

# **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
    - 39<sup>th</sup> 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- Procurement practices governed by a set of outdated rules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

<b>Province</b>	<b>Law</b>	<b>Rules</b>
Punjab	2009	2014
Sindh	2009	2010
KPK	2012	2014
Balochistan	2009	2014

- 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

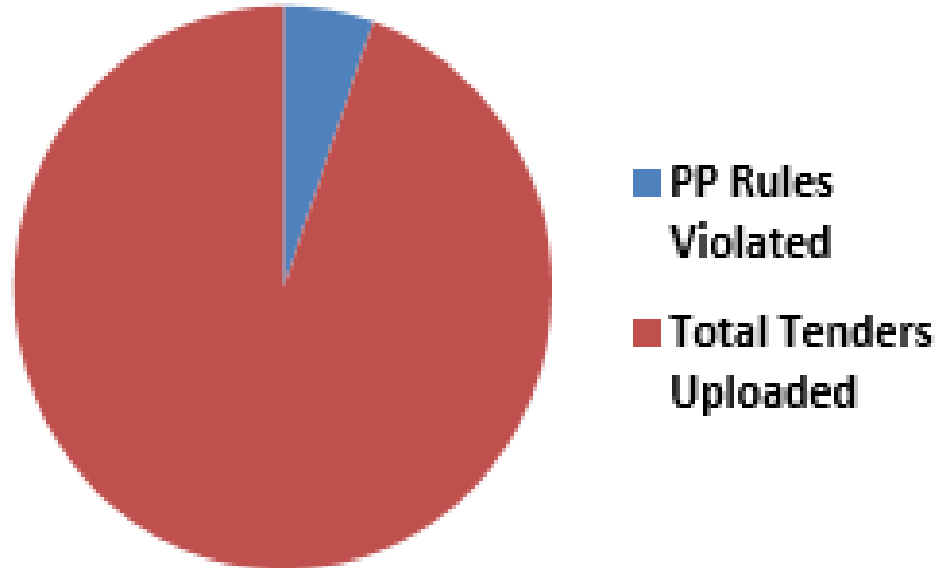


# CHALLENGES

# Federal Government

**February 2019**

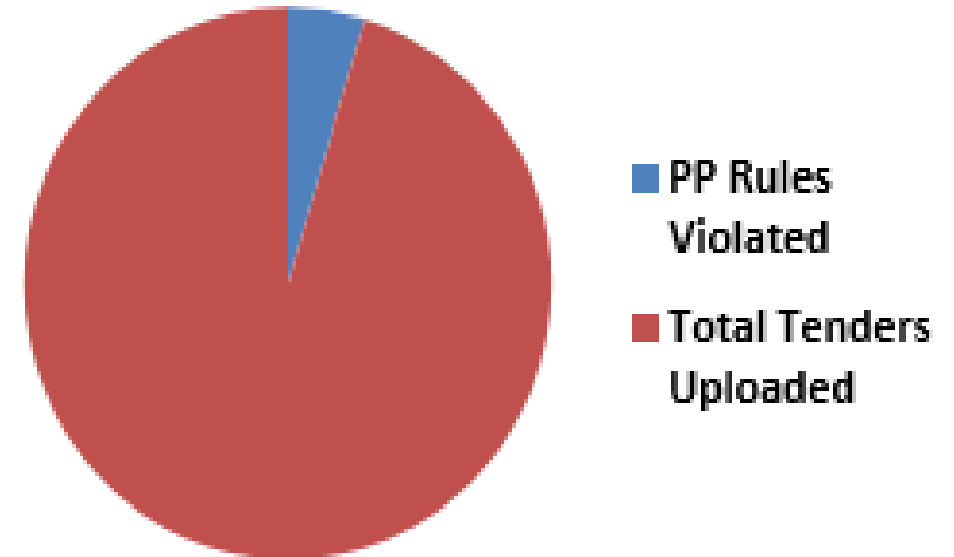
No. of Tenders PP Rules Violated 152



Total Tenders Uploaded 2654

**March 2019**

No. of Tenders PP Rules Violated 125



Total Tenders Uploaded 3009

Source : <http://www.ppra.org.pk/doc/sumreport/esum-mar-19.pdf>

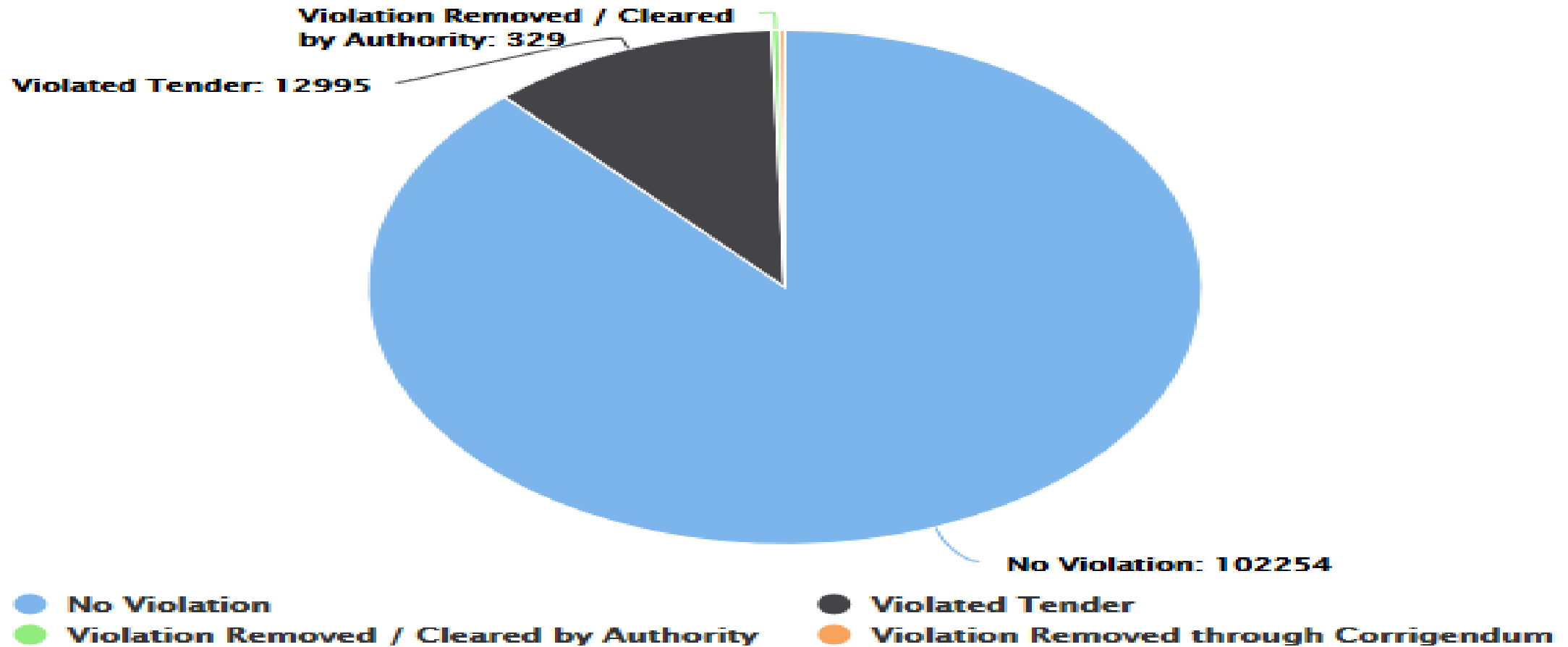


# Frequent Violations of PP Rules 2014

The Public Sector Organizations, as a result of their capacity lapse and comprehension problem, commit violation of PPRA Rules while conducting the procurement process. The violations are 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)





# **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 4<sup>th</sup> 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**

# CONCLUSION & WAY FORWARD

- 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**

