



AUDIT
OFFICE



REPUBLIC
OF CYPRUS

Public Procurement & Technical Audit

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OF CYPRUS

Cyprus , is an island with a population of approximately 1.2 million and an area of 9,251 km², located in Eastern Mediterranean.

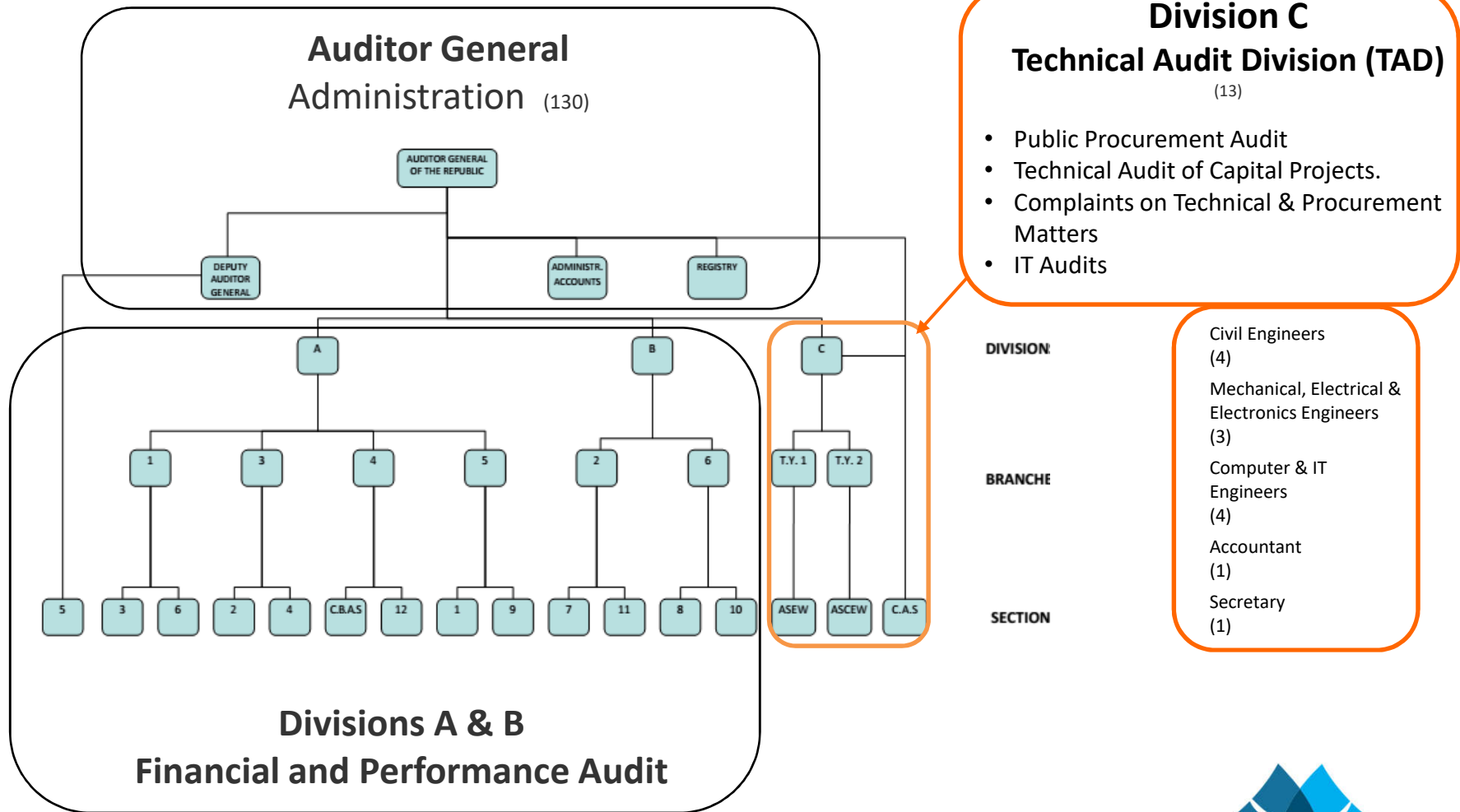


Public Procurement / Public Projects

- **Public procurement and Capital Projects (3500 contracts awards - €700 m)** are extremely significant for the Cyprus Economy as the annual spending through procurement is around **10% of the GDP**
- With a **development budget of approximately €1 bn/year**, around **15% of the total annual budget (€7bn)** it is believed that the audit of these capital projects should not be limited to financial and legality audits
- Internal Audit Systems or Specialised Procurement Units **are not efficient nor effective enough in Cyprus**
- **Since 40 years ago** the Cyprus Audit Office started employing qualified engineers with specialised knowledge and expertise to evaluate constructively all aspects of a project



CY Audit Office Organisation Chart



Public Procurement / Public Projects

Works, Supplies, Services and Concessions

Hospitals/ Health



Public buildings



Medical equipment / medicines



Services



Schools/Education



Military equipment



Public Procurement / Public Projects

Works, Supplies, Services and Concessions

Nicosia Square



**Plants/
Installations**



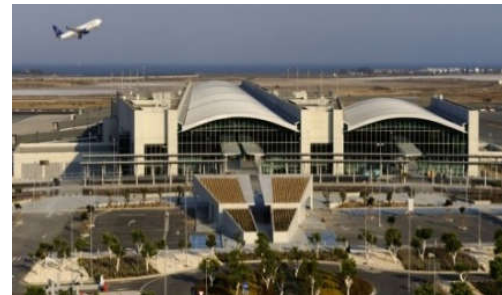
Ports



Roads



Airports



Public Procurement / Public Projects Stages

CONTRACT STAGE	Audit Office KEY OBJECTIVES through expression of comments
Initial Project Concept	project is Value for Money
Appointment of Advisors/Team	methodologies, evaluation criteria and compliance
Project Appraisal	solution meets the needs
Design Stage	meet the approved criteria set
Preparation of contract documents	compliance, equal treatment, non discrimination, transparency and competition
Procurement	most economically advantageous bid
Implementation & Project Management	time, quality and budget
Final account	quantities, prices, changes and claims
Project's return	meets planned expectations & benefits



Public Procurement Legal Framework 1/2

- **EC Directive 24/2014** providing for the procedures applicable on public procurement, the classical Law No. 73(I)/2016
- **EC Utilities Directive 25/2014** providing for the award of public contracts for supplies, works and services **in the sectors of water, energy, transport and postal services** and for related matters, Law No. 140(I)/2016
- **EC Concessions Directive 23/2014** providing for the procedures for the award of concession contracts, Law No. 11(I)/2017
- **EC Directive 66/2007** providing for the set up of the **Tenders Review Authority** and appeals for the application of Review procedures Law No. 104(I)/2010
- **Laws** providing for the award of contracts in the **area of Defence, the Communities & Municipalities Laws, the School Committees Law**
- **Regulations** for the application of the procurement legislation, the award of public supplies, works and service contracts and related matters and the execution of public contracts



Public Procurement Legal Framework 2/2

- **Standard Tender Documents**
- **Best Practice Guides & Circulars**
- **Law regarding the Financial Accountability and Financial Framework**
- **Law regarding the Provision of Evidence and Information to the Auditor General of the Republic**
- **Audit Directives of the Audit Office of the Republic.**
- **The Constitution of the Republic of Cyprus**
- **International Standards**
- **Code of Ethics of the Audit Office**
- **etc....**



The Relevant Administrative Bodies

Procurement and Contract Awards:

- ❖ Competent Authority for Public Procurement
- ❖ Contracting Authorities
- ❖ Evaluation Committees
- ❖ Tender Boards

Contracts Administration/Execution :

- ❖ Project Managers or Coordinators
- ❖ Departmental Committees for Variations and Claims
- ❖ Steering Committees or Management Committees
- ❖ Central Committee for Variations and Claims

Notification of Documents and right for Observers to attend and express opinion

- ❖ The Accountant General –Treasury
- ❖ The Auditor General
- ❖ The Attorney General



Technical Audit Division -Audit Directives

- ❖ Various audits carried out by TAD are carried out in collaboration with other Audit Office Divisions. At the same time, TAD offers assistance to the Audit Office Sections of the two Directorates, namely their technical expertise/knowledge, with regard to audits carried out by these Audit Office Sections.
- ❖ Based on the relevant **Audit Directives**, the technical audit carried out by TAD concerns the audit of works, supplies and services

- Stage 1 the pre-award stage



- Stage 2 the award stage



- Stage 3 the execution stage



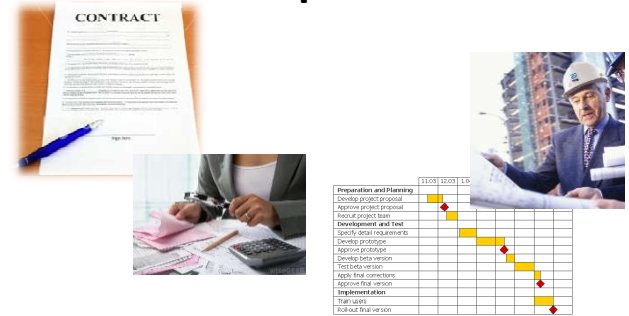
Compliance, Performance & Value for Money



Strategic Decisions Audit



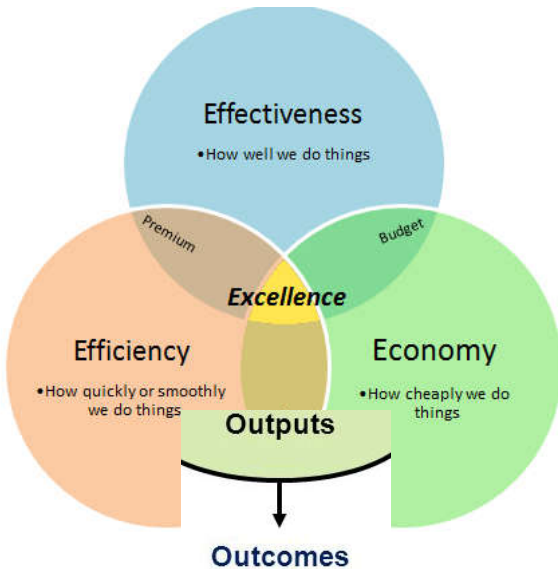
Contract Execution & performance



Procurement Audit



IT Audit



Complaints Review



What do TAD audit - Indicative numbers/year

- **Public Procurement**

Procurement method

Tender procedures (~CG 80/LA 406/OB 50)

Tender documents (~ 1500/ 5000 TDc + 1300 Addenda)

Evaluation of tenders (~ 450/800 EC + ~ 650/1300 TB)



- **Execution of contracts**

Variations and Claims (~ 450/800 DC + ~ 1350/1350 CC)

On-site inspections of construction works (~ 20)

- **Investigation of complaints (~ 110/250/year)**

- **Other Investigations (~ 45)**

CG: CENTRAL GOVERNMENT

EC: EVALUATION COMMITTEES

TDc: TENDER DOCUMENTS

LA: LOCAL AUTHORITIES

TB: TENDER BOARDS

DC: DEPARTMENTAL COMMITTEES FOR CHANGES AND CLAIMS

OB: OTHER BODIES

CC: CENTRAL COMMITTEE FOR CHANGES AND CLAIMS



What do TAD audit - Indicative numbers/year

- **Special and Annual Audit Reports** (~ 100)
- **Public Buildings (Rented)** (~ 10)
- **Donations /Condemnations** (~ 300+300)
- **Technical assistance in police investigations/criminal cases** (~ 5)
- **Information Technology/Electronic Data Processing Systems**
- **IT & Technical support within the Audit Office (daily calls)**



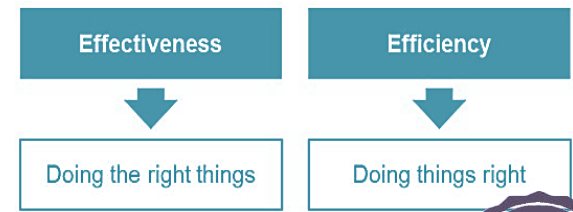
Other Incoming : ~ 13000/year

TAD Letters (findings): ~ 1500/year

(All incoming ~ 100 /day)



Why should TAD audit



- Test the effectiveness of existing controls with sample audits
- Maximise economy and efficiency in procurement, encourage participation in procurement proceedings by suppliers and contractors
- Promote competition among suppliers and contractors for the supply of the goods, works or services to be procured
- Provide for the fair and equal treatment of all suppliers and contractors
- Promote integrity and public confidence in the procurement process
- Ensure the the principles of transparency and equal treatment in procedures relating to procurement



Procurement & Technical Audit

Ex-ante Audit or **Pre-Audit**
Proactive / Preventive
Audit

In Advance/**During**

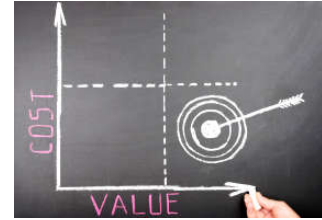
Post-ante Audit or
Post-Audit
In Retrospect Audit

Traditional Audit

- procedures, methods and actions comply with Laws and Regulations and are designed to prevent **Incompetence, Fraud and Corruption** and Detect responsibilities.
- **weaknesses**, comment constructively and make suggestions for improvements



Pre-Audit Advantages

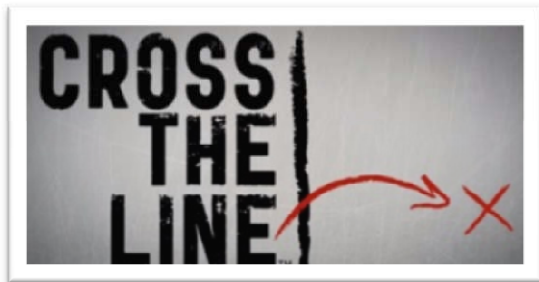


- Prevention ➡ Best & Immediate value
- Strong Audit (monitoring) Systems at all stages
- Detection & Prevention of errors and fraud at early stage
- Early identification of losses due to waste and inefficiency – margins for rectifications
- Keep Abreast and Act on Current Matters
- More Effective & More Reliable (current data available)
- Auditees get advice but are Audited at All Stages (valued by external stakeholders)
- Special Reports for Incidents of fraud or bad management are made known to the public when they occur



Pre-Audit Risks

- Advisory vs Audit
- Audit vs Execution
- Relationships,
But.....
- there is a **red** line!



- Proactive audit needs to be carefully managed to ensure ISSAI compliance

Government is fully and solely responsible for its acts and omissions

Pre-Audit Benefits

- ✓ Maximise Value of Public Funds
- ✓ Create Awareness



Examples of tender documents audits

Tender Documents Criteria	Audits		Suitable Criteria
<p>Participation Guarantee</p> <p>Standard Tender Documents PART A (pg § 2.15)</p> <p>Circular Treasury/AAΔΣ 61, dated 8.4.2013</p>	<ul style="list-style-type: none"> • CAs are encouraged to avoid the requirement for a participation guarantee and, instead, where appropriate, to use the Non-Withdrawal Obligation Commitment. 		<p>Encourage Participation</p> <p>More Competitive tenders</p> <p>Fair Competition Market research/availability</p>
	Avoid if possible	Use where appropriate (Amount)	



Examples of tender documents audits

Tender Documents Criteria	Audits	Suitable Criteria
<p>Technical and professional ability</p> <p>PART A (pg § 6.2.3) Eligibility and Requirements for Participation – Technical and Professional Ability</p>	<p>The amount requested in relation to previous contracts</p> <p>The requirement for previous successful completion of contracts, number of years, participation and completion rates VS the characteristics of each competition.</p> <p>The requirement for experience of the Project Team and method of submitting such data, in order to avoid issues arising during appeals to the Tender Review Authority (e.g unnecessary specific requirements at the submission stage)</p>	<p>Ensure satisfactory levels of fair competition & Participation</p> <p>Avoid appeals that cause time and money</p> <p>More Competitive tenders</p> <p>Market Research (availability)</p>





Examples of Implementation audits

On-site audit of construction projects

- In the presence of the Contracting Authority
- Physical examination of the progress of work
- Project files for important data
- Delays/ time extension
- Quality
- Interim payment certificates
- Alterations or variation orders & Claims (time & cost)
- Any audit findings and comments are communicated in writing to the competent Contracting Authorities for their information, comments and actions
- In cases where criminal issues are raised the findings are also communicated to the Attorney General of the Republic for their consideration and actions.

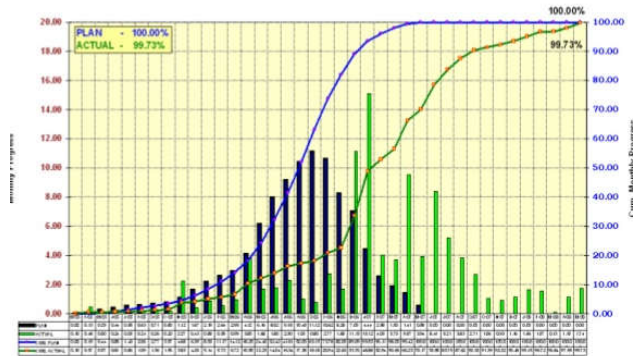




Examples of Implementation audits

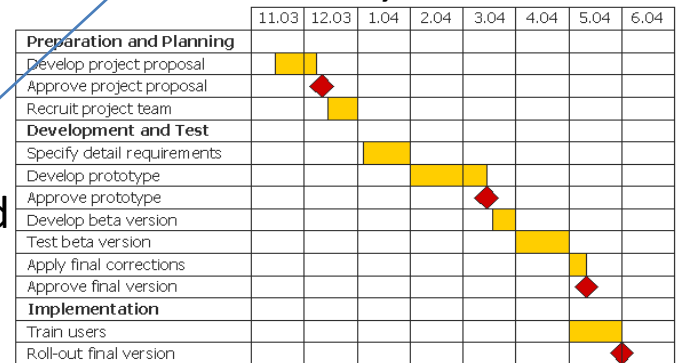
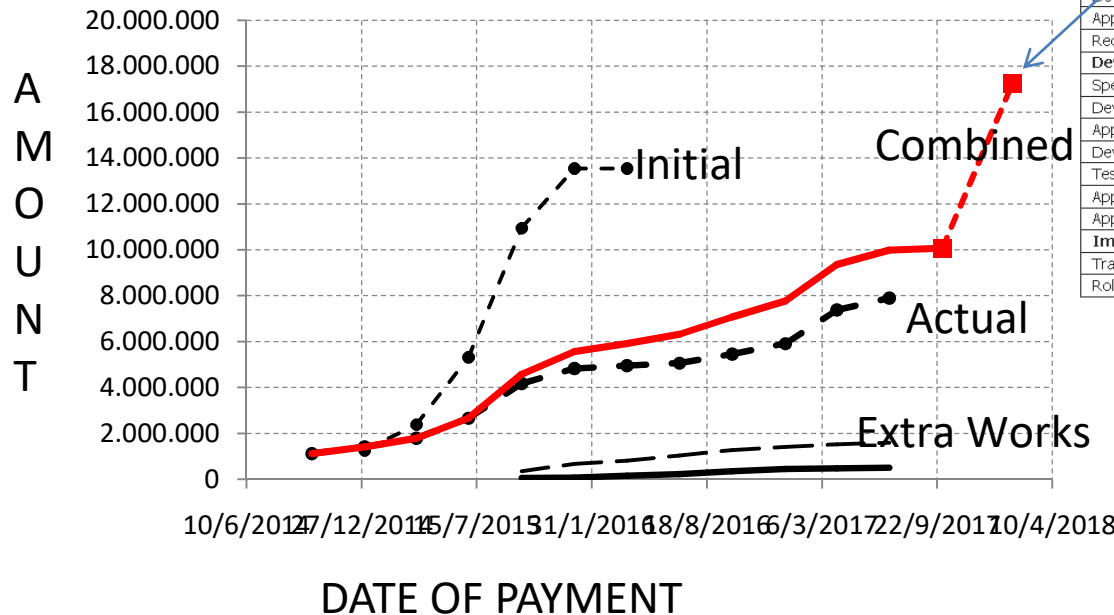
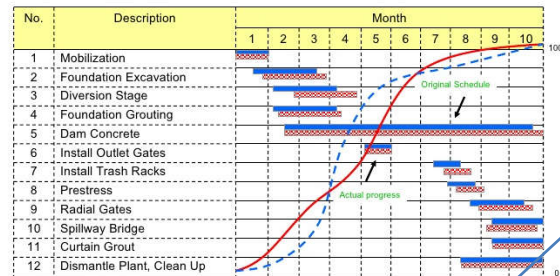
On-site audit of construction projects

Example:
2012-2014 (2)
 €23m
 2014 €5,5m
1) 2015-2016
 €13,5m
end of 2018 (6)
2) 2018-2019
 €5,2m



Progress Curves

Table 3.4 Combination between S-Curves and Bar Charts



Examples of Audits resulted to a positive outcome

CONTRACTING AUTHORITY	Description	Benefit for the State
<p>Pharmaceutical Services</p> <p>Self-inquiry Investigation</p> <p>Special Report on Medicines</p>	<ul style="list-style-type: none"> • Studies by experts appointed by the Ministry of Health for the pricing of medicines in Cyprus • not promoted by the Ministry of Health • Audit Office highlighted the problem • Ministry of Health initiated the implementation of these expert recommendations • changing the pricing of medicines with date of application 1/6/2018 	<p>Reduction in prices saving and change of bad governance</p>



Examples of Audits resulted to a positive outcome

CONTRACTING AUTHORITY	Description	Benefit for the State
<p>Police</p> <p>Tender for “X communication system” for the Cyprus Police</p>	<ul style="list-style-type: none"> • Competition with only two economic operators • Evaluation committee recommended that only the financial offer of one met the eligibility criteria. • The Audit Office expressed the opinion there was no fair Competition and that the criteria were strict • Tender Board (Competent Body) decided to cancel the competition • The Contracting Authority initiated a new tender procedure and modified the criteria • The economic operators submitted competitive tenders 	<p>Initial Cost Estimate: €5.882.353 + ΦΠΑ</p> <p>Award Price: €3.218.000 + ΦΠΑ</p> <p>(45% reduction)</p>



Examples of Audits resulted to a positive outcome

CONTRACTING AUTHORITY	Description	Benefit for the State
<p>Council of Exploitation of Landfill Disposal Sites of XX</p> <p>Conclusion of Supplementary Agreement for diversion of additional municipal waste from the YY District</p> <p>2006-2010+10</p>	<ul style="list-style-type: none"> • The conclusion of a supplementary agreement has repeatedly addressed the C Committee f C&C since August 2017. • Our Office has conducted an audit check and expressed the opinion that amount of €20 million proposed by the AA department should be reduced by approximately € 7 million. • Our Office also detected and highlighted the lack of actions, the delays in the handling the problem on behalf of the contracting Authority, which finally leaded to a dead-end for the government in general. • The remaining amount of € 4.5 million is included in a request by the Commissioner for State Aid Control to the European Commission for consideration of potential state aid due to overpayment under the contract 	<p>The amount of €20 million was reduced by € 2.5 million and the per ton unit rate was reduced from 65 to 36 euros.</p>





Technical Performance Audits

1 v Collection and transportation of wastes

Efficiency and effectiveness of the municipal solid waste collection activities which are carried out by municipalities and communities or outsourced to private companies

2 v Information Technology (IT) procurement practices

Audit IT procurement practices of the Department of Information Technology, the value delivery to the Republic Review software selection and acquisition procedures, software licensing agreements, maintenance and support agreements and outsourcing arrangements





Continuous need to improve operational effectiveness

- Use of existing information to produce significant performance audits
- Use feedback to evolve
- Re-assess opportunities & Re - prioritise activities
- Re-establish ways of working
- Re-visit methods
- Case by Case Vs Targeted Audit

Continuous Evaluation

- AORC- TAD Self Assessment
- UK NAO - TAD Peer Review

TIME AND RESOURCES





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transparency



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Thank you

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