



Procurement Auditing

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Presentation Topics



Procurement Strategy.

Procurement Audit.

Procurement Process Flow.

Procurement Risks.

Purchasing Process Flow (Store Stock).

Sample of Audit Steps and Tests

Sample of Audit Findings and Recommendations.

Procurement Strategy



It should always be aligned with overall enterprise strategy. It should be the optimal path to reach the desired goal.

Procurement process should be well planned, managed, monitored and controlled.

Sample of Procurement Strategy:

- Procurement is the acquisition of the materials, supplies, services, etc. That a company or project requires in order **to successfully operate**.
- long-range plans for ensuring timely supply of goods and/or services that are critical to a firm's ability **to meet its core business objectives**.
- planned approach of cost-effectively purchasing a company's required supplies, taking into consideration several elements and factors such as the **timeline for procurement, the funding and budget, the projected risks and opportunities**.

Procurement Strategy



Procurement Vs. Purchasing:

Procurement deals with the **sourcing** activities, negotiation **and** strategic selection of goods **and** services that are usually of importance to an organization.

- Directly related to enterprise strategy;
- It is more a selective process;
- as per the company/project needs;
- Quality is a must;
- it has more negotiation, researching and forecasting.

Purchasing happens to be a part of the procurement process. It is the process of how goods and services are ordered. Purchasing is very straightforward and requires the authorization of the proper authority to be done.

Procurement Strategy



Procurement Vs. Purchasing:

Purchasing	Procurement
How goods or service been ordered	Why goods or service been ordered
Transactional Process	Strategic Process
Work with existing vendors	Find vendor and build relationship
Less engagement of stakeholder	More engagement of stakeholder
Having right goods at right time, at optimal price	Cost saving , risk reduction
Depend on organization attention to detail.	Depend on negotiation and research



Procurement Audit

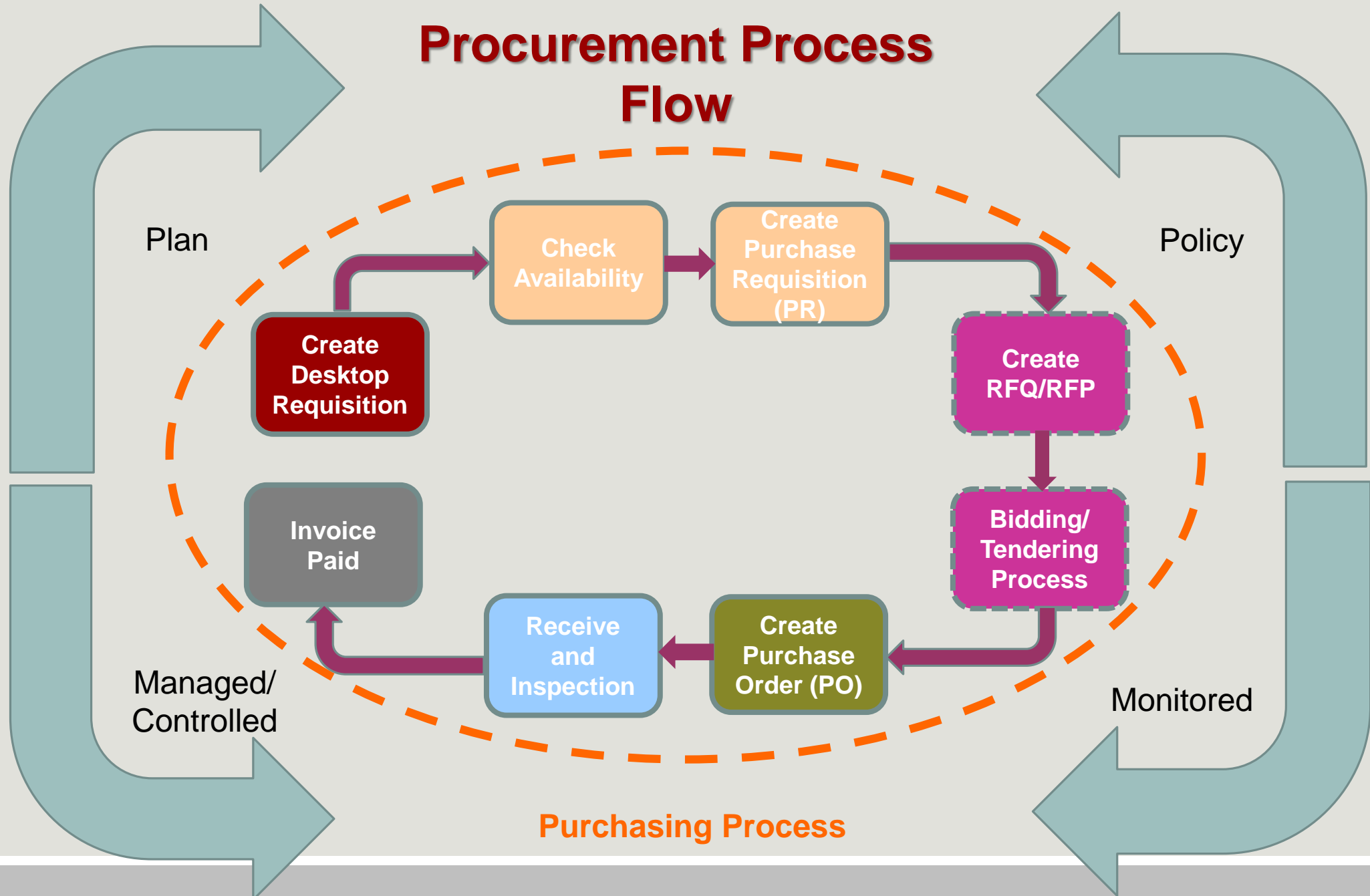
It is a project management process that reviews different contracts and contracting processes to determine the completeness, efficiency as well as the accuracy of the procurement process.

From Audit point of view, almost all procurement risks consequences can be classified under (**Enterprise fund waste or inability to continue the operations**).

Audit General Objectives:

- ✓ Ensure the alignment of the procurement management policy with enterprise strategy.
- ✓ Ensure the efficiency and effectiveness of the management control framework to support contracting and procurement activities.
- ✓ Ensure the accuracy, Integrity and completeness of procurement system processes.

Procurement Process Flow





Procurement Risks

Procurement risk is defined as: the potential for failures of a procurement process designed to purchase services, products or resources.

These risks and controls might be nested with several departments/divisions **BUT** it should always be considered during the audit assignment.

Sample of Procurement risks through the procurement phases:

Procurement Phase	Risk	Consequences
Policy	Absence of policy	<ul style="list-style-type: none">• Difficulties in planning.• Stumbling in purchasing process
	Not aligned with strategy	<ul style="list-style-type: none">• Greater expense.• Poor operation.

Procurement Risks

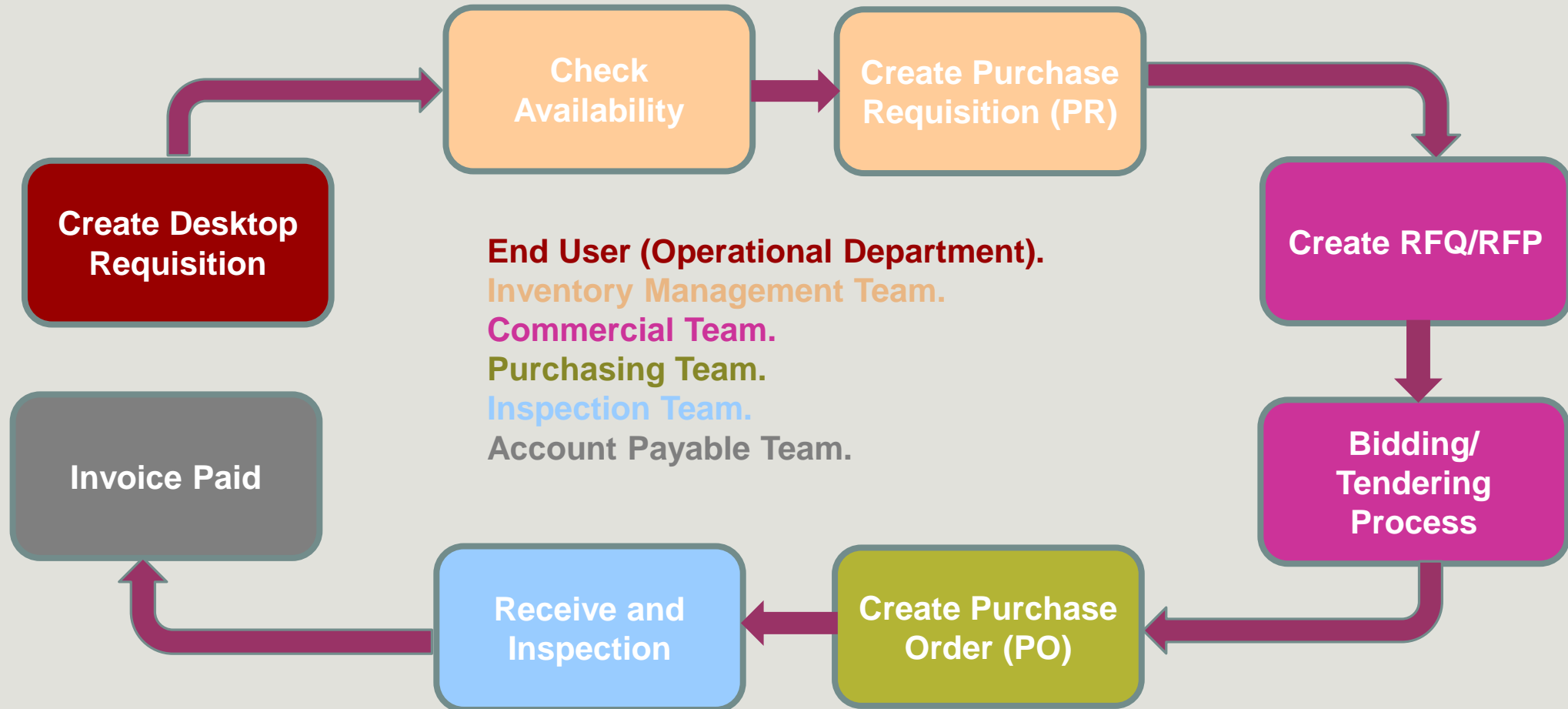


Sample of Procurement risks:

Procurement Phase	Risk	Consequences
Planning	Misinterpretation of user needs	<ul style="list-style-type: none">• Increased costs• Possible downtime
	Overstatement of the need	<ul style="list-style-type: none">• Greater expense (incurring additional cost)• Poor competition
Managing/Controlling	Providing inadequate information	<ul style="list-style-type: none">• Additional costs• Time waste
	Inadequate tender management	Claims of bias and favouritism to organisations or individuals
Monitoring	Offers fail to meet needs	<ul style="list-style-type: none">• Failure to improve procurement and management processes• Additional costs• Time waste
Purchasing Process	Explained in detailed in next slides	<ul style="list-style-type: none">• Explained in detailed in next slides



Purchasing Process Flow (Store Stock)





Audit Steps and Tests

Create Desktop Requisition:

Responsibility:

This process is performed by end user in Operational departments.

Risk Category:

Human error risk / Operational risk.

Audit Test:

- Review enterprise approved procedures for creating a requisition.
- Review the list of requisitions for certain period of time.
- Delegation of authority.

Control:

- Proper segregation of duties between the initiator of the requisition and the approval.
- No duplicated requisition are made (proper sequences).
- System (Completeness, Validity, Integrity) Checks.

Audit Steps and Tests



Check Availability:

Responsibility:

This process is performed by Inventory Management Team.

Risk Category:

Financial risk / Operational risk.

Audit Test:

- Review the latest periodic physical count report.
- Check the Minimum and Maximum level of the store stock items.
- Check list of slow moving items.

Control:

- Ensure business continuity by (Critical item \geq minimum level).
- Save enterprise fund (Item availability $<$ maximum level).
- Ensure the accuracy and integrity of warehouse system (Physical count in different store location = system count).

Audit Steps and Tests



Create Purchase Requisition (PR):

Responsibility:

This process is performed by Inventory Management Team.

Risk Category:

System error risk.

Audit Test:

- Compare the PR list with Desktop Requisition list (Compliance test).
- Review enterprise approved procedures.
- Delegation of authority.

Control:

- Proper approval is obtained.
- System (Completeness, Validity, Integrity) Checks.
- Proper system integration between different warehouses.

Audit Steps and Tests



Create RFQ/RFP:

Responsibility:

This process is performed by Commercial Team.

Risk Category:

Human error risk / Operational risk.

Audit Test:

- Review sample of Request for Quotation (RFQ).
- Calculate the time interval between PR and RFQ.
- Compare the RFQ with PR list and specifications(Compliance test).

Control:

- Time constraints for the critical items is being applied.
- Proper approval is obtained.
- Technical specification are clearly defined.

Audit Steps and Tests



Bidding/Tendering:

Responsibility:

This process is performed by Commercial Team.

Risk Category:

Finance risk / Reputational risk.

Audit Test:

- Review the list of approved suppliers.
- Review tendering policy and verify it with actual practices.
- Compliance check between RFQ/RFP with bidder's offers.

Control:

- Proper approval is obtained.
- High competition bidding is applied.
- Proper documentation and data retention of tendering processes.



Audit Steps and Tests

Create Purchase Order (PO):

Responsibility:

This process is performed by Purchasing Team.

Risk Category:

System error risk / Human error risk.

Audit Test:

- Review enterprise approved procedures for generating PO.
- Review list of PO generated during the certain period.
- Delegation of authority.

Control:

- Proper segregation of duties between the initiator of the PO and the approval.
- System prevent splitting the POs for the same supplier.
- Time constrains between initialing the PR and PO “As per policy”.

Audit Steps and Tests



Receive and Inspection:

Responsibility:

This process is performed by Inspection Team.

Risk Category:

Financial risk / Operational risk.

Audit Test:

- Review delivery policy and methodology.
- Review inspection procedures and receiving reports.
- Review quality management report (ex. Discrepancy Report).
- Compliance check between POs and received goods.

Control:

- Proper segregation of duties between the custody of the asset from the receiving.
- Receiving department is not informed of the quantity ordered.
- Proper storage of received goods/items.
- Update data in correspondence systems.

Audit Steps and Tests



Invoice Paid:

Responsibility:

This process is performed by Accounts Payable Team.

Risk Category:

Financial risk / system error risk.

Audit Test:

- Review payment policy.
- Review list of invoices paid during period of time.
- Review contract's Liquidity Damage (LDs).
- Review contract balance, if applicable.

Control:

- Apply 4 ways matching between PRs, POs, received goods, and the invoice (PR-PO-GR-IR).
- Proper approval is obtained.
- Complete, accurate and correct information of items listed in the invoices.
- Proper segregation between recorder of invoice and custody (payments).

Sample of Audit Findings and Recommendations



Audit Findings	Impact / Risks	Recommendations
<p>Non-compliance with approved inventory levels - minimum and maximum for warehouse materials</p>	<p>A defect in the planning processes of the inventory and thus expose the company to the risk of interruption of operations and operations and cost increasing.</p>	<p>Conduct a periodic study on the minimum and higher limits of stocks and the level of economic re-purchase of materials, taking into consideration enterprise strategy.</p>
<ul style="list-style-type: none"> - Suppliers in the system have more than one supplier number and file. - Records of fictitious suppliers that were created for testing purpose still exist and are activated. 	<p>unrealistic statements in the company's periodic and financial reports, and non effectiveness controls to follow up the company's expenses and its obligations accurately.</p>	<ul style="list-style-type: none"> - Update and improve the list of suppliers in the system. - Delete the records of delusional suppliers from the system.
<p>Some of return items has an average time of 47 days between the adoption of the re-entry request and the actual retention of the items into the warehouses. (policy stated that it should not be more than 5 working days)</p>	<p>Adversely affect the accuracy of the existing quantities of such materials and may expose the materials to loss or damage because they are not properly stored at the user.</p>	<p>Comply with the approved period of time to re-enter materials to the company's stores</p>

Sample of Audit Findings and Recommendations



Audit Findings	Impact / Risks	Recommendations
Delayed delivery of ordered items where these items delayed for more than one month. No LD applied on these delayed suppliers.	Adversely affect the efficiency of the work in the factories of the company and the completion of projects on time.	<ul style="list-style-type: none">• Activate the mechanism of follow-up purchase orders to ensure their arrival on time without delay.• Take appropriate action against suppliers in case of delay.



Questions?