

Office of the Auditor General, Nepal  
Public audit reform and capacity building

# Government Auditing Standards

Part 3: Segment Audit  
Guidelines  
Procurement audit

October 2005

---

# Contents

---

## Preface

---

## Abbreviations

---

## Chapter 1

### Introduction

1.1	Intoduction	1
1.2	Meaning	1
1.3	Type of Contracts	2
1.4	Foreign aided project	2
1.5	Procurement under foreign aided project	2

---

## Chapter 2

### Purpose of Procurement Audit Guide

2.1	Purpose of the Guide	4
-----	----------------------	---

---

## Chapter 3

### Audit objectives

3.1	Audit objectives	5
-----	------------------	---

---

## Chapter 4

### Audit approach and methodology

4.1	Audit approach	6
4.2	Risk management and contracts	6
4.3	System appraisal	6
4.4	Checking of accounting records	7
4.5	Examination of files and documents	7
4.6	Field observation and inspection	7
4.7	Compliance with financial laws	8

---

## Chapter 5

### General procedures

5.1	General procedures applied	9
5.2	Identification of needs	9
5.3	Selecting procurement method	9
5.4	Procurement process	11
5.5	Procurement of contractor for public works	13
5.6	Bidding documents	14
5.7	Bid opening, evaluation and award of contract	14
5.8	Contract agreement	18
5.9	Execution and supervision	22

---

---

<b>Chapter 6</b>			
<b>Accounting for procurement and public works</b>	6.1	Introduction	24
	6.2	Type of AG forms to be maintained	24
	6.3	Accounting and inventory procedures	25
<hr/>			
<b>Chapter 7</b>			
<b>Consultancy services</b>	7.1	Meaning	26
	7.2	Procurement process	26
	7.3	Common procedures	27
<hr/>			
<b>Chapter 8</b>			
<b>Risk areas and control measures</b>	8.1	Risks and control techniques	28
<hr/>			
<b>Chapter 9</b>			
<b>Matters for audit consideration</b>	9.1	General	29
	9.2	Public Works	34
	9.3	Consultancy	37
	9.4	Goods	39
<hr/>			
<b>Appendix</b>	Appendix 1	Risk and Control Techniques	43
<hr/>			
<b>Glossary</b>			

---

---

---

## **Preface**

Procurement of goods and services is an important part of expenditure auditing and a major function of government entities. Normally material management starts from need identification, specification preparing, identifying the supplier, tendering, receipt, accounting, storage, issues and disposal of scrap and surplus. These exercises are carried out so as to optimize the use of resources. It attempts to get the right goods and services at right place, at right price, right time, with right quality and right quantity. In this whole exercise the responsible authorities or Program managers may have major influence on selection and evaluation of proposals of consultants, contractors and suppliers.

The Office of the Auditor General should pay strict attention to how this process is carried out. This audit guide will enable OAG's auditors to assess the quality management of the procurement process.

The existing procurement Audit guide of OAGN became outdated as several important pieces of legislation have been developed and passed into law after having been prepared by the Ministry of Finance and also there were several amendments in the Finance Proceedings Act, Finance Administration Rules, and Public Works Directives etc. Accordingly, It is necessary to have one updated Procurement Audit Guideline for OAGN.

This Procurement Audit Guide sets out good practices to facilitate auditing of procurement made by entity under HMG's procurement policies and procedures including Financial Procedure Act, Financial Administration Rules, Public Works Directives, Development Partners Guidelines etc. Its primary purpose is to provide guidance while auditing Procurement made by entities. This guide will also be a useful tool to audit procurement made under projects.

The Guide should be seen as a guide only, as it does not cover all systems, or prescribe specific solutions for particular problems. This guide should read in conjunction with operational guideline part II covering the general aspect of the audit including Audit Strategy and Planning Memorandum, Obtaining effective audit evidence, Review and interpretation of audit findings, Reports and presentation, Debriefing.

---

---

## Abbreviations

Except where the context otherwise requires, the following abbreviations are applied throughout this Guideline:

ADB	Asian Development Bank
BOQ	Bill of Quantity
CBS	Cost Based System (for Consultant Selection)
DDC	District Development Committee
DFID	Department of International Development (UK)
DG	Director General
DOLIDAR	Department of Local Infrastructure Development and Agricultural Roads
DOR	Department of Roads
DTCO	District Treasury Controller Office
DWSS	Department of Water Supply and Sanitation
EA	Executing Agency
EIA	Environmental Impact Assessment
FAR	Financial Administration Regulation
FCGO	Financial Controller General's Office
FIDIC	International Federation of Consulting Engineers
GRN	Goods Received Note
GTZ	German Technical Cooperation
HMG/N	His Majesty's Government of Nepal
IA	Implementing Agency
IBRD	Internal Bank for Reconstruction and Development
ICB	International Competitive Bidding
INGO	International Non-Governmental Organisation
INCOTERMS	Commercial Terms and Conditions
IRD	Inland Revenue Department
LDO	Local Development Officer
LIB	Limited International Bidding
MB	Measurement Book
MOF	Ministry of Finance
NCB	National Competitive Bidding
NGO	Non-Governmental Organisation

---

---

---

---

NPC	National Planning Commission
OAG/N	Office of Auditor General of Nepal
PIP	Project Implementation Plan
PAC	Public Accounts Committee
PM	Project Manager
PWD	Public Works Directives
QCBS	Quality and Cost Based System (for consultant selection)
RFP	Requests for Proposal
SBD	Standard Bidding Document
TA	Technical Assistance
TPIN	Tax Payers' Identification Number
TOR	Terms of Reference
UNDP	United Nation Development Programme
VDC	Village Development Committee
WB	World Bank

---

## Introduction

---

### 1.1 Introduction

**1.1.1** His Majesty's Government of Nepal (HMG/N) is spending a major part of development budget in capital expenditures to fulfill the expectation of the people every year and mobilizing internal and external resources to meet the expenditure. Considering the resources constraints government entities, which are involved in development activities needs to be careful in prudent use of scarce resources. The efficient and economic procurement of goods and services contributes to the effectiveness and efficiency of the government's regular programs, as well as its development projects.

The procurement process is vitally important to development projects, where increasingly large amounts of money are spent each year, engaging contractors, hiring consultants and employing local workers. Timely completion of development projects would ensure economic and qualitative Public Service. Delay in procurement would automatically cause delayed completion, resulting in cost overrun and burden both to people and government with increased cost of goods and services for the project.

The procurement process has a distinct place in the management of development projects. So, procurement system should be made effective with the implementation of projects. Increasing competition in the international market, extensive nature of the procurement process and involvement of various Development Partners has made the procurement process a complex phenomenon. As the investment of government in development projects is increasing, the procedures and practice of procurement also need constant improvement.

Audit is a tool, which attempts to add value in proper use of resources by identifying the inadequacies in procurement of goods and services and suggest remedial action for immediate action and future correction. Therefore, focus of the audit exercise is to ensure that accountability exists at each and every stage of procurement and implementation of public works and projects. This guide gives careful consideration of both HMG/N's and the donors' procedural requirements.

This guideline should be read in conjunction with the project audit guide and the general audit guide.

---

### 1.2 Meaning

**1.2.1** Procurement Management means the process of ensuring smooth supplies of goods and services needed by the agency. It includes procurement of public works, consultancy services, and goods. The objective of the procurement process is to obtain the right goods and services of the right quality, in the right quantity, from the right sources, at the right time and at the right price.

---

---

### 1.3 Type of Contracts

**1.3.1** Based on the nature of procurement, the contracts can be divided into three categories as stated below:

- **Goods contracts** - Agreement made for purchase of commodities, equipments, stationery, supplies (raw material, food or rations etc.).
- **Construction contract** - Agreement entered into for construction (new), demolition, repairs & maintenance or renovation of structure or works etc.
- **Consultancy service contract** - Agreement signed for preparation of design and detail engineering, supervision of construction work, consultancy for advisory services or activities having intellectual nature.
- **Supply and installation contract** – Agreement signed for supply and installation of plant and Equipment.
- **Management contract** – Agreement entered into for management works.

---

### 1.4 Foreign aided project

**1.4.1** HMG is also mobilizing external funds from international funding agencies and other countries for capital and social sector projects. The modality of project funding includes grant/loan funded and turnkey projects. Resources mobilized through loan for public works and projects are channeled through normal budgetary process. However, in turnkey project isolated cases are reflected in the budget. There may be cases where grant is received in terms of cash or in kind or in terms of Technical Assistance. Most of the project agreements are signed with development partners accepting the conditions laid by them and those are subject to be complied by the implementing agencies.

---

### 1.5 Procurement under foreign aided project

**1.5.1** HMG is undertaking different projects and programs in social and infrastructure development activities under the assistance of various development partners. The main development partners are International Bank for Reconstruction and Development (IBRD or world Bank) and Asian Development Bank (ADB) which are funding as loan/grant for development activities. In Development Partners' funded projects their procurement guidelines and other conditions as laid down in the agreement are to be complied with.

---

## Chapter 1 Introduction

---

**1.5.2** The procurement guidelines issued by the respective development partners will prevail for the procurement to be made under the project. Accordingly, the auditors are required to be familiar with those guidelines issued by the respective development partners under the project being audited. Given below is the list of common provisions:

1. Eligibility.	9. Rejection of all bids.	17. Transportation & Insurance.
2. Pre-qualification of Bidders.	10. Negotiation.	18. Liquidated damages.
3. Validity of bids & bid security.	11. Award of contract.	19. Force majeure.
4. Currency of bid.	12. Scope of contract.	20. Settlement of disputes.
5. Time interval between invitation and submission of bids.	13. Terms of payments.	21. Foreign exchange fluctuation.
6. Extension of validity of bids.	14. Advances.	22. Currency Conversion.
7. Clarification and alteration of bids.	15. Price adjustments.	
8. Bid opening and evaluation.	16. Duties & Taxes.	

---

## Purpose of Procurement Audit Guide

---

### **2.1 Purpose of the Guide**

**2.1.1** Audit of procurement is a regular process which is normally carried out after the completion of the fiscal year. As the process of procurement has to be conducted as per specified rules and regulations, its examination and evaluation of use of resources is a critical task. To enhance the reliability of audit of procurement OAG had developed Procurement Audit Guide with the Technical Assistance of the World Bank in 1995. With the passage of time and major amendment in Financial Procedure Act, Financial Administrative Rules and Public Works Directive, it became necessary to update the existing Procurement Audit Guide. The main purpose of this Guide is to:

- Make a basis for the audit of procurement of goods and services including public works.
  - Assist auditor in conducting audit and evaluating the procurement process and public works in a effective manner.
  - Assess that procurement was completed within stipulated cost, time and achievement of intended target.
-

## Audit objectives

---

### 3.1 Audit objectives

**3.1.1** The main audit objective is to ensure that the procurement of goods and services including public works have been done efficiently, economically, and effectively within the provision of the relevant guidelines such as Contract Agreement, Financial Procedure Act, Financial Administration Rules, Public Works Directives, and other relevant guidelines. In addition, the audit objective is to express an opinion whether the financial statements gives a true and fair view.

---

## Audit approach and methodology

---

### 4.1 Audit approach

**4.1.1** Normally audit of procurement of goods and services includes examination of requirement, selection of suppliers, placement of order, storage, and consumption. In case of public works and projects, audit attempts to check compliance of Finance Proceedings Act, Financial Administration Rules (“FAR”), Public Works Directives (“PWD”) and adherence to the condition of the contract agreement.

**4.1.2** Compliance aspect of procurement of goods and services along with public work could be examined through audit of accounts or related document including review of decision files of the entity. However, detail appraisal of procurement process and implementation part of goods and services and public works project performance audit approach is suitable for comprehensive analysis. Such audit exercise is directed towards examination of systems, procedures in place and planning, implementation operational performances of procurement of goods and services and public works. Audit methodology suggested below may be appropriate for comprehensive appraisal of procurement and implementation so as to arrive in fair audit conclusions.

**4.1.3** AG form as mentioned in Para 6.1 as subsidiary records of the General Accounting not only help to examine the true and fairness of financial statements but may be useful in appraising the performance of contractor, supplies, consultants at every stage of implementation of contract agreement. Accordingly, auditor should consider incorporating the above form in the audit program.

---

### 4.2 Risk management and contracts

**4.2.1** The risk associated with the award of contract can be assessed through the examination of timing and nature of contract. Awarding of the right contract at the right time to the right person at right cost may be considered appropriate.

---

### 4.3 System Appraisal

**4.3.1** Each and every government entities should have system for strategic planning, financial management, human resource management, performance management, and governance structure. Depending upon the mandate, roles and responsibilities it may have many systems such as work schedule, project management, procurement plan. Such arrangement help entities to provide services to stakeholders get information for decision making in efficient and effective manner.

**4.3.2** Considering the above facts audit exercise should also be directed towards the examination of system, procedure and implementation so as to bring awareness among government entities through recommending suggestions in existing system and procedures. To maximize the audit services instead of examining the volume of financial transactions audit should focus on system appraisal of government entities.

---

Chapter 4  
Audit Approach and Methodology

---

**4.4 Checking of accounting records**

**4.4.1** Primarily public work accounting fulfills the need to monitor expenditure against estimates and prevention of misappropriation of resources. Apart from general accounting procedures, accounting forms prescribed by Auditor General needs to be examined to ensure the true and fairness of the financial statements and compliance with accounting practice adopted by the government entity. Normally auditors should attempt to ensure that:

- Prescribed AG forms are duly maintained and figures are properly recorded.
- The invoices issued by the supplier or contractor are in agreement with the format approved by the AG.

---

**4.5 Examination of files and documents**

**4.5.1** Every government entities are required to maintain individual file of procurement proceeding and decision taken in connection with the procurement. Such file needs to be well documented and properly organized. Study of such file help understanding the procurement process and movement of the file from one functionary to another and ultimately at the decision making level. Such review is useful to understand:

- Procurement proceedings.
- Opinion given at different level of authorities.
- Time taken in whole proceeding.
- Review of decision file helps auditors in identifying the risk areas, audit planning and drawing audit conclusions.

Decisions taken in course of procurement process may include identification, selection of contractor, supplier and consultants, award of contract, issue of variation order, extension of contract period, payment conditions, and contractual and extra -contractual claims etc need to be carefully probed by the auditors.

Auditors are required to keep the copies of the documents examined for supporting the audit findings as evidence. Documentary audit helps in examining compliance and system aspects of the entity and evidences are collected to support the audit findings.

---

**4.6 Field observation and inspection**

**4.6.1** Auditors also need to prepare the audit plan by including field observations and inspections of the entities office or project site etc. Field inspection helps to understand the actual situation at the field level and useful to modify and validate the audit findings. It is worth to note that field observation should not be confined in visual inspection only it should include activities such as interviews with concerned officials, (irrespective of designation) stake holders, suppliers or contractors, and carry out physical verification, taking photograph, checking of site registers as records etc. and other appropriate techniques of audit as demanded by the situation.

Chapter 4  
Audit Approach and Methodology

---

**4.7 Compliance with  
financial laws**

**4.7.1** In the legal perspective the term of compliance means the state of conformity with the various laws and regulations. Basically the compliance of financial or procurement laws is the responsibility of the procuring entity. Each action should be carried out in accordance with system, procedures and norms adopted by the entity within the provision of the related laws and regulations such as Financial Procedure Act, Financial Administration Rules, Public Works Directives, and any other relevant rules and regulations.

---

## General procedures

---

### 5.1 General procedures applied

**5.1.1** The followings are the general procedure applied in the procurement of goods, public works, and services:

- Identification of Needs.
- Selecting Procurement Method.
- Tendering Process.
- Prequalification.
- Bid opening, Evaluation, and award of Contract.
- Contract Agreement.
- Execution and Supervision.

---

### 5.2 Identification of needs

**5.2.1** Authorised personnel must approve the procurement of goods and services only after ensuring that reliable estimates have been made for the procurement of goods or services, their quality, quantity, the timing and at the cost.

**5.2.2** In case of procurement of public works estimates should be prepared only after visiting the project site and carrying appropriate field tests. Also, the authorised personnel should have approved the estimates. Moreover, the following procedures should have been applied:

- Project Identification.
- Feasibility Studies.
- Environment Assessment.
- Social Assessment.
- Project Appraisal and Budget Approval.
- Project Implementation Plan.
- Engineering Design and cost estimates.
- Pre-construction Activities.

**5.2.3** A bid package should be prepared before publishing Tender document in accordance with PWD/FAR/Development partners' procurement guidelines.

---

### 5.3 Selecting procurement method

**5.3.1** The selection of qualified and reliable contractors, consultants and suppliers must be done in accordance with the relevant Acts, Rules and Regulations of His Majesty's Government as well as with the provisions of the terms of the agreement entered into with concerned donors. Reference should be made to Public Works Directives and Service Contract Directives for the procurement of public works and services.

---

## Chapter 5 General Procedures

---

**5.3.2** Under the prevailing procedure, goods and services may be procured as follows:

- Directly from market – within the value prescribed under FAR;
- Through Sealed Quotations – within the value prescribed under Finance Administrative Rules; and
- Through Tender or Negotiation – for the value prescribed under FAR.

**5.3.3 HMG/N Requirements (Financial Administrative Rules) –** The financial administration rules provide for situations under which no quotations or tenders are necessary. These rules apply when HMG/N is funding the projects alone or on cost sharing basis. An appropriate authority must approve this procurement method.

**5.3.4 Directives to be followed –** Public Works Directives should be followed while performing audit of procurement of Public works, consultancy services, and supply of goods. Significant matters to be considered are as follows:

- After identify the project or work, their Drawings, Design, Specification, Norms, Rate analysis, and Standard condition of contract, who will prepare and perform technical examination and who will approve the same. Also matters like field visits and other study relating to it.
- Project completion period and taking responsibility and liquidated damages in case of default, obtaining insurance coverage, Bank Guarantee etc.
- Responsibility of contractor for maintenance period of the completed contract.
- Method and approval of preparing cost estimate and maximum limit for the works to be completed under variation order.
- Method of approval for financial and technical proposal along with fixation of criteria of Technical bid evaluation and preparation of comparative chart or financial proposal for their weightage and evaluation.
- Important matters to be mentioned in the contract agreement and procedure for submitting invoice.
- Method of works to be performed at high standard in line with the cost estimate and matters relating to who, when, how will perform technical examination.
- Final verification, warranty period and record keeping.

---

## Chapter 5 General Procedures

---

- Basis and method for pre-qualification and post-qualification.
- Sample of Bidding Document.
- Methods for identification of important items in the bidding documents.
- Procedure for monitoring of execution of directives.
- Liquidating damages.
- Provision for awarding of bonus for timely completion of contract.
- Other important matters.

**5.3.5 Cost Estimate should be prepared for Public Works** – While performing audit of the procurement of public works the auditor should ensure that appropriate cost estimate has been prepared in accordance with the public works directives and duly approved by the appropriate authorities. Any modification in the approved cost estimate should be dealt with as follows:

- A normal variation, without any modification in the original drawing, design, or specification, within specified limit can be approved by the Office In-charge and variation more than the specified limit should be approved by the Department along with the adequate justification.
- A variation including modification in the drawing, design, or specification within specified limit can be approved by the chief of the department. Any modification in the cost estimate more than the above limit should be approved by the committee formed to regulate these estimates.

**5.3.6 Pre-qualification** – Prequalification of supplier is required for the procurement of Heavy Equipment and Public Works for value exceeding specified limit before initializing the formal standard bidding procedures.

---

### 5.4 Procurement process

**5.4.1 Direct Procurement** - Goods and services up to specified limit can be procured directly from the market with the approval from the appropriate authority.

Further, an approved Purchase Order is required for procurement of goods above specified limit.

**5.4.2 Procurement through Sealed Quotations** – Procurement of goods including public works or services of value exceeding specified limit can only be done through procurement planning.

---

## Chapter 5 General Procedures

---

The following procedures are required to be fulfilled while procuring goods or services through sealed Quotation:

- Procurement of goods or services from the least quoted supplier selected among at least three quotations, in the specified format, obtained from the interested firms or companies duly registered with Income Tax and Value Added Tax authorities. However, In case of remote places the supplier can be selected from the list prepared by committee established for the purpose.
- The notice for sealed quotations must be published on the notice board of the selected Government Offices, as specified, along with national or local news paper as per requirement.
- A Bid Bond i.e Bank Guarantee should be submitted along with the Sealed Quotation by the supplier equivalent to specified amount with the validity period.
- A Performance Bond equivalent to specified amount should be obtained from the supplier awarded the contract.
- The Sealed Quotation should be opened immediately after expiry of the given time at the place with the presence of representatives of the supplier.
- The payment should only be made after deducting applicable taxes.
- Award of contract or job/work order.

### **5.4.3 Tendering Process**

- Bidding documents should be prepared in advance and approved by authorised persons. The size of procurement may determine the nature of bidding documents. A separate record needs to be maintained for the bidding documents sold and registered.
  - Bidding documents guides for the smooth operation of the contract. The bidding documents should clearly describe all the important matters, so that the bidder will submit his bid with a full understanding of the obligations of all parties to the contract. For construction contracts, a wide range of project management activities are involved in the construction stage. These include: initial notification, contract administration, construction supervision, quality control, progress monitoring, progress payments, coordination with project stakeholders, design modifications, variations, claims and dispute resolution, monitoring of environmental management actions and handing over of works to the Employer.
  - Development Partners' funded projects must receive their approval of the bidding documents before they are published in accordance with the terms of the agreement.
-

---

## 5.5 Procurement of contractor for public works

### 5.5.1 Use of Standard Bidding Documents for Procurement of Works

The following Standard Bidding Documents (SBD) have been prepared for use by HMG/N in the procurement of works:

- **Procurement of Works: Large Contracts** – For use in international competitive bidding (ICB) and international shopping/limited international bidding (LIB) for most building and engineering works in Nepal. Normally the Employer and the Donor Agency jointly decide which project works will be bid under ICB and which will be bid under national or local competitive bidding (NCB/LCB) depending upon the size and complexity of the works and the capacity of the domestic contracting industry. All ICB works will use the Large Works SBD. The language should be in English.

The Large Works SBD may also be used in NCB/LCB in exceptional circumstances where the value of the works is very high (e.g. greater than NRs. 500 million) and justifies the more elaborate conditions contained in the Large Works SBD.

- **Procurement of Works: Medium Contracts** – For use in NCB/LCB for building and engineering works greater than NRs. 10 million. The language is English.
- **Procurement of Works: Small Contracts** – For use in NCB/LCB for building and engineering works up to NRs. 30 million. The language is Nepali or English.

There is an overlap between the SBDs for Small and Medium Contracts in the range NRs. 10 to 30 million where the selection of document to be used will depend on the complexity of the works.

The above three SBDs are intended for building and engineering works designed by the Employer or his consultant in which the method of payment is re-measurement of quantities. These SBDs are not suitable for the procurement of electrical and/or mechanical plant under design-build and turnkey contractual arrangements. Other bidding documents such as the FIDIC\* Conditions of Contract for Plant and Design-Build Contracts or Conditions of Contract for Engineering, Procurement and Construction/Turnkey Projects should be used in these applications.

*\* Federation International des Ingenieurs-Conseils, International federation of Consulting Engineers.*

---

## **5.6 Bidding documents**

### **5.6.1 Bidding documents generally include the following:**

- Invitation for Bid.
- Instructions to Bidders.
- Form of bid.
- Form of contract.
- General and Specific Conditions of Contract.
- Design, Drawings and Specifications.
- List of goods or Bill of Quantities.
- Delivery time or schedule of completion.
- Sample form of Securities.
- Publication of Notice.
- Information to Agent.

**5.6.2** The basis for bid evaluation and selection of the lowest evaluated bid shall be clearly outlined in the instructions to bidders and/or the specifications.

---

## **5.7 Bid opening, evaluation, and award of contract**

### **5.7.1 Bid Opening**

- The bids should be opened in public at the specified place, date and time stated in the invitation for bid, or as extended. They should be opened in the presence of a designated officer and those bidders or their representatives who wish to attend.
- The name of the bidder and total amount of each bid, and of any alternative bids, if they have been requested or permitted, should be read aloud and recorded when opened and a copy of this record sent to the donor agencies if so requested. The record of the bid opening should be signed by all the bidders or their representatives who were present.
- The minutes should state the name of bidder and whether the tenders were sealed or not. If there is any over writing in amount, it should be initialed by all bidders who are present. If the total amount of the bid is to be changed, due to a letter addressing the bid, the letter should be presented and initialed by all those present, and should be clarified the affected items in the tender.

### 5.7.2 Bid Evaluation

The main purpose of bid evaluation is to determine the lowest evaluated substantially responsive bid among the bids submitted before the bid closing time on the date specified in the bidding documents. The lowest evaluated substantially responsive bid may or may not necessarily be the lowest priced bid. In order to determine accurately the lowest evaluated substantially responsive bid in accordance with the terms and conditions of the bidding documents, a logical systematic evaluation procedure designed to cover all aspects of the evaluation process should be followed.

▪ **Principles in Bid Evaluation:**

- **Confidentiality of procedures to be maintained:** After the public opening of bids, no information shall be communicated to any person until the announcement of the award of the contract to the successful Bidder has been made.
- **Clarifications and Alterations of Bids:** No Bidder will be permitted to alter its bid after the bids have been opened. Only clarifications, which do not change the substance or price of the bid, may be requested or accepted by the Executing Agency.
- **Rejection of Bids:** Bids which do not substantially meet the specifications or the bidding requirements may be rejected.
- **Extension of Bid Validity Period:** The validity of bids may only be extended in exceptional circumstances in accordance with the SBD.
- **Rejection of All Bids:** The rejection of all bids is justified when the bids submitted are not substantially responsive or where none of the bids received meets the specifications or where there is evidence of lack of competition.

▪ **Bidding procedures under competitive bidding** – The following international bidding procedures may be selected by the Executing Agency to suit the nature of the particular procurement:

- **Single Stage:** Bidders submit bids in one envelope containing both the financial proposal and the technical proposal.
- **Two Envelopes:** Bidders submit simultaneously two sealed envelopes, one containing the technical proposal and the other the financial proposal. No amendments to the Technical or Financial proposal are permitted. The financial proposals of the technically responsive Bidders are evaluated and the award of contract is made to the lowest evaluated substantially responsive Bidder.

---

Chapter 5  
General Procedures

---

- **Bid Evaluation procedures:**
  - **Collection of information:** Basic data, Record of Bid opening, Preliminary examination for completeness of Bids.
  - **Determination of Substantial Responsiveness of Bids:** The purpose of the exercise is to reject bids which are not substantially responsive to major commercial and technical requirements:
    - Step 1** Preparation of Table of Bidders and Bid Prices.
    - Step 2** Substantial Responsiveness to Commercial Terms and Conditions i.e. INCOTERMS.
    - Step 3** Substantial Responsiveness to Technical Requirements.
    - Step 4** Preparation of Table of Substantive Responsiveness of Bids.
  - **Detailed Evaluation of Bids:**
    - Step 1** Determination of Number of Bids for Detailed Evaluation - detailed evaluation should include all substantially responsive bids which have a reasonable chance of becoming the lowest evaluated bid.
    - Step 2** Detailed evaluation.
    - Step 3** Financial Adjustment of Bid Prices (Commercial Aspects) - Adjustment for quantifiable deviation from the Terms of Payment, Adjustment for Deviation from the Delivery Schedule or Completion, Adjustment for Deviation from Provisions for Payment of Duties and Taxes (in Civil Works Contract).
    - Step 4** Financial Adjustment of Bid Prices (Technical Aspects) - Adjustment for Completeness in Scope of Supply, Adjustment for Technical Compliance, Adjustment for Specified Technical Evaluation Factors, Adjustment for Spare Parts, Adjustment for Cost of inland Transportation to the Project Site, Maximum Amount of Adjustment for Deviations.
    - Step 5** Detailed Evaluation of Bids for a Civil Works Contract - Plans and Schedules, Analysis of Prices, Unbalanced Bids, Clarifications, Correspondence and Meetings.

---

## Chapter 5 General Procedures

---

- **Determination of the Lowest Evaluated Substantially Responsive Bid:** After going through the above procedures, the lowest evaluated substantially responsive bid shall be determined in accordance with the provisions of the bidding documents.
- Regarding Development Partners' funded projects, the bid evaluation report along with its recommendations should be sent to the concerned donor. The contractor should be informed about the award of contract only when no objection from concern Development Partner is obtained.

### 5.7.3 Award of Contract

Contract should be awarded to the bidder having lowest evaluated price and meets all the qualification criteria stipulated in the bidding documents. Moreover, the auditor should consider the following:

- With regards to development partners funded projects, the evaluation report along with its recommendations should, if required as per contract agreement, be sent to the concerned development partner for their consent before awarding contract.
  - The bank guarantee or security deposit or performance bond/guarantee should have been obtained in accordance with the provision mentioned in the standard bidding document and should be in accordance with the rate specified.
  - Domestic Preference Scheme in Bid Comparison:
    - HMGN and many Donor Agencies have a domestic preference scheme, which may be applied in the evaluation of bids under International Competitive Bidding. This scheme grants a margin of preference, subject to conditions, in favour of domestically manufactured goods and domestic Contractors.
    - For HMGN funded projects, the FAR provides a domestic preference of five or seven and one-half percent to Nepalese national Contractors and ten percent for national Suppliers.
    - Preference for Domestically Manufactured Goods, Domestic Preference for Turnkey Contracts and Supply-and-Installation Contracts, Preference for Domestic Contractors are available in accordance with the provision mentioned in the PWD.
-

## 5.8 Contract agreement

**5.8.1** The contract is the formal document signed by both the contractor and HMG/N. It may be through Letter of Acceptance given by the Contractor. It contains the information that contractor has agreed to complete specified work or supply certain goods and the responsibilities and liabilities of both parties are explained. Standard Bidding Document should be used for this purpose and for the contract specific provisions, duly approved by competent authority, should be included in the specified conditions. No changes shall be allowed in the conditions after the submissions of the bids for taking into account the acceptable deviations.

**5.8.2** Once the contract agreement is signed both parties should strictly abide by its conditions.

### **Essential Documents related to the Contract are:**

- Form of Agreement.
- Letter of Acceptance.
- Contractor's Bid.
- Performance Bond/Guarantee.
- General conditions of the contract.
- Specification.
- Price/ Bill of Quantity.
- Specific condition of contract.

**5.8.3** The following matters should be clearly described in the contract:

- **Terms and methods of Payment** – Payment procedures are important aspects of the contract. The minimum amount of Running Bill, the currency of payment, the applicable rates of exchange, the mechanism for price adjustment, provisions for advance payment, provision for retention money, etc., are explained in the contract.
- **The mode of payments** may be as follows:
  - Mobilization advance
  - Advance to supplier
  - Payment through Letter of Credit
  - Payment against running bill
- **Exchange Risk and currency of payment** – Under International Bidding there are provisions to protect contractors against foreign exchange risks with regard to the currency of bid and of payment. The number of currencies the bidders can use should have been specified in the bidding documents.

---

## Chapter 5 General Procedures

---

- The bidding documents should state that the bidder may express the bid price in his country's currency or, at his option, in a currency widely used in international trade. A bidder who expects to incur expenditures in more than one currency and wishes to be paid accordingly should state the respective portion of his bid price in each such currency.

The bidding documents should set the date on which currency calculations will be made for the purposes of converting bid currencies to the single currency selected by HMG/N. For construction contracts, the total bid amount is stated in Nepalese currency and the proportion to be paid in foreign currency is shown along with the exchange rate, determined as above.

According to the guidelines of the Development Partners, the construction contract should contain provisions for paying the following in foreign currencies:

- Remuneration of foreign labour.
- Imported construction material.
- Depreciation of plant and machinery.
- Head Quarters Overhead, etc.

- **Price Adjustment** – Bidding documents should state either that bid prices will be fixed or that price adjustments (upwards or downwards) will be made in the event of changes occurring in major cost components of the contract, such as labour, equipment, materials and fuel. Where price adjustments are to be allowed, the formula and procedures to be used should be in the bidding documents and later, in the conditions of contract the bid should be accompanied with the analysis of cost component and base price. Price adjustment provisions are usually not necessary for contracts lasting less than eighteen months. Generally, no adjustment would be made if the price changes are less than 10%. It should clearly specify the “Index” to calculate the price adjustment.

Contractors' claims for price adjustment payments should be accompanied by invoices from the supplier, along with evidence of how the materials or equipment were used on the projects.

No additional payment for price increases will be paid for material not mentioned in the conditions of contract, for material intended for work not completed as originally scheduled or within an approved time extension.

The formula for price adjustment prepared beforehand should be included in the bid documents.

- **Duty and tax** – Whether and how much taxes or duties will be levied on certain items or construction work and on the income of employee involved in the construction work should be stated.

#### 5.8.4 Other Important Matters

- **Advance payment** – Any advance payment for goods or works, for mobilization and similar expenses should be related to the estimated amount of these expenses and be specified in the bidding documents, along with the percentages of advance payments allowed and the procedures to be followed. Maximum ceiling of advances should also be mentioned in the bid document.
- **Retention money** – Generally, 5% from each billing will be deducted and held as retention money. The refund of the same to be made in accordance with the procedure specified in the Standard Bidding Documents.
- **Performance Security** – Performance security is obtained at or before signing of contract at the rate prescribed in the Standard Bidding Documents within the provision of the FAR, and the refund of the same will be made in accordance with the procedure specified in the Standard Bidding Documents.
- **Detailed work schedule** – The contractor should submit a detailed work schedule, while signing the agreement, against which progress can be monitored, to ensure timely completion of the work.
- **Time for completion** – Start and finish dates for the work should be specified. Large projects should be broken down into small projects, each with specific start and finish dates.
- **Insurance** – Bidding documents should state the types and terms of insurance to be provided by the bidder. For civil works, a contractor's all risk form of policy usually will be required. Bidding documents should permit contractors to place insurance with any eligible insurers.
- **Transportation** – The cost of the transportation should be dealt with in accordance with the procedure specified in the Standard Bidding Documents.
- **Construction plant (machinery and equipment)** – It should be explained how, and in what condition the construction plant will be made available to the contractor. Will it be imported directly by the contractor? Will the contractor pay the correct amount of duties? Who will own it when the project is complete?

---

## Chapter 5 General Procedures

---

- **Certification and payment** – It should be clearly explained how the contractor will claim for the construction work already completed or for material handed over. The procedures for inspection by the Engineer or Technician should also be clearly stated. The contract should state that the contractor will be paid the retention money already deducted from the bill as security deposit, provided the whole work is completed, that every type of inspection or test has been passed, the required documents have been submitted and a certificate that all amounts due to the government have been paid.
- **Extension of time for completion** – The contract should explain the conditions under which an extension of time for completion would be permitted.
- **Liquidated Damage** – The Contract provides the terms and condition of liquidated damages. The procedural aspect of the same should be dealt with as per provision specified in the Standard Bidding Documents.
- **Termination of contract** – The condition for termination of contract and forfeiture of the performance security etc should be dealt with in accordance with the provision of the agreement and Standard Bidding Documents duly approved by the Government.
- **Special risk** – The contract might state that the contractor will not be responsible for damage to completed works or damage to the assets of the project from special risks. The government must bear such loss. Such risks must be specified.
- **Alterations, additions and omissions** – The contract should specify if there can be alterations of work or variations in quantity and if so, to what extent. How additional work will be priced should also be stated.
- **Claims Procedure** – The contract should state the grounds on which the contractor is entitled to make certain claims. The procedures for making such claims should also be described.
- **Provisional sum** – This is essentially a contingency fund established in the Contract and managed by the project Engineer. On instructions from the Engineer, the fund may be used for any part of the works, or for the supply of goods, materials, plant or services or for contingencies. The procedures and proof to be submitted by the contractor while claiming such amount must be specified.

---

Chapter 5  
General Procedures

---

- **Repairs and defective work** – There should be a provision that the contractor will have to bear the cost of repairing any defective work if it has occurred during the warranty period in the case of machinery, or during the defects liability period described in the contract.
- **Quarry site** – There may be provision of quarry site at the contractor's place for which the auditors may require to review its controls and its impact on the financial statements.
- **Royalty** – There should be clearly stated that who should bear the royalty, if any, payable to HMG/ DDC.
- **Testing of construction material** – Auditors need to ensure that testing of construction material in terms of quality and physical existence have been done in accordance with the contract agreement.

---

## 5.9 Execution & supervision

**5.9.1** There should be appropriate provision for technical inspection to ensure that procured goods meet required standards and that construction work meets specifications.

**5.9.2** There should be close supervision by the technician from the very beginning of the work. The technician should inspect the work at the construction site on a regular basis to ensure that the performance of the work, the method of execution, the system of operation and quantity and quality control procedures are as per the approved plan.

**5.9.3** The payment of bills is on the recommendation of the technician who inspected the construction work and approved the completion of works, handing over, taking over, and issued completion certificate in accordance with the provision of the contract document before recommending payment of bills. Any necessary corrective action should be taken before payment.

The approval of the concerned officer should be obtained for any changes in the nature of construction work explaining its reason.

**5.9.4** Regarding the public works special consideration should be given to the following:

- **Post Construction Activities** – The project implementation process does not end with the completion of construction and taking over by the concerned line agency. There are a number of activities which must be performed before the project is considered completed:
  - Resolution of claims and any other outstanding contract matters to allow the final contract cost to be determined and construction contracts to be completed.

---

## Chapter 5 General Procedures

---

- Implementation of operating and maintenance procedures to ensure the sustainability of the intended project benefits.
- Post evaluation of the implementation and impacts of the project.

The post implementation activities such as planning and implementation of O & M, evaluation and monitoring of project performance, benefits and impacts are not mentioned by FAR but are considered as essential ingredients of project completion by donor agencies.

- **Reporting, Monitoring, and Evaluation Procedures**

Reporting is the process of collecting various data about project activities, interpreting and summarising these data into information, and presenting this information in a form which can be understood by the higher levels in HMG/N and the donor agencies who have responsibility for monitoring and evaluating the progress and impacts of the project. Reporting is a responsibility of (1) the implementing agencies who must report to the Project Manager, (2) the Project Manager who must report to the executing agency and (3) the executing agency who must report to other concerned HMG/N agencies and the donor.

Each project is required to report, on a regular basis, the progress of the work, the financial position of the project and the future funding and other logistical requirements of the project. Different types of report and report formats are required for the ministry/department, MOF, NPC and donor agencies. Different types of information are required at monthly, trimestral and annual intervals so that the necessary monitoring, consultation, decision-making by the executing agency and other concerned agencies can occur in time.

---

## Accounting for procurement and public works

### 6.1 Introduction

**6.1.1** All expenditure incurred in new construction and their repairs and maintenance is recorded in general accounting system. But this system does not provide the information required to monitor and control expenditure. Therefore, apart from the general accounting system, HMG has adopted public works accounting system by prescribing the AG forms to monitor and control the expenditure and reporting purpose. Such records are to be maintained by each and every entity.

### 6.2 Type of AG forms to be maintained

**6.2.1** The main AG forms which are to be maintained by the government entities and project are stated below as example:

AG Form	AG Form No.	Main Objective of the AG Form
<b>Job record ledger</b>	166	Maintained to show actual expenditure incurred on a particular job.
<b>Item wise works record</b>	167	Kept to show the actual works done and balance of works to be done as per the estimate.
<b>Contract Bill</b>	168	Contract bill shows the up to date work completed, progressive payment made, balance to be paid and various deduction to make.
<b>Contractors Personal Account</b>	169	It shows all transactions which have taken place for all contract entered into the contractor.
<b>Individual Deposit Account</b>	170	It gives the total deposit balance payable to depositor.
<b>Measurement Book (MB)</b>	171	MB is used to record the measurement of actual works performed through either a contract or direct execution.
<b>Measurement Book Control Register</b>	172	Issues, use and return of MBs, are monitored to prevent misuse as it is the basic documentation of works performed.
<b>Muster Roll Form</b>	173	Used when work is executed by any government office or entity.
<b>Outstanding Wages Book</b>	174	This book provides the details of wages to be paid. It is second part of the muster roll forms.
<b>Muster roll control Register</b>	175	It is maintained by the store Keeper to record the issue of printed muster roll forms.

---

Chapter 6  
Accounting for Procurement and Public Works

---

AG Form	AG Form No.	Main Objective of the AG Form
<b>Works completion Report</b>	176	It is maintained to show the quantity and cost variance. The difference between the approved estimated quantity and value and actual quantity and value of work performed. Also certifies that works have been carried out in accordance with the approved design and specification.
<b>Contract Record</b>	190	This record provides all information pertaining to the contract from the process of awarding contract to the actual expenditure incurred.

---

### **6.3 Accounting and inventory procedures**

**6.3.1** The project is required to maintain the project accounts in the form and format provided by the Financial Comptroller General's Office (FCGO) as approved by the OAG and published in the Nepal Gazette. The Project Manager, through the Project Accountant, must keep the accounts of project income and expenditures incurred from different sources such as HMG/N, donor agency loans and grants with appropriate accounting forms and ledger formats. The purposes of the project accounting system are as follows:

- Record the annual income and expenditure of the project systematically.
  - Control expenditure within budget limits.
  - Provide timely income and expenditure reporting.
  - Control inventories.
  - Provide information on the status of project's fund.
  - Provide base information and data for the preparation of the budget for the following year.
  - Facilitate internal and external audits.
-

## Consultancy services

---

### 7.1 Meaning

**7.1.1** The role of consultancy services is important to the economic and efficient operation of a development project from the selection stage through to its completion. The main objective of hiring consultancy is selecting right projects from financial and technical viewpoint, right planning, design, estimating and preparation of bid documents; selecting appropriate contractor and supervision of constructional works. The consultancy services are usually grouped into the following three categories:

- **Pre-investment studies** – Investigations which normally precede decisions to go forward with specific projects.
- **Preparation services** – The technical, economic, or other work required to fully define a project and prepare it for implementation.
- **Implementation services** – Construction supervision and project management, including inspection and expediting, certification of invoices submitted by contractors and suppliers, and technical service connected with the interpretation of contract documents.
- **Advisory services** – Any Service having technical and intellectual nature.

---

### 7.2 Procurement process

**7.2.1** Financial Administration Regulations (“FAR”) contains provisions for selecting and appointing consultants. Development Partners may also have guidelines on the use of consultants. In such cases their requirements override those of HMG/N.

**7.2.2** Subject to compliance of the provision mentioned in the Rule 58 the following procedures should be applied while procuring services of the same nature:

- **Directly through negotiation** – for the amount up to the limit prescribed under FAR.
- **Through Sealed Quotations** – within the value prescribed under FAR, and
- **Through Tender** – for amount prescribed under FAR.

Services may be awarded to the consultant where only single sealed quotation or tender has been received inspite of re-tender or re-sealed quotation asked for the second time with the proper justification and approval of appropriate authority.

**7.2.3** However, in cases where no consultants applied for the services, a contract may be awarded through negotiation with the proper justification and approval of appropriate authority.

---

Chapter 7  
Consultancy Services

---

**7.3 Common procedures**

**7.3.1** The common procedures to be followed for the procurement of services are listed below:

- Setting of Terms of reference.
- Preparation of Cost estimate (Budget).
- Short listing of consulting firms.
- Determination of selection procedures.
- Setting criteria for evaluation of RFPs.
- Sending letter of invitation.
- Evaluation of proposals.
- Negotiating a contract.
- Payment provision.
- Approval from Development Partners, if applicable.
- Obtain no objection letter from the concern Development Partners, if applicable.

**7.3.2** Matters to be considered while auditing the consultancy including above areas are given in section 9 i.e. Matters for Audit Consideration.

---

## Risk areas and control measures

---

### 8.1 Risks and control techniques

**8.1.1** The guide outlines the objectives of the different phases of the procurement process, points out the risks when these objectives are not met, describes the control techniques that should be in place to prevent these risks from occurring and prescribes the audit procedures to be followed.

- **Risk** implies the possible mistakes or mismanagement in procurement system which may not be ordinarily pointed out.
- **Control Techniques** imply means to control possible risks or ways to reduce the adverse effects of risk. Some possible risks and their control techniques are described in this booklet. These control techniques are developed on the basis of the Financial Administration Regulations, Donor Agency's guidelines and conventional practices of financial transactions.

**8.1.2** Possible weaknesses and deviations from the above mentioned working procedures (named as 'Risks' hereafter) and the control techniques to address them are presented in Appendix.

Appendix contains a number of audit checklists:

- Procurement of Goods.
  - Consultancy Services.
  - Pre-Qualification of Consultants.
-

## Matters for audit consideration

---

### 9.1 General

**9.1.1 Investment Decision** – Usually investment decisions are taken by HMG in accordance with the periodic plan such as five years plan. Investment decisions on procurement of goods or services or undertaking any public works projects should not be questioned by audit. But the administration and implementation part of such activities are covered under the audit. In course of audit the decision are scrutinized with the perspective of compliance with the financial rules and regulation for authorization and sanction by executive authorities.

**9.1.2 Procurement Plan** – While reviewing the procurement plan following needs to be considered:

- Packaging and realistic scheduling of contract;
- Procurement documentation (Bidding documents, contract etc);
- adequate capacity to implement and monitor the procurement plan (organisation, staffs, law etc);
- Nature of Packages should be:
  - based on value;
  - based on works;
  - based on working territory; and
  - base on the category of goods to be supplied

**9.1.3 Notification** – The auditor should ensure that all possible areas for equal participation has been considered while issuing notification particularly the following areas:

- Equal opportunity;
- Time for bid evaluation;
- General and special conditions of Contract;
- Clear Specification;
- Adequacy of the information;
- Disclosure of evaluation criteria; and
- Award of Contract to Lowest evaluated bidder.

---

## Chapter 9

### Matters for Audit Consideration

---

**9.1.4 Estimates** – Considering the provisions of the Financial Procedure Act and Rules thereon, the cost estimate of procurement activities such as goods, public works and consultant's services is to be prepared by the concerned entity and approved by the competent authorities. Usually such estimates are referred to as the owner's estimate and basis for tendering or procurement purposes. Audit of such estimate are aimed at ascertaining whether the procurement has been carried out at reasonable prices beneficial to the government. The key points of the audit of estimate may be:

- To examine whether preparation of estimate is in compliance with relevant laws.
- To check the authenticity and accuracy of the estimated cost.
- To verify that whether the procurement is in excess of estimates.
- To determine that cost of material and wages do not exceed standard or price effective during the period

The following points may be considered while auditing estimates:

- Large gap between date of estimate and time of its implementation which causes variation in cost estimate and actual cost.
- No practice of review of cost estimate by competent authorities (ministries and departments).
- Application of uniform wages rates in preparation of estimate without considering the rate of concerned districts.
- Duplication of overhead and profit margin in estimation.
- Inclusion of Engineer's facilities such as vehicles, computer Furniture etc in bill of quantities.

**9.1.5 Pre-qualification of Contractors/Suppliers** – The main points to be considered while reviewing proceeding of selection of contractors, suppliers and consultants are as follows:

- Publication of Pre-qualification notice before approving the evaluation criteria.
- Setting of criteria should not be suitable to limited parties.
- Inconsistency in marks given by the evaluator.
- Non-compliance of Government and development partners guidelines or directives issued for the purpose of Pre Qualification proceedings.

---

## Chapter 9

### Matters for Audit Consideration

---

**9.1.6 Selection of Contractors/Supplier** – The following points should be considered while reviewing selection procedure:

- Approval of bids which are exceptionally low quoted.
- Acceptance of bids even rate of certain items are exceptionally high or low.
- Rejection of lowest bid and award to second lowest bidder without adequate justification.
- Procurement of goods and services with limited competition.
- Overwriting and corrections in information mentioned in bids submitted.
- Disqualify the competent bidder by stating minor reasons or ground.
- Adverse impact on bid evaluation due to provision of payment in foreign currency causing additional liability.
- Awarding job to the contractor engaged in particular job without competition.
- Awarding job to the related party influencing the personal interest.
- Selection procedure is not within the parameter set by the Financial and Administration Rules and development partners guidelines.
- Submission of sample of goods to be supplied, if possible.

**9.1.7 Extension of Time** – The supply of goods, equipment and construction of public works should be completed within the time stipulated as per the agreement. This is also applicable in case of consultants. There may be instances where the supply delayed showing various reasons and extension is awarded to them. While reviewing extension of time the auditor should consider the following:

- Are the reasons for extension of time for completion of contract assignment reasonable and approved by competent authority?
- Is the period extended is adequately supported by evidence?
- Is extension granted is before the expiry of contract period?
- Is the penalty is chargeable for the extended period?
- Is the performance bond validity has been extended covering the extended period of contract and consequently insurance coverage, if any, been extended accordingly?
- Are the numbers of extensions considered?

---

## Chapter 9

### Matters for Audit Consideration

---

**9.1.8 Advances and Recovery** – The followings need to be considered while performing audit of advance and its recovery:

- Payment of advance even if no provision is made in the agreement.
- Payment of advance in excess of agreed percentage.
- Non-recovery of advances in foreign and local currency at the proportion of advance paid.
- Non-compliance of recovery provision as specified in the agreement.
- Advance paid without bank guarantee against such advances.
- Deduction of advance at completion stage of contract assignment.
- Non-settlement of advance even after the delivery of goods and use of material in construction work.
- Payment made without proof of material at site.
- Use of advances other than the specified purposes.

**9.1.9 Price Adjustment** – For the smooth completion of contract job, price escalation is provided to the contractors, which assures them to safeguard from sustaining any loss due to inflation. Particularly this clause is widely incorporated in ADB and World Bank financed project. But payment of price escalations has mostly become controversial and created disputes among employer, contractor, consultant and suppliers. Therefore auditors should also be careful in the audit of payment of price escalation. Main points which deserve attention of the auditor would be:

- Payment without adequate justification and support.
- Calculation of price escalation without considering source of price mentioned in the agreement.
- Calculation of price escalation without applying agreed price escalation formula.
- Payment made without considering amount of agreed discount.
- Payment of escalation in provisional sum (lump sum amount in BOQ).
- Price escalation awarded in newly developed item rates.
- Change in source of price index without seeking approval from employer.
- Use of different index instead of applying agreed source of index.

---

## Chapter 9

### Matters for Audit Consideration

---

- Determination of price escalation applying local source of index but payment may be made in foreign currency at fixed rate.
- Payment of price escalation for the work already completed but shown as works completed later.
- Use of Price index of consumable goods for construction material.
- Increase in amount of price escalation due to low performance in initial stage of the contract and large part of the contract carried out at completion stage.
- Change in the source of base price and current price.
- Price escalation paid even the works is completed by lapsing completion date.

**9.1.10 Work Schedule & Time Extension** – The auditor should consider the following:

- Non submission of work programme at the time of submission bids.
- Amendment in submitted work schedule in time to time.
- Submission of work programme without adequate activity details.
- Delay in commencement of work.
- No warning or cautioning by employer to contractor even the progress is below the work schedule.
- No system of making accountable for slow progress of contract assignment.
- No request in time by contractors for time extension.
- No adequate and reliable reasons for extension of contract period. E.g. normally claim for low progress is made due to rainy season.
- No adequate analysis or verification of causes of time extension.
- Inadequate analysis of reasons of time extension and its financial impacts e.g. additional cost of consultancy charges for extended period.
- Extension not approved by competent authority.
- Repeated extension of contract period in the same ground.

---

## Chapter 9 Matters for Audit Consideration

---

**9.1.11 Additional Claims** – The auditor should consider the following:

- Inadequate collection of evidences by government authorities to reject the contractors claims.
- Claims made by contractors and paid by the project. For example non- availability of stone at project site has also been claimed showing the same reason.
- Claims made for faulty design and specification made by the consultant.
- Lack of adequate support of claim for loss sustained by contractor.
- Claim made for unapproved idle time.
- Expenses which can be avoided during idle period has also be claimed.
- Delay in payment of claims.
- Loss sustained in local currency is paid in foreign currency.
- Payments made even after the lapse of time for lodging claims.
- Payment of claim against loss which is to be paid by insurance company.

---

## 9.2 Public Works

**9.2.1 Works Analysis** – The work analysis a major component of the public works audit that covers the scrutiny of accounting and related records starting from estimate to final completion of the public works or project. A careful scrutiny of the following may help:

- Modification of rates –Modification of rates should be guided in accordance with the Standard Bidding Document.
- Modification in Design and Specification –It should be dealt with in accordance with the terms and conditions mentioned in the bidding documents within the provision of the FAR.
- Audit of implementation stage of public works/ projects -. The main focus of the audit at this stage would be to determine whether the implementation is being carried out in accordance with the detailed plans, time schedule and system and procedure are in place for efficient execution of the public works. A few of the specific aspects to be checked and analyzed are stated below:
  - Determine the cause of delay and actions taken by the authorities. (e.g. delay due to bad planning, poor supervision and lack of coordination etc).
  - Identify the wastage and overspending.
  - Variation or changes that have added to cost.

---

## Chapter 9

### Matters for Audit Consideration

---

- Whether progress of work is in accordance with the contract schedule.
- Whether supervision at construction site is adequate.
- Whether site records have been properly maintained (for example site register of material, equipment, time sheet, Inspection Register etc.).
- Whether the insurance and bank guarantee covers the project period.
- Whether the extension of contractors is approved by the competent authority.
- Whether extension awarded with or without charging penalty.
- Whether the different claims have been made in time by the contractor.
- Carry out work from sub-contractor even no provision is there in agreement to appoint sub-contractor.
- Payment made for loss or damages even after the compensation is received by contractor from insurance Co.
- Use of material imported under custom facilities in other than project purposes.
- Poor supervision by consultants.
- No legal action initiated against contractors leaving job incomplete.
- Poor implementation of decision against black listed contractor/suppliers.
- Non-recovery of additional liability from contractor who left their job mid way and completed such unfinished work from new contractor.
- Payment made at agreed rate even the work done is below the standard or quality.
- Provide construction material departmentally to contractor even the contractor was supposed to arrange such required material.
- Non-settlement of installment of advances.

---

## Chapter 9

### Matters for Audit Consideration

---

**9.2.2 Use of Material/Equipments** – This is the situation where the employer provides material and equipments. Such practice should be avoided and resorted to only in emergency situations. The auditor should consider the following:

- Authorization for Issuance or Requisition form.
- Requisition form must be properly signed by recipient department or person.
- Posting in the stock register showing quantity issued.
- Records of material used must be properly maintained and updated.
- Site register needs to kept showing Quantity received, Issued and Balance.
- Verification of closing stock at the end of fiscal year.
- Quantity used must be tallied with MB.
- Losses or wastages be approved by the competent authority.
- Unused material must be returned to control store.
- Permanent Records of Equipment kept giving details (cost, date of purchase, size, brand etc.).
- Machinery and equipments should be used in project or specified purposes only.
- Regular maintenance of equipments.

Maintenance of operation logs of machinery, vehicles etc. and authorized properly.

**9.2.3 Measurement and payment** – The Standard Bidding Documents approved by the Government provide for mode of measurement and payment that has to be adhered to. Some of the points to be considered in course of audit are to confirm:

- Payment made without applying rates mentioned in bill of quantity.
- Payment against quantity which is previously paid.
- Mistake in total of bill.
- Determination of rate and payment made for the items covered by B.O.Q.
- Payment of new items without rate analysis.
- Amount of foreign currency and exchange rate while making payments.

---

## Chapter 9

### Matters for Audit Consideration

---

- Lack of negotiation in determining the rate for new item.
- Lack of original and adequate supporting.
- Payment made without measurement of work done & incomplete work.
- Payment by changing measurement unit such as months to days, liters to metric ton, metric ton to cubic meter etc.
- Items mentioned in specification as non-measurable have been paid by measuring such items.
- Duplication in measurement of same item.
- Huge quantity difference between quantity in interim payment and final bill.

---

### 9.3 Consultancy

**9.3.1 Consulting Services** – HMG is using experts as Consultants for advisory Services, supervision and technical work such as feasibility survey, detailed engineering etc, of public works and project. Such procurement of services may be funded by HMG or other donor agencies.

**9.3.2 Technical Evaluation** – Technical Evaluation is the most important aspect of the consultancy services procurement and needs to be thoroughly scrutinized. The following points to be considered while reviewing Technical Evaluation:

- Evaluation criteria should be approved in advance.
- Setting of evaluation criteria should be in objective manner rather than subjective manner.
- Lack of adequate information and data for fair evaluation.
- No proper basis for short listing exercises.
- Evaluation criteria may not be uniformly applied (For example, experience of similar job is given high weightage).
- authenticity of documents submitted along with RFPs (Technical proposal).
- Inconsistency in evaluation of educational qualification of experts due to disparity in certificate issued by different institutions.
- Opening of proposal even all bidders are not present while opening tenders.
- Development Partners' guidelines not adequately complied with.

---

## Chapter 9

### Matters for Audit Consideration

---

**9.3.3 Financial Evaluation** – The Financial Evaluation is another aspect of the service procurement that needs to be considered:

- Development partners' guidelines not adequately complied with.
- Possibility of calculation mistake in currency conversion as RFPs may have quoted different foreign currency.
- Increase or decrease in scope of work in course of negotiation.
- Difficulty in comparison of RFPs due to non submission of proposal in structured format.
- Non recording of negotiation proceedings or inadequately recorded.

**9.3.4 Variation in Scope of work** – Consultants are appointed with defined scope of work and responsibilities. Normally in public work projects consultants are appointed for engineering design and supervision of the construction work. Payment to consultants depends upon the nature of contracts, which may include time-based contract, lump sum payment etc. Following areas needs to be considered:

- Modification in the assignment which is not directly related with existing scope of work
- Rates for additional work through negotiation may not be reasonable.
- Additional work is awarded through approving variation order without having adequate option analysis and justification.
- Extension of time without justification even the scope of work remains the same.
- Payment of contract amount in full even the scope of work is reduced or works was not completed.
- Appointment of separate consultant for the same job by reducing the scope of work of previously appointed consultant.
- Extension of contract period without approval from competent authority.

**9.3.5 Performance of consultants & payments** – The auditor should consider following:

- Delay in commencement of work.
- Making claims without adequate supporting.
- Payment made for the idle period when the contractors have not performed their work without having adequate justification.
- Non-compliance of Income tax Laws while making payments.

---

## Chapter 9 Matters for Audit Consideration

---

- Non-submission of adequate supporting for the expenses which are reimbursable at cost.
- Reimbursement made for the expenses incurred other than project purposes.
- Ownership of fixed assets procured under the contract.

**9.3.6** Payment made in foreign currency instead of local currency not in accordance with the terms of the agreement.

- Payment of travel expenses not in accordance with the terms of the agreement.
- Issuance of variation order for the inputs covered by the approved scope of work
- Payment should not be in excess of approved man month and other facilities at agreed quantity and amount.
- Out of pocket expenses should be within agreed amount.

---

### 9.4 Goods

**9.4.1 Procurement of Goods & Delivery** – Compliance with financial laws and contractual obligations should be responsibility of both parties i.e. procuring entities and suppliers. Some of the risk areas are mentioned below which the auditors should look at:

*I. Procurement Stage:*

Procurement should be made in accordance with the procurement plan so as to meet the objective of the procurement. The procuring entity must be cautious making decision for procurement because wrong decision may have financial consequences to the entity. It is expected that entity has complied with prescribed norms and legislation, however some of the points are stated below as examples which needs to be considered by auditor to confirm the economy, efficiency and legitimacy at procurement stages is stated below:

- Evaluation of procurement policy of the project and evaluate the cost benefit analysis of the system prevailing in the organization;
- Determination of specification which is suitable to the particular supplier only;
- Procurement of goods directly from limited supplier as propriety goods;
- Making the competition limited by dividing the whole supplies in different packages;

---

## Chapter 9

### Matters for Audit Consideration

---

- Procurement of goods even the goods does not meet the required specification;
- Approval of procurement proposal of goods without evaluation and certification of technician about compliance with specification; and
- Procurement without assessment of annual requirement of goods.
- Procurement made in time to time or piece meal basis in order to avoid competitive procurement;
- Procurement of machinery and machinery and equipment of old technology by ignoring the new technology;
- Procure goods without specifying warranty period and payment made for repairs, maintenance and services;
- Increased volume of unused spares due to change in technology;
- Procurement made from suppliers not registered with IRD (TPIN);
- Import of goods from other countries even it is available locally at lower cost;
- Possibility of misuse of goods due to non-provision of special identification mark in goods procured by government entities,
- Preference to economy aspects only without considering quality/specification for item wise purchase from different bidders;
- Procurement under the bid procedure even after the receipt of inadequate bids;
- Non deductions of Tax as per the Tax laws;
- Procurement of goods completion of intended works.

---

## Chapter 9

### Matters for Audit Consideration

---

#### *II. Shipment Stage*

The supplier of the goods has to dispatch the goods at specified date through the agreed mode of transport which may be ship or air or road. Before shipment, the specification of goods to be confirmed by purchasing entities either deputing by its own experts or by hiring independent experts/agents. At this stage audit is expected to examine the following points during the audit:

- Confirming the specification and quantity procured from supplier through appointed agent or deputed experts/officer/surveyor;
- Certificate of origin;
- Bill of lading to confirm the quantity, date and place of shipment;
- Insurance coverage; and
- Packing list-packing needs to be properly made to safeguard the quality of goods.

#### *III. Delivery and Payment Stage*

This is the last step of execution stage of the agreement between purchasing entity and supplier. In course of audit, auditor has to be careful to verify the compliance of terms and conditions of the purchase agreement from both parties. Non-compliance of conditions a contract may have financial consequences and create dispute which ultimately hamper the project/entities' performance and may increase the cost also. Therefore, auditors have to consider the following points during the audit:

- Delivery of goods would have been made after due date of agreement;
- Delivery not made at specified site or place;
- Non-compliance of provision of delivery in lot basis;
- Non-recovery of liquidated damage for partial delivery even the goods were to delivered in lot basis;
- Acceptance of goods even the goods does not comply with approved sample or specification;
- Acceptance of delivery without accessories and payment is made for accessories which were to be supplied free of cost;
- Non-seizure of deposits for non compliance of specification of goods;
- Non-submission of quality assurance certificate for goods supplied;

---

## Chapter 9

### Matters for Audit Consideration

---

- Payment of transportation charges even the goods are not delivered at specified place;
- Payment for customs even the terms and condition of the agreement does not permit;
- Mode of payment needs to be specified;
- Additional claim made for demurrage and additional charges caused by delay in decision making by authorities; and
- Claim for short delivery.

**9.4.2 Supply of Goods & equipment** – Some of the procurement may be related only for goods and equipment. The nature of goods may be medicine, raw material, stationery, chemical etc. whereas equipment may include medical apparatus, vehicles, communication equipments, security equipments, machinery etc. Some of the contract may also include installation of such equipments. The audit areas may include need identification, procurement, execution of contract and utilization of goods and equipments etc. The following needs to be considered:

- Preparation of Goods Received Note (GRN);
  - Posting in the stock register showing quantity Received as per GRN;
  - Goods & Equipment should be in accordance with the specification;
  - Claim for short delivery and damages;
  - Imposition of Penalty for delay in delivery; and
  - Goods should be properly stored and safe from theft and pilferage.
-

## Risks and Control Techniques

### (a) Procurement of Goods & Services

Major Risks	Control Techniques
<p><b>1. Check if need identification was carried out.</b></p> <p>1.1 Estimates may be made for excess goods or goods not needed at all.</p>	<p>1.1.1 Estimates of goods needed are based on inventories and usage records.</p> <p>1.1.2 If approved estimate is in excess of 15% as specified by Section 63(9) of FAR than the actual cost without any special reason, action is taken against the technicians preparing estimates and verifying it.</p> <p>1.1.3 Estimates are re verified by one level higher technician than the technician preparing it.</p>
<p>1.2 Estimates of requirements may be prepared piece meal to avoid complying with procurement provisions for high value purchases.</p>	<p>1.2 As per Section 63(5) of FAR, single estimates are prepared for the total requirements to ensure competitive prices. Procurements are made as per the procurement plan. Approval should be obtained from the technician one level higher than the person preparing it as per Section 63(6) of FAR.</p>
<p>1.3 Specifications may be prepared that exclude all but favoring certain suppliers.</p>	<p>1.3 Specifications are general enough to be met by goods available from several manufacturers or suppliers. If a specific brand name is to be mentioned, "or equivalent" is added to the specifications.</p>
<p>1.4 Different specification may be prepared for subsequent purchases, even though the same goods are being acquired.</p>	<p>1.4 Variations in specifications are explained and justified.</p>
<p>1.5 Estimates may be prepared using costs higher than the market price.</p>	<p>1.5 As per Section 63(4) of FAR, estimates are prepared based on price determined by the committee formed under Section 138 of FAR, rates given by chamber of commerce, or estimates are based on prevailing market prices, or on the price of recently purchased goods.</p>
<p>1.6 Higher cost estimates may result from inflating the quantity of material, the number of employee and using higher rates.</p>	<p>1.6.1 Cost estimates are based on approved norms and rates and on the availability of material at the construction site.</p> <p>1.6.2 If such mistakes are noted upon review by the higher authority, it is corrected and reliable estimates are prepared. as per Section 63(5) of FAR</p>
<p>1.7 A single work may be divided into smaller pieces so that it can be approved within the initiator's authority. As a result, procurement may not be made in open and competitive manner.</p>	<p>1.7 Generally a single work is not procured by dividing it into smaller pieces. But if it proves necessary, approval of a higher department authority is requested.</p>
<p>1.8 Public repair, maintenance or improvement work may be done without preparing estimates.</p>	<p>1.8 Cost estimate should be prepared for public repair, maintenance or improvement work in excess of Rs 25,000 as specified by Section 63(10) of FAR.</p>

Major Risks	Control Techniques
<b>2. Procurement Procedures</b>	
<b>(a) <u>Direct Purchases</u></b>	
2.1 A significant purchase could be made in small lots, increasing the unit cost of the purchase or the purchase of material may be split and done at an interval of a few days to avoid obtaining quotations or tendering process.	2.1.1 As per Section 58(Ka) of FAR, purchase/construction work plan has to be prepared for procurement in excess of specified limit from budget allocated to one sub head. 2.1.2 The purchase of material is done in single lots where it is price advantageous. If the quantity is significant (as specified in Section 58(1) (Kha) of FAR, then it should be purchased only after obtaining three quotations from firms registered with the VAT.
2.2 The purchase of material may exceed the ceiling for direct or quotation based purchases.	2.2 Purchases should be made as per procedures mentioned in Section 58(1) of FAR; deviations, if any, should be properly explained and approved by the Secretary of the concerned ministry as per Section 58(2) of FAR.
2.3 The purchase may be made at a higher price than market prices.	2.3 The rates are compared with recent purchase of similar items. Further, procurements are made on competitive price through negotiation, obtaining quotations or tender as specified in Section 58(1) of FAR.
2.4 Purchase may be made without approved purchase order.	2.4 Purchase of materials in excess of Rs 5,000 as specified by Section 60 of FAR should be made only against approved purchase order.
<b>(b) <u>Purchases through Quotations</u></b>	
2.5 Procurements are made consistently from the same supplier in smaller lots, to avoid tendering procedures and to restrict competition.	2.5 Sealed quotations should be received from suppliers registered in the Inland Revenue Office and the quotations should be evaluated by an authorised person.
2.6 Suppliers may conspire among themselves and submit the quotations at higher rates.	2.6 Quotations are received atleast from 3 suppliers. Invitation for quotations is made in the national or local level news paper as specified in Section 66(5) of FAR. Quoted rates should be compared with those of recently procured similar goods.
2.7 After submission of quotation, the party may make collusion among themselves and ask for the return of the quotation and may make changes in the figures.	2.7 Quotations once received are not returnable as per Section 61(17) OF FAR.
<b>(c) <u>Purchases without Tender/ Quotation (unlimited amount)</u></b>	
2.8 Direct purchase of materials may be made at the manufacturer's price from domestic industries falsely claimed to have met the required specifications.	2.8 Claims that the materials are of a specific type should be verified. The reasons for selecting them over others should be stated clearly and rates and quality should be approved by the committee headed by Director General of Bureau of Standard formed under Section 59(Ka) of FAR.

Major Risks	Control Techniques
2.9 The purchase may be described as "proprietary", even though there may be more than one manufacturers or suppliers of such goods. The price charged may be more than the manufacture's list price.	2.9.1 The approval from appropriate authority should be obtained to procure proprietary goods from a single source. 2.9.2 The proprietary goods should meet the requirement as specified in Section 59(d) of FAR. 2.9.3 Prices should be checked against manufacturer's price catalogues.
2.10 Even when sealed quotations obtained, goods may be purchased from a higher bidder, giving the reason of convenience or urgency, etc.	2.10 In "urgent" cases, the actual delivery dates are checked against the agreed dates and the justifications should be approved by the secretary of the concerned ministry as per Section 58(3) of FAR and adequately documented.
2.11 Quotations may be invited from suppliers who were not registered with Inland Revenue Office for Tax and VAT.	2.11.1 As per Section 61(8) of FAR, sealed quotations should not be accepted from the suppliers not registered with IRO for tax and VAT. 2.11.2 In remote area, where tax and vat registered suppliers are not available; procurement should be made from list of suppliers prepared by a committee formed under Section 61(4) of FAR.
2.12 The concerned officials may disclose quotation amounts to favored suppliers.	2.12 Sealed quotations are invited and are kept in the custody of a responsible official. They are opened in the presence of more than one official on a specified date as specified in Section 61(16) of FAR.
2.13 In order to favour some supplier, the notice asking for quotations may be sent early to some and late to others.	2.13 The request for quotations is made in national or local level news paper giving 15 days time for submission as per Section 61(2) of FAR. The record of such notice being sent is kept.
<b>(d) Departmental Purchase</b> 2.14 Departmental purchase may be made showing the cause of urgency	2.14 As per Section 82(1) of FAR departmental purchase could be made only for emergency repair and maintenance.
2.15 Departmental purchase may be made without adequate authorization.	2.15 As per Section 82 of FAR, If tenders are not received or in special circumstances, departmental purchase could be made for construction work by the approval of the office one level higher than the office doing departmental purchase and as per approved cost estimate. However, such cost shall not exceed Rs 100,000 in one lot. Alternatively, procurement could be done by the office and labor contract can be given.
<b>3. Procurement through Direct from Market, Negotiation or on the basis of Single Tender</b> 3.1 As procurement is done without competition, it may be at a higher than market rate.	3.1 Since such procurements are done only in specific cases, the reason for the same should be verified.  Procurement under loan or grant agreement can be made as per letter of understanding between HMG and foreign government or international donor agency or their procurement guide lines as specified by Section 59(Kha) of FAR.

<b>Major Risks</b>		<b>Control Techniques</b>	
3.2	Proprietary parts, tools may be purchased in larger quantities than needed, even when enough quantity is available in the stores.	3.2	Bin cards (if maintained) showing receipt, consumption and balance of the stores ledger are verified to determine the balance. Non availability/ inadequacy of the material is certified by the store prior to the procurement.
3.3	Goods of special nature may be purchased from general supplier at a higher cost and without adequate performance guarantees.	3.3	Purchases are made on the basis of performance guarantee. With the performance failure, the guarantee is claimed.
3.4	Procurement may be done on the basis of quotations from the domestic manufacturers, where international competitive bidding is required.	3.4	There are adequate reasons for not calling international competitive bidding. All the procedures for international competitive bidding were performed, and the preference given to local manufacturers only if their quote is up to 10% expensive as per Section 58(3) of FAR.
<b>4.</b>	<b>Invitations to tender</b>		
4.1	Application for pre qualification not called from classified contractors for civil work or procurement of heavy equipment in excess of limit specified by Section 65 of FAR.	4.1.1	Such application shall be called from classified contractors giving a notice of 30 to 90 days in a national level news paper as per Section 65 of FAR.
		4.1.2	Tenders can be invited only from the suppliers approved in prequalification giving a time frame of 15 to 30 days.
4.2	Competition may be limited due inadequate time given for submitting tenders.	4.2	Time should be allowed depending upon the nature of the contract from 30 to 90 days as per Section 66(8) as provided in FAR.
4.3	When tender documents contain mistakes or are missing important information, after they have been sold, the amendments might not be sent to all potential bidders.	4.3	Bidding documents are prepared and approved prior to the call for tender as per Section 66(5) of FAR.
4.4	Tender documents for procurement of heavy equipment or civil construction may be sold to contractors who have not been pre-qualified.	4.4	The tender shall be called only from the pre qualified parties as per Section 65(2) of FAR.
4.5	In order to show that enough tenders were received, tenders may be submitted by bidders of the same business group, may having a direct or indirect relationship with the project staff. Such tenders might even be sent in after the expiry of the time fixed for submission.	4.5.1	Separate registers are kept showing dates tenders sold and also dates tenders received as per Section 66(2Kha) of FAR.
		4.5.2	Immediately after the expiry date, the register of tender sales and receipts is presented to and certified by a responsible person.
		4.5.3	If tenders sent through mail are received after the expiry date, they are returned and the concerned office will not be responsible for the same as per Section 66(3) of FAR.

Major Risks	Control Techniques
<p><b>5. Tender Opening</b></p> <p>5.1 After tenders are opened, the higher bidder and staff may collude and may secretly make changes in the terms and the price quoted.</p>	<p>5.1 As per section 71 of FAR, any changes/alterations to a tender are noted and initialed by all those attending the tender opening meeting.</p>
<p>5.2 If the lowest bid is accompanied by a letter offering further discounts, the department staff might withhold such letters so that the lowest bidder will not have to reduce his bid amount even more.</p>	<p>5.2 As per section 66(11Ka) of FAR, such letters are opened prior to opening the tenders, the contents are announced, noted and signed by all those present.</p>
<p><b>6. Tender Evaluation</b></p> <p>6.1 Some tenders may be excluded from the tender opening meeting. (by collusion between staff and other contractors).</p>	<p>6.1 The tender documents sales register is checked against tenders received and reasons for non receipt of all tenders sold are determined by contacting potential bidders who did not submit tenders. All tenders received are recorded and kept in the custody of a responsible person as per section 66(3) of FAR.</p>
<p>6.2 With the intention of awarding the contract to a favored second lowest bidder, the lowest bid may be improperly rejected for trifling reasons.</p>	<p>6.2 If tenders contain minor irregularities that do not affect the price, quality or quantity, they are evaluated along with the others. Tenders are rejected only if it is not complying with the provisions given in section 72 of FAR.</p>
<p>6.3 Incomplete tenders from a preferred contractor may be evaluated.</p>	<p>6.3 Tender documents not in compliance with financial administration rules, guidelines of terms of the bidding documents are not evaluated.</p>
<p>6.4 Evaluation criteria may be applied prejudicially.</p>	<p>6.4 Tender documents describe the evaluation criteria and the weights to be applied to them. Consistency is maintained in the evaluation method.</p>
<p>6.5 In between the time period of opening of tenders and evaluation, changes may be made in the price, bill of quantities, and the terms of tender affecting the price.</p>	<p>6.5.1 All documents submitted with the tender are initialed by those present at the tender opening.</p> <p>6.5.2 All tender documents received are kept in the custody of a responsible official.</p> <p>6.5.3 The minutes of tender opening are immediately sent to the concerned Ministry.</p>

<b>Major Risks</b>		<b>Control Techniques</b>	
6.6	As a result of collusion among tenderers even the lowest tender may be submitted at a figure which is extraordinarily higher than the cost estimates.	6.6.1	As per section 66 (18) of FAR, such bids are cancelled, bid deposit is forfeited and such bidders are blacklisted. Consideration is given to the current market conditions and to the price of similar or identical material purchased.
		6.6.2	In case of projects operated under assistance of Development Partners, if the price is unreasonably higher than the estimates, re-tendering is done after making any necessary changes in the specifications or the project. As per Section 73 (2 Da) of FAR, Procurement Guidelines of Development Partner is followed.
6.7	Bidders quoting below the estimated cost might have their tenders rejected, even though they are capable of completing the work as required.	6.7.1	If any tender have quoted below the estimated cost, but seem capable of doing the necessary work, it might be that the cost estimates are too high. If so, itemized rate quoted and the capabilities are analyzed and these tenders are evaluated along with the rest. (Section 73(2 Ga) of FAR.
		6.7.2	Contractors with a history of underbidding and then performing poorly are eliminated from further consideration.
6.8	As various foreign currencies may be converted into Nepalese currency at rates prevailing at different dates at the time of evaluation, comparison of tenders may be affected.	6.8	Bidding documents mention the rate of exchange date and source which is to be used to evaluate the tenders (for example, rates as fixed by Nepal Rastra Bank at exchange rate prevailing 30 days before the last day for submitting tenders).
6.9	The lowest bid, even though within regulations is eliminated from further consideration.	6.9	Adequate reasons for accepting a higher bid are given and approval of one level higher than the normal authority is requested. But, if the accepted bid is more than 10% higher than the estimate, new bids should be invited. (Section 73 (2 Nga) of FAR)
<b>7.</b>	<b>Award of contract</b>		
7.1	Contracts may be awarded to non-responsive or non-lowest bidders.	7.1	As per section 73 (2 Dha) of FAR, the ranking chart and evaluation report should contain detailed description of the evaluation process followed and it should be made public to all concerned.
7.2	Qualified bidders may be declared as disqualified.	7.2	Appropriate reasons of disqualification is explained in detail.
7.3	The bank guarantee (bid security) of bidders who refuse to sign the contract can not be seized because its validity date has expired.	7.3.1	As per section 66(9) of FAR, bid security should remains valid for a period of 30 days beyond the validity period for the bids to provide reasonable time for the government to act if the security is to be called.
		7.3.2	Register of bank guarantees is maintained, showing up-to-date date of maturity.(section 66(17) of FAR).

Major Risks	Control Techniques
7.4 If notice of approval of tender is not given to the concerned bidders before the expiry of the validity of the bid, the lowest bidder may agree to extend the validity date only on condition of a price increase.	7.4.1 As per section 72 of FAR, the validity of bid should be atleast 90 days from the last date of submission of bid. If contract could not be made within this period, time can be extended with the approval of all bidders. Bid of the bidder not accepting the extension of time should be cancelled and bid bond refunded. 7.4.2 As per section 77(1) of FAR, notice of approval of bid is sent within 3 days to the concerned bidders.
7.5 After approval of tender, but before signing the contract, changes in the terms or specifications may be made, increasing the cost to the government.	7.5 The main tender documents and the evaluation report contain the final specifications and terms.
7.6 Tenders from the contractors with a poor performance history may be accepted.	7.6 As per Section 95 of FAR, up-to-date records of the performance of contractors are kept. Contractors with poor performance are black listed and the record of poor performance contractors are also forwarded to other ministries.
7.7 Contractors may submit false bank guarantees (performance bonds) or bank vouchers.	7.7 Unconditional guarantee is received in a pre-determined format, and both guarantee and bank voucher are confirmed from the bank. If a guarantee is given by a foreign bank, endorsement of banks within Nepal is obtained as per Section 66(10 Ka) of FAR. Records of up-to-date details of bank guarantee and performance bonds are kept.
<b>8. Advance Payment</b>	
8.1 Excessive advance payments may be made, or advances may be made, contrary to the provisions of the contracts.	8.1 Advances are made as per the term of the agreement. A special decision of His Majesty's Government is requested with adequate justifications for giving such advance.
8.2 Advances may be made without any guarantee.	8.2 Advances are made against unconditional bank guarantees acceptable to His Majesty's Government. A record is maintained for details of such bank guarantees.
8.3 Advances may not be used for the intended purpose.	8.3 Progress reports are verified to see whether progress has been according to schedule (for example, if an advance is made for mobilisation, there may be a certain time limit within which mobilisation should be completed).
8.4 Advances may be made for materials not brought to the site, or for materials not related to the construction or at prices higher than agreed.	8.4 Invoices of materials required for construction from suppliers registered with the Inland Revenue Office are submitted, the quantity and quality of materials are certified by concerned official.
8.5 Advances may be given for more material than is needed for the construction works as per the cost estimates.	8.5 Quantity of materials needed as per norms and cost estimates, quantity already used, and balance are considered before making advances.

Major Risks	Control Techniques
<p><b>9. Foreign Exchange &amp; Price Adjustment Risks</b></p> <p>9.1 Foreign exchange payments are made in excess of those permitted by the contract.</p>	<p>9.1 Tender documents describe which works require foreign exchange. In case of the development partners funded projects, ensure that foreign currency payment is as per the term of agreement with the donors.</p> <p>Foreign exchange billings are compared with the provisions of the bidding documents and contract.</p>
<p>9.2 Prices of various materials may be mentioned at a lower rate while submitting the bid, and later on the difference may be claimed and paid as increase in prices.</p>	<p>9.2.1 As per section 83 of FAR, the price of construction materials in the tender document are based on an authentic price index or the prevailing price and the item wise cost breakup is given in the tender document. Cost break up and work schedule is also given in the terms of the contract agreement. If the price of material is more or less than the 10% of the price mentioned in bid document and the contract agreement, price escalation is paid/received.</p> <p>9.2.2 While inviting tenders of international standard, the bidder is required to enclose the proof of prices (e.g. quotations) with the tender document.</p>
<p>9.3 When submitting the tender, materials are shown to be procured from one country, but later may be procured from another country at a higher cost and a claim made and paid for price adjustment.</p>	<p>9.3 The reasons for change of the country are explained and justified.</p>
<p>9.4 Price increase may be paid by showing higher rate than the prevailing or determined rate, for materials not used in the construction works or for more materials than actually used.</p>	<p>9.4.1 The running bill is examined to see if the work for which the material was intended has been done.</p> <p>9.4.2 The price adjustment is based on the price index for construction materials as determined by the District Rate Committee as per section 138 of FAR or by examining and verifying the invoices submitted by the manufacturer or dealers registered with tax office. For calculation of price escalation, lowest of the rate given by the contractor or the rate certified by the District Rate Committee is taken as the actual rate.</p> <p>9.4.3 Records of procurement and use of construction materials maintained by contractors are presented and the price adjustment claim is checked against them.</p> <p>9.4.4 The bidding documents clearly mention the formula to be used for price adjustments (according to the guidelines of donors in case of donor funded projects.).</p>
<p>9.5 Additional amount for price increase may be given for materials procured before the price increase or for materials used in construction works completed earlier.</p>	<p>9.5 The contractor's materials procurement and usage records are checked against the running bill and the measurement book.</p>

<b>Major Risks</b>		<b>Control Techniques</b>	
9.6	Additional amount for price increases may be paid for materials not included in the tender document.	9.6	The price index of materials to be used for price adjustments is enclosed with the tender documents.
9.7	Payment for price increases may be made for price increases occurring after the expiry date for completing the works.	9.7	The tender documents state the date for works completion and the fact that any price increases after that date will not be paid. If an additional amount is to be paid in such a situation the reasons thereof are clearly be stated and proper approval is requested. As per section 83(2) of FAR, if the work is not completed on time due to the delay on the part of the contractor, no price escalation is paid.
9.8	Payment for price escalation may be paid for the short term project,	9.8	As per Section 83(1) of FAR, no price escalation shall be paid for project to be completed in less than 18 months time and the project where tender document and the contract agreement does not give the itemized cost of the material.
9.9	Payment for escalation may be made on items billed at current rate or new negotiated rate.	9.9	As per GAAP, item wise details of escalation paid and the applicable original rate should be verified
9.10	Price escalation may be calculated using local source of price index but payment made in foreign currency at pre agreed rate.	9.10.1	The clause on currency to be used for the related components should be verified from the contract.
		9.10.2	Source of price index used should be verified.
9.11	Price escalation may be claimed and paid on material purchased from advance but used subsequently.	9.11.1	Store record of material purchased and used should be verified.
		9.11.2	Material used in contract should be apportioned on actual usage basis.
9.12	Work may not be progressed by the contractor in the initial period and claim and paid escalation by completing the large part of work subsequently when the prices of materials go up.	9.12	The work should be carried out as per the schedule agreed in contract. The Progress should be closely monitored and no escalation shall be paid when additional cost is incurred due to the delayed completion by the contractor. .
<b>10.</b>	<b>Return of Retention Money and Extension of Time</b>		
10.1	Amounts deducted as retention money from each bills as per the contract may be returned to contractors, even though they do not meet their obligations under the terms of contract.	10.1	As per section 93(Kha) of FAR, payment of retention money is made on the basis of completion of work, expiry of the period of repairs and maintenance and upon receipt of certificate from concerned authority as well as consultants that no outstanding receipts are due. Tax and VAT clearance certificate from Inland Revenue Office shall also be received.

<b>Major Risks</b>		<b>Control Techniques</b>	
10.2	Extension of time may be given to contractors without sufficient reason.	10.2.1	As per section 89 of FAR, before expiry of the contract period, the contractor apply for the extension of time giving adequate justification for the delay. Only when the reasons are justified, the contract is extended by the appropriate authority as mentioned in section 89 (2 Ka and Kha) of FAR without penalty.
		10.2.2	If contract could not be completed due to the delay caused by the contractor, extension of time can be given with a penalty of .05% of the contract amount each day.(section 89(3) of FAR.
<b>11. Insurance</b>			
11.1	Payment of bills may be made to contractors who do not follow or partly follow the terms of insurance specified in the contract agreement.	11.1	Insurance policies and proof of premium payment are submitted. If the contractor does not provide insurance, the project office can arranges for insurance and deducts the premium from the contractor's billings.
11.2	Insurance policy may not have been procured	11.2	For tender in excess of Rs 1 crore, insurance coverage has to be taken within 7 days of the agreement covering the risks given in section 78(2) of FAR.
11.3	The contractor might bill the project for insurance premiums covering insurance on machinery and equipment not used on the projects.	11.3.1	Details of machinery equipment insured and used in the construction site are available.
		11.3.2	Payment is made on the basis of proof of premium paid for insuring jointly in the name of the contractor and the government.
11.4	Payment of the whole amount of insurance provided in the bill of quantities may be made before insuring, or on the basis of partial insurance coverage.	11.4.1	Payment is made on the basis of proof of Insurance Policy as well as payment of premium as per terms.
		11.4.2	If the insurance premium is more than the amount stated in the bill of quantities, the additional cost is borne by the contractor. If he does not pay, the project pays and deducts the amount from the contractor's bill.
11.5	Terms of the Insurance policy may be amended.	11.5	As per section 78(3) of FAR, terms of the insurance policy can be amended only with the prior approval of the project/office chief.
<b>12. Transportation</b>			
12.1	Full payment may be made to the supplier, although the materials were not delivered to the site, as required.	12.1	Proof of materials delivered by contractor at the stated site is submitted. If materials were not transported to the stated site, the additional amount paid for transportation is deducted from the contractor's billings.
12.2	Transporter may not deliver goods or short delivered.	12.2	Records of transport contractors are maintained, and transportation contracts are assigned to reliable and competent transporter at competitive rates as specified in Section 61 Ka of FAR. Security deposits are requested at the time of signing the contract for transportation.

Major Risks	Control Techniques
<p><b>13. Construction Plant</b></p> <p>13.1 Equipment brought to the construction site may be used elsewhere.</p>	<p>13.1 Records and log sheets for machinery and equipment needed for construction kept by the contractor are regularly inspected.</p>
<p><b>14. Liquidated Damages</b></p> <p>14.1 Liquidated damages may not be realised from contractors who, through their own fault, cannot complete the work on time.</p>	<p>14.1 It is determined whether or not liquidated damages are to be charged as per section 89 (3) of FAR by carrying out a detailed examination when a request for extension of time is received from the contractor.</p>
<p><b>15. Early Termination of the Contract</b></p> <p>15.1(a) Because of collusion between the contractor and the contracting authority, contracts on which the contractor would lose money may be terminated prematurely, without seizure of the security deposit.</p> <p>15.1(b) The contract may have been terminated without seizure of the performance bond as required under the agreement.</p>	<p>15.1(a) As per section 90 of FAR, if contractor do not perform the work as per plan, contract can be terminated and the security deposit is forfeited. However, if contract is terminated by the mutual consent of the concerned authority and the contractor, it is to be ascertained whether or not the justification for taking the action is reasonable.</p> <p>15.1(b) Any additional cost incurred due to the breaking of the contract by the contractor can be recovered from all the payable amount to the contractor including deposit and running bill.</p>
<p>15.2 After termination of the contract, the remaining work may be given to selected contractors through negotiation, without competitive bidding.</p>	<p>15.2 Decision about finishing the remaining works is made at the appropriate authority level.</p>
<p><b>16. Alterations, Additions &amp; Omissions (Variations)</b></p> <p>16.1 Some items may be altered or varied in quantity or quality, or even omitted from the work, all to the advantage of the contractor.</p>	<p>16.1 As per Section 73 (3) of FAR, variation order could be issued only against approved budget and not exceeding 15% Of the contract amount.</p> <p>The following control techniques are applied:</p>
<p><b>For example:</b></p> <p>(a) Cost estimates called for high density polythene pipes, but later, the material specified was said not to be available in the market, and more expensive galvanised iron pipes which were in the contractor's store were used.</p>	<p>(a) Payment is made at the price fixed in the tender documents and the contract agreement even if materials of higher capacity than needed and costing more were used.(Section 73(3 Gha)</p>

<b>Major Risks</b>		<b>Control Techniques</b>	
(b)	The quantity of cement concrete works in the proportion 1:2:4, the quoted rate for which was lower than the estimated rate, was reduced substantially, while the work in the proportion, 1:4:8 which were quoted at higher rates than estimated cost, were increased.	(b)	If any variation in some item or omission of the whole item is necessary, the reason for it is explained and the sum is adjusted in the cost estimates (designs) and approved by the departmental head. Variations can be approved only as specified in section 73(3) of FAR.
(c)	provision of wooden windows and doors which could cause a loss to contractor was omitted and later on this work was given to another contractor at a higher rate.	(c)	the case where works to be done by the original contractor, were omitted and later on completed through another contractor at higher cost, the reasons are explained and approved by appropriate authority.
16.2	Contractor may refuse to work under normal condition on the agreed rate showing the cause of the additional work.	16.2	As per Section 73 (3 Gha) of FAR, the rate applicable should not exceed the rates specified in Contract. Rate revision should be as per contract and there should be adequate justification for payment made to the Contractor at a higher rate.
16.3	Additional work may be given to the contractor subsequently without determining the applicable foreign currency rate and payment made in foreign currency at the old rate specified in the contract.	16.3	Payment should be made at the applicable foreign currency conversion rate prevailing at the time of issuing variation order. The variation order should specify such rates. Variation order should contain all the details as specified in Section 73 (3 Cha) of FAR.
16.4	Variation order may be issued without adequate need analysis or without the approval of the competent authority.	16.4	The reason for variation is explained and approved by the departmental head. Variations can be approved only as specified in section 73(4) of FAR i.e. up to 15% of the contract amount by departmental chief and above that, by a committee headed by the Secretary of the concerned ministry.
16.5	Payment of variation may be made without adequate analysis of cost incurred on such additional work.	16.5	Payments are made only upon submission of work completion certificate certified by the concerned authority.

Major Risks	Control Techniques
<b>17. Payment of Claims</b>	
17.1 Submission of contractor's claims may be late.	17.1 The terms of contract provide for maintaining up-to-date claims records. In addition , the following documents and details are promptly submitted by the contractor:
<i>For example</i> – Soon after a work order was issued for construction of a building, the order was suspended because the design was not ready. To that point, only digging for the foundation had been started. Ten months later, the contractor submitted a claim for idle time for 90 different workers, including masons and woodworks, for 150 days. The claim was paid in full, without questioning the apparent irregularity.	(a) Within agreed days of the occurrence of a claimable event, a claim letter is submitted by contractor to the project office. (b) Documents justifying the claims are submitted. (c) Records with details as to amount and basis of claims are submitted at the same time. (d) No payment is made unless the claim is submitted on time and with proper support. (e) Separate accounts relating to the payment of claims are maintained
17.2 Contractor may be paid for the claim incurred due to faulty design and specification.	17.2 Such claims should be analyzed and concerned party should be penalized.
17.3 Claim may be paid for the condition that was prevailing and predictable and which should have been considered at the time of bid.	17.3 It should be ensured that claims are paid only for the unavoidable losses the condition of which was not predictable at the time of contract.
17.4 Expenses that could have been saved during the idle period may have been claimed and paid.	17.4 The expenses claimed should be verified and only unavoidable costs should be paid.
17.5 Losses incurred in local currency may be claimed in foreign currency.	17.4 Losses in local currency should be paid in local currency. The component of local and foreign currency should be verified from contract document.
17.6 Losses covered under insurance may have been claimed.	17.6 The condition of Insurance in the contract and Insurance Policy should be verified prior to making the payment. Only those losses, not payable by the insurer shall be paid.
<b>18. Repair &amp; Maintenance of Defective Works</b>	
18.1 Payment may be made in full of the value of procured machinery and equipment before the expiry of warranty period, or defects found within such period may be repaired at the cost of the government.	18.1 Certificates from authorised technicians are obtained as to expiry of warranty period and the defects found and repair works done during such period.

<b>Major Risks</b>	<b>Control Techniques</b>
18.2 Guarantee amount may be returned before the expiry of repair and maintenance period of construction works, or the defects found during such period may be repaired at the cost of government, instead of the contractor.	18.2 (a) In case of works unusable because of defects, provision to extend the repair and maintenance period is made. (b) Expiry of repair and maintenance period and repair and maintenance works done during the period is certified by an authorised technician.
<b>19. Provisional Sum</b>	
19.1 Procurement may be made of unnecessary or more than necessary materials from the contractor.	19.1 A list of necessary materials is prepared through engineers and approval of appropriate authority is obtained.
19.2 Payment may be made in excess of the materials as well as construction works.	19.2 Payment is made on the basis of quotations and invoices and receipts of the contractor, manufacturers or their authorised representatives and registered distributors.
19.3 Materials purchased and kept under the ownership of the contractors may not deliver subsequently.	19.3 The list of materials purchased is recorded under the ownership of HMG and maintained in the project office.
19.4 If provision is made for vehicle operation for the project engineer and workers (e.g.) 24 vehicles months at the rate of Rs. 20,000 per vehicle), payment may be made even if vehicles are being used by the contractor outside the project.	19.4 The log books of vehicles and the extent of their use is monitored by project staff.
<b>20. Taxes &amp; Duties</b>	
20.1 As special nominal customs duty is charged on the import of machinery and equipment, constructing materials required for projects operated under various Assistance of Development Partners, materials more than required may be recommended and such materials may be sold in the black market.	20.1(a) Recommendations are made only for the quantity required for construction works, and records are maintained for details of total imports consumption and inventory. (b) Quantity of spare parts required as a percentage of machinery and equipment is determined and controlled as per above. (c) Projects keep records of recommendations and licences for imports.
20.2. Agent of the foreign bidders may not pay tax.	20.2 As per section 70 of FAR, detail of the commission payable to the agent is forwarded to the Tax Office.
20.3. TDS may not be withheld on the payments of contract amount, OR, TDS withheld may not have been deposited to IRD	20.3 TDS withholdings and deposit requirements are to be followed up in accordance with prevailing Income Tax Act. As per Section 93 (Ga) of FAR, advance tax shall be deducted from the contractor's running and final bill at the applicable rate.

Major Risks	Control Techniques
<p><b>21. Execution &amp; Inspection</b></p> <p>21.1 Materials that fail to meet the specifications for quality or quantity or are defective may be received.</p>	<p>21.1 As per Section 84 of FAR, the technician designated by the office in charge will be responsible for the execution of the work as per specification. On receipt, technicians check the materials to make sure that they meet the specifications. They are recorded in the stores book and payment is made. The names of suppliers of defective or inferior quality materials are recorded and further dealings with these suppliers are reconsidered.</p>
<p>21.2 Construction works use inferior materials or do not follow specified processes.</p>	<p>21.2(a) Construction materials are used only after satisfactory technical inspection.</p> <p>(b) Every stage of the construction work as per work plan is inspected and certified by concerned technicians.</p> <p>(c) As per Section 88(1) of FAR, Periodic inspection report is sent to departmental chief on periodical basis for contract in excess of Rs 25 lacks.</p> <p>(d) After completion of the works, a work completion report is submitted and checked as per Section 87 of FAR.</p>
<p>21.3 The contractor may engage incompetent petty contractors or sub-contractors.</p>	<p>21.3 Prior approval is obtained from project office before such appointments.</p>
<p>21.4 The lowest bidder may not accept the contract but may later work as sub-contractor.</p>	<p>21.4 As collusion may occur among contractors, permission should not be given to engage sub-contractors participated on the main bid.</p>
<p>21.5 Reliance may be put on the contractor's claim that the material meets the approved specifications.</p>	<p>21.5 Quality tests are carried out in a reliable laboratory, if required.</p>
<p>21.6 Contractors may perform works of inferior quality or delay in completing the works.</p>	<p>21.6 Inspections are carried out regularly; the inspection book is kept at work site; the inspecting authority records the work quality, the work progress, any directions given to the contractor in this regard, and follow-up action taken.</p>
<p><b>22. Payment</b></p> <p>22.1 Payment may be made of bills claiming higher than contract rates.</p>	<p>22.1 Payment is made only after verifying the rates against the bill of quantities.</p>
<p>22.2 Payment may be made for bills submitted before receipt of materials, for materials never received or for materials already paid for.</p>	<p>22.2 Receiving slips are attached to the purchase order and both attached to the invoice, as evidence that the item was ordered at a certain price, was received as ordered and was correctly recorded in stores.</p>
<p>22.3 Payment may be made on the basis of photocopies of bills or invoices.</p>	<p>22.3 Such billings are checked against goods received records, to ensure that the billing has not been previously submitted for payment. The reason for submitting a photocopy is determined and the practice is discouraged.</p>

Major Risks	Control Techniques
<p>22.4 Payment may be made for the following goods instead of returning them:</p> <ul style="list-style-type: none"> <li>▪ materials not mentioned in the contract or purchase order</li> <li>▪ more than specified quantities or incorrect items</li> <li>▪ materials for which the order was already cancelled</li> <li>▪ materials not meeting specifications.</li> </ul>	<p>22.4 Goods received are verified with the contract agreement and bid documents.</p> <ul style="list-style-type: none"> <li>- Purchase orders are kept by serial number, and a record of the purchases from each supplier is maintained.</li> <li>- Proof of goods being technically inspected is submitted.</li> </ul>
<p>22.5 Payment may be made for bills claiming more work done than actual.</p>	<p>22.5(a) As per Section 93 (Ka) of FAR, upon receipt of the contractor's running bill or final bill, the quality of work and quantity should be certified by the concerned technician and payment shall be made within 30 days.</p> <p>(b) the amount of payment is verified with the contract and recorded in the personal account of contractor.</p>
<p>22.6 Claim may be made by submitting bills for works which have been below the specified standard.</p>	<p>22.6 At the time of payment of each bill, certification is obtained from technicians that the work is as per fixed design and standard and such facts are stated in the measurement book also. Suppliers' repeatedly delivering inferior goods have their names removed from the eligible suppliers list.</p>
<p>22.7 Simple and more profitable works may be completed first and difficult, less profitable works may be abandoned.</p>	<p>22.7 Works are done according to the plan and calendar of works and action is taken against contractors abandoning the works. Further dealings with such contractors are carefully considered.</p>
<p>22.8 Materials and equipment may be diverted to other contractor jobs, may be misappropriated or damaged.</p>	<p>22.8 Adequate warehouse and security arrangements are made by the contractor at his cost. Materials are checked and controlled by the project office. Perishables (like cement) are used immediately. Periodic checking and verification of the contractors' materials record is made.</p>
<p>22.9 Payment may be made without deducting advance and retention money.</p>	<p>22.9 As per Section 93 (Kha and Ga) of FAR, payment shall be made only after deducting retention money at the rate of 5% and the advances.</p>
<p>22.10 Payment may be made in foreign currency at the fixed rate of exchange agreed in contract for work which was agreed subsequently at the revised rate.</p>	<p>22.10 The work should be verified from the bid document and work agreed subsequently should be paid at the revised exchange rate agreed at the time of contract for the additional work.</p>
<p>22.11 Payment may be made for incomplete work without measurement or using different unit of measurement.</p>	<p>22.11 Payments are made only after verification of the same by concerned authorized technician. It should be ensured that measurement units used are as per contract.</p>

Major Risks	Control Techniques
22.12 There could be huge quantity difference between quantity mentioned in interim payment and final bill.	22.12 Measurement book should be checked in detail. Same quantity could be measured at two BOQs and paid.
22.13 Works which bear rates substantially higher than the cost estimates may be undertaken in larger quantity and works which bear lesser rate may be undertaken in smaller quantity than stated in the agreed bill of quantities.	22.13 If the cost is higher by more than 10% of the estimate, bid should be re called. Otherwise, the reasons should be explained and approval of an official one level higher should be obtained.
22.14 Separate payments may be made for spare parts which should be provided free of cost along with the equipment.	22.14 It should be ensured that payments are made only for the items specified in bid document and the contract at the agreed rate.
<p><b>23. Pre-qualification of Contractors</b></p> <p>23.1 Application for pre-qualification may not be sent to competent contractors.</p>	<p>23.1(1) Applications for pre-qualification are invited by giving a time of 30 to 90 days in a national newspaper as per Section 65 of FAR.</p> <p>(2) In case of global tender, the notice regarding application is sent to diplomatic missions of member countries. However, if tender is to be obtained from any specific country under any agreement, the notice is sent only to the concerned diplomatic mission.(section 67 of FAR)</p>
23.2 Incompetent contractors may be pre-qualified.	<p>23.2(1) Evaluation criteria are prepared before opening the applications, stating therein the marks allocated for each criterion as required and this is approved by selection committee formed by the secretary of the ministry.(section 65 of FAR)</p> <p>(2) Pre-qualification of contractors is done by processing applications according to the procedures established by the selection committee.</p> <p>(3) In the case of donor bank assisted projects, the banks receive a copy of the evaluation report, along with a list of pre-qualified contractors, with explanations why they were qualified and others were not.</p> <p>(4) The list of pre-qualified contractors is approved by an authorised official.</p>

**(b) Consulting Services**

The risks associated with consulting services and the related control techniques are listed here:

Major Risks	Control Techniques
<p><b>1. Identification of Needs</b></p> <p>1.1 Consultants may be appointed unnecessarily.</p>	<p>1.1(1)As per Section 81(1) of FAR, consultants can be hired after considering the departmental trained manpower and survey equipment and with the approval of authorized official for engaging consultants and for preparing the cost estimates.</p> <p>(2) Consultancy services can be hired only if it is in the approved budget.</p> <p>(3) In case of development partners funded projects, selection is done as per the guidelines and the agreement with the respective partner.</p>
<p>1.2 Foreign consultants may be hired when expertise is available locally.</p>	<p>1.2 As per Section 81 (19) of FAR, If the work could not be performed by the available local technicians, pre approval of the HMG should be obtained for hiring international consultant. The agreement with the foreign consultant should be made in a way that local consultants are also involved to the maximum possible extent.</p> <p>However, this rule shall not apply for hiring the international consultants as per the agreement with the development partners.</p>
<p><b>2. By Direct Negotiation</b></p> <p>2.1 Appointment may be made of incompetent and non-qualified consultants.</p>	<p>2.1 Basis of selecting the consultants should be verified.</p> <p>2.2 A list of consultants' qualifications and previous performance is maintained and appointments are made only from the consultants on this list.</p>
<p><b>3. Through Quotation</b></p> <p>3.1 Incompetent and non-qualified consultants may be appointed by limiting the request for quotations to only a few consultants.</p>	<p>3.1(1)As per Section 81 (2KHA) of FAR, consultants is selected based on the technical and financial proposals obtained.</p> <p>(2) As per Section 81(10) detailed evaluation procedures for the technical and financial proposals are prepared and approved by the appropriate authority prior to opening the proposals.</p> <p>(3) As per Section 81(7) of FAR, notice for the invitation of the proposal is published in the national level news paper giving 30 days for submitting sealed quotations.</p> <p>(4) At least three proposals getting atleast 70% marks in the technical proposal are selected.</p> <p>(5) As per Section 14 (Ka) of FAR, notice of the selection is given giving a time of 7 to 30 days for executing the agreement.</p>

Major Risks	Control Techniques
	<p>(6) If contract is to be given to other than the lowest bidder, the reasons are clearly explained and approval of an official one level higher is obtained.</p> <p>(7) Cost estimates of the required consulting services are prepared and budgetary provision is made prior to the hiring of the consultant.</p>
<p><b>4. Appointment of consultants through letter of intent as specified in Section 81(2Ga) of FAR</b></p> <p>4.1 Competent and qualified consultants may not be able to submit proposals due to inadequate time-limit.</p>	<p>4.1 Proposals are invited through publication of advertisement in national level newspaper giving a notice of at least 30 days as per Section 81(7) of FAR.</p>
<p>4.2 Non-qualified or incompetent consultants may be appointed, leading to additional expense for the government.</p>	<p>4.2(1)The invitations to submit proposals include the Terms of Reference for submitting proposals.</p> <p>(2) Evaluation criteria are given in the document of invitation of proposal. As per Section 81(13) of FAR, waitage for technical and financial proposal is given in the ratio of 70 – 80 % and 20 – 30 % respectively depending upon the nature of the work. As per Section 81(10) only those consultants getting 70% mark in the technical proposal are qualified.</p> <p>(3) If fewer than three proposals obtain the minimum marks in technical proposal, notice inviting the letter for interest is published again. If 3 consultants could be short listed on the 2<sup>nd</sup> time, proposal is obtained from the consultants selected.</p> <p>(4) As soon as the evaluation of the technical proposals is completed, financial proposal is evaluated and a consultant securing highest mark as per Section 81(14) of FAR is assigned the contract.</p> <p>(5) The results of the evaluation of the technical and financial proposals are recorded and the minutes are initialed by members of the evaluation committee.</p>
<p>4.3 Same consultant may submit more than one proposal for the same job.</p>	<p>4.3 As per Section 81(7Kha) of FAR,only one letter of invitation for proposal shall be made available to one consultant for one job.</p>
<p><b>5. Invitation of Proposal from the short list of Consultants</b></p> <p>5.1 The best qualified consultants may not have been included in the short list and less qualified consultant may be included.</p>	<p>5.1(1)Advertisement is given in the national level news paper giving atleast 30 days time to include as many consultants as possible.</p> <p>(2) The capabilities of the firm submitting the letter of interest are evaluated and at least 3 consultants are selected for calling the technical and financial proposal.</p> <p>(3) Minutes of the short listing process are prepared and approved by an authorised official.</p>

Major Risks	Control Techniques
	<p>(4) The criteria for evaluation of proposals are prepared in detail prior to the calling for the proposal.</p> <p>(5) Letters Inviting proposals are sent to all the short listed consultants giving 30 days time with detailed descriptions as given in Section 81 (7Ka) of FAR.</p>
<p><b>6. Selection &amp; Appointment of Consultants</b></p> <p>6.1 Best qualified consultants for the assignment may not be selected, possibly increasing the costs of the project.</p>	<p>6.1 (1) Proposals are received only from the short listed candidates.</p> <p>(2) Proposals are evaluated by an evaluation committee (which includes various experts like engineers, economists, etc.) in a detailed and systematic way, using predetermined weighted criteria.</p> <p>(3) As per Section 81(13) of FAR, evaluation is based mainly on assigning appropriate weights to the following:</p> <ul style="list-style-type: none"> <li>(a) Experience and qualification of the consultants.</li> <li>(b) Approach and methodology for carrying out the work.</li> <li>(c) Technical equipments relating to the consultancy service.</li> <li>(d) Work experience and management capabilities etc.</li> </ul> <p>(4) The evaluation, with the proposals ranked according to score, are approved by an appropriate authority and sent to the concerned development partner for concurrence.</p> <p>(5) The financial proposal of the highest scoring consultant is opened in his presence as per Section 81(14 Kha) of FAR. If the quoted price is higher than the budget, negotiations begun on methodology, and time frame. However, salary and other similar personnel costs can not be negotiated.</p> <p>(6) As per Section 14 (Kha) of FAR, the negotiation is done with the consultant securing second highest mark. If negotiation could not be made, proposal is re invited.</p>
<p>6.2 Foreign consultant could be selected when expertise is available locally within reasonable cost.</p>	<p>6.2 As per Section 81(5) of FAR, except from the project funded by development partners, foreign consultants can be hired only upon submission of the agreement with the local consultant to work jointly.</p>
<p><b>7. Contract Execution &amp; Payment</b></p> <p>7.1 Consultant may claim extra amount for price escalation.</p>	<p>7.1 There is no provision for payment of escalation on consultancy contract except as specified in the agreement.</p>

<b>Major Risks</b>	<b>Control Techniques</b>
7.2 Payment may be made in excess of the agreed amount or for work reduced from the scope of work.	7.2(1) As per Section 81 (21) of FAR, payment is made based on work progress as per the approved financial proposal in four installments. (2) Billings includes information on services billed and paid to date. (3) Separate ledger accounts are maintained of financial transactions with consultants and the same are verified. (4) Amounts beyond the limit set by the contract are paid only with satisfactory explanations and with approval of an authorised official. The Engineer approves the billing after verifying its contents.
7.3 Consultants may be paid without completing the assignment.	7.3.1 As per Section 81(21) of FAR, final payment is made only upon satisfactory completion of the work as per the agreement. 7.3.2 As per Section 81(20) of FAR, after completion of the work as per the agreement, work completion report is prepared and forwarded to the concerned department. Upon receipt of work completion report, department should verify whether work was completed as per the agreement.
7.4 Goods purchased by consultants at government's cost or goods made available by the project (e.g., machinery and equipment, vehicles, etc.) may be misappropriated.	7.4 Details of goods purchased are available and proper records are maintained. Reasonable provision is made for security and maintenance of goods, at the government's cost, and provision is made for the consultant to return such goods when leaving the project.
7.5 Consultant may be paid without deducting tax at source.	7.5 Payment to the consultant should be made only after deducting tax at source at the applicable rate.
7.6 Photocopies may be submitted and payments made more than once for the same work.	7.6 Original receipts and invoices are submitted along with the bills, and these are available at the time of audit.
7.7 Additional assignment not directly related with the existing scope of work may be given without completion or the negotiated rate for additional work may be more expensive.	7.7 Additional assignment should be related to the existing ongoing work and negotiated rate should be reasonable and in line with the original rate. The deviations should be adequately justified.
7.8 Time extension may be approved even when the scope of the work is same.	7.8 Time exertion should be given with adequate justification and with the approval of the appropriate authority.
7.9 Unnecessary remuneration may be paid to consultants by keeping them on site, even when construction is shut down for a long time or when there services are not required.	7.9 If services of consultants are not needed for a long time due to construction delay, provision is made for them to leave the site, on the condition that they will be recalled when needed.

<b>Major Risks</b>		<b>Control Techniques</b>	
7.10	Payment may be made in the foreign currency for the services to be paid in local currency.	7.10	Bid document and the contract should be verified to ensure that payment is made in foreign currency only for the specified services.
7.11	Experts may be retained in excess of requirement during defect liability period.	7.11	Agreement should be verified to ensure that only the agreed number of consultants is paid during defect liability period.
7.12	Travel and per diem cost may be reimbursed in excess of entitlement i.e. consultants may be paid field allowance when not working at field or air fare may be claimed at higher cost.	7.12	Attendance record of the consultants maintained at the sight should be verified. It should be ensured that air fare is reimbursed for direct route and economy class unless otherwise provided in the contract.
<b>8</b>	<b>Other Matters</b>		
8.1	Consultant may be hired at a unreasonable cost.	8.1	As per Section 81 (22) of FAR, cost of consultancy for feasibility study, research, drawing, design, survey, supervision etc should not exceed 5% of the project cost. If it is in excess of 5% of the project cost, departmental chief should form a technical committee for advice and the same should be approved by the secretary of the concerned Ministry.
8.2	Consultant not performing the work as per agreement may not be penalized.	8.2	As per Section 81 (23) of FAR, the condition for charging penalty or black listing the national or international consultant for not completing the work as per agreement is defined in the agreement itself.
8.3	Consultants with poor performance history may continue to work.	8.3	If the cost estimate prepared by the consultant differs by more than 25% of the actual cost, explanation is asked for and presented to the departmental chief for action. If justifications given by the consultant are not satisfactory, he should be warned; a record should be created and forwarded to all the ministries. If any consultant is warned for three times, he is black listed.

---

# Glossary

---

<b>Bid, Tender</b>	A set of documents submitted by a prospective contractor or supplier to a project office containing a description of works or goods to be provided and the proposed price. It may contain information about the bidder's qualifications to undertake the work. The terms 'bid' and 'tender' are interchangeable.
<b>Consultant</b>	A person or a firm appointed by the executing/implementing agency to provide specific technical services in the project (e.g. feasibility studies, social and environmental assessment, engineering design, tendering assistance and supervision of construction). In the context of a construction contract the term 'Consultant' is used to mean the Engineer, Engineer's Representative or Employer's Representative depending on the conditions of contract.
<b>Contractor</b>	A firm contracted by the executing/implementing agency to construct works, install plant/machinery or supply materials according to the design, drawings and specifications provided by the executing/implementing agency. In some contracts the Contractor may be required to design all or part of the works and plant/machinery. A users' committee is a special form of contractor.
<b>Development Partners</b>	An international financing institution, United Nations agency or bilateral financing or development agency which provides loan, grant or other type of funding for a project under an agreement concluded with HMG/N.
<b>Guideline</b>	A recommended set of procedures or requirements which effort should be taken to comply with. Guidelines in PWD generally follow international best practices.
<b>Implementing Agency</b>	The agency responsible for the procurement and delivery of specific project inputs and their conversion to project outputs. It is usually a unit within the Executing Agency's organization structure e.g. department or division.
<b>Pre-qualification, Post-qualification</b>	An assessment made by the implementing agency of the experience and technical and financial capacity of prospective contractors and suppliers expressing interest in undertaking a particular contract for the purpose of excluding companies which do not meet the minimum criteria set by the implementing agency. Prequalification is undertaken before inviting bids. Postqualification is undertaken after bids have been received, and usually before the proposed price is considered. Programme A set of activities or projects approved and scheduled over given time period to meet certain objectives (e.g. five-year road periodic maintenance programme).
<b>Project</b>	A specific infrastructure development activity with a starting point and end point intended to accomplish a specific objective. Donors' use of the term 'project' can sometimes be misleading. In donor terms a project is often a group of closely-related infrastructure and supporting institutional development activities (e.g. construction works plus technical assistance) funded by a single loan.

---

**Standard Bidding Documents**

A set of documents used in the procurement of works, goods and consulting services, normally comprising instructions to bidders, bid data sheet, general conditions of contract, conditions of particular application, specifications, drawings, bill of quantities, bid evaluation criteria, qualification form, and bid and performance security forms.

**Procurement**

Procurement means procurement of Goods and Services and it includes Public works.

---