KISM AND KASNEB

CPSP

PART 2

PROCUREMENT AUDIT AND RISK MANAGEMENT

STUDY NOTES

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TOPIC 1

PROCUREMENT AUDIT AND RISK MANAGEMENT

OVERVIEW

Procurement is the process of acquiring goods, works or services by an organization.

Audit is the examination of books of account and financial statements of an organization by an independent person known as an auditor.

Auditing is the independent examination of books of account, vouchers and financial statements of the business entity by the auditor to ascertain whether they reflect a true and fair view of the organization state of affairs as at the end of the financial period.

The examination of accounting records undertaken with the view to establish whether they correctly and completely reflect the transactions to which they relate.

An audit is an appraised activity undertaken by an independent practitioner e.g. Auditor to provide reasonable assurance to a principal e.g. Shareholders

Audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements and it includes evaluating appropriateness of accounting estimates made by the management as well as the overall presentation of financial estimates.

An audit is an instrument of financial control which acts as a safeguard on behalf of the owners of a business entity against extravagance, carelessness or fraud on the part of the owners, agents or servants the realisation and utilization of money/assets bestowed to them.

Procurement Audit is the examination and scrutiny of the whole procurement process/system of an organization to assess the appropriateness and effectiveness of the management control framework in place to support its procurement activities in compliance with the legal framework of procurement activities and standards of good professional practice.

It is a systematic and independent analysis to determine whether the procurement activities and results of those activities correspond to the planned demands and whether those demands are effective and suitable to achieve organization objectives.

It is the process of gathering and evaluating sufficient audit evidence on government procuring activities to ascertain and report whether specified, laid down procedure, guidelines and regulations have been complied with.

Procurement audit is conducted with the aim of reviewing and examining the whole procurement process, systems and activities undertaken in an organization to find out the extent of compliance with the established laws, regulations and guidelines.

It encompasses setting out audit objectives, sample selection, risk mapping (assessment), obtaining, obtaining sufficient audit evidence, drafting, findings and making recommendations in a procurement audit report. It aims to provide reasonable assurance that:

1) An adequate management control framework is in place to effectively support procurement activities of an organization.
2) Procurement activities are processed in a manner compliant with applicable policies, procedures, law and guidelines.
3) Procurement award procedures are legal and public resources are being spent in line with applicable criteria.
4) Procedures followed are likely to achieve value for money and have safeguarded competition, transparency, equal treatment and accountability.

A sound and compliant process significantly reduces the risk that inappropriate and unauthorized procurement transactions are made by an organization.

Purpose of the procurement audit

The main purpose of procurement audit is to assess compliance and value for money in procurement processes for goods, works and services of procuring entities in accordance with the legal framework of public procurement in the country and the standards of good professional practice.

The goal is to assess appropriateness and effectiveness of the management control framework in place in support contracting and procurement activities in organization.

Objectives of the Procurement Audit

The main objective of procurement audit is to ensure the procurement activities are done in an efficient, effective and economic manner within the provisions of the relevant regulations in the guidelines.

The objectives can be viewed in 4 dimensions as follows:

1) **Strategic –** They aim to achieve high level goals aligned with and supporting the organization vision and mission.
2) **Operational –** Executing ethical, economical, efficient and effective public procurement related operations and safeguarding public funds against funds against loss due to wastage, abuse, mismanagement and other irregularities.
3) **Reporting –** Advocating for development and maintenance of a reliable management of procurement information and disclosure of that information in timely reports including accounting obligations.
4) **Compliance –** Ensuring that procurement activities and processes in accordance to procurement by regulation, guidelines, policies and procedures governing procurement principals and best practices.

Specific objectives of Procurement Audit

1. Ensure value for money in the use of public funds for procurement.
2. Promote better transparency and accountability.
3. Ensure organization is independent in conduct of procurement audit.
4. Ensure organization has sufficient authority to carry out procurement audit in a manner that meets best practices.
5. Ensure organization has the right and obligation to report on the results of procurement audit to head the oversight body concerned via the heads of the organization.
6. Assess the adequacy of the procurement policy by the organization.
7. Evaluate whether procurement activities comply with procurement laws and regulations.
8. Determine the extent to which internal controls of procurement activities are operating effectively.
9. Identify opportunities for improvement as appropriate and make recommendations for improvement.

Procurement Audit Process

1. Appointment of auditors.

2. Planning for the audit.
3. Carry out the risk assessment.
4. Determine the scope and audit objectives
5. Audit execution.

Terms used in Procurement Audit

1. **Audit Procedures** – Tasks the auditor undertakes include: collecting, analysing, interpreting and documenting information during an audit. They are the means used to attain audit objectives.
2. **Audit Programme** – A document that lists audit procedures to be followed during an audit or it outlines necessary steps to achieve the objectives of an audit engagement within the designed scope.
3. **Audit Report** – A signed, written document which presents the purpose, scope and results of the audit including findings, conclusions and recommendations.
4. **Audit Risk** –The risk that information/financial reports will contain financial errors that the auditor may not detect.
5. **Audit working papers** – A record of the information obtained, analysis made and information made during an audit. They support the basis of findings and recommendations to be reported.
6. **Auditee** – Comprises of a legal entity, public body, procurement unit that is subject to audit of the committee.
7. **Compliance** – It is conforming and adherence to plans, procedure, laws, regulations, contracts, guidelines or other requests.
8. **Control** – Any action taken by public bodies management and their parties to manage risk and to increase the likelihood that established objectives and goals shall be achieved.
9. **Independency –** Allows auditors to carry out their work freely and objectively and requires that auditors be independent of the activities of the audit.

   Ethical threats to auditors‘ independence include:

   i) Self-interest threats.
   ii) Self-review threats.

iii) Familiarity threats.
iv) Advocacy threats.
v) Intimidation threats.
vi) Management threats.

10. **Internal Control –** A process within the organization designed to provide reasonable assurance regarding the assurance of following objective.
    a) Reliability and Integrity.
    b) Compliance with plans.
    c) Safeguarding Assets.
    d) Economical and efficient use of public funds.
    e) Accomplishment of organizational objectives and goals.
11. **Objectivity** – An independent mental attitude which requires auditors to perform audits, in such a manner that they have an honest belief in their work and that no significant quality compromises are made.
12. **Risk** – The probability that an event or action may adversely affect an organization‘s activities or audit.
13. **Risk Assessment** – The systematic process for assessing and integrating professional judgement about probable adverse conditions or events.
14. **Risk Management** – An approach designed to identify, assess, manage and control potential risks and situations inherent to procurement systems in order to provide reasonable assurance regarding adverse conditions of organization objectives.
15. **Materiality** – An item or information is material if its omission or misstatement will influence the users of the audited financial statements. An item may be material because of its nature.

Approaches to Procurement Audit

a) Financial approach

In this approach, the auditor may ask questions whether the procurement record and transactions have been truly and fairly reflected in financial statements.

b) Compliance approach

Auditors may raise questions as to whether the public procurement regulations comply with applicable laws and regulations.

c) **Performance approach**

The auditor asks questions such as: Did the purchase process used and the allocated funds and corresponding results follow the main principles for value for money?

Audit as an Assurance Engagement/ Compliance Engagement

An assurance engagements one which a practitioner expresses a conclusion designed to enhance a degree of confidence among the intended users other than the responsible parties (management) about the outcome of an evaluation or measurement of the subject matter.

An assurance is an opinion expressed by an assurance provider on a subject matter.

Elements of an assurance engagement

1. Parties' relationship involving a practitioner, a responsible party and responsible users.
2. An appropriate subject matter.
3. Suitable criteria – A benchmark used to measure subject matter.
4. Sufficient appropriate evidence.
5. A written assurance report in the form appropriate to a reasonable assurance engagement or a limited assurance engagement.

Characteristics of suitable criteria

1. Must be relevant i.e. contributes to conclusions that assist in decision making by intended use.
2. Completeness i.e. contains all relevant factors that could affect conclusion in the context of engagement circumstance.
3. Reliability allowing for consistent evaluation of the subject matter including presentation and disclosure.
4. Neutrality contributing to bias free conclusions.
5. Understanding – Contributes to conclusions that are clear, comprehensive and not subject to different interpretation.

Differences between Auditing and Accounting

Auditing	Accounting
This is the examination of accounting records, books and financial statements with aim of providing true fair view of company‘s state of affairs at the end of the financial period.	This is preparation of books and records of accounts and related information as an aid to managerial decision process.
It is conducted at the end of the financial period when financial statements have been prepared.	Is a continuous exercise done throughout the accounting period as and when account transaction occur
Is conducted independent of all parties with financial interest in the business	Is conducted without independent approach.
Takes the mode of audit programmes and test	Accounting does not call for programmes but use of ledgers, voucher, cashbook etc.
Is governed by ISAS (Standards of Auditing)	Accounting is governed by GAAPS, IFR, IPSAS, IAS
Produces audit reports to the owners of the company by issuing an opinion on the financial statement	Produces financial statements at the end of the accounting period.
Is a statutory requirement for all limited Companies	Is necessary for all companies regardless of their size

Importance of Procurement Audit

1. To determine compliance with relevant law and regulations by public entities.
2. Promotes accountability with procurement processes.
3. Helps detect and prevent fraud in procurement process of public entities and other important practices and irregularities.
4. Ensures fairness and transparency in procurement processes.
5. Helps determine whether procurement procedures are achieving best value for money in the application of public funds.

6. Provides assurance with regard to the efficiency and effectiveness of procurement operations of the procurement entity.
7. Helps improve internal controls of procurement entity by making recommendations to substantially increase the controls in the procurement process.
8. Constitutes opportunities of improvement upon past procurement performance in procurement processes as appropriate.
9. Helps to prevent future mistakes of public entities.

Disadvantages

1. May be expensive to undertake and small entities may not afford the costs associated with an audit.
2. The public entity staff may depend on the auditor to fix all the problems in the procurement process. This may compromise the auditor‘s independence leading to a biased report.
3. Audit may lead to disruption of the business processes especially where there is a continuous audit which may affect adequate recording of transactions.

Procurement Audit Procedure

1. **Checking procurement and accounting records.**

These are records examined to ascertain how true and fair the financial statement is and the extent to which government approved accounts and procurement practices have been compiled with.

The accounts should be verified to check if proper records have been kept and if all figures have been properly recorded.

Invoices issued by suppliers should be verified to ascertain if they are in agreement with government approved regulations.

2. **Examination of files and documents.**

To establish if appropriate files have been maintained by the entity and whether they have been well documented by the entities.