Auditing Procurement & Contracts

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Introduction

- Legislative & Agency Requirements & Constraints
- Key Risks
- Probity in Procurement
- What to Audit in Procurement
- What to Audit in Contract Management
- Using Continuous Monitoring
- Better Procurement Practices
- Opportunities & Issues
Qld Govt Legislative Requirements & Constraints

- Financial Accountability Act 2009
- Financial & Performance Management Standard 2009
- Financial Accountability Handbook
- State Procurement Policy
- Better Purchasing Guidelines
- Government Information Technology & Communications Requirements
- Government wide purchasing arrangements
GU Agency Requirements & Constraints

- Purchasing Policy & Procedures
- Tender Board
- Approved University Buyers
- University Collaborative Buying Agreements
- Financial Delegations
- Contract Signing Delegations
- PeopleSoft E-Procurement & Finance Modules
Key Risks

Buyer risk:
- Procurement planning
- Processes
- Staff turnover
- Fraud & misconduct
- Tendering
- Budgeting

Supplier Risk:
- Capacity to supply and/or support
- On going financial viability
- Quality & quantity of supply
- Collusion & cartels
- Delivery availability
- Conflicts of interest, related parties
Key Risks

**Contract Risk:**
- Budgeting
- Fake invoicing
- Related parties
- Insurance
- Performance management
- Milestones
- Variations
- Legal protection of rights & property

**External Factors:**
- Australian dollar
- Industrial disputes
- Market demand versus supply
- Customer expectations
Fraud Risks

What does the IPPF say:

- 2120.A2 - The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk

- 2210A – Internal Auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the audit engagements
Fraud Risks

What fraud risks could exist:

- Conflict of interest
- Related parties
- Collusion & cartels
- Fake invoices
- Purchasing for personal use
- Redirected payments
- Unapproved travel expenses
- Fraud risk assessment – risk & controls
## Planning Risk Assessment

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<th>Likelihood</th>
<th>Consequence</th>
<th>Risk Rating</th>
<th>Key Controls</th>
<th>Control Effectiveness</th>
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Probity in Procurement

Probity Defined:

- Probity is the evidence of ethical behaviour in a particular process*

- The term probity means integrity, uprightness and honesty*

- Adviser or Auditor – Is there a difference??

* Source: Queensland Purchasing, Better Purchasing Guide – Ethics, Probity and Accountability in Procurement
Probity Considerations

**Principles of probity in procurement:**

- Fairness and impartiality
- Accountability and transparency of process
- Confidentiality and security of information and materials
- Effective management of conflicts of interest
What to Audit in Procurement

Types Of Procurement:
- Purchase card
- Corporate card
- Purchase order
- Direct processing
- Petty cash
- Travel
- Donations

Planning:
- Strategic procurement planning
- Major construction projects
- Asset management plans

Vendor Management:
- Establishment
- Changes
- Deactivation
What to Audit in Procurement

Processes:
- Issuing
- Ordering
- Receiving
- Inventory management
- Payment
- Reconciliations
- Asset recording
- Credit cards

Outcomes:
- Benefits realisation from e-procurement
- Savings
- Vendor management
- Continuous monitoring
Contract Management

What to look for:

- Is there actually a contract in place??
- Most important – READ THE CONTRACT!!!!
- Contract Delegations
- Actual requirements versus what has been delivered
- Contract performance management
- Guarantees, warranties and performance bonds
Contract Management

What to look for:

- Variations – documented and approved
- Contracts versus maintenance
- Contract payments versus milestones
- Mouldy contracts – growing dark corners
- Revenue contracts can hide expenditure contracts
Continuous Auditing or Monitoring

- Split purchase orders
- Orders over financial delegations
- Contract spend over $10,000
- Duplicate vendors
- Duplicate payments
- Vendors versus Staff
- General ledger reconciliations
- Non panel suppliers
- Expenditure versus Budget
- Invoice Price & Quantity Variances
Continuous Auditing or Monitoring

Challenges include:

1. Getting management support and understanding of what you plan to achieve.
2. Getting the data!!
3. Getting the data!!
4. Getting the data!!
5. Developing the tools & reports
6. The final cost – consultants, licences, IT resources, servers
7. Finding the time/commitment to follow up exceptions
8. Reporting on results
Better Procurement Practices

- Risk & control frameworks & assessments
- Strategic procurement planning
- Policies, procedures, delegations and templates
- Contract registers
- Segregation of duties
- Timely reconciliations
- Tender board evaluation
- Conflicts of interest/related parties managed
- Tender specification documents approved
- Contract performance management
- Probity advice/audit
Opportunities Identified

**E-Procurement**
- Streamline purchasing for recurrent items such as stationery & chemicals
- Better controls over purchasing of restricted items such as chemicals
- Approval by university buyers before financial approval

**Improved Contract Management**
- Contractual arrangements identified early
- Appropriate legal agreements established
- Better oversight of COI & related parties
- Statutory reporting improved
Opportunities Identified

**Continuous Monitoring**
- Automated general ledger reconciliations (8 days/mth)
- Early identification & recovery of duplicate payments
- Better vendor management

**Asset Management**
- Full life costing of plant & equipment – maintenance, repairs, replacement

**Risk & Control Assessment**
- CFO statements on internal controls
- Fraud risk assessments
Issues Identified

- Split Purchase Orders
- Purchases made outside financial and contract delegations
- Maintenance Contracts not appropriately approved and signed
- Availability and currency of procurement and contract management procedures & templates
Issues Identified

- Role & behaviour of academic staff versus technical & administrative staff
- Conflict of interests/related parties
- Employees as private contractual providers
- Documentation of decision making
- Contract register not up to date
Questions

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