



CHECKLISTS FOR FINANCIAL AND COMPLIANCE AUDIT

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Checklists for financial/compliance audit

- **Context**
- **How to use the Checklists**
- **Structure**
- **Main Questions**
- **Structure and presentation of Questions**
- **Detail of a main Question**



Context of the Checklist

- **SAIs:** different mandates, activities and audit objectives
- **National systems:** different financial and public procurement regulations
- **EU:** common basic precepts – EU Treaties, EU Directives (mainly Directive 2004/18/EC)
- **EU SAIs:** similar audit focus for public procurement
 - Sound procurement functions
 - Meeting public needs
 - Open and fair competition
 - Transparent procedures



How to use the Checklist



- **Applicable to procurement both above or below EU procurement directives thresholds**
- **Includes requirements of EU ruling**
- **Addresses questions not included in EU ruling, v.g. issues related to:**
 - **Management**
 - **Organization**
 - **Budgeting**
 - **Accounting**

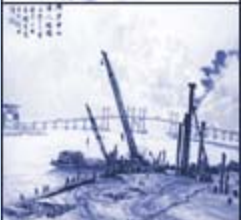
How to use the Checklist



➤ Not one but several checklists

➤ The auditor

- Must set audit scope and objectives
- Must assess risks
- Can design an audit programme to cover just a few of the included items
- Can choose to focus on central questions or to detail them in sub-questions, choosing the ones relevant for the case
- Can go further by consulting suggested documents, v.g. Guideline for auditors



How to use the Checklists



- **Not all the mentioned questions are to be used always**
- **The auditor must judge which ones are relevant for each case**

How to use the Checklists



➤ Depending on SAIs audit mandates, national systems and audit objectives

- Some items may have to be modified
- Some questions may have to be added
- VFM questions may be crossed with these
(vd. Procurement Performance Model)

Structure: 6 items



- 1. Auditing the management of the procurement function**
- 2. Auditing the preparation of the procurement**
- 3. Auditing the procedure chosen to procure**
- 4. Auditing the publicity and notifications used**
- 5. Auditing the award procedures**
- 6. Auditing additional works and deliveries**

Structure

**Main questions are included
under each one of these 6 items**



Main Questions



1. AUDITING THE MANAGEMENT OF THE PROCUREMENT FUNCTION

1.1. Are procurement processes well organised and documented?

1.2. Are proper financing arrangements taken?

1.3. Are internal control systems in place?

1.4. Is procurement execution duly monitored and documented?

Main Questions



2. AUDITING THE PREPARATION OF THE PROCUREMENT

- 2.1. Are EU procurement regulations applicable?
- 2.2. Did the public authority calculate the contract value accurately?
- 2.3. Was the performance description adequate to needs and legal requirements?
- 2.4. Were the tender documents comprehensive, transparent and free from restrictions or conditions which would discriminate against certain suppliers?
- 2.5. Was the submission of variant tenders accepted and duly ruled?
- 2.6. Has the public authority procedures in place to monitor the input of experts employed to assist the procurement function?

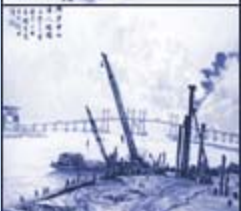
Main Questions



3. AUDITING THE PROCEDURE CHOSEN TO PROCURE

- 3.1. Did the public authority decide upon an adequate and admissible procurement procedure?
- 3.2. Did the chosen procedure ensure fair competition and transparency?

Main Questions



4. AUDITING THE PUBLICITY AND NOTIFICATIONS USED

- 4.1. Did the public authority report procurement processes and results in compliance with the Directives?
- 4.2. Was timely and equal access to contract documents and information provided to all candidates?
- 4.3. Was confidentiality ensured when necessary?

Main Questions



5. AUDITING THE AWARD PROCEDURES

- 5.1. Was the formal review of requests to participate or evaluation of bids correctly undertaken?
- 5.2. Was suitability of candidates accurately assessed?
- 5.3. Were exclusion causes duly considered before the actual evaluation of tenders?
- 5.4. Were bids properly evaluated?
- 5.5. Was the decision on the award process accurate and adequately communicated?

Main Questions



6. AUDITING ADDITIONAL WORKS OR DELIVERIES

6.1. Were any additional works or deliveries admissible, without recourse to a new procurement procedure?

Main Questions detail



➤ **Background**

➤ **Sub-Questions**

➤ **Guidance**

Question background



Understanding how relevant the question is

Question background



(1. AUDITING THE MANAGEMENT OF THE PROCUREMENT FUNCTION)

1.1. Are procurement processes well organised and documented?

Background

The organisation and assignment of responsibilities within the procurement process is critical to the effective and efficient functioning of that process.

The public authority must document all measures and decisions taken in a procurement process, in order to be able to follow progress, to review it when necessary and to support management decisions.

This organisation and documentation measures also form the basis for financial and compliance controls applied in the procurement process.



Sub-questions

**They bring the auditor to a deeper analysis
when necessary**



Sub-questions



(6. AUDITING ADDITIONAL WORKS OR DELIVERIES)

6.1. Were any additional works or deliveries admissible without the need for a new procurement procedure?

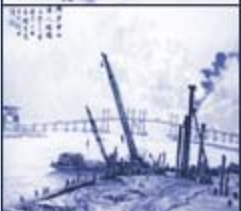
Questions

- Did the additional works introduce minor or non-substantial changes to performance, as described in the contract documents?*
- Were additional works brought about by a cause which had not previously existed?*
- Were additional works strictly necessary for the completion of performance under the contract?*
- Is it that additional works could not be technically or economically separated from the original contract without major inconvenience?*
- Did additional works amount to no more than 50% of the initial contract?*
- Were additional works charged at the unit prices agreed in the initial contract?*
- Were additional deliveries a partial replacement for normal supplies or installations or an extension of existing supplies or installations?*
- Would a change of supplier oblige the contracting authority to acquire material having different technical characteristics resulting in incompatibility or disproportionate technical difficulties in operation and maintenance?*
- Was the length of original and recurrent contracts less than 3 years?*



Sub-questions

(include a fraud and corruption checklist)



(6. AUDITING ADDITIONAL WORKS OR DELIVERIES)


6.1. Were any additional works or deliveries admissible without the need for a new procurement procedure?

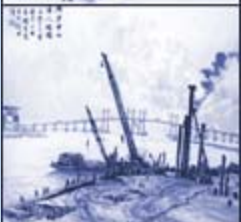
Questions

- F/C** – Did the additional works introduce minor or non-substantial changes to performance, as described in the contract documents?
- F/C** – Were additional works brought about by a cause which had not previously existed?
- F/C** – Were additional works strictly necessary for the completion of performance under the contract?
- F/C** – Is it that additional works could not be technically or economically separated from the original contract without major inconvenience?
 - Did additional works amount to no more than 50% of the initial contract?
 - Were additional works charged at the unit prices agreed in the initial contract?
- F/C** – Were additional deliveries a partial replacement for normal supplies or installations or an extension of existing supplies or installations?
- F/C** – Would a change of supplier oblige the contracting authority to acquire material having different technical characteristics resulting in incompatibility or disproportionate technical difficulties in operation and maintenance?
 - Was the length of original and recurrent contracts less than 3 years?

Sub-questions

(include a fraud and corruption checklist)

- When answers to questions highlighted with the red flag  are “NO”, risks of fraud and corruption are increased
- Further analysis or handover to competent authorities may be needed



Guidance

The *Guidance* part of each main question leads the auditor to further analysis by indicating some available information related to that item, which the auditor can study:

- Articles of Directive 2004/18/EC
- Other EU documents
- Related sections of the Guideline for Auditors
- Related questions of the Procurement Performance Model
- ECJ related case-law
- Other SAIs audit reports that deal with similar issues



One main Question



5. AUDITING THE AWARD PROCEDURES

5.1. Was the formal review of requests to participate or evaluation of bids correctly undertaken?

5.2. Was suitability of candidates accurately assessed?

5.3. Were exclusion causes duly considered before the actual evaluation of tenders?

5.4. Were bids properly evaluated?

5.5. Was the decision on the award process accurate and adequately communicated?

5.4. Were bids properly evaluated?

Background

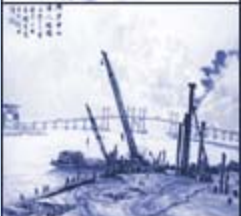
The final evaluation and award process must be demonstrably objective and transparent and based solely on the published criteria. The public authority has to consider all the published criteria, pursuant to the indicated weighting. Admissible variants which meet the requirements must be evaluated in the same way as the other bids.

The award decision will be based on the result of the evaluation of tenders.






In open and restricted procedures, any dialogue with candidates that could be construed as “post tender negotiation” on price or other tender elements is not permissible. However, for other procedures, such as negotiated or competitive dialogue, negotiations are permissible within certain rules and may result in changes in the tenders. These negotiations may even take place through an electronic auction.



5.4. Were bids properly evaluated?



Sub-questions

-  *Is the evaluation process documented in a transparent, plausible and convincing manner?*
-  *Did the contracting authority evaluate only those tenders that qualified in the former 3 steps?*
-  *When open and restricted procedures were used, no negotiations or alterations to tenders were permitted, namely on price?*
-  *When negotiations or fine-tunings of the tenders did take place, were these permitted within the procedure followed?*
-  *In those cases, was equality of treatment and distribution of information provided to all tenderers during the dialogue or the negotiations?*
- *When negotiation took place in successive stages, was this practice stated in the procurement documents and was it done in accordance with the award criteria stated?*
- *Where an electronic auction was used to bid, were all required specifications given equally to tenderers?*

5.4. Were bids properly evaluated?



Sub-questions

- *In this case, did the contracting authority make a full initial evaluation of the tenders according to the award criteria and the weighting set, did it invite all bidders simultaneously to submit new prices and/or new values and did it provide the necessary information to them to enable them to continue bidding?*

FC *Did the contracting authority evaluate and rank bids against all and only those criteria, and relative weighting, which it had published in the procurement documents?*

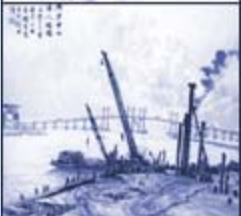
- *When awarding contracts under a framework agreement, did the contracting authority comply with the terms laid down in that agreement?*

FC *Was there a sound basis for the scorings applied to the criteria and was the scoring well balanced?*





- *Were calculations used in evaluation adequate and correct?*

FC *Is there no evidence of collusion between bidders?*

5.4. Were bids properly evaluated?



Sub-questions

-  *Is there no evidence of unauthorized release of information or seemingly unnecessary contacts with bidders' personnel during the evaluation and negotiation processes?*
-  *Is there no evidence of favouritism towards a particular contractor during the evaluation and negotiation processes?*
-  *Is there no evidence of any individual on the evaluation panel being biased?*
-  *Is there no evidence of any external or superior pressure to reach a specific result?*
 - Did the contracting authority draw up a report in writing of the outcome of the evaluation in accordance with article 43 of the Directive?*

5.4. Were bids properly evaluated?

Guidance

Directive:

Article 53 is the central provision for the evaluation of tenders

For electronic auctions see article 54

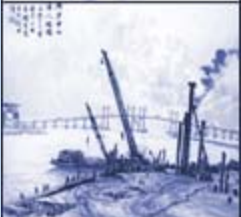
PPWG Guideline for Auditors:

See no. 16 and Appendix to Section 4

For electronic auctions see Appendix VIII

PPWG Procurement Performance Model (PPM):

See n° 16 of PPM (implementing the public procurement process) and n° 17 (compliance with EU law).



5.4. Were bids properly evaluated?

Guidance

ECJ Case-Law

Case	Judgement	Issue
<i>C-87/94, Commission/Belgium</i>	<i>1996.04.25</i>	<i>Taking into account amendments submitted after the opening of tenders, awarding a contract not complying with the contract documents or consider cost-saving features not referred in the contract documents offend principles of equal treatment and transparency</i>
<i>C-19/00, SIAC Construction</i>	<i>2001.10.18</i>	<i>Equal treatment of tenderers during the contracting procedure</i>
<i>C-331/04, ATI EAC and others</i>	<i>2005.11.24</i>	<i>Conditions allowing a jury to attach a specific weight to the subheadings of an award criterion</i>



5.4. Were bids properly evaluated?



Guidance

Audit reports and studies

For formalization of consolidated tenders in negotiated procedures:

<i>Report</i>	<i>SAI</i>
<i>The North Wastewater Treatment Plant in Brussels. Award and funding of the concession contract</i>	<i>Belgium</i>

For the need of a document comparing the bids and stating the grounds of the award:

<i>Report</i>	<i>SAI</i>
<i>Statistics 's service procurements</i>	<i>Finland</i>
<i>Audit over a Rail Transport Institute</i>	<i>Portugal</i>



5.4. Were bids properly evaluated?

Guidance

Audit reports and studies

For a fair and transparent evaluation of bids, according to the award criteria:

Report	SAI
<i>Bus line services: cost price and contract award to operators</i>	<i>Belgium</i>
<i>2000 Annual Report (§ 4.127.6), 2001 Annual Report (§4.129.65) and 2002 Annual Report (§ 4.136.7(a))</i>	<i>Cyprus</i>
<i>Ex-ante audit and also on the request of the Public Accounts Committee of the House of Representatives</i>	»
<i>State Budget funds provided for investment to the industrial zones</i>	<i>Czech Republic</i>
<i>Annual Report 2004 on federal financial management, Part II, items 3, 17, 18 and 42</i>	<i>Germany</i>
<i>Autonomous (regional) and local public sectors, financial year 1997. Item concerning “Public procurement”.</i>	<i>Spain</i>



5.4. Were bids properly evaluated?

Guidance

Audit reports and studies

For awarding a contract not complying with the contract documents:

Report	SAI
<i>Public investment projects by a public rail transport enterprise</i>	<i>Portugal</i>
<i>Public investment projects by the National Laboratory for Civil Engineering</i>	»

For collusion among bidders:

Report	SAI
<i>Rental of aircrafts to fight forest fires</i>	<i>Portugal</i>



Checklists for financial/compliance audit

➤ **Your Questions**

➤ **Your Comments**

