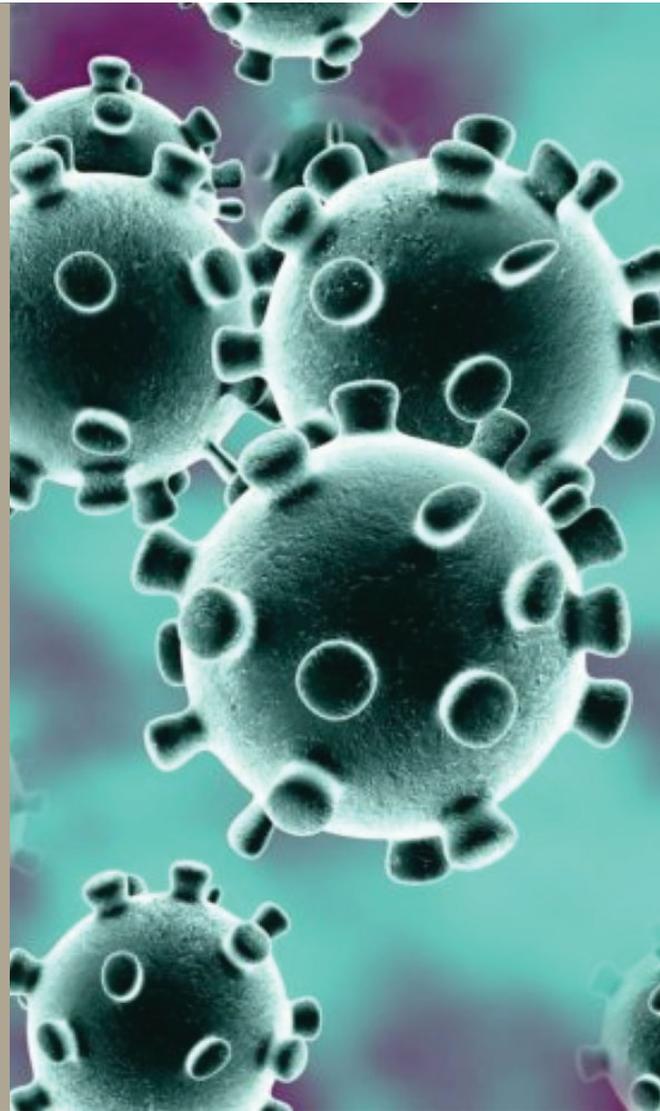




**THEMATIC AUDIT
REPORT ON
COVID-19**

Related Procurement
in a State of Public
Emergency by Three
Ministries



Ministry of Health & Medical
Services-protect yourself,
protect others form
coronavirus/Picture

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in a State of Public
Emergency by Three
Ministries

For the period
1 April to 31 December 2020

Reported by:
Office of the Auditor-General
P O Box G18, Honiara
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Table of contents

Auditor-General's Overview	3
Abbreviations.....	5
1. Introduction	6
2. Summary.....	6
3. The Audits.....	7
4. Recommendations.....	9
5. Detailed Findings	11
Guidance on the risks associated with non-competitive procurement is needed.....	11
The bid waiver process was not effectively managed	12
In the absence of a tender process some key controls were side-lined.....	13
Conflict-of-interest declarations were not required.....	13
Detailed specifications were generally not prepared.....	13
Businesses which were not registered were awarded contracts	14
Provision of approvals after the procurement is completed.....	14
Use of Imprest Accounts.....	15
Appropriation management	16
Transparency.....	17
Documentation	17
Inclusiveness	18

Auditor-General's Overview

The use of disaster relief funds is critical to the Solomon Islands Government response to State of Public Emergency (SOPE) COVID response plan.

Immediately following the declaration of the SOPE, the Government reallocated existing Ministries budgets towards enabling funding of the Governments emergency preparedness and response plan.

My Office selected three Ministries key to the implementation of the preparedness and response plans and undertook an independent audit on the manner and level of compliance that each Ministry demonstrated during the period following the declaration of SOPE. The three Ministry selected were:

- Ministry of Health and Medical Services (MHMS)
- Ministry of Infrastructure (MID)
- National Disaster Management Office (NDMO) through the Ministry of Environment, Climate Change, Disaster Management and Meteorology.

In the case of MHMS and in collaboration with Pacific Association of Supreme Auditors (PASAI) and INTOSAI Development Initiative (IDI), we also looked at specific dimensions namely transparency, accountability and inclusiveness (TAI) to identify potential gaps and recommend possible solutions to address these. These dimensions were selected based on international experience of best practice needs during an emergency situation.

This thematic report is a consolidation of all three audits undertaken which are individually tabled to Parliament. Our assessment recognised some common themes across the three Ministries which provided an opportunity for all Ministries including Ministry of Finance and Treasury (MoFT), to address these findings together in a consistent and sustainable manner and improve the level of internal control in Government procurements. Whilst the individual audit reports provide recommendations directed at the auditee, this thematic report focuses on suggested inputs from MoFT.

It is important to acknowledge the extraordinary circumstances created by COVID which heightened the inherent risk for expediting procurements and delivery of services at the expense of following established procedures. It is my view however that the existence of an urgent requirement should mean that controls are applied with urgency, and not discarded.

The common themes include the lack of transparency and required documentation, including the inability to provide my office with full documentation to review transactions, indicating a major failure of accountability and this is an area that all Ministries need to address.

There are also areas in which noncompliance, potential fraud and lack of accountability could together impact the efficient emergency procurements to deliver required and effective services expected during a crisis situation.

It is my hope that our recommendations will assist the Government and the Ministries involved to strengthen their procurement processes both in emergency and normal operations. I intend to do a follow up of findings and commitments made in future audits of each of the Ministries.

I would like to acknowledge my audit team including Department of Foreign Affairs and Trade (DFAT), PASAI and IDI for their assistance during these multiple audits. I would also like to thank all

the staff from MoFT, MHMS, MID and NDMO for their dedication during COVID and for their engagement during our audits.

Yours sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

David Teika Dennis
Auditor General

Abbreviations

COVID-19	<i>Corona virus</i>
CTB	<i>Central Tender Board</i>
DFAT	<i>Department of Foreign Affairs and Trade, department of the Australian federal government</i>
Fls	<i>Financial Instructions</i>
IDI	<i>INTOSAI Development Initiative</i>
INTOSAI	<i>International Organization of Supreme Audit Institutions</i>
ISSAI	<i>International Standard of Supreme Audit Institutions</i>
MECDMM	<i>Ministry of Environment, Climate Change, Disaster Management and Meteorology</i>
MFAT	<i>Ministry of Foreign Affairs and Trade, Ministry of the New Zealand Government</i>
MHMS	<i>Ministry of Health and Medical Services</i>
MID	<i>Ministry of Infrastructure Development</i>
MoFT	<i>Ministry of Finance and Treasury</i>
MTB	<i>Ministerial Tender Board</i>
NDMO	<i>National Disaster Management Office</i>
OAG	<i>Office of the Auditor General</i>
PASAI	<i>Pacific Association of Supreme Auditors</i>
PCAM	<i>Procurement & Contract Administration Manual 2013</i>
PFMA	<i>Public Financial Management Act 2013</i>
PFMR 2021	<i>Public Financial Management (Procurement) Regulations (2021)</i>
PR	<i>Payments Requisition</i>
PRP	<i>Preparedness and Responsive Plan</i>
SIG	<i>Solomon Island Government</i>
SoPE	<i>State of Public Emergency</i>
TAI	<i>Transparency, Accountability, & Inclusiveness</i>
TEC	<i>Tender Evaluation Committee</i>
WHO	<i>World Health Organisation</i>

1. Introduction

- 1.1 In response to the international COVID-19 pandemics, the Solomon Islands Government developed the SIG COVID-19 Preparedness and Response Plan. Various Ministries were tasked with implementing different aspects of the Plan and were funded to allow them to do so. This funding was formally appropriated in the 2020 Supplementary Appropriations Bill with the Ministry of Environment, Climate Change, Disaster Management and Meteorology (MECDM) was allocated \$33.6 million for disaster relief, the Ministry of Health and Medical Services (MHMS) was allocated \$26.8 million and the Ministry of Infrastructure Development (MID) was allocated \$13.3 million. These funds were used to procure goods and services associated with each Ministry's specific responsibilities under the Plan.
- 1.2 OAG has conducted audits of the procurement in each of these Ministries and the results of these audits are reported separately. This Report brings together common themes that were evident across these audits with the intent of generating improvements in the Government procurement infrastructure to ensure that appropriate internal control is maintained over procurement, even in a State of Public Emergency.
- 1.3 MoFT is responsible for the financial rules applying to procurement transactions and these need to be improved in light of the findings of these audits to ensure control over procurement when an SoPE is declared, particularly if a large amount of emergency purchases need to be made. New Financial Regulations were introduced in 2021 (Public Financial Management (Procurement) Regulations 2021) (PFMR) which enhance procurement requirements but there are still some areas where improvement could be made, particularly around sole-source procurement, documentation and training of procurement officers. Payments via imprest account are not covered by these Regulations.

2. Summary

- 2.1 After the World Health Organisation (WHO) declared the COVID-19 as a pandemic, the Solomon Islands Government (SIG) took steps to protect the country and deal with the crisis. A State of Public Emergency was declared on 25 March 2020 under section 16 of the Constitution. The Government developed a COVID 19 Preparedness and Response plan and introduced border controls and established quarantine facilities for incoming travellers. To support its actions in protecting and dealing with the pandemic, SIG rechannelled funds towards the Ministries responsible for implementing the plan. The budget of most SIG Ministries was reduced and \$167,328,248 was redirected towards the COVID-19 frontline ministries. COVID-19 related funds were put into a separate bank account, 'SIG COVID19', and relevant transactions were earmarked to be paid from that account.
- 2.2 In the months following the emergence of the COVID-19 pandemic in March 2020 in the Solomon Islands, the three Ministries covered by this report spent over \$90 million on goods, services and works to support the response to the pandemic, most of it though a truncated procurement process. The Ministries had to work at pace, with no experience of using emergency procurement on such a scale before and were developing their approach at the same time as procuring large quantities of goods and services quickly. The large volume

of non-competitive procurement that occurred as a result of the use of the bid waiver meant that greater vigilance was required on the part of MoFT and Ministries to ensure value for money and integrity of transactions. The Office of the Auditor General (OAG) found little evidence of any increased vigilance.

- 2.3 MoFT had little guidance in place about the use of bid waivers to award contracts directly and it could have taken steps to enhance this guidance, to balance the need to procure large volumes of goods and services quickly, with the increased risks associated with emergency procurement. OAG looked in detail at a sample of procurements across three Ministries. Although OAG found sufficient documentation for some of the procurements in our sample, we also found specific examples where there is no documentation on key decisions or regarding how risks such as perceived or actual conflicts of interest have been identified or managed. The quality of documentation to support transactions approved by MoFT was variable and in some instances did not indicate adequate internal control. There was no process to manage potential conflicts of interest in a no-tender environment.
- 2.4 In addition, a number of contracts were awarded retrospectively which meant that the Government did not control the work done under these contracts. Also, neither the supply opportunity nor the resulting award was advertised. This has diminished public transparency, and the lack of adequate documentation means we cannot give assurance that Government has adequately mitigated the increased risks arising from emergency procurement or applied appropriate commercial practices in all cases. While we recognise that these were exceptional circumstances, there are standards that the public sector must apply if it is to maintain public trust. Our audits found that these were not always applied.
- 2.5 MoFT is responsible for the financial rules applying to procurement transactions and these need to be improved in light of the findings of these audits to ensure control over procurement when an SoPE is declared, particularly if a large amount of emergency purchases need to be made.

3. The Audits

- 3.1 Audits were conducted of COVID-19 related procurement at the Ministry of Health and Medical Services (MHMS), the Ministry of Infrastructure Development (MID) and the National Disaster Management Office (NDMO). The objectives of these audits were to assess whether these agencies managed COVID-19 Procurement in accordance with relevant laws, policies and regulations of Solomon Islands Government. These include the Public Financial Management Act 2013, the Interim Financial Instructions currently in force and the Solomon Islands Government Procurement and Contract Manual [PCAM]. Funds for COVID-19 related expenditure were appropriated to the disaster relief account in each agency. The scope of the audit included all expenditure from the disaster relief account for the 2020 calendar year. Some non-COVID-19 related expenditure for disaster relief in NDMO was caught up in the OAG testing for relief after Cyclone Harold. Table 1 shows the funding for COVID-19 preparations and response for each agency. OAG tested transactions from 2020 expenditure. Table 2 shows that procurement expenditure by each of the three agencies up until the end of 2020.

Table 1 Funds appropriated for disaster relief targeted to the COVID-19 response

Funding Mechanism	Type of Funding	MECDM (NDMO)	Health	MID
2020 Appropriation Bill*	Original Appropriation	\$ 1,527,423	\$ 575,000	\$ -
2020 Supplementary Appropriation Bill 2020	Advance Warrant	\$ -	\$ 13,050,000	\$ -
	Contingency Warrant	\$ -	\$ 6,040,000	\$ -
	Budget Variation	\$ 33,617,600	\$ 26,765,440	\$ 13,304,400
2020 Supplementary Appropriation Bill 2021	Advance Warrant	\$ 12,156,277	\$ 31,701,300	\$ 4,000,000
2021 Appropriation Bill	Original Appropriation	\$ -	\$ 4,300,000	\$ -
2021 Supplementary Appropriation Bill 2021	Advance Warrant	\$ 22,479,787	\$ 51,640,484	\$ 3,841,661
		\$ 69,781,087	\$ 134,072,224	\$ 21,146,061

* 2020 appropriation bill was approved before SOPE was declared. These funds were spent on both COVID and other disaster relief costs.

Table 2 Disaster Relief Expenditure by each agency in 2020.

Agency	Disaster Relief Expenditure
MID	\$ 14,928,589
MHMS	\$ 26,059,941
NDMO	\$ 49,524,634
Total	\$ 90,513,164

Testing in the three audits identified a range of internal control failures as shown in Table 3.

Table 3 Internal control failures identified during the audits

Internal Control Failure	MID	NDMO	MHMS
Sole source procurement before approval of bid waiver			
Bid waivers approved by PS or MTB not CTB as required			
Procurement completed before Purchase Requisition approved			
Not receiving one written quote (required even with bid waiver)			
Work completed before contract signed			
Work commissioned without adequate specifications			
Vague or non-existent specifications for purchased goods			
Inadequate documentation of source selection decisions			
No evidence of receipt of procured items			
Inadequate assessment of completed work			
Funds expended before lawful appropriation			
Use of imprest for large procurements			
No conflict-of-interest declaration for officers making key procurement decisions			
Large procurements sourced from unregistered vendors			
Missing documentation			
Handwritten changes to key fields in documents			
No publication of procurement opportunities or successful suppliers.			
No effort to make opportunities available to vulnerable or minority groups			

More than one example of control failure found: 

One example of control failure found: 

- 3.2 A sample is only a subset of the whole population of transactions. Where only one example of a failure has been found, it demonstrates that the system has flaws which allow such a failure to occur. Where more than one example has been found, it indicates significant internal control failure.
- 3.3 Because most of these failures occurred in more than one Ministry, the underlying cause of the failures relate to the overall procurement framework which was not adequate for the emergency situation.

4. Recommendations

- 4.1 Financial Regulations and Instructions do not anticipate a situation where most procurement is subject to bid waivers and do not highlight the risks associated with sole-source procurement on a large scale. As a result, these risks have not been well managed.

Recommendation No.1

- 4.2 *MoFT prepare guidance and, where necessary, provide instructions to ensure Ministries effectively manage procurement risks in a State of Emergency, to better manage the increased risks associated with sole-source procurement.*
- 4.3 New Financial Regulations allow for bid waivers during a State of Emergency when procuring goods and service using normal tendering processes are 'not possible'. Most of the procurement done relating to the pandemic could have been carried out using normal competitive tendering so 'not possible' is not meant in its absolute sense and should be explained in more detail.

Recommendation No 2

- 4.4 *MoFT provide more detailed guidance to Ministries on what is meant by 'not possible' in S74(2) and S74(30) of the Public Financial Management (Procurement) Regulations (2021).*
- 4.5 With the frequent use of the bid waiver, some normal procurement requirements were discarded and procurement controls were often implemented after the procurement was basically complete so MoFT would initiate payment.

Recommendation No. 3

- 4.6 *MoFT bring to the attention of Ministries that the approval of a bid waiver does not remove the need to comply with the requirements of the Procurement Standards that do not relate to competitive tendering, and issue further guidance requiring procurement decision makers to complete a conflict-of-interest declaration even if they are not members of a Tender Board.*
- 4.7 The new Financial Regulations make it clear that officers should obey procurement requirements but based on the experience of procurement during the pandemic, should make it clear that applying controls after the fact is not compliant behaviour.

Recommendation No.4

- 4.8 *MoFT highlight to Ministries the impact of S92 of the PFMR 2021 and make it clear that not executing procurement in the order specified is 'an arrangement' under that section and amend the MoFT Compliance Checklist so that a compliance failure is recognised when*

appropriate authorisation or approval is not obtained before an action requiring such approval is taken. Eg Goods or services are received before a PR is authorised or a transaction is commenced before a bid waiver is approved.

- 4.9 Over \$12 million pandemic related procurement was done through the use of imprest accounts which are supposed to be for 'small, frequent payments. The largest imprest payment was \$225,900. Documentation supporting imprest payments is not well-regulated and normal procurement controls often do not apply to imprest payments.

Recommendation No. 5

- 4.10 *MoFT revise its imprest procedures manual to cap the value of procurements so that only small payments can be made using imprest and expand the guidance regarding the documentation required to support imprest payments so that key procurement controls are still applied.*
- 4.11 Significant amounts of expenditure were often committed and paid from disaster relief accounts prior to the lawful appropriation of funds by either appropriation Act or warrant. This is contrary to the Constitution and also creates risks of over-expenditure and makes it more difficult for the Government to pay its bills when they fall due.

Recommendation No. 6

- 4.12 *MoFT ensure that whenever funds must be expended which have not already been appropriated, a warrant is prepared for the Minister for Finance's signature as a matter of urgency and before the expenditure is committed. MoFT could also introduce cashflow phasing in the budget process so that funds are available to pay for necessary procurement for the entire financial year.*
- 4.13 The quality of documentation to support procurement was variable and in some cases missing altogether. For example, the reasons for supplier selection in most sole-source situations were not documented. Transparency in these situations is essential if the public is to have confidence in Government decision-making and also provides a trail for after-the-fact review.

Recommendation No. 7

- 4.14 *MoFT publish documentation standards which ensure that responsibility for decisions is fully transparent and make it clear to Ministries that transactions where documents do not meet these standards will not be processed. In particular reasons for selecting one supplier over others in a sole source situation should always be fully justified.*
- 4.15 Although the 'Central Principles for the Use of Public Resources' outlined in the PCAM define 'Equity', as being to 'support the acquisition of goods or services or both to advance community equality and provide economic opportunities for Solomon Islanders, including women, youth and people with disabilities, the audits did not identify any steps that have been taken to implement this principle.

Recommendation No.8

- 4.16 *MoFT should prepare guidelines to inform Ministries of the steps they can take to enhance procurement opportunities for minorities and vulnerable groups in accordance with the Equity principle in the PCAM.*

5. Detailed Findings

Guidance on the risks associated with non-competitive procurement is needed

- 5.1 In responding to the COVID-19 pandemic, public bodies were required to procure large volumes of goods, services and works, sometimes with extreme urgency. The only change to procurement regulations automatically brought about by the pronouncement of a State of Public Emergency is the provision in the Procurement and Contract Administration Manual which allows Ministries to apply for a bid waiver for specific transactions so that they do not need apply the normal competitive procurement process. Neither the Cabinet nor MoFT issued any additional directions or instructions regarding the procurement process under the SoPE.
- 5.2 The use of competition in procurement is an important mechanism to ensure that processes are fair, suppliers are treated equally and there is transparency in contract award decisions. The widespread use of direct awards to procure goods, services and works may increase the chances that some procurement risks materialise if not correctly mitigated. MoFT did not specifically advise Ministries of the risks that were heightened in non-competitive procurement and the additional controls that may be required to manage the risks associated with this direct purchasing. These risks include the risk of not achieving good value for money, not procuring goods and services which best meet the requirement and perceived or actual bias in awarding contracts or conflicts of interest that may become more prominent when no competition is involved in the procurement process.
- 5.3 Also, without competition in the procurement process, it becomes even more important that public bodies document their procurement decisions and actions fully, publish their contract awards in a timely manner and manage conflicts of interest effectively. These actions help to maintain public trust in these processes and to prevent procurement decisions being the subject of challenge. They also improve the likelihood that the Government will achieve good value for money in these less-than-ideal circumstances.
- 5.4 In all three Ministries, the OAG found inadequate documentation on how the risks of procuring suppliers without competition had been mitigated. For procurements where there is no competition, it is important that awarding bodies document very clearly why they have chosen a particular supplier and how any associated risks from a lack of competition have been identified and mitigated. This is to ensure public trust in the fairness of the procurement process. We found few examples where Ministries documented fully the consideration and management of risks, such as:
- having adequate justification for using emergency procurement in each case, rather than just presuming that every procurement during the pandemic was urgent in nature,
 - why particular suppliers were chosen, apart from “the supplier could provide the goods and would do so on credit”, or
 - how any potential conflicts of interest had been identified and managed.
- 5.5 MoFT should provide guidance to assist Ministries to achieve good internal control in abnormal procurement circumstances. This guidance could include the need be particularly vigilant to avoid conflicts of interest, to achieve value for money and use good commercial judgement during any direct award, to keep proper records of decisions and actions on

individual contracts and to adhere to transparency and publication requirements for procurement decisions. Some of these issues are discussed in more detail below.

The bid waiver process was not effectively managed

- 5.6 The PCAM allows Ministries to seek a bid waiver in a State of Emergency and if approved they may negotiate with any supplier to provide their requirements without undergoing a formal competition. This provision means that during the SoPE, Ministries could request to enter into contracts without competing or advertising the requirement, but the PCAM also specifies that a waiver will only be granted in circumstances where observing the normal requirements would result in detriment to the people or assets of the Solomon Islands. The PCAM does go on to say that Bid Waivers should only be used in exceptional circumstance and will not be approved unless the justification is reasonable. This implies that the existence of a State of Emergency is not in itself grounds for approval of a bid waiver.
- 5.7 In February 2016 the Central Tender Board issued a Memo (CTB Memo) reminding Ministries all bid waivers of any value had to be approved by the Central Tender Board. This Memo explicitly overrode existing contradictory instructions or memoranda. This meant that when the SoPE was declared the existing rules provided that bid waivers would be allowed under the SoPE and all bid waiver requests were required to be submitted to the Central Tender Board for approval. The results in all three audits showed that on many occasions non- competitive procurement had occurred before a bid waiver approval was received and, in some cases, there was no indication that a bid waiver approval was ever received. In several instances, procurement was completed before a bid waiver was even applied for, as if the approval of the bid waiver by the CBT was just a rubber stamp. In other cases, Bid Waivers were approved by the Ministerial Tender Board or the Permanent Secretary of the Ministry in contravention of the CBT Memo.
- 5.8 For example, significant refurbishment work was done at the King George VI School, as this was designated a quarantine centre on 27 March 2020. By 8 April 2020 all of the required work had been certified as complete. OAG examined 12 individual procurement activities for this refurbishment. The purchase requisitions for all of this work were signed in early May 2020 and Bid Waivers were issued by the CTB for all 12 procurements on 5 May 2020, nearly a month after the work had been completed. All 12 contracts were signed on 11 May 2020, also more than a month after the work was completed.
- 5.9 One business provided various accessories for a quarantine site, and issued an invoice for these on 16 September 2020. A Purchase Requisition had been approved on the same day and a Payment Voucher was approved on 22 September. At this stage the goods had been provided and certified as such. A Bid Waiver was then approved on 29 October, well after the substance of the transaction was complete and six weeks after the items purchased were available for use.
- 5.10 One contract for refurbishment of the Kiwi hostel at the NRH was for \$625,123. This contract involved significant construction and concreting work. A bid waiver request was submitted on 7 April 2020 at which time the work must have been substantially complete as it was certified as such just two days later. The contract to undertake this work was signed on 24 September 2020. The Bid Waiver was approved by the CTB on 17 September 2020. The approval to incur this expenditure on the Purchase Requisition was signed on 19 October 2020, 7 months after the expenditure had actually been incurred.
- 5.11 The justification for the bid waiver was often that the provider was able to supply the goods or services and was willing to do so on credit. There was never any indication if the

purchasing officer had found out if any other suppliers were willing and able to do the same. Officers responsible for procurement appeared to assume that the approval of a bid waiver was guaranteed, but even in this situation the officer is still responsible for at least a cursory check that the Government is getting good value of money. Phone calls to a few suppliers with brief notes on their responses would have provided accountability for these decisions but there was no evidence that this was even considered.

- 5.12 The new Public Financial Management (Procurement) Regulations (2021) (PFMR 2021) state that a Bid Waiver applies in an SoPE if as a result of the SoPE, procurement by competitive tendering or simple procurement procedures is not possible. 'Not possible' is an absolute term and normal competitive or simple procurement would have been possible with all of the transactions reviewed in these audits.

In the absence of a tender process some key controls were side-lined

- 5.13 Several key controls in the procurement process outlined in the PCAM are an intrinsic part of the tender process. When an officer is a member of a tender evaluation board, they are required to complete a conflict-of-interest declaration. In order to solicit bids for a tender opportunity, officers must prepare detailed specifications which will outline key functional, performance and technical characteristics of the goods or services being sought. In order for a business to submit a bid for an advertised tender, the business must be a registered business or company and must provide evidence of their taxation status.
- 5.14 The widespread use of bid waivers meant that tenders were not called for many high value procurements, so these requirements did not apply.

Conflict-of-interest declarations were not required

- 5.15 In a situation where procurement decisions are being made by single officials with no requirement to document the reasons for the decisions, it is even more important to ensure that there is no real or apparent conflict of interest for the officers making those decisions. The conflict-of-interest declaration required of officers involved in tender evaluation boards is equally relevant to all officers making procurement decisions. Every officer who initiated a procurement with a specific vendor in a non-competitive procurement should be required to explicitly state that they have no conflict-of-interest with regard to the business selected as the vendor.

Detailed specifications were generally not prepared

- 5.16 The PCAM requires that a specification be prepared for any procurement and describes what is required:

'A specification is a clear, complete and accurate statement of the particular technical needs or essential characteristics of goods/works/services that SIG requires.'

- 5.17 *A good specification will:*

- *State the requirements clearly, concisely and logically.*
- *State how the item is to be used, including the context of usage.*
- *Contain enough information for suppliers to accurately scope a solution and offer.*
- *Be able to be used as the fundamental basis of the contract between buyer and seller.'*

- 5.18 The existence of a detailed specification also allows the Government to assess whether the vendor has provided what they have contracted to provide and forms the basis of any legal argument that it has not done so and therefore should not be paid.
- 5.19 In the normal course of events, the advertising of tender opportunities drives the development of detailed specifications. Vendors can only respond to a tender if they know precisely what they are being asked to provide. With many of the transactions reviewed by the OAG across the three Ministries there was no specification. For procurement of goods, the number items to be provided and a general description was seen to suffice. This meant that “50 plastic chairs” was sufficient description. There is significant variation in quality and price of plastic chairs. There is no way to compare the ‘bales of toilet’ paper obtained from one supplier at \$290 each as against those from another supplier at \$350 each.
- 5.20 For more complex contracts availability of detailed specifications is even more important. For the refurbishment of the Kiwi Hostel at the National Referral Hospital major work was done in the absence of detailed specifications. In attempting to verify the work done the Senior Architect noted that ‘it is quite difficult to verify the accuracy [of] the invoiced bill or the Bill of Quantities when work has already been done without proper or accurate drawings and specifications.’ He recommended that a reduced amount be paid to some contractors and concluded by recommending that ‘no more “Cart before the horse” projects be encouraged.’
- 5.21 The declaration of a State of Emergency did not, of itself, give officers approval to ignore the specification requirements of the PCAM. The PCAM provides that “once it is decided that a good or service will be procured, it is then necessary to prepare specifications for the required goods/service.” Normal tender processes require an appropriate specification to allow bidders to respond to the requirement. It appears that because there was no tender advertising, they were not driven to produce detailed specifications, so they did not.

Businesses which were not registered were awarded contracts

- 5.22 The PCAM requires tender submissions will only be accepted for businesses which are registered. ‘Tenderers should be a registered company, a registered business name or a Registered Charitable Organisation in order to be considered for SIG Tenders.’ (PCAM S4.8) However, there is no requirement for businesses which do not go through a tender process to be so registered and in these audits, OAG found some businesses which were not registered had been given contracts and as had some others which had previously been registered but no longer were.
- 5.23 Part 6 of PFMR 2021 provides standards for Government procurement practice, ‘*regardless of the method of procurement used.*’ This Part also provides a series of schedules to outline the standards for various types of procurement. These schedules each provide that appropriate specifications should be prepared and businesses should be registered. PFMR 2021 does not widen the requirement for conflict-of-interest declarations beyond those involved in Tender Evaluation Boards.

Provision of approvals after the procurement is completed

- 5.24 OAG found instances in all three Ministries where key approval and authorisations were obtained after the procurement was completed.
- 5.25 For example, a number of ship charters were organised to repatriate people to their home provinces in April and May 2020. The bid waiver for some of these charters was not approved until June and some of the Purchase Requisitions were not authorised until July.

Some services were provided to quarantine sites weeks before a bid waiver was approved. In one case several suppliers were asked to start work on refurbishment of a ward at the NRH on 30 March, and the bid waiver for these was applied for on 18 June 2020, long after the work had been completed. The Purchase Requisition for one of these transactions was signed on 22 June 2020. OAG also noted several instances where contracts for work to be done were signed long after the work was completed and the contracts were only signed so that payment could be approved.

- 5.26 The application of controls in the expected order is required if controls are to be effective. A bid waiver approval is a necessary step prior to actually seeking to negotiate with a single supplier. The authorisation of a Purchase Requisition is supposed to ensure that funds are available in the relevant account to fund the procurement and procurement action should not occur until this has been authorised. A contract provides a means for the Government to control the work of the contractor who has agreed to work in accordance with the contract. Contracts should not be signed retrospectively after some work had already been carried out. By procuring work without a formal contract setting out full details of work and how it is managed, government increases risks including underperformance and wastage. Completing these actions in reverse order weakens or even eliminates the internal controls that exist to ensure value for money, prudent financial management and the integrity of procurement transactions.
- 5.27 There is no deterrent to Ministries completing a transaction without implementing any key controls and later providing paperwork to support the payment to the vendor. If MoFT delays payment at this point in the process they are punishing the vendor for the Ministry's failings and also damaging the Government's reputation as a reliable customer. It is misleading to assess that a transaction is compliant if key controls have only been implemented after the substance of the transactions is complete.
- 5.28 The urgent nature of procurement during the pandemic created significant risks which meant that internal controls should have been strengthened, not discarded until convenient. Officers should have acted with urgency in implementing the controls rather than ignoring them. MoFT should have taken action to encourage compliance. This could include procedures such as an escalating disciplinary process against officers who continued to act on procurements before receiving necessary approvals, publishing statistics of Ministries' lack of true compliance or advising that officers who authorise Procurement Requisitions when sufficient funds are not available in the relevant account will be subject to a misconduct in office investigation.
- 5.29 S92 of PFMR 2021 provides that if a transaction occurs which is not compliant with the Regulations, the Permanent Secretary (PS) of Finance and the PS of the relevant Ministry making the procurement must jointly write to each party to the transaction drawing attention to the breach of procurement regulations and decide whether to commence civil or criminal proceedings against the parties. The PFMR 2021 also sets out the correct order in which procurement activities should occur, so, for example, organising a procurement before having a signed Purchase Requisition is an example of an arrangement.

Use of Imprest Accounts

- 5.30 Standing Imprest accounts are accounts which, according to the Financial Instructions are for a specific, but on-going reason and are used to make '*small, frequent payments that it is not practical or convenient to pay through Treasury*'. A Special Imprest account is a personal advance to the account holder for a specific purpose and must only be used for that purpose

and be outstanding for the shortest possible time. A Standing Imprest must be retired at the end of the year whereas it is the responsibility of a Special Imprest holder to account for and retire the Imprest by a date agreed when the Imprest is issued. In one Ministry the imprest holder is not a real person but is recorded as the Emergency Response Fund Standing Imprest, so responsibility for retiring the imprest is not vested in a specific individual. In this instance there should be one signatory to the account these funds are placed in and that person should be recorded as the Imprest Holder and the person who receives the funds.

- 5.31 The PCAM also provides that the Permanent Secretary Finance must maintain an imprest procedures' manual for the purpose of clearly explaining all imprest rules and requirements. In response to a request from OAG for a copy of this manual, MoFT has provided the Imprest Procedure and Accounting Treatment, a three-page document which provides an overview of the process of applying for, replenishing and retiring Standing and Special Imprests, but does not provide rules regarding controls over procurement using imprests nor does it provide any guidance on the documentation required to support that procurement.
- 5.32 The PCAM advises that payments made via imprest accounts are outside of the scope of the Manual. They are therefore not subject to the normal procurement controls outlined in that Manual. The Financial Instructions provide that payments made from imprest accounts do not need to be supported by a Purchase Requisition but must be supported by an official receipt for the goods or services acquired. The term 'official receipt' is not defined anywhere so the imprest holder is left to determine what constitutes an official receipt. There is no reason why payments made from an imprest account should not be supported by an internal Purchase Requisition approved by an appropriate officer or that three quotes should not be obtained for purchases over \$10,000. There is no reason why a payment made from an imprest account should not be supported by evidence of the receipt of goods or services.
- 5.33 An imprest account is not supposed to just be a way for getting around inconvenient internal controls for any value procurement. At the first meeting of the Oversight Committee when members of the Committee were considering what action may be necessary to speed up the procurement process a member offered that "*using standing imprest is easy and fast for payments*". (26 March 2020)
- 5.34 During the audit OAG noted MID had only one imprest transaction for \$24,000 but that NDMO spent \$1.2 million using imprest accounts and MHMS spent \$11 million. The largest payment made via imprest by MHMS was over \$255,900 and there were another ten procurements over \$50,000. There were also several special imprests set up from the standing imprest account and some of these were also over \$50,000. NDMO also paid over \$13 million to the National Disaster Council Account which was not designated as an imprest account but had the characteristics of one, with NDMO effectively becoming a middleman and distancing NDC transactions from PCAM rules and MoFT scrutiny.

Appropriation management

- 5.35 The Constitution of the Solomon Island states that '*No money shall be issued from the Consolidated Fund except upon the authority of a warrant under the hand of the Minister of Finance.*' This means that money should only be committed for expenditure after it has been appropriated either through the annual or supplementary appropriation process or has been made available by an appropriate warrant signed by the Minister for Finance. These warrants themselves must then be laid before the Parliament as part of the Appropriation/Supplementary Appropriation process. It is a fundamental precept of the parliamentary budgeting process that money not be committed unless funds have been

released to fund that commitment, either through Appropriation Bill or Warrant. This means that a Purchase Requisition should not be authorised unless the Ministry of Finance has allocated sufficient funds to the relevant account. Pre-empting the approval of funds usurps the approval role of both the Minister and the Parliament as the Government has no choice but to pay vendors who have supplied goods or services in good faith. Committing to spend funds that have not been appropriated also risks budget blowouts and the Government incurring unexpected debt.

- 5.36 It appears that the Ministries reviewed in these audits committed to significant expenditure using funds that had not yet been appropriated or been approved through suitable warrant. NDMO had paid out over \$30 million by the time the Appropriation Bill was approved in August 2020 even though its initial budget for Disaster Relief was only \$1.5 million and only \$10.4 million in Advance Warrants were issued. Likewise, MID had no Disaster Relief Budget in the 2020 Appropriation but received \$13.3 million in the Supplementary Appropriation in August 2020, by which time it had already spent over \$12 million. Formal approval in the form of a warrant signed by the Minister for Finance is required otherwise the expenditure was contrary to S101 of the Constitution. It is also poor practice with regard to Government budgetary management, leading to a risk of overspending and long creditor payment times. Attempts to expend funds which have not been appropriated should be regarded as 'Misconduct in Office'.

Transparency

- 5.37 Contracts awarded over this period have not been published in a timely manner. Transparency is a key control to ensure accountability for procurement decisions taken and is particularly important to mitigate risks associated with the increased use of emergency direct awards. Since the time of the audit, the Government has commissioned the Solomon Islands Government Tender Portal which provides details of tenders currently available. Most of the procurement undertaken during the pandemic would not have been publicised on this portal because of the use of bid waivers. For the sake of transparency, the Portal should also identify procurement opportunities for which a bid waiver has been approved.
- 5.38 Also, to ensure transparency, the Government should be publicising which businesses have been successful at winning significant contracts, irrespective of whether they have been through tender process or not. It is noted that the PFMR 2021 requires the advertisement of both tender opportunities and the award of Government contracts, although to date only tender opportunities appear on the Tender Portal.

Documentation

- 5.39 The quality of supporting documentation for procurement transactions was variable. Some transactions were fully documented but others were missing key documents. There was generally no documentation to suggest why a particular vendor had been chosen. Bid waiver submissions were often not filed with the documentation. In some cases, certification that work had been done or goods received was absent although the Payment Voucher was signed to indicate this was the case. Some changes to documentation were made by hand, including changes to amounts. These changes were usually initialled but, in some cases, it was not possible to determine who had initialled the change. For example, on Payment Voucher was made out for a payment of \$11,089 and was manually changed to

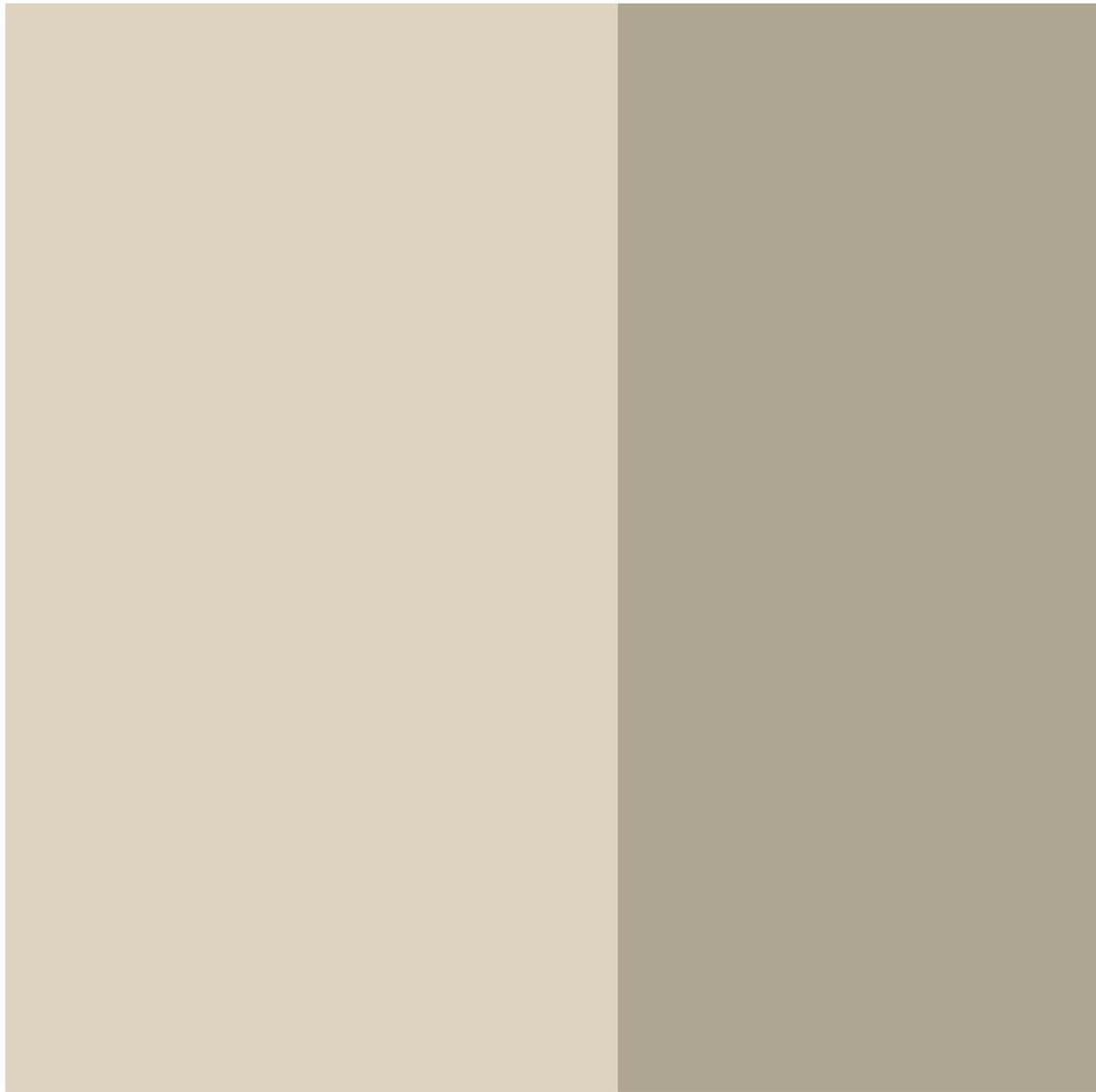
\$110,089. The changed appears to have been initialled by the officer who checked the voucher rather the initial signatory. In another instance regarding a shipping charter there were manual changes to amount on the Purchase Requisition, the Payment Voucher and even the vendor invoice and it is not possible to determine who changed the amounts or why.

- 5.40 The Financial Instructions provide that details on a Purchase Requisition any minor incorrect entry must be ruled through neatly, so that the original entry can still be read, and the correct entry inserted neatly above and the correction initialled by the AO or his delegate and that any Payment Voucher that has been altered must be cancelled and a new Voucher prepared.
- 5.41 Purchase Requisitions are a key document in the procurement process. There is a Purchase Requisition form in Annex 2 of the PCAM, TY 101/2. One of the field groups of fields provides the account details which where the procurement will be recorded. In the version in the PCAM this group includes Account No., Account Title and the Funds Available in that account. The version of the TY101/2 form used by MID has these three fields and they are filled in in each case. The current value of funds available is a key control so when the Accounting Officer signs the form, he is aware the expenditure will not exceed the funds appropriated for the account. The version used by NDMO has removed the underline for the funds available field so the field title appears to be just a statement 'Funds available in this account'. All of the NDMO purchase requisitions tested provide a value for the funds available in the account equal to the value of the individual procurement indicating a failure to understand what was required which MoFT did not correct or an acknowledgement funds in the account were unknown or were insufficient.
- 5.42 There was not always a clear audit trail to support key procurement decisions. The review found that while there was evidence for most controls being applied, there were some gaps in the documentation to support key procurement decisions, such as why some suppliers who had significant outstanding tax debts were awarded contracts. We also found gaps or limited documentation to support some key decisions made in the transactions we tested.

Inclusiveness

- 5.43 One of the 'Central Principles for the Use of Public Resources' outlined in the PCAM is 'Equity', defined as being to 'support the acquisition of goods or services or both to advance community equality and provide economic opportunities for Solomon Islanders, including women, youth and people with disabilities.
- 5.44 At the planning level, there is no provision to include identified vulnerable groups in Government procurement. Likewise, the function of tender board members is clearly stated in the PCAM and FIs Ch7 and there is no requirement that they include vulnerable groups or their administrating body to represent them in the public procurement process. Requested tenderers must have minimum requirements and must meet the government requirements to provide goods, services or works. OAG could not assess the evaluation and awarding process because it all procurements in the sample tested were only sought from prominent businesses or preferred suppliers.
- 5.45 OAG's review of transactions did not identify instances where specific measures were taken to provide opportunities for women, youth or people with disabilities but also did not identify any barriers created to prevent these groups taking advantage of the available

opportunities. In the transactions reviewed, there was no evidence that women, youth and people with disabilities were the focus of specific consideration in Ministry procurement activities.



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