

## **RAA points to inefficiency, inadequacies and fraud after evaluating 279 bn worth of Govt procurement in last 5 years**

An agency bought computers and office equipment worth Nu.1.52 million from a firm owned by close relatives of the official by prescribing specific preferences in bid evaluation and award. Another agency awarded the contract for supply and installation of cubicles to a firm worth Nu.3.79 million. The firm was owned by relative of one of the senior officials in the agency.

For the same HP Printer Cartridge 49A Bhutan Standards Bureau (BSB) paid Nu 899 to Khenrig for the same cartridge, while Election Commission of Bhutan paid Nu 3,700 to Gyelyong for the same and Center of Bhutan Studies paid Nu 4,400 to CPZ. The above may sound familiar to who have dealt with Bhutan's government procurement system. The Royal Audit Authority (RAA) in its latest Auditor General's Advisory Series on "Review of Government Procurement System" from 2016-17 to 2020-21 points to several issues from inefficiency to fraud and also offers solutions.

Public procurement of Nu 279 bn in works, goods and services from 2016-17 to 2020-21 represents around 40 percent of all government expenditure and makes up 10 to 15 percent of the total country's GDP.

### **Inadequate safeguards against corruption and variation in prices**

The Procurement Rules and Regulations (PRR) provides requirement to declare conflict of interests by Chairperson and members of Tender Committee and prohibits spouse or dependents of a public servant to participate in supply of goods and services where he/ she is employed.

However, there is no mechanism instituted to systematically capture information on the spouse and relatives of public servants carrying out business to safeguard against risk of procuring agencies making purchases from such business entities.

The lowest evaluated price obtained through competitive bidding process for the same product varied significantly amongst different agencies. RAA observed cases where the lowest evaluated bids were found to be higher than the prevailing market prices showing competitive bidding does not necessarily ensure competitive prices.

### **Deficiencies in bid evaluation**

There were cases of improper bid evaluations such as restrictive technical specifications, unjust rejection of bids, failure to reject non-complying bids, acceptance of imbalanced rates, use of unfair evaluation criteria etc., which undermined the fairness in the evaluation and selection of bidders. The award of works evaluation system is principally driven by the financial bids. The technical evaluation is used only to qualify the bidders for final evaluation. The final evaluation therefore does not take into account technical superiority of bidders.

The pre-determined and rigid criteria of the Standard Bidding Documents (SBD) are not accommodative of specialized needs of procuring agencies. Inadequate procurement

Planning. The RAA pointed out that Punatsangchu II changed the power house setup from surface to underground without carrying out adequate pre-construction and sub-surface investigations. As a result,

besides loss of six lives, the project incurred wasteful expenditure of Nu. 500 million on Down Stream Surge Chamber (DSSC) and additional estimated expenditure of Nu. 800 million to Nu 1 bn for corrective measures.

RAA said purchases made are not analyzed properly to determine the exact need in terms of specifications, quantity and timing. As a result, goods procured were either not used or underutilized. There is a tendency of making procurement of goods towards the end of the financial year.

Also, in construction works, adequate investment in requisite feasibility studies are not made which result in faulty designs, drawing and estimates and there is wasteful and avoidable expenditure from

the resultant wrong decisions. The cost implications are astounding in case of complex construction projects such as hydropower.

### **Persistent ethical and professional issues**

The reports says the persisting ethical issues and non-compliances complemented by lack of punitive actions have further aggravated in absence of ethical code of conduct. This is applicable to both the public officials as well as private parties.

It says institutionalization of procurement function within agencies is yet to attain desired level of professionalization, and procurement needs to be recognized as professional function rather than being placed as part of the administrative function. It says lack of adequate skills for vendors/contractors to do a contract business could also be a reason for quoting unreasonably low price which will impact the long term sustainability of the business.

### **Wastage and inferior goods**

The RAA noted considerable amount of public funds being wasted due to non functioning or non-utilization of equipment procured. Auto Clear X-Ray machine worth Nu.3.034 mn procured by Regional Revenue and Customs Office, Paro for use at Paro International Airport

was lying idle due to non- functioning of generator. Thermo Fisher Sample Storage and for cryo-preservation and its accessories for Nu. 2.541 mn by the National Biodiversity Centre, MoAF in May 2015 was lying idle due to non-availability of fund to buy reagents. The procuring agencies lose on account of differential prices when inferior quality products are supplied in place of specified quality besides affecting the performance.

### **Excess Payments**

RAA says excess payments in various forms are made to the contractors. Such payments basically arise from wrong certification of works done, non or short execution, double payments, payment at inflated rates, inadmissible payments, payment for variations at analyzed rates, use of wrong

nomenclature of items, etc. While RAA suggests for remedial measures every time the cases of extra payments are noted, the issue still persist and pervade across almost all procuring agencies undertaking constructions. The extra payments made to parties involving millions of Ngultrums constitute significant portion of audit recoveries made by the RAA every year.

### **Recommendations**

To make procurement system more robust and responsive to the needs of the time and also to facilitate innovations, the RAA make the following recommendations.

### **Allow direct contracting and quality bids**

Government procurements should be allowed to be conducted through direct contracting or sourcing where there is a visible case of achieving better deal of receiving quality goods and

services at lower cost like purchasing cheaper airline tickets online rather than through tendering.

Evaluation Criteria should include criteria that reflect bidders' ability to respond to substantive requirements of the contract rather than mere financial bids and consider value-added services and after sales service.

The final point is basically driven by the financial bid only. Thus, there is a need to factor in technical superiority in the final score to safeguard against poor performance.

### **Allow Brand specification and do research**

RAA says the stipulation of brand guarantees quality and by including this as a requirement, it would ensure the continuity and better life of the product. The PRR currently restricts specification of brands or make of items in bidding documents. Agencies should do market research for a two-fold

advantage – information on the availability of products or services that meets the requirements of procuring agencies, and understanding the prevailing market prices which would help know the

competitiveness of quoted prices.

### **Follow up, ethics and capacity**

RAA says numerous experiences of agencies landing up getting inferior quality of goods and services, there is a need to have reinforced mechanism in agencies to check the quality of goods

and services delivered by the vendors or parties. There is a need to propound ethical behavior through development of Ethical Code of Conduct for procurement officials.

There is a need to professionalize procurement services through a formal training and accreditation. Most of the issues in government procurement arise from incapacity of those managing procurement in agencies.

### **Centralized procurements for lower cost and BSR**

In order to reduce administrative red tape and cost, and also obtaining better deals through economies of scale, there is a need for centralized procurements especially for commonly

procured items in government agencies. The Bhutan Schedule of Rates (BSR) provides basis for cost estimation of most construction projects undertaken by the government and so it should be dynamic

document reflecting changes in technology in constructions. Anomalies and inconsistencies of cost indices must be addressed to ensure uniform estimation of projects across agencies.

### **Increase defect liability period and get realistic deadlines**

To extend defect liability period the PRR can oblige the contractors to commit to quality of constructions and the defect liability period should be extended to a reasonable period of time or tagged to certain proportion of expected life of the infrastructures. PRR could let contractors offer period of defect liability period and then assign additional scores.

The construction duration for the project should be determined scientifically based on the critical path method factoring in the resources (machineries and labour) to be deployed, availability of materials, seasonality, etc. to reflect more realistic deadline of the project.

### **Collaboration between agencies for procurement**

The Department of Revenue and Customs has the mandate to levy duties and taxes on imports and is supposed to maintain information on declared values of goods. If this information is shared, the procuring agencies would be able to comprehend range of prices of supplies and the possibility of paying exorbitant prices could be minimized.

There is an opportunity for the Bhutan Standard Bureau (BSB) to pursue collaborative approach with procuring agencies and the regulating agencies in ensuring that quality of works or goods conform to minimum standards through quality checks and vigilance functions on systematic basis. One control point to check influx of inferior goods into domestic market through collaborative approach between the BSB, Department of Trade (MoEA) and the Department of Revenue and Customs (MoF) to exercise controls at the entry points.

### **Stricter sanctions and penalties for improved accountability**

There is a need to reinforce ethical behaviors through prescription of sanctions and accountability based on the severity of the cases. RAA says most of the issues indicative of deficiency in ethical conduct of officials are the results of weak enforcement and monitoring of conducts, limited transparency and inadequacies in the systems of holding responsible individuals and parties accountable through appropriate sanctions.

Grounds for sanctions must be explicitly specified by categories of offences committed by the parties. Alongside, it may also be important to consider necessary incentives to procurement officials or Committees to encourage ethical conduct.

### **Hold Consultants accountable for shortcomings**

The RAA noted that the issues in some of the construction arise from deficiencies in the drawing, designs and estimates prepared by the consultants including major deviations. For instance, the consultants cannot be held responsible for any quality compromises resulting from the faulty drawings and designs prepared by them. This is also applicable for other services requiring shelving of their reports and recommendations if not done properly. Therefore, the MoF should develop a mechanism to hold consultants accountable for shortcomings in their deliverables.

### **Control employees engaged in private trade or conflict of interests**

The RAA says the government agencies, particularly those dealing in verifying or approving Architecture drawings of private buildings or infrastructures should be strictly refrain their officials (engineers/architects) from engaging in private works for payments.

Such unauthorized engagement does not only affect efficient service delivery, but also have serious ramifications on the trust and credibility of the organization. Such unethical practice should be strictly monitored and heavy penalty imposed on officials found involved in private trade.

The spouse or dependents of the dealing officials of procuring agencies should not be allowed to participate in the supply of goods and services. The officials should be refrained from participation in the Tender Committee if there is a Conflict of Interest by way of participation.

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