

APPENDIX 1:

LIST OF RISKS ASSOCIATED WITH PROCUREMENT

RISKS ASSOCIATED WITH PROCUREMENT

The following list of risks associated with procurement were identified by the Technical Services Office from audit findings in Annual Audit Reports of the Commission on Audit:

1. Projects have been unused

Warning signs:

- No Bids and Awards Committee (BAC)
- The BAC has no Technical Working Group (TWG)
- The BAC has no Secretariat or Inexperienced BAC Secretariat
- No feasibility study conducted
- The project was not included in the Annual Procurement Plan (APP)
- Right-of-Way (ROW) not unavailable

2. Claims and payments made on early accomplishments were bloated; the contractor eventually abandoned the project

3. Unnecessary work items

4. Incorrect deductions of retention from progress payments due to failure to validate conformance with project schedule

5. Advance payment not recouped or not fully recouped

6. Ghost project

7. Defective project

8. Unauthorized honoraria of BAC Members, BAC TWG and BAC Secretariat

9. Excess construction materials not turned over to the Government

10. Scrap materials / Salvaged construction materials not turned over to the Government

11. Sub-standard or poor quality of work

Causes:

- Approved Budget for the Contract (ABC) not realistic
- The BAC failed to conduct proper post-qualification

12. Excessive project cost

Causes:

- Inadequate detailed engineering activities
- Overestimated quantities of work items
- Overestimated quantities of materials
- Overestimated construction duration

- Excessive prices of materials
- Excessive labor and/or equipment rental rates
- Unnecessary variation orders
- Price escalation granted not in accordance with the prescribed formulae

13. Delayed project completion

Causes:

- Right-of-Way acquisition not considered
- Bidding Documents were not issued according to the required schedule
- Pre-procurement conference was not conducted even if required
- Criteria for eligibility screening and bid evaluation were not clearly defined
- Bidding process exceeded the maximum period allowed by the law/regulations
- Delays in the award, contract signing, contract approval and/or issuance of the Notice to Proceed
- Time extensions granted not justified
- Issuance of variation orders
- Suspension orders issued not justified
- Delayed resumption of work
- Peace and order situation
- Non-verification of conformance with specifications
- Non-performance of the activities required when slippage occurred (calibrated action on project slippage)
- Contractor not qualified – not technically or financially capable of completing the project

14. Limited competition

Causes:

- Non-posting of the Invitation to Apply for Eligibility and to Bid (IAEB) in a newspaper of general nationwide circulation
- Inadequate posting of the IAEB
- Limited issuance of eligibility forms (only to favored/selected contractors)

15. Improper post-qualification

Effect:

- Contract awarded to a contractor who failed to pay taxes

16. Irregularities in the bidding process

- Eligibility envelopes received beyond the deadline set for submission
- Observers were not invited
- Improper submissions by bidders
- Violations of the "no-contact" policy
- Non-validation of compliance with the Disclosure Provision
- A repeat order made on a previous contract resulting from a rigged/simulated bidding

- The prices in the repeat order are higher than the prevailing market price, which is lower than the price in the original contract
 - A repeat order was made exceeding the quantity in the original order
 - A repeat order was made beyond the 6-month requirement (from the date of the Notice to Proceed arising from the original contract)
 - Quotations were submitted by fictitious suppliers
17. Non-validation of the safety and health program submitted by the bidder (in regard to compliance with DOLE D.O. No. 13)
- Effect:
- The health and safety of workers were not properly addressed during contract implementation
18. Project accomplishments were not in accordance with the specifications
- Cause:
- Absence of tests
19. Contractor failed to correct defects during the defects liability period
- Cause:
- Management failed to require submission of Warranty
20. Non-imposition of liquidated damages despite delays in project completion
21. Splitting of Contracts
22. Failure to avail of volume discounts
23. Delivery of a product different from the one specified in the Purchase Order
24. Short/Under-delivery

The *ASOSAI Guidelines for Dealing with Fraud and Corruption, October 2003* has enumerated the following as warning signs of possible fraud and corruption in procurement, which should serve as red flags for the auditor:

1. At the requirements defining stage:
 - a. Inadequate need analysis
 - b. Inadequate information about potential suppliers
 - c. Inadequate review of existing and required inventory
 - d. Unduly short supply period
 - e. Needs analysis is product rather than needs oriented
 - f. Someone other than the user defines the user requirements
 - g. Unwarranted involvement of senior officials

2. At the bidding and selection stage:

- a. The specifications are not clearly defined
- b. A very limited number of offers received
- c. Documentation indicates unusual involvement of an official
- d. Suspicion about conflict of interest
- e. Evidence of early receipt of information by some contractors
- f. Request for proposal is not properly advertised
- g. Unusual handling of the bidding process
- h. Evaluation criteria are not consistent for different offerors
- i. Exceptions to the tender deadlines
- j. Changes in the bids made after their formal receipt
- k. Lowest responsive bidder is not selected
- l. Contractor submits unrealistic bid indicating collusion or bid rotation
- m. Unusual withdrawal of bids
- n. Re-bid results identical to original bids
- o. Successful contractors use competitors as sub-contractors
- p. Justification for single source procurement is inadequate

3. Contract performance and evaluation stage:

- a. Changes in a contract result in a large increase in the cost of goods and services
- b. Changes made without adequate explanations
- c. Unwarranted contract extension
- d. Complaints about the quality of goods and services received
- e. Inadequate inspections and quality assurance of goods and services received
- f. Evidence of over charging and duplicate billings
- g. Dubious invoices
- h. Insufficient pre-audit of contractor payments
- i. Contracts repeatedly awarded to one contractor or a group of contractors
- j. Unduly high labor payments