

Annex A: Audit Objective, Scope, Criteria, Supporting Questions and Audit Design Matrix – An Example

Introduction

- A.1. This annex is designed to illustrate what the audit objective, scope, criteria, supporting questions, and audit design matrix might look like for a capital project to build a new road between two cities. For completeness purposes, it also includes:
 - A.1.1. Some possible reasons why the government may have decided to build the new road (i.e., what its needs assessment might have indicated).
 - A.1.2. Possible ways to include details with respect to authorities (laws, regulations, rules, policies, etc.) in the audit report.

Possible Reasons for Building the New Road

- A.2. As noted in Chapter 4, there must be a clear documented definition of the need for the goods, works and services. In order to provide this documentation, entity officials should have conducted a needs assessment.
- A.3. In the case of the new road, the needs assessment might have identified the following reasons why the new road should be built:
 - A.3.1. To reduce traffic congestion and the time needed to get from one city to the next, thereby:
 - (a) Improving commerce by reducing the cost of transporting goods, which in turn could reduce the prices of the transported goods to the consumers.
 - (b) Increasing tourism, shopping trips, etc. to each of the two cities and to the small towns in between.
 - (c) Promoting rural development.
 - (d) Improving the livelihood of those in the small towns. This, in turn, could reduce urban migration to the larger cities.
 - A.3.2. To reduce accidents.
 - A.3.3. To reduce the ongoing costs of maintaining the existing road between the two cities.
 - A.3.4. To provide an alternative route between the two cities in the case of hurricanes or other natural disasters.

- A.4. Entity officials could go further and quantify some of these identified benefits. For example, they could state that the new road would reduce travel time between the two cities from an average of six hours to an average of four hours.
- A.5. It should be noted that some of these objectives are contradictory. For example, if the new road was built through unpopulated areas, as opposed to through existing towns, it would likely result in the fastest and safest route, but might do little to improve rural life and promote regional development, particularly in the by-passed towns. When selecting the specific route, the consequences of the decision made (both positive and negative) should be taken into consideration.

Possible Audit Objective

- A.6. As noted in Chapter 6, the audit objective answers the question “Why is this audit being conducted?” For performance audits, it normally makes mention of economy, efficiency and effectiveness. In addition, if authorities are significant to the audit objective (and they normally are), the audit objective could also make mention of compliance with the relevant authorities.
- A.7. For the construction of the new road, the objective could be worded along the following lines:
- To determine whether the Ministry of Transport managed the construction of Road 11 between City A and City B in a manner that ensured economy, efficiency and effectiveness, and compliance with the provisions of the Procurement Act and Regulations and the Financial Administration Act.*
- A.8. The above wording assumes that the authorities are significant to the audit objective, and that there are only two relevant authorities. If there are numerous authorities involved, the objective could refer to “compliance with the relevant authorities”. The specific laws, regulations, rules, policies, etc. could then be outlined elsewhere in the report.
- A.9. See below for various possible ways to include details with respect to authorities.

Possible Scope

- A.10. As noted in Chapter 6, the scope answers the question “What is the subject matter to be audited?” It could describe the capital project being audited, and the period of time during which the capital project took place.
- A.11. For the construction of the new road, the scope could be worded along the following lines:

Our audit focussed on the construction of Road 11 between City A and City B. Our audit covered the period from 1 January 2012 (the date on which the Ministry of Transport commenced its needs assessment) to 31 December 2015 (the date on which the road was completed and the final payment was made). All stages of the procurement cycle were included in the scope of the audit.

Possible Criteria and Supporting Audit Questions

- A.12. As noted in Chapter 6, criteria are standards used to determine whether an entity programme meets or exceeds expectations. They provide a context for understanding the results of the audit, and help the auditor to answer questions such as:
- A.12.1. What should I have expected to see if the capital project had been performed properly?
 - A.12.2. What should entity officials have done at each stage of the procurement cycle to ensure economy, efficiency and effectiveness?
 - A.12.3. What results should there have been?
- A.13. As also noted in Chapter 6:
- A.13.1. While the criteria could be structured around each of economy, efficiency and effectiveness, it is normally easier to base the criteria on each step in the procurement cycle.
 - A.13.2. Each criterion could then be elaborated in the form of questions.
- A.14. For the construction of the new road, the criteria and supporting questions could be worded along the following lines:

Criterion 1: The Ministry of Transport conducted a detailed needs assessment, identified possible options for meeting those needs, adequately considered each option, and supported the decision reached.

In determining whether the criterion was met, we considered the following:

1. *Were specific needs identified?*
2. *If there was more than one way to meet the identified needs:*
 - (a) *Were all possible options considered?*
 - (b) *Was a sufficiently detailed definition of requirements, budget and timeline prepared for each option?*
 - (c) *Was there evidence that the selected option was the most cost-effective way to fully meet the identified needs?*
3. *Were detailed and costed specifications prepared for the selected option and were they consistent with the needs assessment and with the amounts used in the analysis of options?*
4. *Was the process performed in compliance with the Procurement Act and Regulations?*

Criterion 2: *The Ministry of Transport used an open, fair and competitive tendering process to select the contractor that was in compliance with the Procurement Act and Regulations.*

In determining whether the criterion was met, we considered the following:

- 1. Did the invitation to tender include the detailed specifications and all other terms and conditions that bidders would require in order to submit a tender?*
- 2. Was the process open to all qualified contractors? If not, was the decision to restrict the bidding supported and approved?*
- 3. Was the time provided to submit the tenders consistent with the size and complexity of the project?*
- 4. Were the tenders received evaluated consistently using an evaluation grid that was contained in the initiation to tender?*
- 5. Did the contract that was awarded contain all the specifications in the definition of requirements and in the tender submitted by the winning contractor?*
- 6. Was the process performed in compliance with the Procurement Act and Regulations?*

Criterion 3: *The Ministry of Transport oversaw the construction of the road in a way that ensured it was constructed as economically, efficiently and effectively as possible, that all requirements of the contract were fulfilled, and that there was compliance with the Procurement Act and Regulations and the Financial Administration Act.*

In determining whether the criterion was met, we considered the following:

- 1. Did Ministry officials monitor the work during the construction to ensure that the contractor was complying with the terms of the contract?*
- 2. Were all amendments to the contract fully supported, consistent with the needs assessment, and approved by the required individuals?*
- 3. Were all invoices received from the contractor consistent with the terms of the contract, fully supported, and only paid by the Ministry of Transport when the conditions for their payment had been met?*
- 4. Did the Ministry of Transport ensure that all requirements in the contract had been met before releasing the final payment to the contractor?*
- 5. Did the Ministry of Transport impose penalties or take other actions permitted under the contract in cases where the work did not meet the agreed-upon specifications or completion dates?*
- 6. Did the payment process comply with all requirements of the Financial Administration Act?*

Criterion 4: *The Ministry of Transport performed an evaluation of the completed road to determine if it has been completed as economically and efficiently as possible, and to determine the extent to which it fulfilled the needs for which it had been built.*

In determining whether the criterion was met, we considered the following:

1. *Did the Ministry of Transport conduct a post-completion evaluation?*
2. *If the evaluation indicated that the project had not been completed as economically and efficiently as possible or that some needs had not been fully met, did the Ministry fully investigate the causes and take steps to rectify the situation and to ensure that the matter would not recur on future projects of a similar nature?*

A.15. In this illustration, the evaluation of the completed road has made a separate criterion. If the auditor wanted to strictly follow the three stages of the procurement cycle, Criterion 4 could be integrated into Criterion 3.

Possible Audit Design Matrix

A.16. As noted in Chapter 6, an audit design matrix can be used to ensure:

- A.16.1. The audit objective, criteria and supporting questions all fit together into a cohesive whole.
- A.16.2. The criteria and supporting questions that have been identified will allow the auditor to report against expected findings.
- A.16.3. It will likely be possible to obtain sufficient and appropriate audit evidence to conclude against each criterion and objective.

A.17. At the end of this annex is an example of what an audit design matrix could look like. It illustrates all the items noted in Chapter 6, using the first criteria and the second supporting question as an example.

Possible Ways to Include Details with respect to Authorities

A.18. The auditor may wish to include, in the audit report, a complete list of the key authorities (laws, regulations, rules, policies, etc.) taken into consideration during the audit. These could be reported in several places. Each is discussed below.

Audit Objective

- A.19. As discussed above, the authorities could be included in the audit objective if there are not too many of them.
- A.20. Normally, though, there are a lot of key authorities – general procurement acts, acts dealing with specific types of capital projects, financial administration acts, and acts under which the entity was created and operates.
- A.21. As such, the other options described below are often used.

Scope

A.22. The specific authorities could be added to the scope.

A.23. To illustrate, the following could be added to the text included in A.11:

As part of conducting our audit, we assessed the Ministry's compliance with the following authorities:

A.24. The text would then list the authorities.

Standards/Methodology Used

A.25. As noted in Chapter 10, auditors use this section to indicate the auditing standards used, and the sources of assurance and/or evidence gathering techniques used to achieve the audit objective. A list of specific authorities would fit naturally after the description of the auditing standards.

A.26. To illustrate, the auditor could state:

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions. In complying with these standards, we conducted our audit to obtain reasonable assurance as to whether there was due regard to economy, efficiency and effectiveness, and compliance with the following authorities:

A.27. The text would then list the authorities and go on to describe the methodology used.

Criteria

A.28. As noted in Chapter 10 and in Annex C, the sources of each criterion could be presented in the form of a table. For each criterion relating to compliance with authorities, the auditor could list the specific authorities used when assessing the extent to which the entity met the criterion.

Audit Design Matrix:

Audit Objective: To determine whether the Ministry of Transport managed the construction of Road 11 between City A and City B in a manner that ensured economy, efficiency and effectiveness, and compliance with the provisions of the Procurement Act and Regulations and the Financial Administration Act.

Criteria	Supporting Questions	Source of Criteria	Audit Evidence Required	Main Sources of Assurance	Potential Findings	Potential Conclusions and Recommendations	Key Risks to be Managed
The Ministry of Transport conducted a detailed needs assessment, identified possible options for meeting those needs, adequately considered each option, and supported the decision reached.	<p>2. If there was more than one way to meet the identified needs:</p> <p>(a) Were all possible options considered?</p> <p>(b) Was a sufficiently detailed definition of requirements ...?</p> <p>(c) Was there evidence that the selected option was the most cost-effective way to ...?</p>	<p>Standards set by international financial institution funding project.</p> <p>Requirements of Procurement Act.</p>	<p>Needs assessment.</p> <p>Documents noted in "Sources of Criteria".</p>	<p>Review of needs assessment.</p> <p>Interview with Ministry of Transport officials.</p> <p>Limited survey of residents to determine extent to which they had been consulted.</p>	<p>Inadequate needs assessment performed.</p> <p>Needs assessment not in compliance with requirements of international financial institution funding project or with Procurement Act.</p>	<p>Process rushed in effort to get work under way.</p> <p>More detailed assessment could have altered decision with respect to preferred option and/or work that was required to be performed.</p> <p>Needs assessment should be done in compliance with required standards and authorities.</p>	Inadequate or missing documents.

Annex B: Possible Risks at Each Stage of the Procurement Cycle

Introduction

- B.1. As noted in Chapter 6, the ISSAIs for performance audits require the auditor to assess risk, including the risk of fraud. The ISSAIs then require the auditor to manage those risks throughout the audit and to assess, at the end of the audit, if sufficient and appropriate evidence had been achieved.
- B.2. As also noted in Chapter 6, “red flags” are symptoms (indicators) that fraud may have occurred. Knowledge of these indicators provides auditors with a head start in fraud detection and enables them to build on past experience. Auditors should be aware of them, know how to use them and understand their strengths and limitations.
- B.3. This annex contains:
 - B.3.1. Examples of risks that could exist at each stage of the procurement cycle for a capital project, including the risk of fraud; and
 - B.3.2. Examples of red flags that indicate that fraud might exist.

Overview

- B.4. Many of the risks contained in this annex relate to the basic nature of the capital project itself – large monetary amounts, a non-recurring event, etc. Factors such as these, by themselves, increase the risks associated with monetary errors, compliance deviations and VFM deviations (deviations from economy, efficiency and effectiveness).
- B.5. The basic nature of the capital project itself also increases the risk of fraud. For example, given the very large amounts involved, even a very small variance in percentage terms may be very large in absolute amount. Similarly, the large volume of transactions and the complex nature of the work could make it relatively easy to conceal a fraud.
- B.6. Entity officials may commit fraud by colluding with one or more bidders. The entity official taking part in the fraud would then get a kickback from the contractor.
- B.7. Frauds between entity officials and a particular contractor could involve:
 - B.7.1. Restricting who is permitted to submit tenders for the project.
 - B.7.2. Biasing the evaluation of the tenders to the particular contractor.
 - B.7.3. Allowing the particular contractor to make more profit than should be made through such means as:
 - (a) Billing for work that was not performed;

- (b) Overbilling for goods or labour provided; and/or
- (c) Substituting lower quality materials but still billing for the higher quality materials.

B.8. Similarly, contractors may collude among themselves to:

B.8.1. Determine who wins the contract in the first place.

B.8.2. Win the contract at a higher price or for more favourable terms.

B.9. The following provides, for each stage in the procurement cycle, examples of risks that could exist and red flags that indicate that fraud might exist.

Pre-Tendering

B.10. This includes a needs assessment, definition of requirements, choice of procedures, and planning and budgeting. If there is more than one way to meet the needs, all options should be considered.

Needs Assessment

B.11. In most cases the procurement cycle begins with a needs assessment which describes the reasons why the project is required (i.e., the objectives the project is to achieve).

B.12. Risks at this stage include:

B.12.1. Needs assessment is self-serving – a “need” has been created when none really existed. This may have been the result of, for example, undue influence by contractors, the desire to provide work to a particular contractor or to provide employment in a particular region, or for political gain.

B.12.2. Similar to the previous point, the needs assessment is product-oriented rather than performance-oriented. (i.e., the needs assessment appears to contain a pre-determined solution (a specific product) as opposed to a need that can be fulfilled in several different ways and/or by several different products.

B.13. Red flags that indicate that fraud might exist at this stage include:

B.13.1. Vague or inadequate needs assessment.

B.13.2. Needs assessment appears biased to a particular product or contractor.

Definition of Requirements

B.14. At this stage, entity officials determine precisely what must be constructed to meet the needs that have been identified.

B.15. As noted in Chapter 4, the definition of requirements is normally done at two (or more) levels. There is usually a general (high level) definition of requirements during which general specifications are determined and costed. There is then a much more detailed

level during which very detailed specifications are determined and costed. These detailed specifications are often referred as “engineer’s estimates”.

B.16. Risks at this stage include:

B.16.1. The general and/or detailed specifications are inconsistent with the needs assessment – they either will not meet the requirements or are more than is necessary to meet the requirements.

B.16.2. The detailed specifications (and possibly even the general specifications) bias the project in favour of one particular contractor. This could be deliberate (fraud) or simply by accident. In the latter case, the officials may have:

(a) Been trying to make the specifications as precise as possible and may have gone further than they should have in this regard.

(b) Used specifications provided by the contractors themselves as a way of easing their own work, meeting deadlines, etc.

B.16.3. The detailed specifications are so vague that it would be difficult to ensure that tenders meet the minimum requirements or that consistent tenders will be received.

B.17. Red flags that indicate that fraud might exist at this stage include:

B.17.1. Vague general and detailed specifications.

B.17.2. Overly precise general and detailed specifications.

B.17.3. Detailed specifications that are not consistent with the general specifications and/or with the needs assessment.

B.17.4. Specifications that are not consistent with similar work done in the past.

B.17.5. Limited information with respect to required specifications. For example, the information in the files dealing with potential sources of material may be limited to the materials being supplied by the successful bidder. This could indicate that the requirements definition was prepared with the intention of directing the contract to that bidder.

B.17.6. Materials and/or labour requirements appear excessive or inadequate relative to the work to be done.

B.17.7. Rushed timing. The time allocated to preparing the general and detailed specifications may be very short in relation to the estimated cost and complexity of the project. Rushed timing may indicate that someone is trying to circumvent the usual controls to favour a particular contractor.

B.17.8. Allowing contractors who participated in the definition of requirements to bid on the contract.

Choice of Procedures

- B.18. This involves determining whether the entity should do the work itself, contract with one general contractor, or deal with several contractors.
- B.19. Risks at this stage include:
 - B.19.1. What would best be done by one general contractor is split into several contracts. This could be done, for example, to:
 - (a) Keep the total cost of each contract under the amount above which additional approvals would be required.
 - (b) Ensure that preferred contractors receive at least some of the work.
- B.20. Red flags that indicate that fraud might exist at this stage include:
 - B.20.1. Vague justification for using more than one contractor.
 - B.20.2. Amount of each contract is less than a certain approval limit; combining the contracts would result in one contract that exceeded the approval limit.

Planning and Budgeting

- B.21. This step involves developing a timeline for the performance of each of the remaining steps in the procurement cycle, and a budget for the total cost associated with the project.
- B.22. Risks at this stage include:
 - B.22.1. The budgets are inadequate (or excessive) relative to the work to be done.
 - B.22.2. The timeline is unduly and unnecessarily short. The timeline could, for example, call for the tenders to be submitted in only a few weeks when there was no apparent reason for such a short period of time. This could result in some fully-qualified contractors not being able to bid on the project.
- B.23. Red flags that indicate that fraud might exist at this stage include:
 - B.23.1. Budgets and timelines appear inconsistent with the size of the project and the complexity of the work.
 - B.23.2. The timelines for the submission of tenders and for the commencement of the work appear to be unduly short.

Considering Options

- B.24. If there is more than one way to meet the needs, all options should be considered when doing the definition of requirements, making the choice of procedures and planning and budgeting.

- B.25. As noted in Chapter 4, the development of costed detailed specifications may be a lengthy and costly exercise. If that is the case, the entity may use the costed general specifications or another approximation to estimate the cost of each potential option when selecting its preferred option. Costed detailed specifications will then be prepared at a later date for the selected option.
- B.26. If the detailed specifications prepared at a later date cost out at a substantially higher amount than the estimate used when making the selection, it would be prudent for the entity to go back and re-consider the other options.
- B.27. Risks involved in considering options include:
 - B.27.1. Not all possible options to meet the needs are considered. As a result, what would have been the best option is not fully considered (or considered at all), resulting in a less-than-ideal option being selected. This could have been done accidentally or deliberately. In the latter case, this could have been to ensure that the desired option (and the desired product and/or contractor) was selected.
 - B.27.2. The cost estimates for some options are prepared without adequate consideration and either overstate or understate the work involved and the related costs. Again, this could have been done accidentally or deliberately.
- B.28. Red flags that indicate that fraud might exist at this stage include:
 - B.28.1. Inadequate evidence that there was a sufficient consideration of options.
 - B.28.2. The budgeted amount for the selected option based on detailed specifications prepared after the option was selected is significantly different from the estimated amount used to make to the selection.

Tendering

- B.29. Tendering involves the invitation to tender, the evaluation of tenders received, and the awarding of the project to the winning contractor.

Invitation to Tender

- B.30. This stage involves the process of inviting (or not inviting) contactors to bid on prospective contracts.
- B.31. Risks at this stage include:
 - B.31.1. An excessive use of sole-sourcing or limited sourcing. Sole-sourcing or limited sourcing is used without a valid reason, and contractors who are fully capable of doing the work are not allowed to bid.
 - B.31.2. Using sole-sourcing in cases where it is not permitted by legislation or regulation.

- B.31.3. Requirements in the invitation to tender not consistent with the needs assessment and/or the definition of requirements.
- B.31.4. Collusion between entity officials and a particular contractor.
- B.31.5. Collusion among contractors to limit competition and give each contractor an agreed-upon share of the projects, while at the same time giving some appearance of competition. Schemes include:
 - (a) Bid suppression. One or more contractors agree to refrain from bidding so that another contractor wins the contract.
 - (b) Complementary bidding. Contractors submit token tenders that include total costs that are too high to be accepted, do not meet the minimum requirements or that include special terms that will not be acceptable. Such tenders are not intended to be accepted but are submitted to give the impression of competitive bidding.
 - (c) Bid rotation. All contractors submit tenders but take turns submitting the lowest bid.
 - (d) Market division. Contractors agree to refrain from competing in a designated part of a market. Markets may be divided based on government entities or geographical areas.
- B.32. Red flags that indicate that fraud might exist at this stage include:
 - B.32.1. Justification of sole sourcing or limited sourcing vague or questionable.
 - B.32.2. A contract originally intended to involve competitive bidding is changed to a sole-source contract.
 - B.32.3. Absence of public notice for the invitation to tender.
 - B.32.4. Specifications in the invitation to tender are unclear. This may be designed to help some contractors propose less expensive materials than others.
 - B.32.5. The invitation to tender does not include all the information required to ensure consistent bids.
 - B.32.6. Numerous amounts in the tender are very close to the entity's estimates of the costs to do the work, or are just below the ceilings contained in confidential entity documents. This may indicate that entity officials are releasing advance information to favoured contractors.
 - B.32.7. Tenders include other confidential information that was not to be shared with the bidders.
 - B.32.8. Only a few of the qualified contractors submitted tenders. This may indicate that:

- (a) The tendering process was not widely advertised – some fully qualified contractors may not have been aware of the invitation to tender.
- (b) The tendering process may not have been open to all qualified contractors.
- (c) The specifications were written so that only certain contractors could compete.
- (d) The period of time to submit the tenders may have been too short given the complexity of the project and the time it would normally have taken to put together a proper tender.
- (e) There was collusion among the bidders.

B.32.9. Unusual bidding patterns exist. For example:

- (a) Certain contractors always bid against each other and certain contractors never bid against each other.
- (b) Prices drop when a new or infrequent bidder submits a tender.
- (c) Certain contractors appear to be bidding substantially higher amounts in some cases than in other cases, with no obvious explanations for the variance.
- (d) Certain qualified contractors never, or infrequently, bid for government contracts and, when they do, they win.
- (e) Certain contractors are consistently successful in a particular territory.
- (f) One contractor is always successful when bidding on a contract for a particular government ministry, yet is always unsuccessful with other government ministries.

B.32.10. Unusual withdrawals of tenders. For example, a contractor withdraws its tender after another contractor submits a tender.

B.32.11. Exceptions are made to the tender deadline – some bidders are allowed to submit tenders after the deadline, or to amend submitted tenders after the deadline.

B.32.12. The tenders contain unusual details or amounts. For example, a bidder who needs to ship materials a short distance includes more for transportation costs than a bidder who needs to ship materials over longer distances.

B.32.13. Tenders that refer to industry wide pricing practices. Bidders may collude to fix prices by referring to industry price lists or to industry association price schedules.

B.32.14. The successful contractor uses competitors as subcontractors.

Evaluation of Tenders

- B.33. This is the process by which government officials evaluate the tenders received.
- B.34. Risks at this stage include:
 - B.34.1. Inadequate verification of the qualifications of the bidders, resulting in an unqualified contractor being awarded the contract.
 - B.34.2. Fully compliant tenders are rejected as non-compliant; non-compliant tenders are accepted.
 - B.34.3. The tenders submitted are not evaluated consistently, resulting in what should have been the winning contractor not being awarded the contract.
- B.35. Red flags that indicate that fraud might exist at this stage include:
 - B.35.1. The specifications in the invitation to tender are so vague that, when evaluating the tenders received, entity officials may exercise considerable discretion.
 - B.35.2. One contractor consistently wins contracts even when there are other fully-qualified contractors submitting tenders.
 - B.35.3. Only one contractor meets the minimum requirements. This could indicate that:
 - (a) The specifications were so specific that only one bidder could meet the minimum requirements;
 - (b) There was collusion between one bidder and entity officials; and/or
 - (c) There was collusion among the bidders.
 - B.35.4. Tenders are opened prior to the deadline for the submission of tenders. A bidder who has not yet submitted a tender could then be provided with information concerning the other contractors' tenders.
 - B.35.5. The bidder with the lowest price or the highest score is not selected and there is no adequate explanation.
 - B.35.6. The initial evaluation scores are amended without valid justification.
 - B.35.7. The winning contractor has a history of poor performance.

Awarding the Contract

- B.36. This involves signing a contract with the winning contractor.
- B.37. Risks at this stage include:

B.37.1. The contract is inconsistent with the needs assessment, definition of requirements and what the contractor committed to do in its tender. In particular, the contract may not contain all the requirements in the invitation to tender and all the commitments made by the contractor in its tender. This could result in the completed project not meeting the needs for which it was designed, being done at an increased cost and/or not being of the required quality.

B.38. Red flags that indicate that fraud might exist at this stage include:

B.38.1. Contracts that do not contain all of the requirements identified by entity officials or commitments made by the contractor in its tender.

B.38.2. Changes are made to the specifications after awarding the contract but prior to signing the contract.

B.38.3. The contract is for a higher amount than included in the tender.

Post-Contract Award

B.39. The post-contract award stage involves contract administration, project controls and making the required payments to the contractor.

Contract Administration and Controls

B.40. This involves overseeing the contract, approving changes, and signing off on the finished project.

B.41. Risks at this stage include:

B.41.1. Inadequate supervision by entity officials, resulting in:

(a) The work not being performed to the required standards. This could include the contractor using fewer materials, lower quality materials, etc.

(b) Payments for work not performed or not performed to the required standards.

B.41.2. Collusion between entity officials and a contractor. Note: This could contribute to some of the risks noted below.

B.41.3. Increases in the contract amount for “unforeseen problems” that really should have been foreseen at the tendering stage.

B.41.4. Increases in the contract amount for enhancements that were not necessary to meet the needs that the project was designed to meet.

B.41.5. The contractor charges for items not allowable or for general expenses that cannot be clearly attributable to the contract.

B.41.6. Change orders are issued without adequate explanation.

- B.41.7. The work is not completed by the required completion date.
- B.41.8. The specifications and/or scope of the work have been changed to such a large extent that the project should have been re-tendered.
- B.41.9. Entity officials signing off on a project that was not completed to the required standards.
- B.42. Red flags that indicate that fraud might exist at this stage include:
 - B.42.1. Support for contract changes (amount, completion date, etc.) vague or non-existent.
 - B.42.2. No or limited evidence of entity inspection of the work performed to verify that the work was completed to the required standards.
 - B.42.3. No or limited steps taken to require contractors to deal with deficiencies.
 - B.42.4. No or limited evidence that materials used were tested to ensure that they were of the required quality or that the required amounts were used.

Making Payments

- B.43. This step involves making payments in accordance with the terms of the contract.
- B.44. Risks at this stage include:
 - B.44.1. Late payment of invoices, resulting in unnecessary interest charges.
 - B.44.2. Making payments for amounts that differ from the invoice.
 - B.44.3. Making duplicate payments.
 - B.44.4. Not deducting retentions (holdbacks) called for in the contract.
 - B.44.5. Making payments to the wrong supplier.
- B.45. Red flags that indicate that fraud might exist at this stage include:
 - B.45.1. More payments than usual (e.g., two payments to a contractor in a given month when only one is normal).
 - B.45.2. Payments higher or lower than normal.
 - B.45.3. Inadequate support for amounts being claimed.
 - B.45.4. Photocopies of invoices from contractors or subcontractors are submitted to support charges as opposed to the originals.
 - B.45.5. Material and labour amounts and rates appear excessive.

General Risks and Red Flags

- B.46. In addition to the risks and red flags noted above, there are a few general risks and/or red flags that would apply to several or all of the stages in the procurement cycle. These include:
- B.46.1. Unusual senior official involvement. A senior official could, for example, take a hands-on approach to preparing the needs assessment, considering options, wording the invitation to tender and/or evaluating tenders.
 - B.46.2. Contract files incomplete.
 - B.46.3. Limited documentation of decisions made.
 - B.46.4. Weak internal controls, including limited segregation of duties.
 - B.46.5. Accounting records not up to date, required reconciliations not performed, etc.
 - B.46.6. Explanations provided for variances that are not consistent with the available evidence.

Annex C: Possible Audit Report Structures

Introduction

- C.1. Almost every SAI follows a somewhat different report structure, and each office likely has a lot of valid reasons for using the structure that it is using.
- C.2. What follows is one possible structure (with different options) that meets all the requirements of the ISSAIs while, at the same time, allowing for a relatively brief main report.
- C.3. In doing so, it reflects the material contained in Chapter 10 under the headings “Report Content – Specific Contents” and “The Wording and Structuring of Findings, Conclusions and Recommendations”.
- C.4. As noted in Chapter 10, if all audit reports issued by the SAI have the same “look and feel”, readers will become familiar with the structure and will be better able to locate what they are looking for.
- C.5. At the same time, though, it is essential that the structure used for a particular audit report fits that audit and the messages that the SAI wishes to deliver. For this reason, the SAI will need some flexibility with the structure for each audit report.

Possible Structures

Cover Letter Signed by Auditor General

- C.6. If the report is to be submitted separately (as opposed to being part of a larger “annual” report), the report will likely need a cover letter. The letter would be dated on the date on which the report is submitted to Parliament.

Executive Summary / Main Points

- C.7. The focus of this section should be on the key findings and conclusions. It could end with an overall conclusion.
- C.8. The section could also include:
 - C.8.1. The reasons why the capital project was selected for audit, and why the audit report should be considered important for its intended readers.
 - C.8.2. Some background material on the capital project and on the audit. This, though, should be kept as brief as possible.
 - C.8.3. The recommendations and a statement as to whether management was in agreement with them.

- C.9. The report needs to show its effective date. This is normally the date on which the fieldwork was completed; it is *not* the period covered by the audit or the date the report was submitted to Parliament.
- C.10. This date could be inserted either right at the beginning of the Executive Summary or at the end of the Executive Summary.

Main Body of Report – Option 1

- C.11. This annex contains two options. The first option is illustrated immediately below; the second option is discussed in C.26 to C.28.

Scope of the Audit

- C.12. Given that this is coming right up front, it may need to be augmented by some limited background material on the capital project.
- C.13. More background information can come later in the background for each criterion (see C.23 below). More background material can also be included in an annex.

Reasons for the Audit

- C.14. This section could talk about why the capital project was chosen, and why the audit report should be considered important for its intended readers. In doing so, the section will provide a useful “hook” to get readers to keep reading, and will provide a useful lead-in to the audit objective.
- C.15. Again, it should be kept brief.

Audit Objective

- C.16. As noted above, the “Reasons for the Audit” section provides a useful lead-in to the audit objective. It therefore is logical to have the “Audit Objective” section come directly after the “Reasons for the Audit” section.

Criteria

- C.17. The criteria follow logically from the audit objective.
- C.18. If the criteria are brief, they could be inserted as a separate section.
- C.19. As noted in C.22 and C.23 below, though, the audit criteria will be contained in the section dealing with the findings, conclusions, recommendations and management comments. They will also be included in the annex to the report. Therefore, if there are a lot of criteria, it may be advisable not to have a separate section for them.

Standards and Methodology

- C.20. This would include:
- C.20.1. A statement to the effect that the audit was conducted in accordance with the ISSAIs.

- C.20.2. The sources of assurance and/or evidence gathering techniques. These could include, for example, tests of controls, analytical procedures, discussions with entity officials, and the review of a sample of specified documents and transactions.
- C.20.3. If desired, the sources of the documents, data, etc. used, and any limitations in that material.
- C.21. The section should be kept brief and at a relatively high level – details could go in an annex.

Findings, Conclusions, Recommendations and Management Comments

- C.22. From here on, the report structure could be based on the audit criteria – there could be a section (or chapter) for each criterion.
- C.23. If each criterion relates to only one audit objective (as would normally be the case as the audit of a capital project often only has one audit objective), each finding relates to only one criterion (as would normally be the case if the criteria follow the structure inherent in the procurement cycle) and each conclusion and recommendation relate to only one finding, the report can be structured as follows:
- Audit Objective.
 - Criterion A:
 - Background material about this criterion. In the illustration used in Annex A, for example, the first criterion relates to the pre-tendering stage. The report could provide:
 - A description of what the pre-tendering stage involves.
 - If needed to help understand the findings, the audit questions supporting the criterion.
 - Finding A1; Conclusion A1; Recommendation A1; Management Comments A1.
 - Finding A2; Conclusion A2; Recommendation A2; Management Comments A2.
 - Etc.
 - Conclusion with respect to Criterion A.
 - Criterion B, etc.
 - Overall conclusion for Audit Objective.
- C.24. This format will result in a very clear link among the audit objective, criteria, findings, conclusions and recommendations.

- C.25. If considered necessary, the findings, conclusions and recommendations could be grouped by supporting audit question.

Main Body of Report – Option 2

- C.26. Some SAIs like to put the audit objective before the scope of the audit. If this was done, there would likely need to be some limited background material provided up front to help the readers understand the audit objective.
- C.27. The main body of the report would then start with:
- C.27.1. Background Material on the Capital Project Being Audited
 - C.27.2. Reasons for the Audit
 - C.27.3. Audit Objective
 - C.27.4. Scope of the Audit
 - C.27.5. Criteria
- C.28. The rest of the main body of the report would follow the structure noted for Option 1.

Annex

- C.29. The annex could contain:
- C.29.1. More detail with respect to the capital project being audited. All that is needed in the main body of the report is sufficient detail for the readers to be able to understand the scope of the audit and the audit objective, criteria, and findings.
 - C.29.2. More detail with respect to the audit approach and methodology.
 - C.29.3. A table containing the audit criteria, the supporting audit questions, and the sources of the criteria. The text could also state that the criteria (and the supporting questions if applicable) were discussed with entity officials at the planning stage of the audit, and note whether or not entity officials agreed with the criteria.
 - C.29.4. If possible based on the SAI structure and policies, the names of the auditors and the name of a key contact person. The latter person would be someone in SAI management who was directly responsible for the audit, and who could answer any detailed questions that the media and others might have. That person, though, would need to have the authority to speak for the SAI.
- C.30. Some SAIs are inclined to put the scope, audit objective and criteria solely in an annex. There are, however, some very strong reasons for putting them in the main body of the report. These reasons are:

- C.30.1. Annexes are often not as well read as the main body of a report because readers often assume that the most important material can be found in the main body of the report, with additional material of lesser importance in an annex. Therefore, solely putting the scope, audit objective and criteria in an annex may imply that they are not all that important. Given that the criteria and audit objective are the key items performance auditors conclude against, this is definitely not the case.
- C.30.2. The format for the findings, conclusions, recommendations and management comments is structured around the audit objective and criteria.