Procurement Issues in Pakistan’s Government Departments – Auditor’s Perspective

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Session Objectives

• To provide an orientation to the participants about public procurement in Pakistan at federal and provincial levels
• To share the external auditor’s perspective on significant and recurrent procurement challenges
• To find a way forward
OVERVIEW

• People expect governments to provide public and merit goods
• Public Procurement is the purchase of goods, works and services by government undertakings
• Public procurement is material and significant
  • Overall :
    • between 10 and 15 percent of global GDP
  • Low-income countries :
    • 14.5 percent of GDP
  • upper-middle income countries:
    • 13.6 percent of GDP
OVERVIEW

• Public procurement has manifold implications for Pakistan
  • Nominal GDP
    • US$ 304 billion
    • 39th in the world
  • Revenue to GDP
    • 15%
  • Expenditure to GDP
    • 22%
  • Fiscal Deficit
    • 5.8% of GDP
INTRODUCTION

• Procurement practices governed by a set of outdated rules
• Actual practices are quite different from written procedures
• Multiple mandatory registrations/ prequalification of bidders
• No verification of prequalification information
• Very often insufficient time for bid preparation
• Post-bid price negotiations for award of contract
• Unfair and imbalanced contract conditions
• Lack of procurement expertise
Corrective steps

- Public Procurement Regulatory Authority - 2002
- Detailed Rules of Procurement -2004
- Basic set of regulations-2008
- Provinces initially adopted federal regime
  - Now have dedicated systems and establishments

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<thead>
<tr>
<th>Province</th>
<th>Law</th>
<th>Rules</th>
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<td>Punjab</td>
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<td>Balochistan</td>
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- Incrementally moving towards e-procurement regime
Procurement Controls

• Regulators at federal and provincial levels
• Laws & rules continuously being updated especially by Provinces
• Procurement plans- mandatory requirement
• Real time advertisements available on regulator’s websites
• Elaborate decision making arrangements
  • Procurement committees
  • Technical committees
  • Inspection committees
• Bid evaluation available on regulator’s website
• Variety of methodologies for procurement prescribed
Procurement Controls

• Specialized works and engineering departments
• Extensive accounting record and procurement documentation
• Combination of centralized and decentralized procurement regimes
• Comparatively liberal delegation of financial powers
• Details of suppliers not performing made available by regulators
• Data on frequent violations by government departments made available
• Online query systems established by the regulators
• Regular external audits
CHALLENGES
Federal Government

February 2019

No. of Tenders PP Rules Violated 152

Total Tenders Uploaded 2654

March 2019

No. of Tenders PP Rules Violated 125

Total Tenders Uploaded 3009

Frequent Violations of PP Rules 2014

The Public Sector Organizations, as a result of their capacity lapse and comprehension problem, commit violation of PPRA Rules while conducting the procurement mostly committed in the following areas of procurement:

- Procurement Planning (Rule 8)
- Formulation of Specifications (Rule 10)
- Delegation of Powers to the downstream officers to create Procurement Mechanism (Rule 11)
- Response Time (Rule 14)
- Prequalification of the Prospecting Bidders (Rule 16)
- Blacklisting of Suppliers and Contractors (Rule 21)
- Immediate availability of Bidding Documents (Rule 25)
- Bid Security (Rule 27)
- Formulation of Evaluation Criteria (Rule 31)
- Announcement of Evaluation Reports (Rule 37)
- Selection of Relevant Procurement Procedures (Rule 38)
- Understanding of difference between Emergency Procurement and Procurement in Urgency, Constitution of Grievance Redressal Committee (Rule 59)
- Publication of Evaluation / Bid and Award of Contract
Punjab Province: Reported Violations (Since 2014 till April 20, 2019)

Violation Removed / Cleared by Authority: 329
Violated Tender: 12995
No Violation: 102254

Source: https://eproc.punjab.gov.pk/ViolatedTenders.aspx
External Auditor’s Perspective
Case No. 1
Auditor General’s Reports on Federal and Provincial Governments
AUDIT ISSUES: PLANNING

- Procurement plans not prepared
- Prepared plans not followed
- Budget sponsored but unnecessary and lavish procurements
- Not adhering to allocated budgets
- Late releases of funds by the finance establishments
- Sitting idle in first quarter and spending spree in 4th quarter
- Avoiding open competitive bidding
- Using direct contracting without rationale
- Invoking emergency clauses for routine procurements
- Violation of the principles of propriety and probity
AUDIT ISSUES : PROCUREMENT PROCESS

• Wrong choice of procurement methodology
• Splitting the procurement into smaller packages
• Multiple tenders at a time
• Tendering without approval of the Board/ government
• Not obtaining bid security
• Limiting specifications
• Unrealistic response time
• Stringent contract conditions
• Non transparent bid evaluations
• Procurement at higher rates
AUDIT ISSUES: CONTRACT MANAGEMENT

- Not obtaining performance guarantee
- Not obtaining additional performance guarantees when work enhanced
- Guarantees expired before the DLP but not revalidated
- Allowing unnecessary extensions
- Changing specifications on contractor’s requests
- Not imposing late delivery charges
- Making payments without receiving goods
Case No. 2
Auditor General’s Report on Pakistan Railways
AUDIT ISSUES

• Unnecessary procurement without immediate requirement
• Defective material not replaced by vendors
• Acceptance of material not according to specifications
• Short supply of material
• Final procurement found much expensive than approved rates
• Bidders allowed to alter bids at their request
• Ignoring lowest evaluated bidder without any cogent reason
• Accepting conditional bids
  • Bids giving several offers
  • Bids linking warranty with price
AUDIT ISSUES

• Splitting up procurements to avoid approval of higher authority
• Using direct contracts instead of OCB
• Making purchases beyond project approvals
• Accepting single offers with desired condition; ignoring it later
• Accepting bank guarantees not matching the warranty period
• Excessive use of shopping method and cash purchase
• Changing scope of work beyond 15% of original without approval
• Samples not passed by approved laboratory, laboratory changed
AUDIT ISSUES

• Hiring of consultants despite presence of in house expertise
• Hiring of consultants with irrelevant experience
• Not imposing late delivery charges
  • First; fix maximum delivery period [say, 5 months]
  • So; bids with delivery period beyond are rejected
  • Contractor does not adhere to 5 months
  • Management extends delivery period
  • Specifications are also changed
  • Instances where supplies not made even after lapse of 3-5 years
CONCLUSION & WAY FORWARD
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• Public procurement materially affects budgeted expenditures
• Limited resource availability increases need for getting value for money
• Procurement regimes to be simplified and up-dated on regular basis
  • General Financial Rules (1951, 1979)
  • Public Procurement Rules, 2004
  • System of Financial Control & Budgeting, 2006
  • Schedule/Base Rates vs. Market rates vs. approved rates
• Procurement to be accepted as a specialized function
• Online query systems to be strengthened by regulators
  • Currently it exists but with limitations
  • Only simple queries are answered and that too by referring to rules
CONCLUSION & WAY FORWARD

• Inefficiencies in the procurement process need immediate intervention
  • Hierarchical decision process; leading from the bottom
  • Plethora of procurement committees
  • Excessive documentation

• Procurement limits need to be realistic and not artificial
  • Go for tender benchmark: PKR 100,000
  • 2004: (=US$1820)
  • 2019: (=US$ 715)
  • WB financed projects: limit for tendering is more liberal

• Ensure the sanctity of bids and terms and conditions
• Procurement audit approach need revision
THANK YOU