall procurement strategy.
- Department or program level.
- Single procurement project level.

Performing the Engagement

According to Standard 2100 – Nature of Work, "the internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach." The CAE may compile the results of all the engagements performed over a predetermined timespan, coupled with the results of the work of other assurance providers, to produce an overall assessment of the organization's governance, risk management, and controls related to the procurement process.

Types of Engagements

Procurement audits may occur as a series of regularly scheduled engagements (semiannually or annually, for example) or may be incorporated into other engagements, such as financial, compliance, or performance engagements. The scope may focus on certain elements throughout an entire procurement process or a particular phase of the process. For example, large infrastructure projects may involve an ongoing audit process (also known as "continuous auditing") featuring several types of assessments. At specific points during the engagement, internal auditors

may provide assurance that the outcome of a particular phase has been achieved. Audits also may begin at any phase of the procurement process and may occur as the need arises.

Assurance

In the public sector, assurance engagements may be referred to by a few specific names. Examples include:

- *Compliance* — These engagements provide assurance that the procurement process and system complies with the requirements of laws, regulations, policies, and/or mandated frameworks. In the public sector, laws or regulations may require the internal audit activity to evaluate the compliance of some or all procurements and may require specific procedures to be followed.

- *Post-procurement* — These engagements involve evaluating specific procurements or a sample of procurements that occurred within a certain period to obtain assurance over the contract execution and management and to generate recommendations for improvement. These reviews also should assess whether the procurement met its intended objectives.

- *Performance* — These engagements may assess the overall effectiveness and efficiency (that is, economy or value for money), equity, and competitiveness of the entire procurement process or of individual phases or elements.

Consulting

The nature of **consulting services** may be tailored to the organization, and engagements may encompass many types of work.

- *Gateway reviews* — This type of consulting (advisory) service is utilized in some countries and jurisdictions. It consists of short reviews, typically lasting less than a week, during which a government team of subject matter specialists, external to the procuring organization, assess the progress of the procurement project at critical decision points and determine the likelihood the outcomes will be delivered successfully.

- *Probity reviews* describe engagements that evaluate whether procurement systems, processes, practices, activities, and behaviors align with and promote ethical principles essential to public sector strategy (that is, integrity, equity, accountability, and transparency). While the term seems to be most common in Australia, South Africa, and New Zealand, the concept may be advantageous in situations where the procurement process is complex or politically sensitive or involves a high-value contract. Probity reviews are conducted in real time, while the procurement process is operating, to provide management with opportunities to make corrections that increase confidence and trust in the process among bidders and the public alike.

Reporting

To satisfy Standard 2400 – Communicating Results and 2410 – Criteria for Communicating, after completing an engagement, internal auditors must communicate the engagement's objectives, scope, and results. When providing assurance, Standard 2410.A1 requires internal auditors to include applicable conclusions and recommendations and/or action plans. The interpretation of the standard explains that "Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance."

Conclusion

By providing assurance that procurement activities are performed in compliance with various laws, rules, regulations, and policies and that the organization's procurement practices include controls to safeguard public funds and ensure they are used appropriately and effectively, public sector internal auditors can both add value to their organizations and help ensure that procurement practices serve the public interest.

Appendix A. Relevant IIA Standards and Guidance

The following resources were referenced throughout this practice guide. For more information about applying The IIA's *International Standards for the Professional Practice of Internal Auditing*, please refer to The IIA's Implementation Guides.

Code of Ethics
Principle 1: Integrity
Principle 2: Objectivity
Principle 3: Confidentiality
Principle 4: Competency

Standards
Standard 1200 – Proficiency
Standard 1210 – Proficiency and Due Professional Care
Standard 2010 – Planning
Standard 2050 – Coordination and Reliance
Standard 2100 – Nature of Work
Standard 2210 – Engagement Objectives
Standard 2400 – Communicating Results
Standard 2410 – Criteria for Communications

Guidance and Other IIA Resources
Practice Guide, "Auditing Third-party Risk Management," 2018.
Practice Guide, "Coordination and Reliance: Developing an Assurance Map," 2018.
Practice Guide, "Developing a Risk-based Internal Audit Plan," 2020.
Practice Guide, "Unique Aspects of Internal Auditing in the Public Sector," 2019.
Knowledge Brief, "Audit Focus: Public-Private Partnerships," 2017.

Appendix B. Glossary

Terms identified with an asterisk are taken from The IIA's *International Professional Practices Framework* "Glossary," 2017 edition.

add value* – The internal audit activity adds values to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

asset misappropriation – A scheme in which an employee steals or misuses the employing organization's resources (e.g., theft of company cash, false billing schemes, or inflated expense reports).[16]

assurance services* – An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

board* – The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

chief audit executive* – Describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.

complementary policy objectives -- The indirect or secondary values that public procurement can pursue in addition to the best value for money.[17]

compliance* – Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

consulting services* – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's

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16. Association of Certified Fraud Examiners. *Report to the Nations: 2020*, 86.

17. OECD, *Public Procurement Review*, 60.

governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

contract administration – Observing and monitoring the contractor's performance, managing changes to the contract, maintaining contract-related documents, handling claims and disputes, and closing out the contract.[18]

contract management – The entire contracting process from pre-tendering through contract closeout.[19]

control* – Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

control processes* – The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

corruption – Acts in which individuals wrongfully use their influence in a business transaction in order to procure some benefit for themselves or another person, contrary to their duty to their employer or the rights of another (for example, kickbacks, self-dealing, or conflicts of interest).[20]

engagement* – A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

fraud* – Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

governance* – The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

internal audit activity* – A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

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18. NASPO, "NASPO Contract Administration Best Practices Guide," 2017.

19. NASPO, "Contract Administration Best Practices Guide," 2017.

20. Anderson, et al., *Internal Auditing: Assurance and Advisory Services*, 4th ed., BM-11.

needs assessment – An evaluation, often used for formative purposes, designed to understand the resources required for a program to achieve its goals.[21]

probity – An absolute standard of honesty and integrity in all dealings.[22]

public interest – The collective well-being of the community of people and entities that the auditors serve.[23]

risk* – The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

risk appetite* – The level of risk an organization is willing to take.

risk management* – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

tender – A formalized process in which organizations invite providers to bid on contracts to supply goods and/or services.

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21. U.S. Government Accountability Office. GAO-21-404SP. Program Evaluation: Key Terms and Concepts. Washington, DC: GAO, 2021. https://www.gao.gov/assets/gao-21-404sp.pdf.

22. HM Treasury, *Regularity, Propriety, and Value for Money,*" London: Crown, 2004. 34. https://webarchive.nationalarchives.gov.uk/20130102173401/http://www.hm-treasury.gov.uk/psr_governance_valueformoney.htm.

23. U.S. Government Accountability Office, GAO-18-568G: *Government Auditing Standards*, 2018 revision, Washington, DC: GAO, 2018.

Appendix C. Procurement Methods and Terminology

The method of procurement an organization uses depends upon the types, volume, and complexity of goods and services to be obtained. The most common methods are explained below. Unless otherwise noted, terms have been adapted from Stephen Linden's *Whitepaper: Public Sector Procurement*, published by The Institute of Internal Auditors — Australia. https://www.iia.org.au/sf_docs/default-source/technical-resources/2018-whitepapers/iia-whitepaper_public-sector-procurement.pdf.

best and final offer (BAFO) – Using this approach, the procuring organization provides a short list of feedback to the potential suppliers and gives them an opportunity to reconsider its proposed pricing. To ensure fairness, BAFO should not be introduced after pricing has been received from potential suppliers unless it is stipulated at the beginning of the process.

competitive dialogue – Tendering option that allows for bidders to develop alternative proposals in response to an organization's outline requirements. Only when their proposals are developed to sufficient detail are tenderers invited to submit competitive bids.

competitive procedure with negotiation – Offers the ability to clarify bids with bidders after the submission of fully formed initial tenders. Organizations use this procedure if they are unable to define how to meet their needs technically and/or they cannot specify the legal or financial requirements of the contract.

entity acquisition procedure – The procurement is exempt from the competitive bid process (e.g., using small purchase procedures for purchases under a certain threshold). Many jurisdictions allow public entities to use simplified acquisition procedures for purchases under a given amount threshold. However, assurance providers should pay particular attention when this procedure is used because controls may be easy to override.

fixed price contract – A contract where the method of pricing is to pay the total amount as a fixed lump sum (all fees and expenses) without regard to the units of work to be performed. Fixed price contracts are sometimes referred to as lump sum or firm fixed price contracts.[24]

negotiated procedure without prior publication – Category of higher risk methods generally restricted to complex, high-value service contracts which may include sole sourcing or other methods.

negotiated/limited framework – Making purchases or contracting within delegated authority with proper approval. Qualification processes cover multiple procurements and are not open all the time. Selecting from a list of suppliers that meet qualifications established in advance

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24. Province of British Columbia, "Procurement and Contract Management Terminology and Definitions" accessed August 10, 2021, https://www2.gov.bc.ca/gov/content/governments/services-for-government/bc-bid-resources/reference-resources/procurement-definitions.

and awarding to an organization with an established contract that is already available and meets the minimum requirements.

single/sole source procedure — Noncompetitive approach used with approval of senior management to address emergencies or situations where only one supplier is qualified to fulfill requirements and is available (or as the continuation of work not easily reproduced by another vendor). Many times, regulation determines limited situations where a public organization can go for a negotiated or single/sole source procedure such as existence of a single supplier, emergency cases, and confidential purchases related to defense and security. Internal auditors should be more prudent in assessing procurement projects that use these methods because public entities may fail to justify the need to use the methods. There are examples of public organizations overriding complex public procurement legislation by illegally using these methods.

open tendering/competitive bidding – Open to all qualified bidders with focus on achieving best value for money, competitors participate in a sealed bid process. Complete requirements are described in specifications in advance. If certain conditions are specified in legislation, then negotiation, competitive dialogue, or innovation partnership may apply; however, these processes may reduce competition, equal treatment, and transparency.[25]

sealed bid/invitation for bid (IFB, IFBs) – A competitive approach, usually for requirements over $100,000 U.S. dollars, in which the lowest bid will win.[26]

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25. OECD iLibrary, "Audit of Procurement," *SIGMA Brief 28: Public Procurement*, July 31, 2013. https://doi.org/10.1787/5js4vmnd3g9x-en.

26. FindRFP.com, "Government Contracting Terminologies," Accessed August 10, 2021. https://www.findrfp.com/Government-Contracting/Gov-Contract-Term.aspx.

Appendix D. Examples of Procurement Risks and Controls

The following charts are intended to provide examples of risk and control considerations a public sector organization may have within the different phases of the procurement process. These are not meant to be all-inclusive lists, and if utilized, auditors should customize to the organization.

Phase 1. Pre-tendering	
Potential Risks	**Potential Controls**
1.1 Assess needs and analyze market	
▪ Needs assessment is not aligned with objectives of organization, intended purpose of relevant legislation, and true needs of the organization.	▪ Independent review committee or advisor is consulted and/or members of public are surveyed as part of needs assessment.
▪ Alternatives to procurement have not been considered legitimately, and procurement has not been justified in terms of value for money.	▪ Procurement policy requires the following to be documented: due consideration of alternatives, market study, business case (rationale to justify procurement), and/or public survey that justifies need (requirements for high-value, sensitive, or complex procurements may be more specific).

▪ Needs assessment and market analysis are not thorough, resulting in
  – Over- or under-estimation of needs.
  – Inadequately defined or unrealistic specifications.
  – Procurement of insufficient or inferior goods and services.
  – Insufficient capacity to assess needs and analyze market.
  – Failure to attract a sufficient number of qualified bidders/reduced competition.
	▪ Organization has established and documented processes and procedures for assessing needs and analyzing market including review.
	▪ Management is required to develop and regularly update procurement plans to ensure procurement aligns with organization's needs.

▪ Political or other external influences affect decision-making. ▪ Procurement management and potential bidders collude; for example, information given to some potential suppliers gives them an unfair advantage. ▪ Needs assessment includes unnecessary products or services, indicating either waste or fraud/collusion.	▪ E-procurement system (or other regulated and monitored system) is used to maximize structure and transparency; for example, consultations with potential vendors are documented and publicly available and procurement plans for projects are published online annually for public review. ▪ Independent review committee or advisor(s) are used to evaluate high-valued, complex, and publicly sensitive procurement projects.
▪ Procurement plan is not reviewed often enough; needs assessment and market analysis do not reflect current market conditions and costs. ▪ Changes in laws, regulations, and fees (e.g., tariffs and taxes) may affect qualification criteria and thus the bidders that qualify.	▪ System or process requires needs assessment and market analysis to be updated at specific intervals (for exampke, monthly or quarterly) or prompts for management to do so. ▪ Criteria should be reviewed and updated regularly to reflect current laws and regulations.

1.2 Choose procedure	
■ Competitive procedures are disregarded.	■ Organization's policy specifies terms and conditions for using noncompetitive procedures and requires documented justification of noncompetitive procedures. ■ Procurement management's decision-making (choice to use noncompetitive) is separate from the ability to authorize the action.
■ Exceptions are abused (for example, invoking extreme urgency, splitting contracts to remain below threshold).	■ A process is in place to validate exceptions, including a requirement for multiple (independent) authorizations.
■ Sole source provider is inappropriately chosen.	■ Process requires comprehensive research into all available vendors for each project.

1.3 Develop specifications, criteria	
■ Requirements, criteria, and/or performance description are not clearly and objectively defined in advance or are biased (for example, too vague or tailored to favor a certain bidder/vendor). ■ Specifications and criteria are more restrictive than necessary (e.g., contain unjustified references to specific brand, source, or patent), which may lead to favoring or eliminating certain bidders.	■ Organization has specific policies, guidelines, and procedures to ensure compliance with laws and regulations and to specify how to develop appropriate rules and criteria. ■ Specifications are based on documented market analysis that includes consultation with suppliers and end users. ■ Criteria are benchmarked by an independent procurement or compliance function.
■ Process is vulnerable to conflicts of interest, collusion, or corruption.	■ Organization has emloyees sign a code of conduct, acknowledging their agreement to abide by it. ■ Declarations of private interests and potential conflicts are required and evidenced. ■ Organization has policy, procedures, and trainings regarding how to handle conflict-of-interest situations. ■ Potential suppliers (bidders) produce evidence that they follow anti-corruption standards and policies and validate that their past records are free from corruption charges.
■ Use of list/registry/roster of existing suppliers limits competition, is outdated, or contains suppliers that have performed poorly or violated terms of contracts.	■ Annually application opportunities are advertised, the process is clear, and list is updated to include new vendors wherever possible. ■ Performance of existing suppliers is tracked and documented on the list. ■ Review and authorization is required for additions to and deletions from list and reasons are documented and transparent.
■ Employees are not properly skilled to set specifications and award criteria	■ Procurement specialist training is in place and updated regularly. ■ Internal and/or external subject matter experts are consulted as necessary.

1.4 Plan and budget	
▪ Procurement is not aligned with organization's strategic priorities, investment decision-making, and general budget.	▪ Multi-level, multi-factor approval process is in place with defined and segregated roles and responsibilities. Senior management and the internal audit activity perform assessments at scheduled intervals or milestones.
▪ Budget is not based on sound forecasting methods, and funds available are not sufficient to fulfill the procurement.	▪ Government has established a centralized database of cost estimates for products and services. ▪ Cost information for other public procurements is documented and may be used as a basis for estimates. ▪ Policy requires funds verification process and budget review and approval by the budget holder. ▪ Business case and/or independent peer or expert advice and review are required for complex, sensitive, or high-value projects.

Phase 2. Tendering	
Potential Risks	**Potential Controls**
2.1 Issue invitation to tender or request for proposal	
▪ Communication to potential suppliers is inconsistent, insufficient, or perceived as biased.	▪ E-procurement system is operating. ▪ Policies and procedures are publicly disclosed. ▪ Process/tool for submitting complaints is available.
▪ Purchasing entity changes requirements and/or specifications after RFP has been issued and before bid submission deadline.	▪ Policy and procedures are in place to communicate changes timely to all bidders.
▪ Communication with bidders is perceived as biased (for example, questions and clarifications about technical specifications are not shared with all bidders).	▪ Policy and procedures are in place to ensure communication with all bidders is equitable and transparent. ▪ All information is posted and emailed through e-procurement system.
▪ If a restricted procedure is used, unauthorized bidders are added to the tendering invitation list and/or authorized suppliers are excluded.	▪ More than one person must approve invitation list. ▪ Invitation list is audited. ▪ Open tendering system is used.
2.2 Receive and evaluate bids	
▪ Suppliers collude (for example, complementary bidding, bid rotation, market division).	▪ A process exists to investigate collusion and other misdealings (for example, bidders whose tenders are abnormally low). ▪ Bidders with a history of corruption are placed on a restricted list. ▪ Restricted list is analyzed to identify patterns.
▪ Contractor intentionally uses inaccurate cost or pricing data to inflate costs in negotiated contracts.	▪ Purchasing managers use records or past purchases, peers, and other sources (for example, standardized pricing tables) to benchmark prices.

■ Contract value estimations are inflated.	■ Procurement managers are trained to recognize unrealistic estimates.
■ Time allocated to bidders to submit their bids is insufficient.	■ Public pre-tendering consultations are conducted. ■ Number of bids submitted falls within a statistically normal range. ■ Policy and procedures allow extension of deadline for bid submissions.
■ Bid log is falsified to benefit a supplier.	■ Bid log is managed by an employee sufficiently independent of decision-making and is verified by someone (segregation of duties). ■ Bids information, such as name, time, date, and price, is recorded when bid arrives. ■ Bids are opened in front of witnesses (for example, the public). ■ E-procurement is transparent to applicants and to public.
■ Late bids are accepted.	■ E-procurement system automatically closes bidding at deadline. ■ Late bids are opened with witnesses, declined, and returned with message about late receipt.
■ Tendering procedure is cumbersome and inefficient, reducing pool of potential participants. ■ Tender evaluation methodology is unclear, insufficiently transparent, or perceived as not fair/competitive, reducing pool of potential bidders.	■ Organization uses e-procurement to enhance accessibility, transparency, and efficiency. ■ Methodology is assessed and approved by committee or experts. ■ Risk and compliance managers and/or internal audit activity provide assurance and advice related to procedures.
■ Employees are not properly skilled to evaluate and test goods and services.	■ Training is provided to enhance the skills of procurement specialists, or subject matter experts are used as consultants.
■ Products are not tested properly. ■ Detailed methodology for testing specific products or devices is not available.	When the bid evaluation process includes a testing phase: ■ Skilled experts are assigned to the evaluation committee/commission. ■ Testing documents are prepared according to specific standards. ■ Relevant tests and standards, set by professional organizations, are identified and implemented. ■ In some jurisdictions, bidders may attend testing sessions.
■ Contract clauses underestimate the complexity of the procurement relationship.	■ Bidders are allowed to negotiate and resubmit proposals/bids.
■ Threshold for achieving economies of scale is not met.	■ Senior management abandons request and coordinates with other agencies to develop new interagency request with which to approach the market again. ■ Specifications are recast to fit the bids received.

▪ Unsuccessful bidders claim that the process was biased and/or litigate against the procuring organization.	▪ Bid/proposal evaluation process is adequately documented and signed by the committee members. Original bids are initialed or signed by evaluation committee members. ▪ Bid evaluation and award results are disclosed to the public. ▪ Bid/proposal documents are retained for purpose of assurance review. ▪ Policies and procedures allow for review and remedy of disputes before legal action is pursued.
▪ Bid/proposal documents are destroyed to conceal fraud.	▪ Documents are submitted electronically or through another secure method to prevent them from being accessed or changed after submission.

2.3 Award contract and publicly disclose results

▪ Evaluation and selection is perceived as biased and is challenged by unsuccessful bidders.	▪ Due diligence process has been followed and documented (that is, procurement duties are segregated; evaluation is performed by committee that includes experts independent from those that developed criteria; management approves award). ▪ Timely and appropriate decisions are reasonably justified, properly documented, and transparent. ▪ Unsuccessful bidders are debriefed regarding reasons they were not awarded contract. ▪ Providers of assurance (e.g., internal auditors) review and validate decisions (such as the justifications for rejecting bids) and assess whether such decisions align with the organization's objectives and risk appetite and the project's goals.
▪ The competitive process is circumvented or corrupted when a contract is extended or modified (for example, quantities of goods or services are artificially inflated to bidders and current supplier knows actual quantity and can bid lower).	▪ Contract modifications require justification and approval by management.

Phase 3. Post-award	
Potential Risks	**Potential Controls**
3.1 Administer contract performance	
▪ Timing and quality of delivery are not consistent with contract terms; for example, supplier causes delays.	▪ Contract includes clauses to reward or penalize supplier, depending upon delivery/performance of contract (for example, clauses that reward suppliers who complete work before deadlines and penalize them for delays). ▪ The procuring organization supplies proper supervision, including establishing independent oversight by an advisory committee or individual, early and regular communication (kick-off meeting), performance metrics, planned and random

	- inspections and sample checks, and progress reports. - Contract includes clause requiring subcontractors to be subject to the same terms and conditions as the primary supplier.
- Associated costs, tariffs, taxes, and fees increase.	- Predetermined formulas are used to update the project cost especially for long-term projects. - Contract clauses hold suppliers accountable for delays.
- Supply chain is interrupted.	- Supplier submits contingency plan when submitting proposals.
- Organization must compensate contractor for impeding or delaying procurement.	- Contract administrator monitors contract milestones and checks progress at predetermined intervals. - E-procurement system automatically issues reminders and progress checks.

3.2 Place order and pay vendor per contract

- False or duplicated billing (for example, supplier and subcontractor each bill for the same work, or supplier bills for good or service not provided).	- Contract administrators and/or risk managers monitor for accounting mischarges in materials and labor.
- Contract administrator or other supervising officials collude with contractors to misallocate or otherwise falsely account costs.	- Financial duties are separated with proper supervision of contract administrators. - Preventative policies require disclosures of conflicts of interest for suppliers and their subcontractors.
- Goods and services provided are subpar or do not achieve intended outcomes.	- Goods and services are "tested" prior to payment and contract closure. - Performance is reviewed at each contract milestone to prevent surprises at the end.

3.3 Assess and close contract

- Stakeholders including the public question value.	- Organization prepares a closing report and shares it with stakeholders including the public. - Closing report includes reconciliation of planned budget against delivery budget. Budget execution is independently certified. - The internal audit activity performs post-project assessments and issues reports publicly. - Public feedback is collected to serve as input for future procurement activities. - Reporting is coordinated with external oversight bodies.
- Stakeholders question changes from initial contract.	- Contract administrators ensure amendments receive due process and are properly approved. - Changes are documented and publicly disclosed.

Appendix E. References and Additional Reading

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