

Compliance Audit Report On Procurement Of the National Department of Health

For the Financial year 2015



AUDITOR GENERAL'S OFFICE
PAPUA NEW GUINEA



Compliance Audit Report

On Procurement
Of the
National Department of Health

for the Financial year 2015

Procurement Sourcing Practice of the National Department of Health for the Financial Year 2015

**Report No: 01
Date: 23 April 2019**



Phone: (+675) 3012200 Fax: (+675) 325 2872 Email: agopng@ago.gov.pg Website: www.ago.gov.pg

OFFICE OF THE AUDITOR-GENERAL

15 April, 2019

The Honourable Job Pomat, MP
Speaker of the National Parliament
Parliament House
WAIGANI
National Capital District

Dear Mr. Speaker

In accordance with the provisions of *Section 214 of the Constitution of the Independent State of Papua New Guinea* and the *Audit Act 1989 (as amended)*, I have undertaken a Compliance Audit on the Procurement Sourcing Practices by the National Department of Health in Procuring the Medical Drugs and Supplies in 2015.

I have the honor to present to the National Parliament this report titled “**Compliance Audit Report on Procurement of National Department of Health for the financial year 2015.**”

Following its tabling in Parliament, the report will be placed on the Auditor-General’s Office website homepage <https://www.ago.gov.pg>

Yours sincerely,

GORDON KEGA, CPA
Acting Auditor-General

ACRONYMS & GLOSSARY OF TERMS

Acronyms	Glossary Of Terms/Definitions
AGO	Auditor-General's Office
APC	Authority to Pre-Commit
BPPL	Borneo Pacific Pharmaceutical Ltd
CSTB	Central Supplies and Tenders Board
CSTB OM	Central Supplies and Tenders Board Operational Manual
GPM	Good Procurement Manual
FIs	Financial Instructions
ISSAI	International Standards of Supreme Audit Institution
INTOSAI	International Organisation of Supreme Audit Institution
MSPDB	Medical Supplies Procurement and Distribution Branch
NDoH	National Department of Health
OM	Operations Manual
PFMA	Public Finances Management Act
PFMM	Public Finances Management Manual
PSTB	Pharmaceutical Supply and Tenders Board
RFT	Request for Tender
STB	Supplies and Tenders Board
TEC	Technical Evaluation Committee

Table of Contents

EXECUTIVE SUMMARY	1
<i>Background</i>	1
<i>Audit Objective, Audit Questions and Audit Approach</i>	1
<i>Key Audit Findings</i>	2
<i>Audit Recommendations</i>	2
IDENTIFICATION OF THE AUDITING STANDARDS IN PERFORMING THE WORK .	3
DESCRIPTION OF THE SUBJECT MATTER AND THE SCOPE OF AUDIT	3
DESCRIPTION OF THE AUDIT OBJECTIVE,AUDIT QUESTIONS CRITERIA.....	3
EXPLANATION AND REASONING FOR THE METHODS USED	6
AUDIT FINDINGS	7
<i>TEC recommendation made 10 months after the expiration of the tender validity period- significant delay</i>	8
<i>TEC failed to inform PSTB about the delay in providing its recommendation; consequently the tenders were not informed</i>	8
CONCLUSION.....	9
RECOMMENDATIONS	9
Appendix 1.....	11

EXECUTIVE SUMMARY

Background

In 2012, the government endorsed **Free Primary Health Care** and **Subsidized Specialist Services Policies** which have since been implemented. This has resulted in a significant increase in the budget for medical drugs and supplies in the health sector. In 2015 the National Department of Health (NDoH) spent over K194 million under the expenditure vote item *124 – Operational Materials and Supply in medical supplies and pharmaceutical drugs*. The NDoH purchases all of its Medical Supplies and Pharmaceutical Drugs by Tender through the Pharmaceutical Supply & Tenders Board (PSTB) for amounts below K1 million and through the Central Supply and Tenders Board (CSTB) for tender amounts above K1 million.

My office in conjunction with PASAI (Pacific Association of Supreme Audit Institutions) and INTOSAI (International Organization of Supreme Audit Institutions) was implementing a new Audit Approach (*Stand-alone Compliance Audit*) in the procurement of Government Goods and Services.

This audit was conducted under *Section 3* of the *Audit Act 1989* and *Section 214* of the *Constitution of Papua New Guinea*. Audit procedures were developed according to audit standards (ISSAI 400/12) established by the International Organisation of Supreme Audit Institutions (INTOSAI). The objective of the audit is to provide an independent assessment of whether NDoH is complying with *CSTB guidelines*, *The Public Finances Management Act 1995 (PFMA)* and the *Finance Management Manual (FMM)* when selecting suppliers and awarding contracts.

The Department was provided with an opportunity to respond to the issues raised in this report through the management letter, however at time of report preparation, no response had been received.

Audit Objective, Audit Questions and Audit Approach

As noted above, the objective of this audit is to assess the NDoH's procurement sourcing practices and test compliance with the provisions of the CSTB, especially the *Good Procurement Manual, Version 4* and the *CSTB Operations Manual* which are derived from the *PFMA 1995*. In doing so the following audit questions were addressed:

- Do the bidding documents contain all the necessary information and are they approved by relevant authorities prior to advertising?
- Do suppliers submit quality bids and is the best supplier selected for the right reasons, and
- Were the tenders appropriately evaluated according to the PFMA, FMM and the PSTB guidelines and were the contracts awarded accordingly?

This audit was conducted based on information provided by the NDoH and documents obtained from the PSTB Secretariat. The approach for the audit included review of the procurement policy, documentation and mapping of the various procurement processes, assessment of the key controls; and interviews with appropriate procurement personnel and management staff. Audit tests were based on the *Good Procurement Manual* and derived from the PFMA.

Key Audit Findings

Review of the NDoH Procurement Sourcing Practices demonstrated a high level of compliance with the audit criteria derived from the Good Procurement Manual and the PFMA. However, non-compliance was noted in the supplier selection and awarding of contracts as summarized below:

- TEC recommendations on five (5) CSTB tenders were issued 10 months after the expiration of the Tender Validity Period. The rules specify that tenders are required to be issued three (3) weeks prior to expiration of the tender validity period. .
- The TEC failed to inform the PSTB of the delay in their recommendation consequently affecting the initial contract price awarded due to currency fluctuations.

Audit Recommendations

The AGO recommends that the National Department of Health establish appropriate control measures to avoid undue delays in the awarding of tenders.

IDENTIFICATION OF THE AUDITING STANDARDS IN PERFORMING THE WORK

This compliance audit was conducted in accordance with the International Standards of Supreme Audit Institutions on Compliance auditing (ISSAI 4000)

DESCRIPTION OF THE SUBJECT MATTER AND THE SCOPE OF AUDIT

The subject matter for this audit is the *Procurement Sourcing Practice of the National Department of Health*.

This compliance audit on procurement was undertaken to determine whether NDoH in all material respects complied with *CSTB guidelines*, *PFMA* and the *FMM* when selecting suppliers and awarding the contracts in the 2015 financial year in procuring medical supplies and pharmaceutical drugs. The audit addressed the following key questions;

- a) Do the bidding documents contain all the necessary information and are they approved by relevant authorities prior to advertising?
- b) Do the suppliers submit quality bids and is the best supplier selected for the right reasons? and
- c) Were the tender appropriately evaluated according to the PFMA, FMM and the PSTB guidelines and were the contracts awarded accordingly?

For each of these questions, the audit examined if the Health Department complied in all material respects with the criteria, with respect to its sourcing practices.

The audit focused on the procurement of drugs and medical supplies over the threshold of K500,000 required to go through the public tender process.

DESCRIPTION OF THE AUDIT OBJECTIVE, AUDIT QUESTIONS CRITERIA

The *objective* of this audit is to assess if the NDoH's procurement sourcing practices are in compliance with the provisions of the CSTB, especially the *Good Procurement Manual (GPM)*, *Version 4* and the *CSTB Operations Manual* which are derived from the *PFMA 1995*.

The criteria for this audit as detailed below were taken from the GPM and CSTB OM which are derived from the *PFMA, 1995* in order to address the identified audit objective and audit questions.

The criteria identified and used are standard major procurement requirements that the client (NDoH) is also aware of; therefore, we believe that the criteria tested in each area of the audit are sufficient to conclude on the overall compliance to the legislation.

Audit question 1 - Do the bidding documents contain all the necessary information and are they approved by relevant authorities prior to advertising?

The criteria for Bidding Documentation required, preparation and approval are drawn from *GPM, Part B-Procurement Procedures, Step No.3 Chapter 3 (p3-7)*

- **Part B of the GPM under Procurement Procedures** states that, if standard bidding documents are NOT used, the Agency is to ensure that the listed provisions as described in **GPM, Part B-Procurement Procedures, Step No.3 – Bidding Documents (p3-4)**; are to be included in the bidding documents developed. It also states that the bidding documents issued to prospective tenderers are to be registered and when amending the bidding documents, the NDoH is required to provide the amendment to the PSTB who will then issue the amendment to all registered tenderers and advise registered tenderers to confirm receipt of the amendment.
- The bidding documents must clearly state the minimum qualifying requirements according to **Section 42** of the **PFMA** for tenders to be eligible to submit a tender.
- Evaluation Criteria must be developed and provided in the Bidding Documents before the tender is advertised. The bid with the Lowest Total Cost, but not necessarily the lowest submitted price shall be recommended for award of the contract.
- A clear, succinct specification is necessary to convey requirements to potential tenderers as set out in the Procurement Manual.
- Approval of bidding documents must be referred to the appropriate Supplies and Tenders Board (STB). If the contract estimate is above the STB delegated authority, approval of the documents must be then be referred to the CSTB.

Audit question 2. Do the suppliers submit quality bids and are the best suppliers selected for the right reason?

The criteria used to ensure that the right suppliers have submitted quality offers for the best price and that the best supplier was selected for the right reason are drawn from GPM, Part B – Procurement Procedures, step 4-advertisement, step 5-receipts and opening of tenders, step 7-evaluation of tenders and award. Key Principles are summarised below:

- STB to ensure that there is enough publicity regarding the tender in order to encourage effective competition. The STB to advertise the procurement opportunities as detailed in Part B of the Good Procurement Manual, step 4..
- The STB will issue bidding documents to prospective tenderers. The STB must also maintain a register of all those companies that have been provided with bidding documents.
- When amending the bidding documents, the responsible agency will provide the amendment to the STB who will then issue the amendment to all registered tenderers and advise registered tenderers to confirm receipt of the amendment.
- A pre-tender conference should be convened for contracts which are large or complex. Details of the conference (and possible site visit) should be included in the Advertisement. Attendance to the conference is not mandatory, but will provide an opportunity for common understanding for those participants. The conference will also provide a venue for contractors to ask questions. However, it is essential that responses to these questions are provided in writing to all prospective tenderers (including those not attending the conference).
- Any politician or public officer which corruptly asks receives or obtains property or benefit for himself or any other person can be imprisoned up to 7 years for the listed acts of corrupt practices as specified in the *Procurement Manual*. The illegal acts that carry the penalty are as follows:

1. Corruption
 2. Fraud, and
 3. Conflict of Interest.
- The central principles undermining fair and ethical dealing include;
 - Treating potential and existing contractors with equality and fairness
 - Not seeking personal gain
 - Treating tenderers and tender information with respect and confidentiality

Failure to follow the above principles undermines the credibility of the GoPNG procurement process. From the *Operations Manual*:

- The STB must have a locked tender box, where the tenders are submitted. Once the tenders closed, the tender box must be secured to stop any late tenders being submitted. However late tenders must be noted and held separately.
- STB will arrange for tenders to be opened and recorded on the day that the tender closes. All tenders will be opened 'publicly'.
- Details of all persons attending the tender opening must be indicated in the Tender Opening Register. Critical details as identified are to be read out loudly. Failure to do so will result in denial of inclusion in Tender Evaluation.
- Evaluation forms are contained in the operations manual including a step-by-step procedure for the evaluation of the tenders. Important to note that in all instances, the bidding and evaluation procedures described in the Bidding Documents must be followed.
- The names and experience details of the TEC members must be provided to the Chairman of the STB for approval, before starting the receipt of tenders. The Chairman may request the Agency to replace any proposed member of the TEC if the Chairman believes their skills and expertise are inadequate. The TEC should consist of a minimum of three qualified members who should work in a secure office where all tenders can be kept. There may be considerable advantage if the same members participated in the preparation of the bidding documents.
- Tenders that are incomplete, invalid or substantially non-responsive to Bidding Documents will be rejected.

Audit question 3. Were the tenders appropriately evaluated according to the *PFMA*, *FMM* and the *CSTB* guidelines and were the contracts awarded accordingly.

The criteria used to ensure that tenders were appropriately evaluated and contracts awarded accordingly are drawn from the GPM, Part B – Procurement Procedures, step 7-evaluation of tenders and awarding of contracts to successful tenderers.

- Tenders with the Lowest Total Cost at this stage is subject to;
 - Application of any discounts
 - Contingent on the simultaneous award of multiple contracts or lots; and
 - Confirmation of qualification requirements

- The amount of the proposed award shall be the tender price as submitted by the winning Tenderer and adjusted in the bidding documents.
- Neither the TEC nor the Executing Authority may negotiate with a Tenderer to change unit rates or lump sums in the tender price. However, the scope of the contract may be reduced to conform to the budget requirements. Alternatively if justified and funds are available, the scope may be increased. In both cases, prior approval must be obtained from the STB for changes to the scope.
- In accordance with the Finance Instructions, the TEC must submit the completed tender recommendation report containing the required summary to the STB as soon as possible after tender opening, preferably no later than 3 weeks prior to the expiration of the tender validity period.
- The duration of the Validity of each tender should be the one specified in the Bidding Documents and should be confirmed in the signed (form of) tender. If exceptional circumstances occur in which award cannot be made within the validity period, such extension requests shall be made to the STB explaining the reasons at least two weeks prior to the expiration date. The STB must request such extensions in writing to Tenderers, in accordance with the bidding documents. Beyond this timing, the contracts need to be retendered.
- In the event that the board disagrees with the initial and subsequent evaluations, the board may disregard the TEC's recommendation and award the contract based on the Board's sole recommendation. In this event the board must prepare its own recommendation report with clear and comprehensive justifications in accordance with the law for the recommended award.
- The contract should be awarded when the STB is satisfied that the tender has been conducted in accordance with the PFMA, Financial Instructions and Good Procurement Manual. The recommended offer must represent "Value for Money" (i.e. meets the requirements of the Bidding Documents at the Lowest Total Cost) after considering the relevant technical, commercial, financial and contractual matter. Funding should also be available.

EXPLANATION AND REASONING FOR THE METHODS USED

The audit was based on the information provided by the National Department of Health and the documents provided by the NDoH Medical Supplies, Procurement and Distribution Branch and the PSTB secretariat. The procurement sourcing activities undertaken by the department were analysed and a representative sample was taken for detailed testing of compliance with the criteria.

Relevant officials of the department and the PSTB secretariat were interviewed to obtain information and verify the information already obtained. All the audit findings as and when they were identified were discussed with management and their comments were obtained and incorporated where appropriate.

The substantive audit approach was used to address the audit questions below and a sample of 29 contracts to the value of K57 million was selected from the CSTB Register. However, only 25 contracts to the value of K40.482 million of the total sample requested was provided. Audit was advised that TEC Recommendations for 4 successful tenderers were still with CSTB for approval and hence, not made available for audit examination. The 25 contracts provided were

tested using the designed audit procedures to reveal system weaknesses, which would result in non-compliance to the requirements of the related regulations.

Audit question 1: Do the bidding documents contain all the necessary information and are they approved by relevant authorities prior to advertising?

The AGO cross-referenced the bidding documents against the relevant criteria to ensure that the bidding documents contained all the necessary information and that approval was granted by relevant authorities prior to advertising. Relevant officers of the NDoH Medical Supplies, Procurement and Distribution Branch and the PSTB secretariat were interviewed to gather information and this information was verified against the documents obtained.

Audit question 2: Do the right suppliers submit quality bids and is the best supplier selected for the right reasons?

The tender documents were reviewed against the tendering requirements as per the related criteria to ensure that proper tendering processes were followed. Further, relevant officers of the NDoH Medical Supplies, Procurement and Distribution Branch and the PSTB secretariat were interviewed to gather information and this information was verified against the documents obtained. The AGO also physically confirmed the existence of the tender box and its safe keeping.

Audit question 3: Were the tenders appropriately evaluated according to the *PFMA*, *FMM* and the *CSTB* guidelines and were the contracts awarded accordingly.

The AGO reviewed the processes involved in tender evaluation and awarding of contracts to successful tenderers against the tender evaluation requirements and the awarding of contracts to ensure that proper tender evaluation and awarding of contract guidelines were followed. Further, relevant officers of the NDoH Medical Supplies, Procurement and Distribution Branch and the PSTB secretariat were interviewed to gather information and this information was verified against the documents obtained.

The AGO takes this opportunity to thank the staff and management of the NDOH and the STB secretariat for the assistance provided to the audit team during the course of the audit.

AUDIT FINDINGS

This section of the report discusses our findings on NDOH's compliance with the requirements relating to the sourcing practices of the procurement of drug and medical supplies as set out in the Good Procurement Manual (GPM)

The procurement sourcing practices observed by the department includes approaching the pharmaceutical drug and medical supplies market and selecting competent suppliers through the tender process and negotiating and awarding the contracts.

Except for the examples of non-compliance noted on tender evaluation and contract awarding (outlined below), the bidding documents that were issued to the successful bidders demonstrated that all the necessary information that was supposed to be provided was adequately included according to *Part B of the GPM under Procurement Procedures* and was approved by the PSTB prior to advertising. The audit also confirmed that the right suppliers submitted quality bids and the best supplier selected for the right reasons as per the GPM, Part B – Procurement Procedures, step 4-advertisement, step 5-receipts and opening of tenders, step 7-evaluation of tenders and award and Key Principles:

The audit findings relating to non-compliance on tenders evaluation and awarding of contracts are as follows:

TEC recommendation made 10 months after the expiration of the tender validity period- significant delay

In accordance with the GPM, Part B-Procurement Procedures, Step No.7 – Evaluation of Tenders and Award; (p.6-10), the TEC must submit the completed tender recommendation report containing the required summary to the STB as soon as possible after tender opening, preferably no later than 3 weeks prior to the expiration of the tender validity period.

There was significant delay in the TEC Recommendations to CSTB for the approval of five (5) tenders. The tenders for CSTB Nos. 3077,3078,3079,3080 and 3081 were advertised in the local printed media (The National) for three days in May 2014. Tenders were closed and opened on the same day 25/6/2014 and 10 months later in April 2015 TEC Evaluation Report and Recommendations were submitted to the CSTB for its deliberation and approval. The CSTB in its meeting after consideration approved the recommendations in April 2015. This delay in the submission of TEC recommendations to CSTB is non-compliant with the above requirement.

TEC failed to inform PSTB about the delay in providing its recommendation; consequently the tenders were not informed

According to GPM, chapter 6, Evaluation of Tenders and Award; (p.6-4), the duration of the Validity of each tender should be the one specified in the Bidding Documents and should be confirmed in the signed (form of) tender. If exceptional circumstances occur in which award cannot be made within the validity period, such extension requests shall be made to the STB explaining reasons two weeks prior to the expiration date. STB must request such extensions in writing to Tenderers, in accordance with the bidding documents. Beyond this timing, the contracts need to be re-tendered.

In addition to the audit finding outlined at 7.1 above, there was no evidence that the PSTB had applied for extension in writing to the Tenderers as required by *GPM, chapter 6, Evaluation of Tenders and Award; (p.6-4)*, in preparing their contracts.

There was an instance where one supplier through a letter dated 22nd of July 2016 requested revision of two initial contract prices (CSTB #3077 – Lot 1 & #3079 – Lot 1: Supply of Pharmaceutical Drugs) due to currency fluctuations after the contract was awarded on the 23rd of April 2015. The tender was closed on the 25th of June 2014 and the TEC recommendation date to award the contract was made on the 9th of April 2015 (10 months later). The rise in cost due to the depletion of the PGK was calculated as follows;

Exchange rate of USD to PGK 1.00 on the tender closing date 25 th June 2014	40.45%
Exchange rate of USD to PGK 1.00 today being the Acceptance Letter	
Receiving date	30.85%
Percentage of Depletion in the value of PGK	23.73%
The total fixed value of the contract in PGK was 706,280.44.	

Although all correspondences of the supplier from bidding documents to the contract agreement were made available for audit review, the letter requesting for extension to the tenderer was not sighted.

The PSTB did not request the tenderers in writing to extend the TEC recommendation period therefore giving rise to the successful supplier requesting a variation in the contract price as noted above. As a result, the department will have to meet the extra cost as proposed by the supplier. Had the department requested an extension, the extra cost may have been avoided. Consequently, this was a breach of the requirement of the *GPM, chapter 6, Evaluation of Tenders and Award; (p.6-4)*, which requires the PSTB to request for extension of TEC recommendation period.

CONCLUSION

The department in recent years has made efforts to improve compliance with the laws and regulations in its procurement sourcing practices, however the audit identified material instances of non-compliance with the *Public Finances Management Act, 1989* and the subsequent procurement policies and regulations under the Act. These examples of non-compliance have resulted in significant delays in procuring much needed medical supplies and pharmaceutical drugs which has significantly affected the department in procuring quality pharmaceutical drugs and medical supplies in a timely manner.

Review of the NDoH Procurement Sourcing Practices demonstrated high level of compliance with all of the selected criteria from the Procurement Framework derived from the PFMA, whereby the bidding documents sighted contained all the necessary information. Approvals were obtained by relevant authority levels prior to advertising and the right suppliers submitted quality bids and the suppliers were selected according to the criteria. However; non-compliance was noted in the supplier selection, evaluation and awarding of contract.

The non-compliance regarding the delay in TEC recommendations and the TEC's failure to inform the PSTB of the delay is significant. The TEC did not comply with *GPM, chapter 6, Evaluation of Tenders and Award* to provide their recommendation within the three (3) weeks prior to the expiration of the Tender Validity Period.

Furthermore the TEC did not request the PSTB to delay their recommendation as required in *GPM, chapter 6, Evaluation of Tenders and Award; (p.6-4)* which consequently affected the successful tenderer's initial contract price.

Tenders were appropriately evaluated according to the guidelines however the contracts were not awarded on time as required. Consequently, in this respect the NDoH was non-compliant with the government laws and regulation regarding procurement sourcing practices.

RECOMMENDATIONS

- i. The senior management of the department to establish the cause of the delays in TEC Recommendation and take appropriate control measures to avoid such undue delays in the future. Compliance to *GPM, chapter 6, Evaluation of Tenders and Award* is reiterated as unexplained delays may cost lives when medical supplies and pharmaceutical drugs are not made available on time.

- ii. The compliance to *GPM, chapter 6, Evaluation of Tenders and Award; (p.6-4)* is emphasised whereby the TEC should be reminded to comply with the procurement policy in order to prevent contract price variations in future due to currency fluctuations during these tough economic times.



Gordon Kega, CPA
Acting Auditor-General

Date: 23 April, 2019

Appendix 1

Compliance Audit of Procurement Sourcing of the NDoH during the year 2015.

Appendix 01 – Audit Criteria Used in this Audit

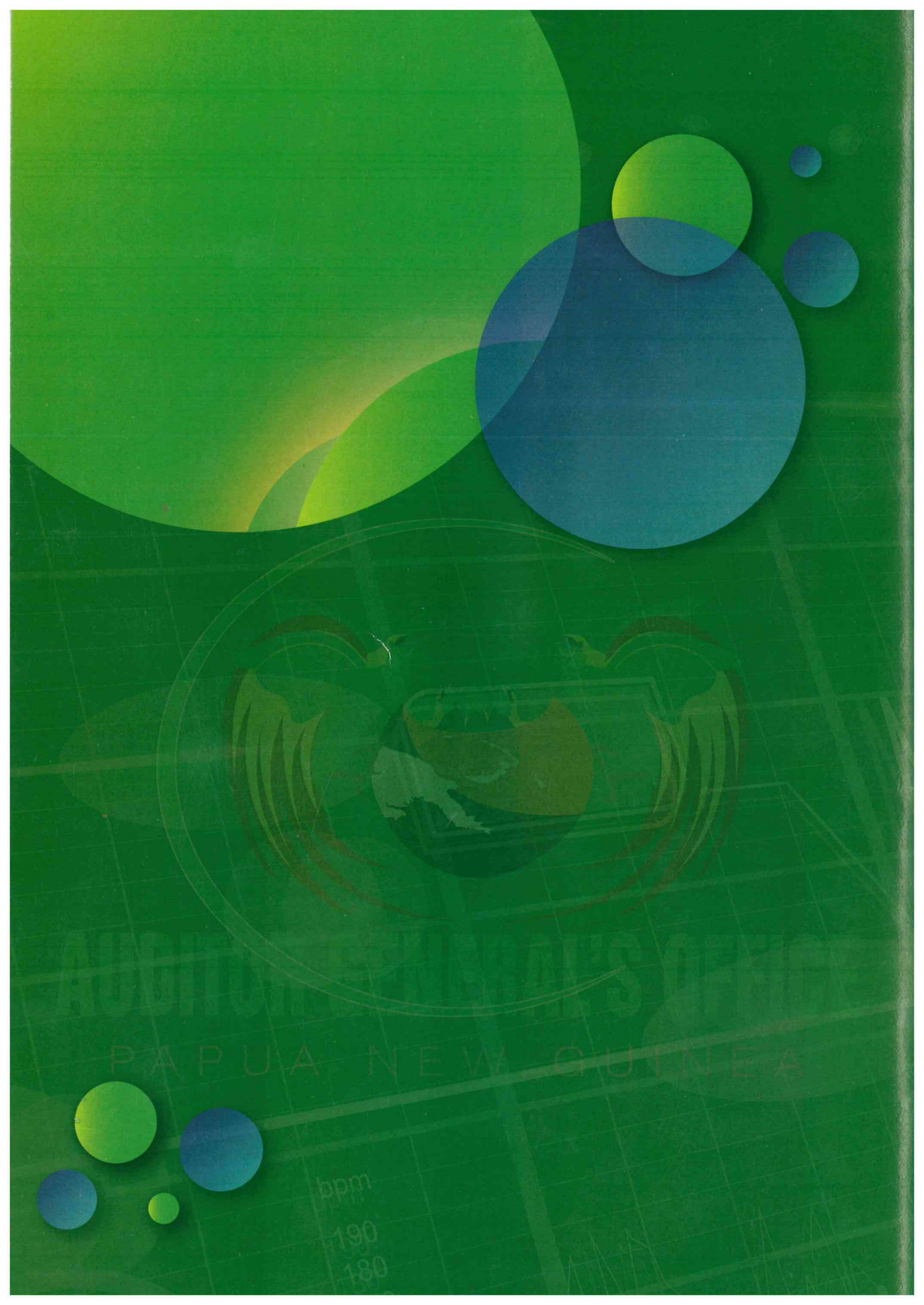
Audit Question	Audit Criteria	Source/Authority	Audit Finding
<p>Audit Objective 1: The bidding documents must contain all the necessary information and must be approved by relevant authority levels prior to advertising.</p> <p>Did the Bidding Documents contain all the necessary information as per the CSTB guidelines?</p>	<p>Bidding Documents If standard bidding documents are NOT used, the Agency must ensure the listed provisions are included; Validity period, Tender Security, Pricing, Price Adjustments, Insurance, Currency Provisions, Terms and Method of Payment, Performance Security, Liquidated Damages, Applicable Law, Time for Preparations of Tenders, Tender Opening Procedure, Clarification of Tenders, Evaluation and Comparison of Tenders, Extension of Validity periods, Qualification of Tenderers, Award of Contract, Rejection of Tenders.</p> <p>Qualifying Requirements The Bidding Documents must clearly state the minimum qualifying requirements according to the Section 42 of the PFMA for tenderers to be eligible to submit a tender.</p> <p>Evaluation Criteria Evaluation Criteria must be developed and provided in the Bidding Documents before the tender is advertised. The bid with the Lowest Total Cost, but not necessarily the lowest submitted price shall be recommended for award.</p> <p>Creating Specifications A clear, succinct specification is necessary to convey requirements to potential tenderers as set out in the Procurement Manual.</p> <p>Approval of Bidding Documents Approval of bidding documents must be referred to the appropriate STB. If the contract estimate is above the STB delegated authority, approval of the documents must be then be referred to the CSTB.</p>	<p>GPM, Part B-Procurement Procedures, Step No.3 – Bidding Documents (p3-4);</p> <p>GPM, Part B-Procurement Procedures, Step No.3 – Bidding Documents (p3-4); Section 42, PFMA</p> <p>GPM, Part B-Procurement Procedures, Step No.3 – Bidding Documents (p3-5); Section 42, PFMA</p> <p>GPM, Part B-Procurement Procedures, Step No.3 – Bidding Documents (p3-6);</p> <p>GPM, Part B-Procurement Procedures, Step No.3 – Bidding Documents (p3-7);</p>	<p>7.1 Use of Standard Bidding Documents</p>
<p>Were the Bidding Documents approved by the relevant STBs before issuing?</p>	<p>Approval of Bidding Documents Approval of bidding documents must be referred to the appropriate STB. If the contract estimate is above the STB delegated authority, approval of the documents must be then be referred to the CSTB.</p>	<p>GPM, Part B-Procurement Procedures, Step No.3 – Bidding Documents (p3-6);</p> <p>GPM, Part B-Procurement Procedures, Step No.3 – Bidding Documents (p3-7);</p>	<p>7.1 Use of Standard Bidding Documents</p>

Audit Objective 2: To ensure that the right suppliers have submitted quality offers for best price and that the best supplier was selected for the right reasons.		
Audit Question	Audit Criteria	Source/Authority
<p>Was there enough media publicity regarding the tender to ensure effective competition?</p>	<ul style="list-style-type: none"> ▪ Advertisement STB to place the advertisement and advise the agency on the best media to use for their requirements and the appropriate length of time the tender would remain open. The STB to advertise the procurement opportunities as detailed in Part B of the Good Procurement Manual. ▪ Effective Competition Competition that is effective will see a number of independent companies tendering to provide works, goods and services to the GoPNG, through the public tendering process. Creating effective competition involves publicly requesting tenders from contractors, providing timely and adequate information to contractors, and ensuring that the new entrants and small contractors are able to participate. 	<p>GPM, Part B-Procurement Procedures, Step No.4 – Advertisement. (p.4-1 to 4-2)</p>
<p>Is there a log of bidding documents issued to potential suppliers?</p> <p>Were amendments to the bidding documents appropriately advertised and communicated to the registered tenders?</p>	<ul style="list-style-type: none"> ▪ Issuing Bidding Documents; The STB will issue bidding documents to prospective tenderers. The STB must also maintain a register of all those companies that have been provided with bidding documents. <p>When amending the bidding documents, the responsible agency will provide the amendment to the STB who will then issue the amendment to all registered tenderers and advise registered tenderers to confirm receipt of the amendment.</p>	<p>GPM, Key Principles (p.A20 – A21)</p> <p>GPM, Part B-Procurement Procedures, Step No.4 – Advertisement. (p.4-3)</p>
		7.2 Key Principles of Effective Competition Defeated

<p>Were timely responses provided to suppliers who were seeking clarification?</p> <p>Were the people involved in the procurement activity remained ethical throughout the procurement process?</p>	<ul style="list-style-type: none"> ▪ Pre-tender Conference A pre-tender conference should be convened for contracts which are large or complex. Details of the conference (and possible site visit) should be included in the Advertisement. Attendance to the conference is not mandatory, but will provide an opportunity for common understanding for those participants. The conference will also provide a venue for contractors to ask questions. However, it is essential that responses to these questions are provided in writing to all prospective tenderers (including those not attending the conference). ▪ Illegal and Inappropriate Practices Any politician or public officer which corruptly asks receives or obtains property or benefit for himself or any other person can be imprisoned up to 7 years for the listed acts of corrupt practices as specified in the <i>Procurement Manual</i>. The illegal acts that carry the penalty are as follows: <ol style="list-style-type: none"> 4. Corruption 5. Fraud, and 6. Conflict of Interest. ▪ Fair and Ethical Dealing The central principles undermining fair and ethical dealing include: <ul style="list-style-type: none"> - Treating potential and existing contractors with equality and fairness - Not seeking personal gain - Treating tenderers and tender information with respect and confidentiality <p>Failure to follow the above principles undermines the credibility of the GoPNG procurement process.</p>	<p>GPM, Part B-Procurement Procedures, Step No.4 – Advertisement. (p.4-3)</p> <p>GPM, Part A-Principles & Practices, Illegal & Inappropriate Practices– Corruption; (p.A-23 to A-24)</p> <p>GPM, Key Principles (p.A21)</p>	<p>7.2 Key Principles of Effective Competition Defeated</p>
<p>Were the tender documents received registered?</p> <p>Were the offers securely stored?</p>	<ul style="list-style-type: none"> ▪ Receipt of Tenders All tenders must be received in accordance with the Bidding Documents and the STB’s <i>Operations Manual</i>. The STB must have a locked tender box, where the tenders are submitted. Once the tenders closed, the tender box must be secured to stop any late tenders being submitted. However late tenders must be noted and held separately. 	<p>GPM, Part B-Procurement Procedures, Step No.5 – Receipt and Opening of Tenders; (p.5-1 to 5-2)</p>	
<p>When the tender closed, how many people were involved in opening the tender documents?</p>	<ul style="list-style-type: none"> ▪ Opening Procedure In accordance with STB’s <i>Operations Manual</i> and the Tender Opening Checklist at Annex E, the STB will arrange for tenders to be opened and recorded on the day that the tender closes. All tenders will be opened publicly. Details of all persons attending the tender opening must be indicated in the Tender Opening Register (Annex E). Critical details as identified are to be read out loudly. Failure to do so will result in denial of inclusion in Tender Evaluation. 	<p>GPM, Part B-Procurement Procedures, Step No.5 – Receipt and Opening of Tenders; (p.5-1 to 5-2)</p>	

Were all the tender evaluations carried out according to the CSTB requirements?	<ul style="list-style-type: none"> ▪ Evaluation Forms & Processes Evaluation forms are contained in Annex E. An example in Annex F provides a step-by-step procedure for the evaluation of the tenders. Important to note that in all instances, the bidding and evaluation procedures described in the Bidding Documents must be followed. 	GPM, Part B-Procurement Procedures, Step No.7 – Evaluation of Tenders and Award; (P, 6-8) PFMA, Section 42.
Were the names of the TEC panel approved by the Chairman of the STB?	<ul style="list-style-type: none"> ▪ Selection of Technical Evaluation Committee (TEC) The names and experience details of the TEC members must be provided to the Chairman of the STB for approval, before starting the receipt of tenders. The Chairman may request the Agency to replace any proposed member of the TEC if the Chairman believes their skills and expertise are inadequate. The TEC should consist of a minimum of three qualified members who should work in a secure office where all tenders can be kept. There may be considerable advantage if the same members participated in the preparation of the bidding documents. 	GPM, Part B-Procurement Procedures, Step No.7 – Evaluation of Tenders and Award; P, 6-2)
Were all the tenders submitted responsive to the Bidding Documents?	<ul style="list-style-type: none"> ▪ Primary Evaluation of Tenders Tenders that are In-complete, invalid or substantially non-responsive to Bidding Documents will be rejected. 	GPM, Part B-Procurement Procedures, Step No.7 – Evaluation of Tenders and Award; (p. 6-5 to 6-8)
Audit Objective 3: To ensure that the tenders were appropriately evaluated according to the PFMA, FMM and the CSTB guidelines and contracts awarded accordingly.		
Audit Criteria		
Did the Tenderer with the Lowest Cost selected satisfy all the requirements?	<ul style="list-style-type: none"> ▪ Primary Evaluation of Tenders Tenders with the Lowest Total Cost at this stage is subject to; <ul style="list-style-type: none"> ○ Application on any discounts ○ Contingent on the simultaneous award of multiple contracts or lots; and ○ Confirmation of qualification requirements 	Source/Authority GPM, Part B-Procurement Procedures, Step No.7 – Evaluation of Tenders and Award; (p. 6-9)
Was the price of offer within the budget?	<ul style="list-style-type: none"> ▪ Proposed Award The amount of the proposed award shall be the tender price as submitted by the winning Tenderer and adjusted in the bidding documents. 	GPM, Part B-Procurement Procedures, Step No.7 – Evaluation of Tenders and Award; (p.6-10)
Was there any negotiations regarding the proposed award? If so then what were the negotiation points and was approval obtained prior to bringing it up with the	<ul style="list-style-type: none"> ▪ Negotiations Neither the TEC nor the Executing Authority may negotiate with a Tenderer to change unit rates or lump sums in the tender price. However, the scope of the contract may be reduced to conform to the budget requirements. Alternatively if justified and funds are available, the scope maybe increased. In both cases, prior approval must be obtained from the STB for changes to the scope. 	GPM, Part B-Procurement Procedures, Step No.7 – Evaluation of Tenders and Award; (p.6-10)

Tenderer?			
Did the TEC provide their recommendation of the preferred tenderer within the Tender Validity Period?	<ul style="list-style-type: none"> ▪ Recommendation In accordance with the FIs, the TEC must submit the completed tender recommendation report containing the required summary to the STB as soon as possible after tender opening, preferably no later than 3 weeks prior to the expiration of the tender validity period. ▪ Tender Validity Period The duration of the Validity of each tender should be the one specified in the Bidding Documents and should be confirmed in the signed (form of) tender. If exceptional circumstances occur in which award cannot be made within the validity period, such extension requests shall be made to the STB explaining reasons two weeks prior to the expiration date. STB must request such extensions in writing to Tenderers, in accordance with the bidding documents. Beyond this timing, the contracts need to be retendered. ▪ Disagreement of TEC's Recommendation In the event that the board disagrees with the initial and subsequent evaluations, the board may disregard the TEC's recommendation and award the contract based on the Board's sole recommendation. In this event the board must prepare its own recommendation report with clear and comprehensive justifications in accordance with the law for the recommended award. ▪ Contract Award The contract should be awarded when the STB is satisfied that the tender has been conducted in accordance with the PFMA, Financial Instructions and Good Procurement Manual. The recommended offer must represent "Value for Money (meets the requirements of the Bidding Documents at the Lowest Total Cost) after considering the relevant technical, commercial, financial and contractual matter. Funding should also be available. 	<p>GPM, Part B-Procurement Procedures, Step No.7 – Evaluation of Tenders and Award; (p.6-10)</p> <p>GPM, chapter 6, Evaluation of Tenders and Award; (p.6-4)</p>	<p>7.3 Delay in TEC Recommendations</p> <p>7.4 TEC Failed to inform PSTB of the delay in recommendations.</p>
Was the contract awarded to the TEC recommended Tenderer?			
Did the award meet all requirements of the PFMA, FIs and the Good Procurement Manual?			



PAPUA NEW GUINEA

bpm
190
180