

Audit Objectives	Issues
<p>Whether there exists a system in the organization for proper project appraisal and whether this system is functioning effectively ?</p>	<ol style="list-style-type: none"> 1. Whether the organization has a policy for project appraisal and to what extent it is applied? 2. Whether the system provides for consultation at appropriate time with :- <ul style="list-style-type: none"> • Relevant disciplines, e.g. finance, technical, planning and legal ; • External bodies, e.g. other public authorities and statutory undertakings. 3. Whether the need are verified by a person other than the person initiating the need? 4. Whether needs are given a preliminary ranking of priority within the appropriate category? 5. Whether the system provides for preliminary assessments of the options available to meet the identified needs together with broad indications of their likely costs? 6. Whether the feasible options are ranked in order of preference, taking into account such matters as cost, disruption and timing and such ranking documented ? 7. Whether the tender documents dispatched to tenderers are in accordance with the project's approvals and the requirements of the detailed brief? 8. Whether the preferred tender is in accordance with the project's approvals and the detailed design brief is not qualified in a manner which would invalidate such approvals or exceed the detailed design brief requirements?

Whether the systems for admitting contractors to the approved list and for reviewing their performance and current viability is functioning efficiently?

1. Whether procedures exist for the compilation and subsequent amendment of the approved list and frequency of overall review?
2. Whether public notice has been given regarding the intention to compile the approved list?
3. Whether requirements have been prescribed in relation to advertising in local newspapers etc and the closing date for applications?
4. Whether applicants have been asked to supply full information from which their operational capacity, ability and financial standing could be assessed?
5. Whether Financial and operational appraisals of contractors have been carried out? Such appraisals should cover the following criteria :-

• Financial

- Examination of the latest three years published accounts including the application of accounting ratios and trend analysis;
- Examination of external auditors certificates;
- Consideration of the contract value in relation to the turnover of the company;
- Bank or business information reports;
- Consideration for the need to obtain performance bonds.

• Technical

- Particulars of recent contracts

completed by the contractor, their nature and value;

- Trade references and personal visits, if necessary, by technical personnel;
- Assessment of the contractor's management, labour and plant resources;
- Information from in house systems for monitoring contractors performance.

Whether the methods for the selection of contractors invited to tender is effective?

1. Whether the organization's policies state the methods to be adopted for the selection of tenderers e.g. open, competitive, selective, restrictive or negotiated?
2. Whether the policies stipulate the circumstances in which the formal tendering procedures, as opposed to quotations, will apply and state the contract value above which tendering procedures are mandatory?
3. Whether Exemption procedures exist for emergency work and single source of supply ?
4. Whether requirements are stated in connection with advertising in local newspapers, the period of public notice to be given and the closing date for application?
5. Whether final selection is based on a financial and technical appraisal?
6. Whether final selection of contractors is made by members or authorized officers and such selection are properly recorded?

Whether the system for regulating the tendering procedures and the letting

1. Whether the organization has a set of policies or procedures concerning tendering and the letting of contracts and that they are formally

of contracts is functioning efficiently and effectively?

reviewed periodically taking into account technical, legal and financial advice?

2. Receipt of Tenders

- Whether all tender envelopes received have been endorsed with the time and date of receipt and the staff receiving the envelope or subsequent custodian do not open any tender envelope?
- Whether delivery is not refused simply because a tender is received late?
- Whether all matters pertaining to tenders are strictly confidential?

In the case of tenders received electronically whether sufficient safeguards in respect of all the above issues have been incorporated?

Custody of Tenders

3. Whether an officer is designated as custodian of all tender envelopes received.
4. Whether the custodian keeps a register of all tenders “received in time” and keeps a similar record of tenders “delivered late” and notifies late deliveries immediately to the officer responsible for convening opening sessions.
5. Whether the custodian keeps all unopened tenders in a locked cupboard until they are requested on or after the date for receipt of tenders by the officer convening an opening session?

Opening of Tenders

6. Whether all tender envelopes are opened at the same time, not earlier than the time prescribed for the receipt of tenders?

7. Whether all tenders are opened by at least two senior designated officers of different disciplines, neither of whom has been involved in the tender invitation?
8. Whether tender openers sign the tender documents including the summary of bills of quantities as well as any correspondence from the tenderer?
9. Whether the organization has a policy for dealing with late tenders (received after the cut off date & time) and that this policy is followed?

Recording of Tenders Received

10. Whether a register of tenders received is compiled containing:-
 - (a) for each contract:-
 - contract name and reference number;
 - the latest date and time for receipt of tenders and;
 - the names of the contractors invited to tender.
 - (b) for each tender opened:-
 - date and time received;
 - date and time of opening;
 - amount of tender and;
 - any qualification/ alternative offer/ unsigned tenders.
 - (c) for each contract after the tenders have been opened and recorded:-
 - the signatures of the tender openers;

- signature of person to whom the opened tender have been passed;
- the names of those contractors not submitting a tender;
- the name of the successful tenderer recorded after evaluation and acceptance and;
- the reason for considering any late tenders.

Tender Evaluation

11. Whether there are procedures for tender evaluation which relate to:-

- Security and confidentiality, and any changes in tenders as submitted

12. Whether a formal record of the following matters is kept as required:-

- the Engineer's estimate;
- arithmetical check;
- rates & prices;
- percentage adjustments;
- balancing items;
- ambiguities/ qualifications;
- alternative offers;
- adjustment to tendered rates or prices made subsequent to tender;
- all contacts made with tenderers;
- running costs and;
- Technical officers' recommendation.

Acceptance of Tenders

13. Whether Engineer's report is available to the person-authorizing acceptance of tender?

Whether there exists an effective system for reviewing the suitability of Conditions of Contract and Tender documents?

14. Whether acceptance of tenders, including any changes thereto, is properly reported and duly authorized?
 15. Whether unsuccessful tenderers are informed to that effect and EMDs returned?
 16. Whether procedures exist for the adequate retention of all unsuccessful tenderers?
1. Whether the organization has a policy as to the Conditions of Contract to be used for works?
 2. Whether procedures exist for the periodic review of Conditions of Contract and the making of recommendations to the organization concerning modifications to standard forms?
 3. Whether such procedures take account of technical, legal, and financial advice and any modification to the Conditions of Contract approved by the organization's legal services?
 4. Whether a system exists to report points of weakness or uncertainty centrally for consideration and action is taken as a result of any such report by way of examination, correction and notification to users?
 5. Whether specific points, where considered necessary, are taken up with the Conditions of Contract Standing Committee?
 6. Whether the organization has determined the type and content of documents for tendering including, for example, specific requirements relating to bribery and corruption, power to accept the tender in whole or in part etc?
 7. Whether a checking system exists to ensure that:-

- Tender documents do not contain conflicting provisions;
- Specifications do not contain conditions of contract and vice versa;
- Bills of quantities are checked for compliance with the Civil Engineering Standard Method of Measurement and that any departures are properly incorporated;
- Tender documents contain adequate particulars as to the nature of the site and soils, such information excluding statements of opinion;
- The appendix to the Form of Tender is completed as far as required by the Management e.g.minimum amount of insurance, liquidated damages.
- All sets of tender documents are identical;
- The correct documents are sent out;
- Detailed instructions are given to the tenderer as to the organization's regulations and other requirements concerning the submission and consideration of tenders.

Whether the Insurance and Bonding procedures prescribed in the organization are consistent with the best practices?

Insurances

1. Whether the inclusion of an amount of insurance cover in contracts is in accordance with the policy of the organization?
2. Whether any recoveries made by the contractors under insurances are not duplicated by contract claims payments?
3. Whether contractors insurances are checked for adequacy of cover and current premiums are paid prior to him entering on the site?

Performance Bonds (Surety Bonds)

4. Whether performance bonds are required on contracts according to the policy of the organization?
5. Whether tenders are notified of the organisation's intention to require a surety bond?
6. Whether the bond is acceptable to the organization i.e. a reputable financial institution?
7. Whether the surety bond is received prior to the commencement of the work?
8. Whether the method of payment for the surety bond is clear, e.g. included in the contractors tender price?.
9. Whether the bond is notified, by the organization, of any event likely to effect his responsibilities and obligations under the terms of the bond?
10. Whether the surety bond is held in safe custody during its currency and release of the surety bond is in accordance with its terms?

STAGE 'B' – CURRENCY OF CONTRACT

Whether the system for providing financial information enable costs to be adequately controlled including reporting procedures?

1. Whether the system provides for written monthly reports on contract and project expenditure to the organization? (Much of the detailed information will be submitted by the Engineer)
2. Whether the contract report by the Engineer covers the following:-
 - (a) Expenditure to date and a projected final value compared with the original contract sum with a detailed breakdown

over the following heads with any significant differences being subject to a detail explanation:-

- Measured works,
- Prime cost items,
- Expenditure against provisional sums,
- Dayworks,
- Contract variations excluding dayworks,
- Contractual claims,
- Contract price fluctuations.

(b) Contractual claims being listed as:-

- Those accepted and value ascertained,
- Those accepted but not ascertained in full,
- Those not accepted

(c) A request for additional financial provision where it is likely that the authorized sum for the contract will be exceeded beyond the authorized tolerance.

3. Whether the project report by the Project Controlling officer covers the following:-

(a) Expenditure to date and expected final cost compared with the original estimated cost for the project including, where appropriate, all "oncosts" are listed under the following heads of expenditure:- .

- Site investigation,
- Design,
- Supervision,

- Fees,
- Land acquisitions,
- Compensation payments,
- Direct works carried out by the organization,
- Materials and other services provided by the organization.

(b) A request for additional financial provision where it is likely that the authorized sum for the project will be exceeded beyond the authorized tolerance.

4. Whether the above reports are forwarded to the organization in conjunction with technical reports on the progress of the contract works?

Whether there exists a sound system of on- site control regulating valuations of work for Interim payments?

1. Whether statements are submitted by the contractor and are strictly in accordance with the Conditions of Tender or the organization's requirements?
2. Whether valuations of work for interim payment are based on the Contractor's statement?
3. Whether quantities are supported by site measurement records?
4. Whether rates and prices are checked to the Contract Bill of Quantities?
5. Whether valuations of ordered variations are substantiated?
6. Whether amounts payable in respect of Provisional Sums are supported by receipts or other vouchers where appropriate?
7. Whether contract Price Fluctuations are

calculated in accordance with Conditions of Contract?

8. Whether amounts payable in respect of any claims submitted are substantiated by particulars supplied by the Contractor?
9. Whether retention is determined in accordance with the Conditions of Contract?
10. Whether amounts payable in respect of any goods or materials on or off site and not yet incorporated in the Permanent Works are calculated as provided in the Tender, and are subject to ascertainment of title?
11. Whether the arithmetic correctness is checked?
12. Whether any amendments made by the Engineer to Contractor's statements are shown clearly?
13. Whether contractor's statements are annotated to indicate the checks carried out?
14. Whether the net amount payable is determined by deducting any previous payments on account?

How effective is the system for the examination and control of price fluctuations and variations?

1. Whether the contract

includes the formula adopted by the organization?

2. Whether the elements and proportions of the work attributable to the price indices are included in the tender documents?
3. In those cases where tenderers challenge any elements prior to tender submission, whether any ensuing revisions are communicated to other tenderers?
4. Whether the contractor submits any price fluctuations claims?

5. Whether there is a designated person responsible for checking the claims received?
6. Whether the measurement data is consistent throughout the contract?
7. Whether all the agreed Contract Price Fluctuation claims are properly certified?
8. Whether adequate records are maintained of all calculations and amounts paid?

Variations

1. Whether variations are issued solely by those authorized to do so under the contract?
2. Whether variations are ordered in writing?
3. Whether variations specify the particular Conditions of Contract under which the order/instruction is given?
4. Whether copies of orders for variations are sent to the:-
 - Contractor.
 - Engineers representative.
 - Engineer.
5. Whether a numbering sequence identifies each variation?
6. Whether contractors confirmation notes (of oral instructions given by the Engineer and which involve a variation to the Works) are immediately dispatched to the Engineer for acceptance or rejection?
7. Whether contractors written confirmations of oral instructions, if accepted, are taken into and form part of a numbered sequence?
8. Whether proposed major variations, and reasons therefore, are reported, and

considered by organization before ordering (emergencies accepted)?

9. Whether variations specify the method of payment at the time of issue?
10. Whether any payments on account are certified without the existence of an order (and also without the contractors written confirmation duly accepted)?
11. Whether payments for variations are identified against a discrete order or instruction?
12. Whether the Engineer informs the organization, on a monthly summary basis, of the net effect of variations on the cost of the Works and any necessary action required by the organization?
13. Whether the daywork sheets endorsed to identify the variation to which they refer, are signed (when agreed) by the Engineer's representative and are sent to the organization with original supporting documents at each monthly valuation?
14. Whether the daywork payment rates and calculations are correct?
15. Whether daywork sheets are used solely for processing payments for daywork and are not used merely as a means of recording time spent on claims items and valued elsewhere?
16. Whether the organization reviews the valuations of variations periodically and tests compliance with the organization's valuation principles and the order in which those principles are to be applied in the valuation of variations?

Whether the procedures for the receipt and evaluation of contractual claims are consistently applied within the organization?

1. Whether consideration is given solely to claims submitted by notice in writing from the contractor?
2. Whether claims state the clause in the contract under which they are being made?
3. Whether the receipt of each claim is acknowledged by the Engineer and forwarded to the organization?
4. Whether claims are numbered consecutively as they arise?
5. Whether any claim for a rate higher than one notified by the Engineer is properly substantiated?
6. Whether acknowledgements of claim notification contain instructions as to any records to be kept by the Contractor?
7. Whether engineer notifies the organization and the contractor of any decision in principle reached in connection with any claim?
8. On receipt of each claim (and without prejudice to the Engineer's subsequent scrutiny), whether the contractor is instructed to submit monthly interim valuations of amounts he considers due together with supporting particulars?
9. Whether the principle of the claim has been decided by the Engineer before any payment is made?
10. Following the Engineer's decision in principle, whether interim payments are made on account of the claim, and that they are based on the degree of substantiation produced to date and accepted by the Engineer?

11. Whether payments in respect of claims are listed separately in valuations?
12. Whether claim settlements identify the payment of costs separately from those for profit in the case of cost plus contracts?
13. Whether claims based on “cost” are ascertained as costs actually and reasonably incurred by the contractor?
14. Whether claims clearly identify any inclusion for price fluctuation?
15. Whether claims are settled individually and that no duplication of payments occurs between two or more claims?
16. Whether the Engineer reports on claims to the organization, preferably at monthly intervals, stating:-
 - Claim number and brief details,
 - Decision in principle (if any),
 - Amount claimed to date,
 - Amount paid to date,
 - Estimate of total amount likely to be paid against the claim?
17. Whether claim settlements are reviewed periodically by the organization and any points of difference taken up with the Engineer using the dispute procedures in the Conditions of Contract, if necessary?

STAGE ‘C’ – FINAL CONTRACT

Whether the system ensures that when the final account is produced, it is complete and accurate?

INVESTIGATIONS

1. Whether the final account is supported by detailed documentation showing how the final account value is built up?

2. Whether the rates and prices have been checked to the contract?
3. Whether the measured work items have been re-measured on completion and are supported by site measurement records?
4. Whether variations are valued in accordance with the contract; dayworks being supported by daily agreed records of labour, plant and materials?
5. Whether variations are supported by the written authorization to carry out the work?
6. Whether where applicable, amount payable in respect of Prime Cost Items and Provisional Sums are supported by invoices accompanied by proof that these invoices have been paid?
7. Whether on variable price contracts the Contract Price Fluctuation calculations are in accordance with the contract?
8. Where contractual claims are part of the final account, whether their entitlement and evaluation are in accordance with the contract?
9. Whether any retention monies or outstanding obligations under the contract are allowed for in determining any final amounts payable?
10. In determining the final amount payable, whether allowance is made for previous payments, tax matters, credits and deletion of Prime Cost Items, Provisional Sums and Contingency Items not used.

Whether the system ensures that liquidated damages have been

1. Whether the liquidated damages incorporated in contracts are in accordance with the policy of the organization?

recovered where appropriate?

2. Whether the organization's policy on the deduction of liquidated damages is adhered to?
3. Whether the calculation of amounts of liquidated damages represent the "genuine pre-estimate of loss" and there is a consistent method used in the calculation?
4. Whether a permanent record is held of the calculation of the damage figure?
5. Whether the tender contains rates for damages and the periods for which each amount is to be deducted(for deviation from workplan)?
6. Whether the original due date for completion of the Works, or any Section, can be ascertained from the contract?
7. Whether the Engineer's assessment of any extensions of time granted to the contractor prior to the original due dates for completion are notified to the organization?
8. Whether the Engineer considers "time" at the original due date for completion and notifies the organization of any initial extension of time?
9. Whether the Engineer considers "time" again at the end of any extension of time and notifies the organization of any further extension of time?
10. Whether the organization records all decisions as to time in the contract register?
11. Whether the organization reduces the appropriate amount of damages recoverable by virtue of completed parts or sections of the Works?

Whether there exists an effective system in the organization for collation and dissemination of information on likely failures on the part of contracting agencies and for termination of contracts consistent with the tender conditions?

12. Whether the correct amount of damages is being deducted according to the extension of time and completion information on hand?
 13. Whether there has been a correct repayment of damages as a result of a revised period of extension of time being granted?
 14. Where damages are repaid with interest, whether the correct payment of interest is made?
 15. Whether liquidated damages are deducted by the organization when paying the certified sum and not by the Engineer on his certificates?
 16. Whether there is proper authorization for any decision not to deduct for damages?
1. Whether the organization has prescribed adequate procedures to monitor the performance of contract and to take corrective measures in the event of likely failure of the contracting agencies?
 2. Where failures do occur, whether the organization has enough safeguards that the contractors have not been paid in excess of the value of work done or services rendered, especially in the case of front end loaded contracts?
 3. Where termination of the contract is required, whether sufficient performance security is available with the organization to guard against any excess payment in the case of front end loaded contracts?
 4. Whether the procedures in the organisation preclude any further payments being made to defaulting contractors until the milestones agreed upon have been achieved?

5. Whether any Sureties are informed and kept informed of the developing situation?
6. In the event of termination of contract, whether the state of the Works is assessed as follows:
 - The value of work done by the contractor up to forfeiture.
 - The estimated costs, at current rates, of any remedial work.
 - The estimated value of uncompleted work at current rates.
7. Whether anything remaining on site (plant, materials etc.) which has become the organization's property under the terms of the contract is listed, valued, marked as being in the organization's possession and made secure?
8. Whether a decision on how the works should be completed has been made in accordance with the organization's approved procedures?
9. Whether a separate account has been established and maintained of all costs involved in completing the original contract works?
10. Whether the Engineer has prepared a final account for the work undertaken by the defaulting contractor up to the date of the termination?
11. Whether the extra cost in completing the balance work is recovered from the defaulting contractor as per the approved procedures?

STAGE 'D' – POST COMPLETION

Whether there exists a system in the organization that provides for a review of the outcome from the contracts?

INVESTIGATIONS

- Whether re-appraising the project to examine whether the benefits expected at the outset have been achieved and whether the criteria for the project were reasonable in the light of up-to-date information?
- Whether the performance of the contractor is assessed to determine if he provided good value for money or if he should be overlooked for future contracts?
- Whether the consultant's performance is reviewed in a similar manner, for example, fees charged, ability, competence, etc.?
- Whether the organization's own departmental costs and the performance of the departmental staff involved in the project is reviewed?
- Whether there exists a system to ensure that when the final accounts are produced, they are complete and accurate?

Introduction

The Performance Auditing Guidelines issued by this office constitute the authoritative basis for the conduct of Performance Auditing in this department. This includes the entire gamut of activities commencing with the formulation of strategic plans, selection of topics based on these plans, planning of individual audits, audit execution, finalization of reports and subsequent follow up. During the conference of Accountants General held in the year 2005, it was recommended that supplementary guidance was required to be issued to facilitate due implementation of Performance Auditing Guidelines when undertaking Performance Audits. It has now been decided that supplementary guidance will be issued at two levels, one will be a series of 'Supplementary Guidelines', and the other will be a series of 'Practice Guides'. This Practice Guide entitled 'Practice Guide on Audit of Contract Management', is the third in the series. The Practice Guides are to be taken as facilitative rather than as mandatory in their application.

In the process of planning an audit, the framing of issues is a vital step, because it forms the very basis of the entire audit effort in the field, and equally important is the fact that only if issues are properly identified and formulated, will the field audit result in findings that are relevant to the audit objectives. Contract Management forms a major component of a wide variety of programs cutting across the diverse sectors of the economy. This Practice Guide is intended to facilitate the identification of issues involved in contract management. It is not necessary that all the possible issues relating to contract management that have been identified in this Practice Guide be included in the issue analysis, because the significance of contract management as an area of audit will vary from one audit to another, and so will the scope and intensity of the audit examination of contract management. It is expected that this Guide will enable those concerned to frame the 'Issue Analysis' and 'Study Design Matrix' more cogently insofar as the area of contract management is concerned.