



د افغانستان د پښتني عالي اداره  
اداره عالی نفیسی افغانستان  
SUPREME AUDIT OFFICE OF AFGHANISTAN

# Supreme Audit Office Afghanistan



## *Citizens' Audit Report*

### *Performance Audit Report*

#### *Performance Audit of Procurement System in the Ministry of Commerce & Industry*



*You know!*

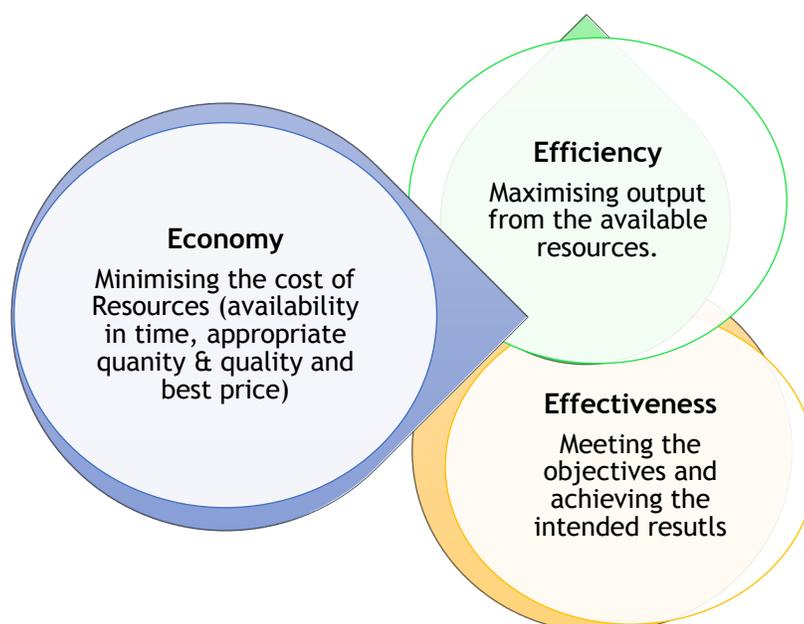
*There is the Supreme Audit Office Afghanistan headed by the Auditor General Afghanistan with a separate Audit Law to audit the Government and its agencies.*

## What is Performance Audit?



Performance audit is a type of audit in which, broadly, the following are covered -

- ☞ Whether government institutions, agencies and organisations, undertakings, systems, operations, activities, programmes, projects, public interventions, are operating and performing as per the principles of economy, efficiency and effectiveness.
- ☞ Whether performance is as per suitable criteria and what the causes of deviations from those criteria are or what problems exist.
- ☞ Whether there is room for improvement in economy, efficiency and effectiveness in the public sector.
- ☞ Whether they have internal controls and systems which contribute in achievement of economy, efficiency and effectiveness in their performance.



## What does the Supreme Audit Office do?

The Supreme Audit Office (SAO) conducts audit in all budgetary and non-budgetary public sector entities.

- ☞ Organizations related to the President Office, Secretariat of the National Assembly, General Directorate of Judicature, Attorney General Office.
- ☞ Ministries, departments, independent agencies, commissions, directorates and their subordinate offices in the center and the provinces including all revenue agencies and missions abroad.
- ☞ Municipalities and State Owned Enterprises / Corporations.
- ☞ Entities holding or utilizing public funds or properties.
- ☞ Projects, programs, systems.

### In performance audit, the audit checks -

☞ How the audited entity / project succeeded in minimising the cost of resources and input without compromising the appropriate quality of the inputs. Audit checks whether the resources used were available in due time, of appropriate quantity and quality, and at the best price. Quality of the inputs is important for efficiency also.

☞ Whether the resources used have been put to satisfactory use, or whether the same or similar results in terms of quantity, quality and turn-around time could have been achieved with fewer resources. In other words, are we getting the most from the inputs with quality?

☞ Whether the outputs that have been achieved meet the stated targets, objectives and goals. In other words, what is the result and how effective it is in meeting the objectives of programme, project, and operations.

☞ Either of the three or all of the three principles of economy, efficiency and effectiveness.

☞ The internal control and systems and their effectiveness in achieving economy, efficiency and effectiveness.

☞ The economy, efficiency and effectiveness by reviewing a subject area, for example, Human Resource system, Procurement and contract management system, performance of a project or a programme, Implementation of a policy or regulatory framework, a service delivery system, etc.



## What does the Auditor General do with the results of the Performance Audit?



### Results of Audit

- Results of performance audit is shared with the management / agencies / projects for their views and response before the Performance Audit Report is finalised.



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### Performance Audit Report

- Performance Audit Report on each subject is separately presented to the President and the National Assembly.
- The National Assembly should discuss / scrutinise the audit reports and take actions on the audit findings & recommendations and ask the agencies / management / projects to implement them.

## Why are Performance Audit & Performance Audit Reports Important?



The SAO Audit Law requires the Auditor General to conduct performance audit and submit Audit Report to the President & the National Assembly.

The objective of the audit set out in the Audit Law is to obtain independent, objective and reliable assurance on performance of systems, programmes, projects and activities of government entities.

The audit through recommendations aims at contributing to improvement of economy, efficiency and effectiveness as well as transparency and accountability and good governance and increase in public trust in the entity/ project/programme/activity.

The National Assembly, as the peoples' representative & the people at large, and other stakeholders should know from an independent public auditor about the performance of entity / project / programme and whether public policy and service delivery objectives and goals were achieved or not.

## *Is SAO's performance audit process participatory?*

In line with the open government initiative and participatory audit process to bring transparency and accountability in public sector service delivery, the SAO has set up a civil society engagement process for public partnership in performance audit process.

The SAO enlist representatives of Civil Society Organisations (CSOs) and media in performance audit planning and execution as joint audit process.

It also includes awareness and sensitisation programmes for the CSO/media representatives.



## *How can the performance audit process and results of audit be effective and beneficial for the agencies?*

Through participatory performance audit process, the SAO aims at increasing the value and effectiveness of the performance audit by giving due consideration to subjects and issues of public importance.

The effectiveness and benefit of the results of the Auditor General's performance audit depends upon how audited entities follow up and take actions on the findings and the recommendations of audit.

The Public Accounts Committee and the National Assembly can discuss, examine and scrutinise the Auditor General's Reports and make recommendations for making the agencies, projects, programmes and operations efficient and effective in their performance and accountable and transparent in their operations and bringing good governance in the country that serve the people.

# Performance Audit Report

## Performance Audit of Procurement System in the Ministry of Commerce & Industry

### *Why did & what did we cover in our audit?*

The performance audit of the procurement system in the Ministry of Commerce and Industry was conducted by the Supreme Audit Office during 1397.

The subject was selected for performance audit as per its relevance and sensitivity given both the amounts spent on procurement for the years under coverage and its possible impact on service delivery, capacity building and infrastructure creation by the Ministry.

The Audit covered -

- ✓ The activities and processes of the Procurement Department under the Directorate of Admin and Finance of the Ministry for the period 1393-96.
- ✓ Department's procurement planning, bidding process, contracting and contract management according to the terms and conditions of the contract / agreement.
- ✓ Department's procurement, contracting and contract management relating to the three areas of goods, consulting services and construction of buildings.
- ✓ 29 contracts with a total value of Afs 119,411,821 or (97) percent of the total contracts value was covered in audit.
- ✓ *What provided the sources of criteria for our audit for performance?*
- ✓ Statutory basis such as the Afghanistan Procurement Law and related Regulations, PFEM Law, Tax Law and related regulations, Civil Service Law and related regulations.
- ✓ Budgetary authorities and donors' financing terms and conditions.
- ✓ Terms and Conditions of respective contracts / agreements.
- ✓ Ministry guidelines and best practices procurement processes.
- ✓ Best practices internal control system.

## What did we look?



- ✓ Review of the gaps, shortcomings and problems in the procurement system, planning and procurement processes that inhibit economic, efficient and effective procurement process.
- ✓ Review of the existence or absence of an effective internal control system that facilitates or restricts economic, efficient and effective procurement processes and mechanisms and transparency in procurement processes.
- ✓ Review of the technical capacity of procurement staff in planning, conducting procurement processes, arranging appropriate and correct procurement documents and monitoring the implementation of procurement contracts including effective procurement process.
- ✓ Review of the practices to achieve economic, efficient and effective use of financial resources in procurement.
- ✓ Areas where suitable recommendations could be made to overcome the gaps and shortcoming to improve the procurement system to achieve economy, efficiency and effectiveness as well as transparency in the Ministry and the good governance in the public sector as a whole.

The Performance Audit Report with the findings and recommendations were presented to the President and the National Assembly on 2/6 1399 (23/Aug/ 2020).



## What we found in our audit?

### Performance Audit of Procurement System in the Ministry of Commerce & Industry

#### A snapshot of our findings in the Performance Audit.

<b>Lack of segregation of duties</b>	Lack of effective segregation of duties amongst the departments dealing with procurement of goods, consulting services and construction of buildings. This was inefficient procurement management, as full utilisation of human resources was not achieved.
<b>Weak procurement related monitoring &amp; evaluation</b>	Weak monitoring and evaluation and lack of contribution in effective and timely execution of procurement process and contract management.
<b>Weak capacity of the procurement staff</b>	Weak technical and professional capacity of the procurement staff in planning and implementation of the procurement plan, timely contracts and contract management.
<b>Weak procurement planning</b>	Procurement plans for 1393-96 not prepared properly, development projects not implemented as per the strategic plan and guidelines for taking forward procurement not prepared. As such, procurement process was not effective in achieving development goals.
<b>Procurement of stationary without assessment of requirement</b>	Procurement of stationary done without stock taking of the already available items. Hence, it resulted in procurement of stationary which were already available.
<b>Weak asset management</b>	Goods, tools, equipment and assets of the Ministry of Trade and Industry are stored improperly, which has the risk of damage and destruction prematurely. The Ministry of Trade and Industry has not maintained Asset Register which has the risk of no monitoring and tracking of the assets for their usage, spoilage, timely repair and retirement.
<b>Uneconomic and inefficient resources utilization and lack of capacity</b>	Capacity building project unit spent Afs 62,640,340 during 1393-1395 and paid high remuneration though the staff hired for the project lacked technical and professional capacity and has no higher educational qualification, payment from the project was also made to persons outside the project. This resulted in uneconomic and inefficient resources utilisation and adversely affected project target.
<b>Inadequacy and deviations in the procurement process</b>	One committee dealt with bidding, evaluation and procurement and that too for several procurements and goods were accepted without verification. This is against the procurement law and not conducive to

<p><b>without economy considerations</b></p>	<p>transparent procurement process. It involved procurements equal to Afs 2,237,245.</p> <p>In another case, a bid for purchase of fuel was rejected by the goods procurement department without any justification and fuel was purchased in retail from the same bidder at a higher price resulting in loss of Afs 117,800.</p> <p>In Nangarhar construction and logistic department, procurement process was not followed and a bid with discount was not considered and no justification was given and the contract was awarded with a higher cost of Afs 287,760.</p> <p>In purchase of 36 hard disks with cost of Afs of 178,992 by the IT Dept, procurement was done without technical specification and in non-compliance with procurement process.</p> <p>In procurement of 75 concrete columns on single source selection basis Afs 150,000 was paid in extra than the price.</p> <p>For exhibition hall electrical tower construction, Afs 28,869 has been paid in excess.</p>
<p><b>Economy principle not followed in procurement and events</b></p>	<p>Economy and austerity considerations were not kept in view in purchase of two Corolla vehicles and food for 303 persons in the National Conference for Support to Afghan Industry, 30 guests in the Afghanistan-Pakistan Trade and Transit Coordination meeting and 55 guests in the Afghanistan-Kazakhstan Inter-governmental Commission on economic and trade cooperation. Total cost involved was Afs 6,039,532</p>
<p><b>Training project contract to an unqualified consultancy service</b></p>	<p>Training contract for the employees of the companies on workplace safety was concluded with the Consulting Services Company (ABC) for an amount of Afs 2,922,874. This company has no experience in the field and such, it was not qualified for the training project.</p>
<p><b>Vehicle facility to ineligible staff</b></p>	<p>14 staff were provide with independent vehicles against the terms and conditions of their contract. This resulted in uneconomic use of resources of Afs 1,680,000</p>
<p><b>Cash payments for procurments</b></p>	<p>Afs 792,049 was paid to vendor in cash and that too without standard form applicable for payment for purchase of stationary and IT goods under Export Development and Promotion Project indicating weak verification and payment control.</p>
<p><b>Payments in cash and without contract</b></p>	<p>Payment of Afs 2,276,000 was made as rent for the house of the Minister of Trade and Industry without a contract and in cash against the provisions of procurement law and indicating non-transparency.</p>

## *Our conclusions*

- ✓ The procurement processes and activities in the Ministry of Commerce & Industry was not economic, efficient and effective in achieving the objectives and goals of the ministry and its programmes and projects.
- ✓ There was inadequacy in segregation of duties and monitoring and evaluation with risk of not achieving the principles of economy, efficiency and effectiveness in procurements.
- ✓ The internal control in the procurement activities and processes (procurement planning, pre-contracting activities, contracting and post contracting management) in the Ministry of Commerce & Industry is weak and has the risk of not achieving the principles of economy, efficiency and effectiveness.
- ✓ There is a risk of inadequate procurement need assessment and planning and selecting inappropriate procurement method or uneconomic price discovery resulting in uneconomic procurement.
- ✓ There is a risk of weak or inadequate pre-contracting procurement processes documentation, procurement and contract specification resulting in uneconomic, inefficient and ineffective procurements.
- ✓ There is a risk of non-transparent and unaccountable procurement bidding and evaluation process resulting in uneconomic price discovery, favouritism and loss to public money.
- ✓ There is non-transparent contract payments including large amounts as cash payments, which is also against the payments regulations.
- ✓ The procurement department lacked adequate capacity and skills and has the risk of mismanaging the procurement process resulting in uneconomic, inefficient and ineffective procurements.
- ✓ Contract management is weak and has a risk of inadequate construction project management with weak project specifications and achieving the objectives.
- ✓ In certain cases, statutory taxes due and deductible from the contractors / vendors were not deducted and has the risk of the same non-compliance resulting in loss to public money.
- ✓ Overall, we did not obtain any reasonable assurance on the economy, efficiency and effectiveness of the procurement activities, processes and results of the Ministry of Commerce and Industry for its procurement activities during 1393-95.

## Our recommendations

<p><i>Hire and retain skilled, capable and professional staff for the procurement department for economic, efficient and effective procurement management.</i></p> <ul style="list-style-type: none"> <li>✓ Hire personnel at least with bachelors' degree preferably with specialisation in finance and procurement for good practices and complaint procurement process.</li> <li>✓ Prepare annual plan, undertake training and capacity development of the procurement staff regularly.</li> <li>✓ Capacity building project unit to recruit and deploy only professionally competent staff and they should be selected on open competitive basis as specialists.</li> </ul>	<p><i>Strengthen internal controls and monitoring &amp; evaluation for economic, efficient and effective procurement process</i></p> <ul style="list-style-type: none"> <li>✓ Assess the existence and effectiveness of internal controls relevant to procurement process including segregation of duties and take remedial actions to ensure economic, efficient and effective procurement process, contracting and contract management.</li> <li>✓ Monitoring and evaluation department to assess procurement process periodically and timely and advise corrective and remediation actions including compliance with strategic goals.</li> </ul>
<p><i>Ensure appropriate and adequate procurement planning</i></p> <ul style="list-style-type: none"> <li>✓ Assess procurement needs taking into account available inventory in stock and requirement information received from respective departments.</li> <li>✓ Link the procurement planning with the requirements of the strategic plan goals and objectives and projects targets.</li> </ul>	<p><i>Reconsider ineligible facilities of vehicle and fuel usage to contract staff and payment in cash</i></p> <ul style="list-style-type: none"> <li>✓ Reconsider ineligible facilities of vehicle and fuel inputs for contracted staff and assess economic and efficient means for the ministry.</li> <li>✓ Reconsider large and frequent payments in cash and without standard and formal forms and documents.</li> </ul>
<p><i>Strengthen procurement process of Private Sector Directorate</i></p> <ul style="list-style-type: none"> <li>✓ The private sector directorate may consider invariable reflecting in each contract the date of contract, date of commencement and date of completion.</li> <li>✓ Provide all relevant documents for evaluation and control.</li> </ul>	<p><i>Strengthen procurement process for accountable and transparent bidding, evaluation and contracting.</i></p> <ul style="list-style-type: none"> <li>✓ Project management may consider separate committees for bidding, evaluation and procurement and inspection.</li> <li>✓ The committee members should have background knowledge and experience in procurement and finance.</li> </ul>
<p><i>Enforce controls for deduction of statutory taxes from payments and recover any extra payments</i></p> <ul style="list-style-type: none"> <li>✓ Statutory taxes due and deductible from the contractors / vendors may be deducted without fail.</li> <li>✓ Recover any extra payments made to a contractor / vendor.</li> </ul>	<p>...</p>

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# Our value addition

## Qualitative

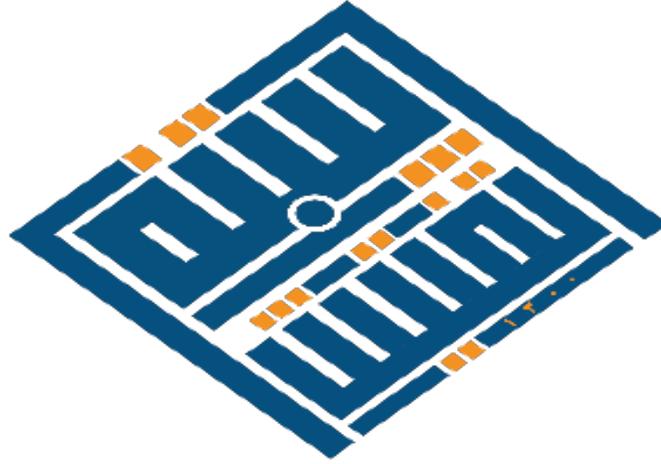


- Reporting independently, objectively and reliably on the performance of agencies and providing assurance on their activities, operations, projects, programmes, administration and service delivery in terms of economy, efficiency and effectiveness.
- Insights into control weakness and recommendations for systemic improvements in administration, programmes and projects and operations, in this case procurement process.
- Contributing to improvements in public sector agency's administration, system, service delivery and management by identifying gaps and recommending better practices.
- Presenting compliance Audit Reports for legislative scrutiny and follow up by Government and making the Audit Report and Citizens' Audit Report publicly available for all stakeholders.

## Monetary or Quantitative



- Recovery of excess payments, loss of public money due to faulty procurement process or inadequate price discovery.
- Deduction of statutory taxes to ensure contribution to public money.
- Saving of public money by following economy, efficiency and effectiveness principles in administration, operations, programmes and projects and service delivery.



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