OFFICE *of the* AUDITOR GENERAL
Republic of Fiji

REPORT OF THE AUDITOR-GENERAL OF THE REPUBLIC OF FIJI

Audit Reports on:

1. Procurement of Biomedical Equipment – Ministry of Health & Medical Services

2. Audit of Rural Postal Offices Quarterly Returns

PARLIAMENT OF FIJI
PARLIAMENTARY PAPER NO. 112 OF 2018

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OFFICE OF THE AUDITOR-GENERAL – REPUBLIC OF FIJI

Location : Level 8, Ratu Sukuna House
2-10 MacArthur Street
Suva, Fiji

PO BOX : 2214, Government Buildings
Suva, Fiji

TELEPHONE : (679) 330 9032

EMAIL : info@auditorgeneral.gov.fj

Website : www.oag.gov.fj

OFFICE OF THE AUDITOR GENERAL

Excellence in Public Sector Auditing

6-8TH Floor, Ratu Sukuna House
2-10 McArthur St
P. O. Box 2214, Government Buildings
Suva, Fiji

Telephone: (679) 330 9032
Fax: (679) 330 3812
E-mail: info@auditorgeneral.gov.fj
Website: http://www.oag.gov.fj

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5 July 2018

The Honorable Dr. Jiko Luveni
Speaker of the Parliament of the Republic of Fiji
Parliament Complex
Gladstone Road
SUVA

Dear Madam

PROCUREMENT OF BIOMEDICAL EQUIPMENT – MINISTRY OF HEALTH & MEDICAL SERVICES AND AUDIT OF RURAL POSTAL OFFICES QUARTERLY RETURNS

In accordance with section 152 (13) of the Constitution of the Republic of Fiji, I am pleased to transmit to you my report on the Procurement of Biomedical Equipment for Ministry of Health & Medical Services and Audit of Rural Postal Offices Quarterly Returns.

A copy of the report has been submitted to the Minister for Economy who as required under section 152 (14) of the Constitution will lay the report before Parliament within 30 days of receipt, or if Parliament is not sitting, on the first day after the end of that period.

Yours faithfully

Ajay Nand
AUDITOR-GENERAL

Encl.

The Office of the Auditor-General – Republic of Fiji

The Office of the Auditor-General is established as an Independent Office by the Constitution of Republic of Fiji. Its roles and responsibilities include carrying out performance audits to determine whether an entity is achieving its objectives effectively, economically and efficiently and in compliance with relevant legislation. These audits are carried out by the Auditor-General on behalf of Parliament.

The Auditor-General must submit a report on performance audits carried out to Parliament. In addition, a single report may include two or more audits. This report satisfies these requirements.

The Office of the Auditor-General notes the impact of its reports to Parliament on the ordinary citizens and strives for accuracy and high quality reporting including recommendations which are not only value-adding to the entity subject to audit but its customers, the general public as well.

Audit of the Procurement of Biomedical Equipment

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1. EXECUTIVE SUMMARY

The Office of the Auditor General carried out an audit on the procurement of bio-medical equipment by Ministry of Health and Medical Services (MHMS).

Under the Government procurement regulations, purchases of $50,001 and above involve the sharing of responsibilities between the procuring agency and the Fiji Procurement Office (FPO). This audit focussed only on the responsibilities of the procuring agency, the MHMS, in the procurement of bio-medical equipment funded by Government in 2015.

The primary objective of our audit was to obtain sufficient and appropriate audit evidence to form a conclusion on whether the procurements made by the Fiji Pharmaceutical and Biomedical Services Centre (FPBSC) complied with the Fiji Procurement Regulations 2010, Procurement (Amendment) Regulation 2012 and policy guidelines. Where the Fiji Procurement Regulations is limited, specifically for contract management, the Procurement Guidance for Public Entities published as a good practice guide by the Controller and Auditor-General of New Zealand has been referred to in this report as accepted best practices.

Our audit covered the three stages of the procurement lifecycle which are planning, sourcing and managing contracts. It was based on the information and records provided by those charged with procurement of bio-medical equipment at the FPBSC during the period the audit was undertaken. In instances where limited records were provided, information was sought from the FPO. The procurement activities on bio-medical equipment undertaken by the FPBSC in 2015 were reviewed during our audit.

We examined six (6) tenders for which 26 contracts valued at a total $20.7 million. Due to incomplete records contained in the six procurement files reviewed, only 15 of the 26 contracts, valued at $18.3 million, were considered for detailed audit testing.

Our audit noted that all the requirements of the Procurement Regulations 2010, related policy/guidelines and best practices were not complied with in the procurement of bio-medical equipment in 2015. Significant audit findings identified from the audit included the following:

- Risks associated with procurement were not identified and considered in the procurement plans;
- Scoping for specifications were inadequate and not properly managed to ensure that bio-medical equipment supplied worked to the expectations of clinicians;
- Procurement of bio-medical equipment was not properly justified through proper strategic procurement planning and development of business cases to ensure that procurement needs are properly assessed and prioritised;
- Delay in awarding of contracts due to considerable amount of time taken to evaluate tenders;
- Tender evaluations were not performed according to requirements and appropriate documentary evidences were not maintained to substantiate decisions made;
- The importance of contract management was not given due consideration resulting in suppliers not fully complying with contract requirements, suppliers performance was not monitored and assessed and post-procurement reviews were not carried;
- Processes and systems for record-keeping were considered to be inadequate to fully capture information that would aid decision-making for effective planning, monitoring and reporting and also allow for proper review of the procurements.

Two common factors running through the issues that have been identified and crucial to improving MHMS's procurement practices are the establishment of proper governance structures and provision of appropriately skilled and experienced resources to manage the procurement of bio-medical equipment process. These have been brought to the attention of MHMS and should be given sufficient attention and priority.

2. AUDITING STANDARDS

We have conducted this audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) on compliance auditing.

3. REFERENCE TO COMMENTS

Comments provided by MHMS have been incorporated in this report.

We also provided a full copy of this report with request for comments from Ministry of Economy (FPO) and again to MHMS. Copies of letters issued are in **Appendix A.**

As at 18 June 2018, we did not receive any further comments. Comments received subsequently would be provided to the Standing Committee on Public Accounts, when the report is discussed.

4. WHAT WE AUDITED & AUDIT SCOPE

The subject matter for this audit is the practices adopted in the planning, sourcing and contract management processes on the procurement of bio-medical equipment by the MHMS.

Due to the unavailability of required documentation maintained by the MHMS at FPBSC, the scope of the audit is limited to the procurement process for bio-medical equipment only for the year 2015. However, procurement activities for bio-medical equipment that were initiated in 2013 or 2014 but completed in 2015 were also covered.

Through this audit, we examined whether the MHMS complied in all material respects with the Fiji Procurement Regulations 2010, Procurement (Amendment) Regulation 2012 and related policy guidelines. In areas where the Fiji Procurement Regulations is limited, specifically for contract management, Procurement Guidance for Public Entities published as a good practice guide by the Controller and Auditor-General of New Zealand has been referred to in this report as accepted best practices. In that context, the audit addressed the following:

1. Did the MHMS comply with the Procurement Regulations 2010, related policy/guidelines and accepted best practices guides in planning procurements for bio-medical equipment?

2. Did the MHMS comply with the Procurement Regulations 2010, related policy/guidelines and accepted best practices guide in sourcing for procurements of bio-medical equipment?

3. Did the MHMS comply with the Procurement Regulation 2010 and related guidelines and accepted best practices in managing contracts for bio-medical equipment?

For each of these questions, we examined if the Ministry through FPBSC complied in all material respects with the agreed criteria specified on Section 4, with respect to procurement of bio-medical equipment.

Under the Government procurement regulations, purchases of $50,001 and above involve sharing of responsibilities between the procuring agency and the Fiji Procurement Office. This audit, however, focused only on the responsibilities of the procuring agency, which is MHMS.

5. AUDIT CRITERIA

The MHMS, as a Government agency, must operate within an environment of government legislation and policies. The criteria for the audit is based on regulations, policy framework, and manuals designed to ensure compliance with laws governing all government procurements. These include:

a) Procurement Regulation 2010 & Procurement (Amendment) Regulation 2012;
b) Procurement Policy Framework 2010;
c) Guide to Tender and Evaluation Process 2010; and
d) Finance Circulars 3/2013 and 21/2014 issued by the Ministry of Economy.

The criteria as specified above were discussed on 11 October 2016 with the then Director FPBSC and the Government Chief Pharmacist and have been accepted as relevant to the MHMS as they are taken from established laws, regulations and policies that govern procurements for all Government Ministries and Departments. However, due to the limitations in these regulations and guidelines and in the absence of guidance appropriate to some stages of procurement such as contract management, we have also used the *Procurement Guidance for Public Entities* developed and issued by the Controller and Auditor General of New Zealand as accepted best practices and have been referred to in this report.

We believe that the criteria tested in each area of the audit are sufficient to conclude on the overall compliance of procurement of bio-medical equipment.

6. METHODOLOGY

This audit was conducted based on the information provided by those charged with procurement of bio-medical equipment and the procurement records maintained by the FPBSC. The procurement activities on bio-medical equipment undertaken by the FPBSC in 2015 were reviewed/analyzed/assessed and six tenders for which 26 contracts were issued valued at a total $20.7 million were taken as the total population for the purpose of this audit. Due to incomplete records contained in the six procurement files reviewed, only 15 of the 26 contracts, valued at $18.3 million, were used for detailed testing against the criteria discussed in Section 4.

In executing this audit, various approaches were exercised which included:

(i) Documents review;
(ii) Interview of responsible officials from the FPBSC; and
(iii) Physical verifications of bio-medical equipment in order to confirm whether FPBSC complied with the criteria detailed in Section 4 in planning, sourcing and contract management for procurement of bio-medical equipment.

Although the FPO is not covered in the scope of our audit, we also reviewed certain records maintained with the Office due to the incomplete information contained in the procurement files provided by the FPBSC.

We were not able to carry out detailed testing of payments due to absence of clear audit trail in the accounting records. Moreover, the FPBSC does not process payments for overseas suppliers; as this function is carried out by the FPO.

Audit findings identified were initially discussed with the then Director FPBSC, Chief Pharmacist and the National Bio-medical Coordinator on 15 November 2016.

7. AUDIT FINDINGS

Question 1:

Did the Ministry of Health and Medical Services through the FPBSC comply with the Procurement Regulations 2010, related policy/guidelines and accepted best practices guides in planning procurements for bio-medical equipment?

Procurement planning establishes the "what to do" and the "how to do it" of the procurement process. Effective planning leads to more effective sourcing and contract management, resulting in a greater likelihood that the procurement objectives of Ministry of Health and Medical Services (MHMS) will be achieved.

The planning stage consists of four steps which include initiation of procurement, identification of needs, specifying the requirements and planning to approach the market and evaluation.

Procurement planning is necessary to identify the following:

- the best way to approach the procurement of bio-medical equipment (through information gathering and analysis);
- risks associated with the procurement so that they can be managed; and
- ways of achieving the objectives defined for the procurement, in line with MHMS procurement strategy.

The processes in the planning phase are shared between the FPBS and the Fiji Procurement Office (FPO). Refer to **Appendix B**.

7.1.1 Risks associated with procurements not identified and considered

Part 3 of Procurement Guidance for Public Entities issued by the Controller and Auditor General of New Zealand states that it is good practice to develop a procurement strategy if procurement is integral to achieving the overall business goals of the entity. This would allow the agency to have a thorough understanding of the type of procurement that it does, value and *risk associated with the procurement*; and importance of procurement in order to achieve its overall goals and business strategy.

In 2012[1], a draft Procurement Plan was initiated with a forecast of four years considering the limited funding provided annually by Government. The plan was compiled by the clinicians from various disciplines or departments coordinated by the then National Biomedical Coordinator and had identified bio-medical equipment to be phased-out and replaced. The quantity, unit and total cost with the respective locations for distributions were also detailed in the draft plan.

We reviewed the draft four-year Procurement Plan to confirm whether it complied with good practice guides by determining:

1. whether the value of the procurements were identified;
2. whether risks associated with the procurements were identified and considered; and

[1] Interviews made with Deputy Secretary MHMS dated 22/02/17, Lautoka Senior Laboratory Technicians dated 31/01/17, National Biomedical Coordinator dated 10/02/17

3. whether the right people to be involved in the procurement process (planning, sourcing and contract management) were considered in order to ensure the procurement activity achieves optimal outcomes.

Our audit noted that while the draft Procurement Plan had identified bio-medical equipment needs, value and quantity, it did not identify and consider the risks associated with the procurement of the equipment and the right people to be involved in the procurement process.

There is high possibility that the inability to identify and consider risks and people in the procurement strategy/plan will result in procurement of bio-medical equipment which do not meet the needs of clinicians, increased costs and delays in procurements which may impinge upon the MHMS achieving its objective of delivering quality health services.

7.1.2 Inadequate scoping for specifications

Section 37(2) of the Fiji Procurement Regulation states that "All requests to tender must contain all necessary information to enable potential bidders to and submit responsive tenders, including the specifications of that particular procurement ……"

Section 6.1 of the Guide to Tender and Evaluation Process states that Agencies will seek to draft their specifications in a clear, concise and logical manner.

(i) Agencies must not prepare a technical specification that deliberately limits or puts up barriers for supply for either domestic or international firms.

(ii) Agencies should emphasise on performance standards rather than specifying design characteristics. These may include recognised international or national standards and codes.

(iii) Agencies should not refer to particular brands or trademarks, or refer to seeking equivalent products to brands or trademarks, in specifications.

The Guide also states that depending on the level of technical complexity or any uncertainty about feasible performance of or outcomes from procurement, it may be appropriate to use third party assistance in developing specifications. Agencies must avoid seeking advice on specification from any party that may have an interest in bidding for the procurement as this will result in a conflict of interest.

Due to the absence of qualified bio-medical personnel, there is a high risk of inadequate scoping for specifications for bio-medical equipment.

The scoping of the draft specifications is prepared by the National Bio-medical Coordinator and discussed with clinicians. This process is considered to be a part of FPBSC's specifications consultation process.[2]

The Bio-medical Equipment Catalogue was the initial guide that MHMS had developed to standardise the bio-medical equipment specifications. However, the catalogue became redundant as a result of the change in the Guidelines for Tender and Evaluation Process. In 2012, a new

[2] Interview made with National Biomedical Coordinator dated 10/02/17

technical specification guide for bio-medical equipment was drafted involving clinicians of each discipline, however, the guide remained incomplete since 2012.

In the absence of guidelines, the NBC Coordinator conducted meetings with clinicians to scope for the specifications which were than advertised and used as part of the technical evaluation criteria.

To determine whether proper scoping of specifications were carried out, documents contained in the procurement files for all the six tenders valued at $20.7million were examined to confirm whether extensive consultations were made with relevant clinicians. Physical verifications of equipment supplied were also conducted to verify whether the necessary specifications required/determined by clinicians to enable effective delivery of their services were considered.

We were informed that consultations were conducted through meetings and by email correspondences. However, documentary evidences to confirm the consultations were not maintained. Four of the six tender files did not contain any document to substantiate whether clinicians were consulted on equipment specifications.

Physical inspections conducted during our audit in February 2017 and again on June 2018[3] revealed that some equipment supplied through contracts for CTN 175/2014 and CTN 56/2015 were not fully utilised mainly due to the absence of other specifications required for the equipment to be fully functional. Specific issues noted in regards to the absence of proper specifications are detailed on Table 1 below.

Table 1: Examples of issues noted at CWM Hospital

Tender No.	Supplier	Equipment	Contract Amount (FJD)	Issues noted due to lack of specification scoping
CTN 175/2014	Supplier A	Patient Monitor (Option B)	361,782	Only one blood pressure cuff supplied increasing the likelihood of the cuff bursting from continuous usage. The cuff supplied was of a standard size which cannot be used on large individuals.
CTN 56/2015	Supplier C	Monitoring equipment (Defibrillator, Patient Monitor and ECG equipment)	6,158,600	• Only one blood pressure cuff was provided of standard size hence cannot be used on large individuals. • Some equipment supplied are still kept in storerooms as they did not have cuffs, probes for paediatrics & neonates and brackets.

[3] Physical inspection carried out in June 2018 was for CWM Hospital only

Inability to fully utilise the bio-medical equipment indicated that scoping for specifications were not properly managed to ensure that equipment supplied work to the expectations of clinicians as users.

FPBSC's capacity to undertake proper scoping for specifications was impeded by the Ministry not being able to establish proper governance structures such as formalised and well-documented process/procedures for coordinating and communicating the scoping and developing of specifications including the process for proper consultations with clinicians and maintaining of records. The limited resources in terms of the number of qualified bio-medical personnel at the FPBSC was also seen as a contributing factor to not properly managing the scoping of specifications.

Without proper governance structure, there is a high risk that the process for scoping of specifications lacks transparency and completeness and that the equipment needs of clinicians are not properly and accurately captured before commencement of the procurements process of bio-medical equipment.

However, it was noted that the MHMS approved in January 2017 a National Biomedical Services Management Policy aimed at standardising and integrating bio-medical equipment management through improved coordination and communication. We view this development as a positive step in improving the governance process.

7.1.3 Proper procurement justifications not made

Part 3 of the Procurement Guidance for Public Entities issued by the Controller and Auditor General of New Zealand states that it is good practice if the procurement is part of a defined project that the entity has set out to complete, a business case may have been prepared for the project. However, if the procurement is not part of a project for which a business case has been prepared, there will be some form of business planning process that identifies that the procurement is required. Section 3.18 of the procurement guidance states that a public entity should include guidance on preparing a business case in its relevant policies and procedures. This guidance should outline when a business case needs to be prepared; and what the business case should contain.

The bio-medical equipment procured by the MHMS were either identified as a result of new projects or as part of the normal procurements. Normal procurements can either be for replacement or extension of new services while new projects are necessitated as a result of new innovations and/or government initiatives.

Six tenders valued at $20.7 million, as shown on Table 2 below, were examined to confirm:

(i) whether FPBSC had prepared a business case for new projects or followed some form of procurement planning process for its normal procurements, both providing justifications for the procurements made; and

(ii) whether the preparation of business case, if prepared, had complied with accepted best practices guides as contained in Part 3 of the *Procurement Guidance for Public Entities* developed and issued by the Controller and Auditor General of New Zealand.

Table 2: Six tenders sampled

Tender No.	Project	Amount ($)	% of Total Population
CTN 56/2015	Medical Equipment for Ministry of Health & Medical Services	11,045,147.70	53%
CTN 175/2014	New Intensive Care Unit Equipment for CWM Hospital.	3,898,559.57	19%
CTN 233/2015	Medical Equipment for Ministry of Health & Medical Services	4,567,936.62	22%
CTN 123/2015	Dental Equipment for Ministry of Health & Medical Services	301,012.56	1%
CTN 79/2013	Supply, Installation & Commissioning of Histology Equipment for Ministry of Health & Medical Services	376,538.23	2%
CTN 84/2013	Supply, Installation & Commissioning of Accident & Emergency Equipment – Phase 3	597,432.72	3%
Total		**20,786,627.40**	**100%**

Three of the six tenders shown in Table 2 above were part of new projects while the other three were part of normal procurements.

Due to lack of documentary evidences, we could not substantiate whether business cases, if prepared, complied with good practice guides although we noted that one of the three tenders for normal procurements had documentary evidence to confirm that some form of planning were undertaken. None of the three new projects had documentary evidences to indicate that business cases were prepared to justify procurements.

In addition to the above, during the audit we performed a comparison between what was planned (Four-year Procurement Plan) and the actual procurement for CTN 56/2015. The comparison was done to confirm whether the items and quantity procured under CTN 56/2015 corresponded to the items and quantity identified in the planning document thus justifying the need for procuring the equipment.

Our audit noted that there were additional equipment procured costing $6.4 million which were not part of the Four-year Procurement Plan. In addition, there were no documentary evidence provided during the audit to justify the procurement of additional equipment and that the procurement needs were properly assessed and prioritized. Refer to **Appendix C** for details of the additional equipment procured.

Limited resources and the absence of appropriate guidelines and monitoring mechanisms contributed to the deviation from the procurement plan and/or reviewing the procurement plan to take into account additional bio-medical needs with appropriate justifications.

If procurement of additional equipment are not appropriately justified by their inclusion in the procurement planning, the MHMS is exhausting funds that could be utilized in other health priority areas.

Recommendations

- **Governance structures to be improved by the MHMS by considering the development of comprehensive guidance in its policies and procedures on all aspects of biomedical procurement phases and practices including managing the contracts.**

- **With the endorsement of the National Biomedical Services Policy in January 2017, there is an opportunity for the MHMS to build upon this effort by providing the necessary resources and capability to fully implement the requirements of the policy.**

Comments from MHMS

The audit findings are acknowledged.

Risks associated with procurements not identified and considered

- *FPBS prepares a Capital Projects Implementation Plan and monitors the progress as well. Previously, the risks were not accounted for however as an improvement all the risks involved at every stage of the process is captured and documented.*
- *FPBS will also look into developing Standard Operating Procedures for the tender process of FPBS which will define the roles and responsibilities at department and individual level.*

Inadequate scoping for specifications

- *As mentioned in the findings, there are currently no guidelines that dictate the scoping and preparation of specifications for tender. The process which was followed by FPBS regarding scoping and specifications was that the draft tender specifications is prepared (at FPBS), then it is circulated to the respective clinicians (for verification), before it is forwarded for appropriate advertisement.*

- *As improvement, in 2017 the Ministry of Health and Medical Services has approved and endorsed a National Biomedical Equipment Management Policy that defines the processes and responsibilities in the lifecycle of biomedical equipment management.*

- *The FPBS Biomedical Department has also commenced developing the Standard Operating Procedures (SOP) for the planning and sourcing of biomedical equipment. This SOP will form the guidelines for planning and procuring of biomedical equipment for the Ministry of Health and Medical Services. Furthermore, the processes and procedures for scoping and development of specifications (like the consultation process and meeting with respective clinicians who will use the equipment) will also be reflected in the SOP for Planning.*

- *This is to ensure that there is no bias to any manufacturer/brand specifications and also ensure that all requirements are captured.*

- *FPBS is also strengthening its documentation and record keeping for all planning and purchases, by ensuring that all documents and evidences are filed and stored systematically for future referencing.*

Proper procurements justifications not made

- *FPBS plans the purchase of the biomedical equipment on an annual basis. The procurement plan is derived from submissions made in the previous year and subject to allocated funds. Clinical departments submit their requests for new or replacement equipment and budget submissions are made accordingly with the justifications provided.*

- *There are urgent requests that do come to FPBS for purchase and this is also accommodated due to the nature of the requests. However proper justifications are required before purchase are made.*

- *FPBS admits that there are challenges faced when it comes to scoping for all the requirements by the health facilities nationally. Previously all requests are sent via a Biomedical Equipment request form. The list is prepared and approved via the National Biomedical Committee (NBC) before budget submission can be made.*

- *The challenge faced by FPBS and NBC is substantiating the requests since the NBC meets every year.*

- *As an improvement, FPBS is currently working on a Minimum Equipment Standard List (MESL) for each facility and for the Ministry. Labasa Hospital has completed this. The Minimum Equipment Standard listing will list down the equipment which should be available for the department/facility to provide the services efficiently. This will form the guideline for equipment that needs to be procured and provide justifications for additional equipment which will need to be endorsed by the National Biomedical Committee before budget submissions and purchase is made.*

- *The Ministry will also look at strategizing the procurement of biomedical equipment by preparing a 5 Year Replacement Plan in accordance to the MESL as mentioned above and this will be reviewed annually to accommodate any additional request with proper justifications.*

Question 2:

Did the Ministry of Health and Medical Service comply with the Procurement Regulations 2010, related policy/guidelines and accepted best practices guides in sourcing for procurements of bio-medical equipment?

The sourcing phase is where the Procurement Plan is implemented and involves the following two steps:

(i) Use of market approach; and
(ii) Selection of supplier and awarding of contracts including contract negotiations.

Sourcing must be based on the methodology and processes set out in the Procurement Plan to ensure that the integrity of the evaluation process is maintained.

The sourcing activities for procurements of bio-medical equipment are shared between the FPO, MHMS/FPBSC and the Government Tender Board (GTB). FPO approaches the market through advertisements once it receives the specifications for the bio-medical equipment from the Ministry. The bids are received and then forwarded to the Ministry which is responsible for the evaluation process. Evaluation reports and recommendations of the evaluation committee are then submitted to the Government Tender Board (GTB) through the FPO for the final decisions on the awarding of contracts. Refer to **Appendix B**.

7.2.1 Delays in evaluation of tenders

Finance Circular No. 21/2014 requires that all tenders advertised be evaluated and submitted to the GTB for a decision within three months from the tender closing date. The Circular also states that after three months, tenders yet to be evaluated are deemed invalid and should be withdrawn and re-advertised. Appropriate justification should be provided for tenders submitted to the GTB after the three months' timeline.

There was a high risk of delaying awarding of contracts due to the prolonged time taken to evaluate tenders for supplying, installing and commissioning of bio-medical equipment and provide recommendations to the GTB for considerations.

To determine the length of time taken for evaluating tenders, documents contained in the procurement files for six tenders were examined to confirm the following:

1. whether the tenders were evaluated and submitted to GTB for a decision within three months from the tender closing date;
2. whether the tenders were withdrawn and re-advertised when the evaluation exceeded the three months; and
3. whether appropriate justifications were provided for tenders submitted to the GTB after the three months' timeline.

In five of the six tenders sampled, it took the Ministry and the evaluation committee more than three months to evaluate bids and provide recommendations to the GTB. The time taken for the evaluation exercise ranged between four months to over a year as shown in Table 3 below.

Table 3: Time taken for evaluation of tenders

CTN No.	Tender Closing Date	Date of GTB Approval	Total Time taken for Evaluation Exercise
CTN 84/2013	19/06/13	06/05/15	1 year 11 months
CTN 56/2015	15/04/15	21/10/15	6 months
CTN 123/2015	08/07/15	09/11/15	4 months
CTN 79/2015	29/04/15	21/10/15	6 months
CTN 233/2015	20/01/16	02/06/16	4 months

Our audit further noted that tenders were not withdrawn and re-advertised when the evaluation period exceeded three months. However, as the processes for procuring biomedical equipment are normally a lengthy exercise for both the Ministry and the bidders, delayed evaluation reports are usually submitted to the GTB for approval with justifications. A common justification provided by the Ministry for delays in evaluating tenders was the unavailability of clinicians for technical evaluations.

With limited resources at the FPBSC to manage the evaluation process, the Ministry could not meet the tentative timeline of three months in the evaluation of tenders.

As the GTB approvals of tenders are only valid for the fiscal year they are given, funding will lapse at the end of the financial year. The delay in the evaluation of tenders can hinder the implementation of capital projects resulting in unutilised budget/funds at the end of the financial year.

7.2.2 Evaluation not done according to requirements and documentary evidence not maintained to substantiate evaluation decisions

Section 4.2 of the Guide to the Tender & Evaluation Process requires that "all bids received are to be evaluated in accordance with the evaluation criteria that were set for that particular tender and in accordance with the Procurement Guidelines." The overall evaluation criteria shall be value for money, which may not necessarily be the lowest cost.

Section 42 of the Procurement Regulation & Guide to Tender and Evaluation Process stipulates the following:

"The Evaluation Committee members must ensure that the evaluation exercise is well executed. Prior to finalizing and signing contracts, Government agencies shall ensure that mandatory requirements for due diligence are satisfied."

The tender evaluation committee comprised of clinicians, bio-medical officers, officers from the FPO and other Ministries, and FPBSC as the secretariat. The evaluations were carried out in three stages relating to administrative aspects, technical requirement and cost analysis.

To determine compliance in the evaluation process, evaluation documents for CTN 56/2015[4], as contained in the procurement files made available for audit, were examined to confirm:

- whether all bids received were evaluated in accordance with the evaluation criteria that were set for the particular tender and in accordance with the procurement guidelines; and

[4] Represent 53% of the total population of the value of contracts audited.

- whether the evaluation committee ensured that the evaluation exercise was well-executed and that prior to finalizing and signing contracts, mandatory requirements for due diligence were satisfied.

The bidding documents submitted at the tender closing dates were obtained from the FPO. We reviewed the assessment conducted by the evaluation committee and re-performed the evaluation to substantiate the accuracy of the results of the assessments and the recommendations put forth to the FPO and GTB. Our review of the evaluation documents revealed that:

(i) Bidders progressed to the next stage of evaluation even though they did not fully comply with administrative and technical requirements.

(ii) At the technical evaluation stage, bids were assessed on the level of conformity to the technical specifications, quality of product and good back-up support for 14 of the 19 items that were tendered. The evaluation committee agreed to withdraw five line items.

There were inconsistencies in the results when comparing the assessment conducted by the evaluation committee against the evaluation re-performed during the audit. In re-performing the assessment, the proposals submitted by Bidders were verified against the standard criteria for Administration Evaluation, Technical Specifications Evaluation and Cost Evaluation. Refer to Table 4 for details.

Table 4: Details of inconsistencies – CTN 56/2015

Line item	Equipment	Bidders progressed to the next stage - Evaluation Committee Assessment	Bidders to progress to the next stage - audit re-performance against the criteria
1	Patient Monitor (CMP) & (BMP)	Suppliers C & K	Suppliers B, C & E
2	Defibrillator	Suppliers C & K	Suppliers B, C & E
3	ECG Equipment	Suppliers C & K	Suppliers B, C & E
4	Vital Signs Monitor	Suppliers C & K	Suppliers C & E
5	Ambu-Bags (Adult)	Supplier C	Suppliers B, C, E & F
6	Ambu-Bags (Paediatrics)	Supplier C	Suppliers B, C, E & F
7	Ambu-Bags (Infant)	Supplier C	Suppliers B, C & E
8	Portable Suction Equipment	Supplier D	Suppliers B, D & E
9	Nebuliser Pump	Supplier C	Suppliers B, C & E
10	Mercury Sphygmanometer	Supplier C	Suppliers C & E
11	Fetal Doppler	Supplier C	Suppliers C & E

Our audit indicated that certain bids that had met the criteria for technical evaluation did not progress in the evaluation. However, there were no documentary evidence to corroborate the reasoning of the Evaluation Committee not to advance bids that had met the technical requirements to the next stage of the evaluation.

(iii) Our audit also found instances where contracts were not awarded to the most economical supplier. Refer to Table 5 for details of savings that could have been made had the equipment were procured from the most economical suppliers. Justifications provided for the awarding of the contract to the successful bidder was that it had met all the requirement for the technical specifications and that it was a local company.

Table 5: Comparison of the Cost Analysis

Equipment procured	Successful Bidder	Cost per Unit ($)	Audit Re-assessment	Cost per Unit ($)	Savings Per Unit ($)
Defibrillator	Supplier C	11,995.00	Supplier B	3,075.38	8,919.62
Vital Signs Monitor	Supplier C	3,499.97	Supplier E	2,015.63	1,484.34
Ambu Bags (Adult)	Supplier C	117.08	Supplier B	90.23	26.85
Ambu Bags (Paediatrics)	Supplier C	115.18	Supplier B	86.09	28.99
Ambu Bags (Infant)	Supplier C	112.00	Supplier B	83.91	28.09
Portable Suction Equipment	Supplier D	1,748.25	Supplier E	1,172.36	575.89
Nebuliser Pump	Supplier C	770.00	Supplier B	510.69	259.31
Mercury Sphygmanometer	Supplier C	295.00	Supplier E	191.28	103.72
Fetal Doppler	Supplier C	250.00	Supplier E	174.83	75.17
CTG Equipment	Supplier C	2,975.00	Supplier E	1,583.71	1,391.29

If the other bidders were not eliminated in the technical assessment stage, they would have been considered in the price assessment due to the competitiveness of the prices offered.

(iv) Our audit further noted that although the Cardiotocograph Equipment (CTG) was not withdrawn and was not assessed during the technical stage, it was included for assessment in the final stage.

Based on our above findings it was determined that evaluations were not properly carried out to ensure that only bidders who fully met the requirements were allowed to progress to the next stage of evaluation.

Insufficient resources and capability to manage the evaluation process in a transparent manner will result in the MHMS not receiving value for money for the bio-medical equipment purchased.

Recommendation

With the endorsement of the National Biomedical Services Policy in January 2017, there is an opportunity for the MHMS to build upon this effort by providing the necessary resources and capability to fully implement the requirements of the policy.

Comments from MHMS

The audit findings are acknowledged.

[There was no management comments provided by the Ministry for the delay in evaluation of tenders]

Evaluation not done according to requirements and documentary evidence not maintained to substantiate evaluation decisions

- *During the technical evaluation process (for technical compliance), a scoring system is used and the suppliers are also assessed and considered on other factors apart from the compliance of specifications. Other factors take into considerations (by the evaluation team) includes:*
  - *Analysis of the past experiences with the brand/model supplied by the company;*
  - *Suitability of clinical practice; and*
  - *Back up support/manufacturers. This is an essential part of equipment management hence focus is also directed to suppliers who can assist immediately. The ministry has had previous issues where the suppliers failed to provide the required support services after goods were purchased. Having local support office is always advantageous for the Ministry.*

- *As an improvement, FPBS will ensure that the specifications developed for tender will be clearly defined as `mandatory' and `desirable'. This will allow a fair assessment of all the products being bided and eliminating or recommending suppliers will be properly justified.*

- *FPBS will also ensure that the evaluation score sheets and other related documents (to substantiate evaluation decision) will be properly maintained.*

Question 3:

Did the Ministry of Health and Medical Services comply with the Procurement Regulation 2010, related guidelines and accepted best practices in managing contracts for bio-medical equipment?

Contract management is defined as the process in which the parties to a procurement contract ensure that they fully meet their respective obligations as efficiently and effectively as possible, according to the terms and conditions of the procurement contract.[5]

Contract management is the final phase in the procurement process and it begins once the contract has been awarded. The objective of contract management is to ensure that the goods planned and sourced is actually delivered. The two steps involved are:

1. **Manage the contract** – manage the delivery of the contract to the standards set out in the contract.
2. **Review the contract** – complete a review of the outcomes of the contract to determine whether the objectives of the procurement have been met.

At this stage, the acquiring entity ensures that the value that it has planned for and sourced is actually delivered. In the management of contract, the Ministry is expected to manage the delivery of the contract to the standards set out in the contract. While in the review of the contract, the Ministry is expected to complete a review of the outcomes of the contract to determine whether the objectives of the procurement have been met.

7.3.1 Non-compliance with contract requirements

Part 8 of the Procurement Guidance for Public Entities issued by the Controller and Auditor General of New Zealand states that to achieve good contract performance, it is good practice that public entities ensure that the terms of the contracts are adhered to, and that all parties to the contract understand their respective obligations. A public entity is expected to ensure that the terms of the contract are adhered to during the contract by regularly monitoring that the goods or services are delivered:

- on time;
- at the agreed cost; and
- to the required quality.

A public entity is also expected to maintain records of the monitoring and contract management that they have carried out.

There are two types of contracts that the MHMS and suppliers entered into for the supply of bio-medical equipment. The initial contract which is normally signed-off after the award of tender stipulates the agreed terms and conditions required to be delivered and adhered in supplying bio-medical equipment and within the warranty period. On the other hand, the Service Contract Agreement is based on the future support to be provided by suppliers for high-value equipment after the expiry of warranties.

[5] Procurement Regulations s.2

A sample of contracts were reviewed and physical verification of bio-medical equipment kept at various hospitals was also carried out to confirm whether:

- the suppliers had complied with all agreed terms and conditions of the initial contracts; and
- Service Agreements exist and were maintained/implemented at either FPBSC or at the respective Divisional Hospitals for high-value items.

Five tenders comprising of nine contracts valued at $13.6 million were tested, which accounted for 81% of the total population of the value of contracts audited. From the contract agreements reviewed, our audit found that suppliers did not always fully meet their obligations under the contracts as stated below:

(i) Equipment were not supplied to the agreed specifications;

(ii) Duration of training requirements for users was not delivered according to the number of days specified in the contracts;

(iii) The contracts stated that suppliers were to produce, document and present to the Ministry operational verification data in a process known as Equipment Handover when they are satisfied that the systems are fully operational. There were no documentary evidences available to confirm that the equipment were properly handed over to the Ministry;

(iv) The contracts require suppliers to present the Ministry with a Final Certificate of Acceptance when the equipment supplied conform to the specifications and had continuously operated in compliance with the specifications. No documentary evidences of Final Certificate of Acceptance were noted during the audit; and

(v) Required specifications for bio-medical equipment ordered were not always met by the suppliers as stated on Table 6 of Section 7.3.2.

In addition to the above, we were not able to confirm whether the equipment were delivered on time in accordance with the Expected Time of Arrival (ETA) as stated in the contract, due to the unavailability for audit of the delivery documents and purchase orders.

Refer to **Appendix D** for detailed comments on each contract which was verified.

From the site visits to various Divisional Hospitals, we also noted the absence of Service Agreement for high-value equipment.

When suppliers do not comply with the requirements of the contracts, value for money will not be achieved, contract deliverables are not met on time and bio-medical equipment supplied are not of the desired quality as they do not meet the agreed specifications.

7.3.2 Lack of assessment and monitoring of suppliers' performance

Part 8 of the Procurement Guidance for Public Entities issued by the Controller and Auditor General of New Zealand states that it is good practice for a public entity to monitor and manage the supplier's performance to assess whether it is receiving value for money. Monitoring and

managing supplier performance should be a priority when the value and the risks associated with the procurement are high. A public entity is also expected to maintain records of the monitoring and contract management that they have carried out.

Upon delivery of bio-medical equipment, relevant details are recorded by FPBSC before these are delivered to respective hospitals where they are installed and commissioned. The users of bio-medical equipment are usually the first point of contact with regards to any feedback on actual delivery and performance. Any problems regarding the use equipment are directed by the users to the Bio-medical Department within the respective hospitals through a Bio-medical Complaint form. Within the warranty periods, the suppliers are notified for rectification. However, in the absence of the Service Agreement, the maintenance beyond the warranty period are usually carried out by the Bio-medical team in the Divisional Hospitals.

From our audit, we noted that documentary evidences were not always maintained either at the FPBSC or at the Divisional Hospitals to confirm monitoring and assessments made on bio-medical equipment supplied and the performance of suppliers. In addition, there was no evidence of confirmation on whether the equipment were delivered of the right quantity and quality and that other agreed specifications were recorded to allow for assessment.

Hence to further confirm the absence of assessment and monitoring of suppliers' performance the following tests were carried out during our audit:

- review of endorsed Government Tender Board papers and site inspections to check whether the listed specifications have all been met; and
- interviews and enquiries made with relevant personnel to confirm whether the non-performance by the suppliers identified were assessed, reported and documented for action by the MHMS and consideration for future procurements.

Ten contracts valued at $17million were included in the sample. However, it was noted that only $10million out of the $17million worth of equipment procured have been delivered as at the audit dates[6] and were verified.

The audit noted that 55% or $5.5 million of the $10million worth of equipment verified were confirmed to have not met all the agreed specifications. In addition, our audit did not find any evidence of assessments, monitoring and reporting on suppliers identified to have not performed to the requirements of the agreed specifications. Refer to Table 6 for details.

Table 6: Suppliers non-performance to the technical specifications

Tender No.	Supplier	Equipment	Cost of Equipment (FJD)	Audit findings – specifications not met
CTN 79/2013	Supplier D	Tissue processor	266,707.04	The equipment did not have a power backup (UPS) as stipulated in the specification. This was confirmed when the audit team physically verified the equipment on 30/01/17. Refer to *Appendix E – Figure 1* for a picture of a tissue processor.

[6] From June 2016 to February 2017

Tender No.	Supplier	Equipment	Cost of Equipment (FJD)	Audit findings – specifications not met
CTN 56/2015	Supplier C	Patient Monitor	1,799,600.00	• The equipment did not have conventional 12 lead ECG with local diagnostic interpretation as specified in the technical specification which was confirmed when audit verified the equipment. Our audit noted that the equipment had three leads only. In addition, the monitors did not have any wall brackets for mounting the equipment onto the walls. • Our audit further noted that the Ministry was not provided with a Certificate of Calibration, which was also required in the specifications. Refer to *Appendix E – Figure 2* for a picture of a patient monitor.
		Defibrillator with Cardiac Monitoring	2,399,000.00	• The equipment did not have the following accessories which was included in the specifications, as confirmed from audit verifications: - Electrodes (limb & chest) included - adult, paediatrics & neonates • Not mounted onto a trolley. Refer to *Appendix E – Figure 3* for a picture of a defibrillator.
CTN 233/2015	Supplier G	Anaesthesia Trolley	287,524.40	During our audit verification, it was confirmed by the Doctor in charge that the equipment did not have the following functions as detailed in the specifications: • Two ventilators, precision vaporizer for halothane, iso-fluorane and servo fluorane, the necessary attachments for use of the breathing circuit (reuben, bains, jackson-rees or magill), precision vaporizers (temperature, pressure and flow compensated) for halothane. • Could not be easily mounted and dismounted from the back bar. • Vaporizers did not have the ISO pin type (selectatec) mounting and vaporizer interlocking facility. • Did not have the standard filling port with keyed filling device. • The equipment was not designed for transport with liquid in vaporizer chamber with protection against tipping and shaking. • The equipment did not have a maintenance free vaporizer. • Only one (1) set of hose assembly was delivered for piped oxygen supply, nitrous oxide supply and air

Tender No.	Supplier	Equipment	Cost of Equipment (FJD)	Audit findings – specifications not met
				supply. Two sets of hose supply was specified in the specifications. • Did not have a one litre test bag as according to the specifications there should be two test bags. • There were no dust covers. • Did not have two sets of HTE bellows assembly. Certificate of Calibration was not provided by the supplier. Refer to *Appendix E – Figure 4* for a picture of an anaesthesia trolley.
	Supplier K	Operating Table (Standard Type required, armrest needed)	55,001.08	It was confirmed during our audit verification that the operating table did not have the following functions: • Manual override system. • Foot switch. • The table pad was not double layered and was soft (should be double layered and hard). • Did not have x-ray rails under the table plate for x-ray cassette. Certificate of Calibration was not provided by the supplier. Refer to *Appendix E – Figure 5* for a picture of an operating table.
		Operating Table (Standard Type required, armrest needed with stirrups)	144,282.92	It was confirmed during our audit verification that the operating table did not have the following functions: • Manual override system; • Foot switch; • The table pad was not double layered and was soft (should be double layered and hard); • Did not have x-ray rails under the table plate for x-ray cassette. Certificate of Calibration was not provided by the supplier.
		Patient Monitors (Modular/Multi Parameter)	441,093.60	• The equipment did not have conventional 12 lead ECG with local diagnostic interpretation as specified in the technical specification which was confirmed during the audit verification. The equipment only had 3 leads. • The monitors did not have any wall brackets for mounting the equipment on the wall. • The Ministry was not provided with a Certificate of Calibration, which was also specified in the specifications.
		Portable Ultrasound	117,596.00	It was confirmed during our audit verification that the following specifications for the

Tender No.	Supplier	Equipment	Cost of Equipment (FJD)	Audit findings – specifications not met
		(Scanner / Echo)		portable ultrasound equipment was not provided: • Multiple preloaded applications preset. • Simultaneous connectivity of at least two probe. • Over current circuit breaker / any other protection device; and Certificate of Calibration and Inspection was not provided by the Supplier.
			$5,510,805.04	

From the review of contracts and related documents, it was noted that a supplier was awarded two contracts for $12.6 million, which was 69% of the total value of the contracts that were examined. Since the supplier was awarded the highest value of contracts, it is expected that MHMS/FPBSC would closely monitor and report on the performance of the supplier.

Moreover, the same supplier was awarded another contract of $3.1 million in June 2016 without any evidence of contract monitoring performed on the two contracts previously awarded in 2015. With the absence of a monitoring report, the National Bio-medical Coordinator could not confirm that the specification and terms of the contracts awarded in 2015 have been met.

The limited resources and absence of proper policies and procedures have prevented the FPBSC from monitoring and assessing suppliers' performance.

If suppliers' performance are not monitored and assessed, the MHMS will not be able to detect and act on any underperformance or non-compliance with the contracts.

7.3.3 Record keeping processes and systems were inadequate

Section 7 of the Procurement Regulations 2010 requires Permanent Secretaries to ensure that all records and documents relating to procurement and procurement contracts are properly maintained and kept for at least five years and provide those records to the Auditor-General for audit purposes.

Section 3.4 of the Procurement Policy Framework provides examples of appropriate documentations for each stage of the procurement process which should show the reasons for the procurement, the purchase processes adopted, decision making process and details of approval and authorisation.

It was determined from our review of procurement records that there was lack of proper documentations in the procurement files indicating that proper records management practises were not employed.

The FPBSC maintains procurement files for each tender manually. The files store all documents as supporting evidence for works undertaken on the activities for each phases of the procurement process.

To determine the appropriateness of records management, documents contained in the procurement files for six tenders were examined to confirm whether:

- FPBSC has a systematic records management practice that would allow easy access to information on the procurement activities undertaken;
- FPBSC has a formal method of filing that would ensure tracking of work done and procurement decisions made on each procurement phase; and
- procurement files were complete and contain key documents that would aid decision making.

It was noted from our audit that FPBSC manually maintains procurement files and does not employ a standard form of records management that would ensure that key procurement documents such as evidence of specification gathering, request for tender, the bidding documents, appointment of evaluation committee, evaluation reports and minutes of evaluation committee meetings, payments records, monitoring and post procurement review reports are maintained together and systematically filed to ensure tracking of work done and procurement decisions made.

It was noted that the files provided for audit did not clearly and consistently identify the work performed on each phases of procurement activities including the tender evaluations. The procurement files did not contain key documents that have been signed and certified.

Refer to Table 7 for examples of documents not maintained in the procurement files.

Table 7: Documents not contained in the procurement files & impact on the audit

Tender No.	Missing Documents	Audit Findings
CTN 175/2014	• Committee meeting minutes • Reconciliation to keep track of the items being delivered and the total payments made to the supplier. • Copies of delivery documents, invoices and payment vouchers.	• In the absence of the relevant documents the audit was not able to determine the number of meetings convened; decisions made from each meeting(s); whether all equipment were delivered as per the contract; and whether payments have been fully and correctly made to the appropriate supplier. • Overseas companies were marked down for not adhering to administrative requirements that were applicable and only relevant for local companies.
CTN 84/2013	• Minutes for all meetings convened by the Evaluation Committee. • Reconciliation to keep track of the items being delivered and the total payments made to the supplier. • Copies of delivery documents, invoices and payment vouchers. • Copies of the contract agreement for Phase 3. • Request for Tender Documents.	• Not all members of the evaluation committee signed the interest and confidentiality form. • In the absence of the relevant documents the audit was not able to determine the number of meetings convened; decisions made from each meeting(s); whether all equipment were delivered as per the contract; and whether payments have been fully

Tender No.	Missing Documents	Audit Findings
		and correctly made to the appropriate supplier.
CTN 56/2014	• Committee meeting minutes. • Reconciliation to keep track of the items being delivered and the total payments made to the supplier. • Copies of delivery documents, invoices and payment vouchers. • Declaration of Confidentiality & Interest form.	• Overseas companies were marked down for not adhering to administrative requirements that were applicable and only relevant for local companies. • No documentary evidence of proper due diligence being undertaken for a substantial tender amount of $8.9 million with a company that had no prior history of supplying bio-medical equipment. • In the absence of the relevant documents the audit was not able to determine the number of meetings convened; decisions made from each meeting(s); whether all equipment were delivered as per the contract; and whether payments have been fully and correctly made to the appropriate supplier.
CTN 233/2015	• Reconciliation to keep track of the items being delivered and the total payments made to the supplier. • Copies of delivery documents, invoices and payment vouchers. • Declaration of Confidentiality & Interest form.	• Overseas companies were marked down for not adhering to administrative requirements that were applicable and only relevant for local companies. • In the absence of the relevant documents the audit was not able to determine whether the members declared their confidentiality and interest; whether all equipment were delivered as per the contract; and whether payments have been fully and correctly made to the appropriate supplier.
CTN 123/2015	• Reconciliation to keep track of the items being delivered and the total payments made to the supplier. • Copies of delivery documents, invoices and payment vouchers. • Declaration of Confidentiality & Interest form.	• In the absence records/documents, our audit was not able to confirm the decisions made by the evaluators during the meetings. • In addition, our audit was not able to determine whether payments made were as per the agreed contracted amount. • Overseas companies were marked down for not adhering to administrative requirements that were applicable and only relevant for local companies for instance

Tender No.	Missing Documents	Audit Findings
		FRCS and FNPF compliance requirements. • The evaluation documents were not properly filed hence it was difficult to determine whether the evaluations were properly carried out and according to the established criteria. • Documents in the procurement files were not properly file and draft copies of documents were held instead of final and signed copies.
CTN 79/2013	• Reconciliation to keep track of the items being delivered and the total payments made to the supplier. • Signed meeting minutes. • Copies of delivery documents, invoices and payment vouchers. • Declaration of Confidentiality & Interest form. • Request for Tender documents.	• Overseas companies were marked down for not adhering to administrative requirements that were applicable and only relevant for local companies for instance FRCS and FNPF compliance requirements. • In the absence of the relevant documents the audit was not able to determine whether the members declared their confidentiality and interest; whether all equipment were delivered as per the contract; and whether payments have been fully and correctly made to the appropriate supplier.

Gathering information for the purpose of our audit was an extremely tedious process. Although procurement files were maintained for each tender, systematic filing was not done.

From our observations and examination of the procurement files, the FPBSC did not have a proper records management system that would allow easy access to information on the procurements made.

In the absence of proper record keeping system & processes employed by the FPBSC/MHMS, information were requested from the FPO. However, it was noted that the bidding documents were not systematically filed and were not easily accessible. Refer to illustrations below.

Bidding files for all 6 tenders audited were stored at the FPO warehouse in Walu Bay – 26/01/17

The current processes of records management is inefficient and inadequate for effective planning, monitoring and reporting on procurement of biomedical equipment.

7.3.4 Post-procurement review not practiced

Part 8 of the Procurement Guidance for Public Entities issued by the Controller and Auditor General of New Zealand states that it is good practice for a public entity to remain aware of the contract's expiry date so that it can plan for future provision well before that date. A public entity is also expected to review and evaluate the contract to assess how well the objectives have been achieved and determine where it can make any improvements. After completing the review, the public entity should prepare a report that includes recommendations on the lessons learnt.

To determine whether post-procurement reviews were conducted, documents contained in the six procurement files were examined to confirm whether there were documentary evidence of reviews being carried out. Interviews with relevant officers were also conducted to confirm if any reviews were performed.

From our examination of the procurement files, there was no documentary evidence of any post-procurement reviews being undertaken. Interviews with responsible officers confirmed that post-procurement reviews is not practiced by FPBSC/MHMS.

Since Procurement Regulation 2010 only goes as far as defining contract management without detailing the requirements or procedures to be undertaken, no resources were allocated for post-procurement reviews.

In the absence of contract management capability to establish formal processes and carry out reviews to evaluate performances of suppliers at the end of the contract period, assessments of how well suppliers have performed and delivered on the contracts are not formally captured for consideration by the Ministry of Health and Medical Services or the FPO in subsequent procurements. Therefore, the Ministry will not be able to detect and act on under or non-performance by suppliers.

7.3.5 Inconsistent contract administration

Ministries/Departments must ensure that a draft contract is submitted to the Office of the Solicitor General for vetting simultaneously as the Request for Tender (RFT) is made to the FPO; and the contract is signed with the supplier before any procurement commences.[7]

Our audit noted inconsistency in the contract templates used for procurement of bio-medical equipment. The contract templates were not standardised to have the same format and basic content. In one of the procurement file[8] reviewed where three suppliers were awarded contracts with total tender value of $11 million, a comparison of contracts issued to two of the suppliers had numerous inconsistencies. Refer below for examples.

[7] Finance Circular No. 3/2013
[8] CTN 56/2015

Supplier 1 – Supplier C CTN 56/2015	Supplier 2 – Supplier E CTN 56/2015
No cover page	Cover page
12 page contract with 32 sections	16 page contract with 37 sections
Agreement between the supplier and the Fiji Pharmaceutical & Bio-medical Service Centre of Lot 1, Jerusalem Road, Vatuwaqa, Suva	Agreement between supplier and Ministry of Health & Medical Services of Dinem House Toorak, Suva
No recitation paragraphs	Included recitation paragraphs
7 definitions in Section 1	11 definitions in Section 1
Differences in the write-up of similar sections. For example, Section 6 - "Delivery" had 12 sub-sections. Section 22 - "Delay" had 2 sub-sections on unsatisfactory performances of both the supplier and the MHMS.	Section 4 - "Delivery" had 21 sub-sections. Section 21 - "Delay Damages" had 1 sub-section on unsatisfactory performance of the supplier only.

In addition, contracts were not completed fully as some contracts were not dated or signatures were not witnessed. Of the 15 contracts provided for audit and reviewed, five were not dated and in four of the contracts, the signature of the Permanent Secretary of Health was not witnessed.

There is a high risk of the validity of contracts being questioned in the absence of standard requirements and inconsistency in the contract agreements for approved suppliers for the same tender.

Recommendations

- **The importance of contract management should be given sufficient attention by the MHMS and that contract management capability of the Biomedical Departments and the FPBSC should be strengthened through having sufficiently skilled and experienced resources to manage contracts.**

- **The MHMS should consider putting in place Service Agreements to manage high valued and high risk biomedical equipment to ensure continuous maintenance and equipment support and as a way of dealing with limited internal biomedical engineering resources.**

- **Establishment of proper records management system to enable records and information pertaining to activities in all phases of the procurement process are properly captured to ensure that procurement decisions are based on complete and reliable information.**

Comments from Ministry of Health

The audit findings are acknowledged.

Non-compliance with contract requirements

- *Equipment purchases are always awarded to one (1) company that meets the requirement standards and the Ministry does not have the liberty to cancel the order when there is a delay, as it will require re-tendering the item which will take time. The process of finalizing tenders is around 6-9 months (best practice if all*

stakeholders involved collaborate effectively). A few weeks delay is considered feasible in certain cases. Most of the delays noted is based on other factors which is beyond the Ministry's control like:

- *Delay in Production from manufacturers; and*
- *Delay in the process of getting the contract vetted and signed, as the Ministry does not have its own legal officer and Ministry acts as a mediator between the Solicitor General's Office and Supplier for finalization and this is at times a lengthy exercises.*

- *As mentioned, contract management is very difficult due to the inadequate number of people in the procuring of biomedical equipment. In order to curb the additional staffing, resources is being sourced via the Ministry of Health and Medical Services HQ. And with the addition of new staff, contract management will improve.*

Lack of assessment and monitoring of suppliers performance

- *There are no set guidelines/tools for the monitoring and assessment of supplier's performance which makes it difficult to report on any underperformances. As an improvement, the Biomedical and Procurement Unit at FPBS will work together to develop a biomedical equipment monitoring guide/template to monitor suppliers performance. The monitoring template for drugs and pharmaceuticals currently used at FPBS will be used as a guide to develop the one for biomedical equipment.*

Record keeping processes and systems were inadequate

- *As an improvement to address poor record keeping, a SOP and check-list has been developed last year to improve the maintenance and filing. The process of having a check list with tender files ensures every document is filed in order. A random audit is done by the supervisor to verify that the filing is correct. Other avenues like e-system are being researched for.*

Post procurement review not practiced

- *FPBS was unable to perform the post procurement reviews as there was no specific guidelines on this. Also, the officers involved in procurement were not well trained for project management. Furthermore, there was lack of personnel (at that time) to carry out this task.*

- *As improvement, FPBS will develop appropriate procedures (SOP's) that will look into a review system for biomedical procurement. Furthermore, these methods of reviewing will also be considered:*
  - *User feedbacks;*
  - *Audit visits to the facilities; and*
  - *Assessment and analysis of the annual procurement plan, focusing on the timelines and expenditures incurred over the period. The analysis/ assessment will be reported for future improvements.*

Inconsistent contract administration

- *Both contracts have been vetted by different legal officers at different time intervals. Template sent to suppliers for comments are all of the same content and format. We have previously highlighted the issues whereby there was not standard set of requirements for vetting, as different legal officer have different requirements. There would be slight changes in clauses as different suppliers have separate requirements of amendments. The mandatory clauses are same for every year.*

- *None of the orders are issued to suppliers prior to signing unless there is approval from the Permanent Secretary of Health. In this case, orders were just raised in the system and signed off to commit funds due to the close of accounts being near however orders were issued only after contracts were endorsed by suppliers.*

8. CONCLUSION

Overall, the results of our audit indicated that the procurement of bio-medical equipment during the period under audit, for all the three phases (planning, sourcing and contract management), did not fully comply with the Procurement Regulations 2010, related policy/guidelines and accepted best practices.

There is an urgent need for MHMS to improve compliance, records management and post-contract reviews.

APPENDIX A: REFERENCE TO COMMENTS

DINEM HOUSE
88 AMY ST., TOORAK
BOX 2223, GOVT. BUILDING
SUVA, FIJI

MINISTRY of HEALTH & MEDICAL SERVICES
Shaping Fiji's Health

PHONE: (679) 3306177
FAX : (679) 3306163
(679) 3306153

EMAIL: info@health.gov.fj

Reference: **MD 628** ***Date:*** **15 February 2018**

MEMORANDUM

From: The Acting Permanent Secretary for Health and Medical Services

To: The Auditor General 19/2/18

Subject: **Management Response to the Draft Compliance Audit Report**

Attention: **Ms Finau Nagei**

Reference is made to your memorandum referenced 628 dated 02.02.2018.

The Ministry of Health and Medical Services acknowledges receipt of the Draft Compliance Audit report for the Compliance audit on Procurement of Biomedical Equipment conducted for the Fiji Pharmaceuticals & Biomedical Services (FPBS). The explanations/management comments in response to the issues highlighted in the Report is submitted herewith.

For further clarification and assistance, please do not hesitate to liaise with the Principal Accounts Officer on telephone number 3215718, or the Acting Director FPBS on telephone number 3388000.

Thank you.

Susan Kiran (Ms)
Acting Permanent Secretary for Health and Medical Services

Encl.

OFFICE OF THE AUDITOR GENERAL

Excellence in Public Sector Auditing

6-8TH Floor, Ratu Sukuna House
2-10 McArthur St
P. O. Box 2214, Government Buildings
Suva, Fiji

Telephone: (679) 330 9032
Fax: (679) 330 3812
E-mail: info@auditorgeneral.gov.fj
Website: http://www.oag.gov.fj

File: 628

28 March 2018

Makereta Alifereti Konrote
Permanent Secretary for Economy
Ministry of Economy
GPO Box 2212
SUVA

Dear Mrs. Konrote

COOPERATIVE AUDIT OF PUBLIC PROCUREMENT
PROCUREMENT OF BIOMEDICAL EQUIPMENT
MINISTRY OF HEALTH & MEDIAL SERVICES

The Office of the Auditor General, in conjunction with Supreme Audit Institutions (SAIs) in the region, participated in a *Cooperative Audit Programme on Audit of Public Procurement*. The programme was facilitated by the International Organisation of Supreme Audit Institutions Development Initiative and the Pacific Association of Supreme Audit Institutions.

Enclosed, please find a report on the procurement of biomedical equipment by the Ministry of Health & Medical Services. The report is submitted for your comments, if any. We would be grateful if comments on the report are submitted by 11/04/18.

Should you require further information, please do not hesitate to contact the undersigned on telephone 3309032 or email fnagera001@auditorgeneral.gov.fj.

Yours sincerely

Finau Nagera
for **AUDITOR-GENERAL**

APPENDIX A: REFERENCE TO COMMENTS (cont'd)

From: Permanent Secretary MHMS [mailto:pshealth.fj@gmail.com]
Sent: Monday, 7 May 2018 3:09 PM
To: Finau Nagera
Cc: Ajay Nand; Jeremaia K. Mataika
Subject: Re: Cooperative Compliance Audit _ Procurements of Biomedical Equipment

Thank you.

APS

On Mon, 7 May 2018, 2:41 pm Finau Nagera, <fnagera001@auditorgeneral.gov.fj> wrote:

Dear Ms. Kiran

A final report on the above subject was issued to the Ministry of Health on 08/03/18. The management comments included in the final report had been discussed in an Exit Interview held on 28/2/18 at the FPBSC with representatives of the Ministry. There were no further comments received from the Ministry after 08/03/18.

The report that will be included in the Auditor General's Report to Parliament is attached. If you have any further comments to the report, please submit them by 11/05/18.

We also request an acknowledgement to the receipt of the attached report.

Respectfully submitted.

Finau Nagera
Director
Office of the Auditor General
8th Floor | Ratu Sukuna House| MacArthur Street| Suva
P.O. Box 2214| Government Buildings| Suva| Republic of Fiji.

OFFICE of the AUDITOR GENERAL
Republic of Fiji

Email: fnagera001@auditorgeneral.gov.fj |**Tel:**(679)3309032|Ext:393201|**Fax:** (679)3303812|**Helpdesk:** info@auditorgeneral.gov.fj|**Webpage**: www.oag.gov.fj

OFFICE OF THE AUDITOR GENERAL

Excellence in Public Sector Auditing

6-8TH Floor, Ratu Sukuna House
2-10 McArthur St
P. O. Box 2214, Government Buildings
Suva, Fiji

Telephone: (679) 330 9032
Fax: (679) 330 3812
E-mail: info@auditorgeneral.gov.fj
Website: http://www.oag.gov.fj

File: 628

8 February 2018

Susan Kiran
Acting Permanent Secretary for Health
Ministry of Health and Medical Services
Dinem House
88 Amy Street
Toorak
SUVA

Dear Ms. Kiran

COOPERATIVE AUDIT OF PUBLIC PROCUREMENT – BIOMEDICAL EQUIPMENT
FINAL COMPLIANCE AUDIT REPORT

We refer to your letter dated 15 February 2018 and acknowledge the receipt of the Ministry of Health and Medical Services' management responses.

An Exit Interview was held on 28 February 2018 at FPBSC with representatives of the Ministry to discuss the report together with the management responses. There has been no change to the draft report as the Ministry has basically agreed to the issues highlighted and are working on improving procurement processes and procedures.

The final report is enclosed.

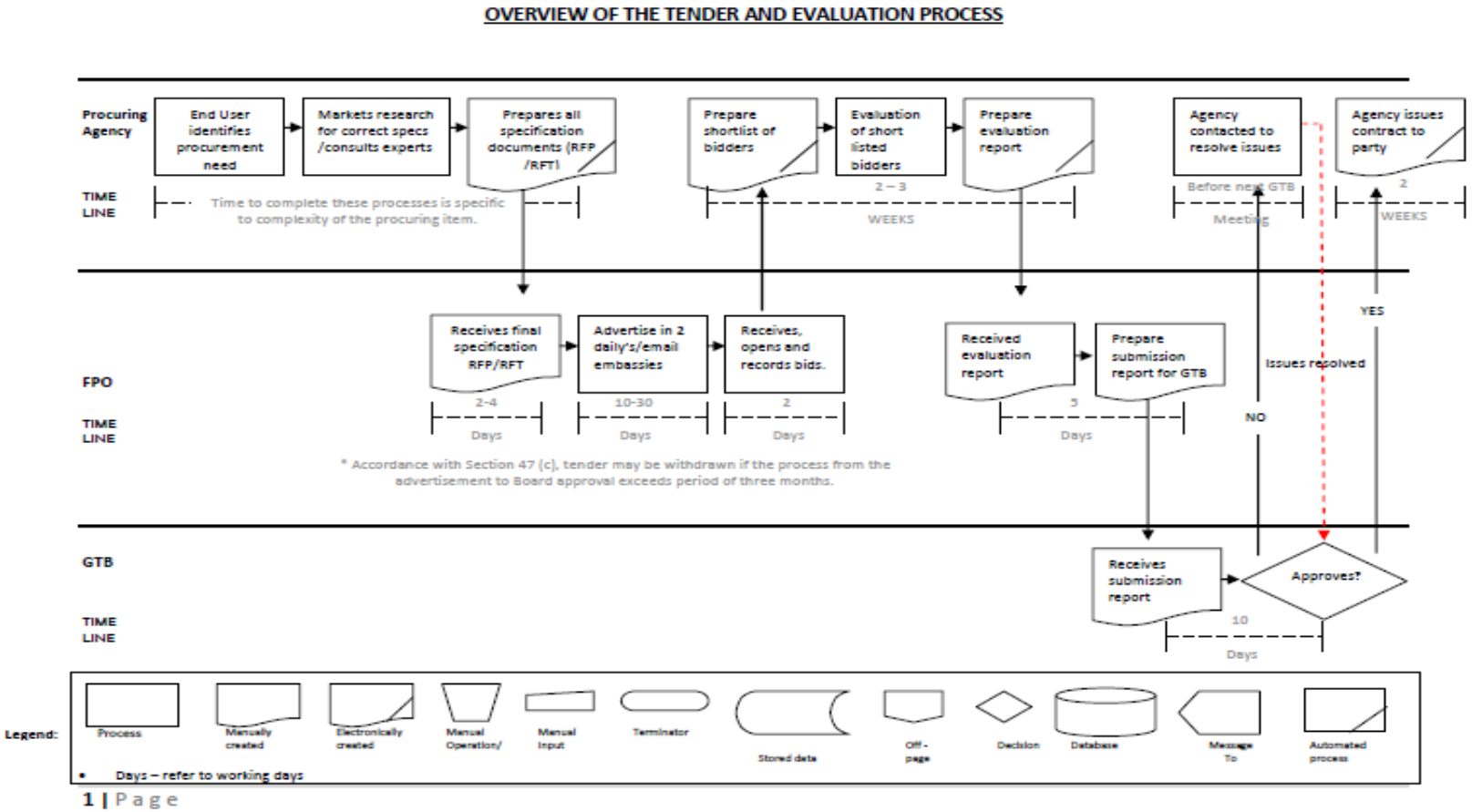
For any clarifications, please do not hesitate to contact the undersigned on telephone 3309032.

Yours sincerely

Finau Nagera
for **AUDITOR-GENERAL**

Encl.

APPENDIX B: TENDER AND EVALUATION PROCESS



(Source: Fiji Procurement Office)

The overview of the tender and evaluation process stipulates the activities that the respective agencies are responsible for. As illustrated in the diagram above, the planning stage of the procurement is entirely the responsibility of the procuring agency while the sourcing stage is shared between the Fiji Procurement Office, the procuring agency and the Government Tender Board.

APPENDIX C: COMPARISON OF ACTUAL PROCUREMENTS AGAINST THE PROCUREMENT PLAN

Equipment Procured	Quantity identified in the 4 year Procurement Plan (extract from 4 years Procurement Plan)				Quantity procured (extract from approved GTB list) CTN 56/2015			Variance	Unit cost ($)	Variance Total Cost ($)
	Phase 1 2013	Phase 2 2014	Phase 3 2015	Phase 4 2016	Phase 1	Phase 2	Phase 3			
Patient Monitor (CMP)	6	6	6	10	80			52	9,680.00	503,360.00
Patient Monitor (BMP)					157	32	31	220	8,180.00	1,799,600.00
Defibrillator with cardiac monitor	16	15	22	25	73	64	63	122	11,995.00	1,463,390.00
ECG Equipment	68	68	67	67	58	171	171	130	4,900.00	637,000.00
Vital Signs Monitor	22	22	22	22	101	50	49	112	4,374.97	489,996.64
Ambu Bags (Adult)	100		100		200	100	100	200	117.08	23,416.00
Ambu Bags (Paediatricss)	50		50		200	100	100	300	115.18	34,554.00
Ambu Bags (Infant)	10		10		200	100	100	380	112.00	42,560.00
Portable Suction Equipment	20	20	20	20	114	43	43	120	1,859.80	223,176.00
Nebuliser Pump	10	10	10	10	111	95	94	260	770.00	200,200.00
Mercury Sphygmanometer	100	100	100	100	113	144	143	0	295.00	0.00
Fetal Doppler	15	15	15	15	21	140	139	240	250.00	60,000.00
CTG Equipment					70	92	91	253	2,975.00	752,675.00
Baby Scale	26	27	15	15	100	50	50	117	1,634.99	191,293.83
Hanging Baby Scale					50	25	25		367.87	0.00
										$6,421,221.47

APPENDIX D: EXAMPLES OF NON-COMPLIANCE TO REQUIREMENT OF CONTRACTS

Tender No.	Supplier	Total Amount of the Contract($)	Total Verified	Details of Non-Compliance to Contract
CTN 233/2016 - Supply, Installation & Commissioning of Operating Theatre Equipment Items at Lautoka Hospital.	Supplier E	239,379.43	192,926.88	As per *contract clause 3.6* the equipment should be delivered within 21 weeks of receipt of official purchase order from the Ministry. The audit was not provided with the delivery documents and the official purchase order to provide evidence for time of delivery.
	Supplier C	3,181,478.10	2,827,138.72	Training was only provided for two days contrary to 4 days as stated in section 19.1(c) of the contract agreement.
	Supplier G	313,401.61	313,401.61	• As per section 3.6 of the contract, the equipment should be delivered within 21 weeks of receipt of official purchase order from the Ministry. The audit was not provided with the delivery documents and the official purchase order to provide evidence for time of delivery. • Training was supposed to be provided for 4 days as per *contract clause 19.1c* however the user training was only provided for 2 days.
CTN 175/2014 - Supply, Installation & Commissioning of ICU Equipment for CWM Hospital.	Supplier C	2,287,877.80	1,860,920.00	As per section 6(c) of the Contract, all equipment were to be delivered on a one off supply before end of June 2015. Most equipment were delivered and received by CWM after June 2015 as confirmed by the CWM Bio-medical Officer. The audit was not provided with the delivery documents and the official purchase order to provide evidence for time of delivery.
	Supplier H	108,480.07	108,480.07	As per section 6(b) of the Contract, all equipment were to be delivered before end of May 2015. As confirmed by the CWM Bio-medical Officer, the equipment were delivered and received by CWM hospital in June 2015. The audit was not provided with the delivery documents and the official purchase order to provide evidence for time of delivery.

Tender No.	Supplier	Total Amount of the Contract($)	Total Verified	Details of Non-Compliance to Contract
CTN 79/2015 - Supply, Installation & Commissioning of Histology Equipment for Ministry of Medical Services	Supplier D	266,707.04	266,707.04	• As per section 4.6 of the contract, the equipment should be delivered within 21 weeks of receipt of official purchase order from the Ministry. The audit was not provided with the delivery documents and the official purchase order to provide evidence for time of delivery. • Section 18.2 states that the supplier was supposed to produce, document and present to the Ministry operational verification data in a process known as Equipment Handover when satisfied that the system is fully operational. There was no documentary evidence available to confirm that the equipment were properly handed over to the Ministry. • Section 19.2 states that the supplier should present the Ministry with a Final Certificate of Acceptance when the contracted items conform to the specifications and has continuously operated in compliance with the specifications. However, there was no evidence of a Final Certificate of Acceptance and discussion with the Histology Officer confirmed that the equipment (Automated tissue processor) did not meet the technical specifications as it did not have any power back up (UPS).
	Supplier I	59,851.63	29,925.81	• Section 6.1 of the contract requires the equipment (Tissue Embedding Center) to be delivered within 21 weeks after receipt of sixty percent (60%) advance payment of Phase 1 cost. The audit was not provided with the delivery documents and the official purchase order to provide evidence for time of delivery. • Section 11.2 states that the supplier was supposed to produce, document and present to the Ministry operational verification data in a process known as Equipment Handover when they are satisfied that the system is fully operational. The audit verification noted that there were no documents available to confirm that the equipment were properly handed over to the Ministry. • Section 12.2 states that the supplier should present the Ministry with a Final Certificate of Acceptance immediately prior to the expiration of the 30th day of the month of commissioning when the contracted item conforms to the specifications and has continuously operated in compliance with the specifications. Even though

Tender No.	Supplier	Total Amount of the Contract($)	Total Verified	Details of Non-Compliance to Contract
				the equipment conforms to the specifications and has operated in compliance with the specifications, the Ministry was provided with a final certificate of acceptance. • It was agreed in the contract that the supplier will provide user training for the duration of four (4) days according to Section13.1(c), however it was noted that training was only provided for about 2-3 hours.
	Supplier G	49,979.56	49,979.56	• Section 6.1 requires that the equipment (cryostat) to be delivered within 21 weeks after receipt of 60% advance payment of Phase 1 cost. The audit was not provided with the delivery documents and the official purchase order to provide evidence for time of delivery. • Section 11.2 states that supplier to produce, document and present to the Ministry operational verification data in a process known as Equipment Handover when they are satisfied that the system is fully operational. The audit noted that there were no documents available to confirm that the Equipment were properly handed over to the Ministry. • Section 12.2 states that the supplier should present the Ministry with a Final Certificate of Acceptance immediately prior to the expiration of the 30th day of the month of commissioning when the contracted item conforms to the specifications and has continuously operated in compliance with the specifications. Even though the equipment conforms to the specifications and has operated in compliance with the specifications the Ministry was not provided the final certificate of acceptance. • It was agreed in the contract that the supplier will provide user training for the duration of four (4) days as per section 13.1(c) however it was noted that training was only provided for about 2-3 hours. • Section 14.2d provides for the warranty of the equipment whereby the supplier will provide 24 hours, 7 days/week operator and technical support. The audit noted that the supplier was informed through e-mail on 01/11/16 that the cryostat was

Tender No.	Supplier	Total Amount of the Contract($)	Total Verified	Details of Non-Compliance to Contract
				not working. The suppliers responded on 01/12/16 which is a non-compliance to the mentioned clause.
CTN 123/2015 - Supply, Installation & Commissioning of Dental Equipment	Supplier J	19,248.00	18,200.00	• According to section 4.6 of the contract, the equipment should be delivered within 21 weeks of receipt of official purchase order from the Ministry. The audit was not provided with the delivery documents and the official purchase order to provide evidence for time of delivery. It was further noted that the contracted equipment under this contract agreement are yet to be supplied.
CTN 56/2015 - Supply, Installation & Commissioning of Medical Equipment for Ministry of Health & Medical Services	Supplier C	8,964,698.00	7,977,594.00	• Section 6.1 requires that the medical equipment be supplied on a one off supply by no later than 30/04/16. It was confirmed by the biomedical officer in Lautoka that not all equipment's were delivered before the agreed time. This statement was also confirmed by the National Bio-medical Coordinator in which most of the equipment's were not supplied on the expected time of delivery. The audit is also yet to be provided with the delivery documents to confirm the exact date the equipment's were delivered.
	Total Tested	**15,491,101.24**	**13,645,273.69**	

APPENDIX E: EQUIPMENT - TECHNICAL SPECIFICATIONS NOT MET WHEN SUPPLIED

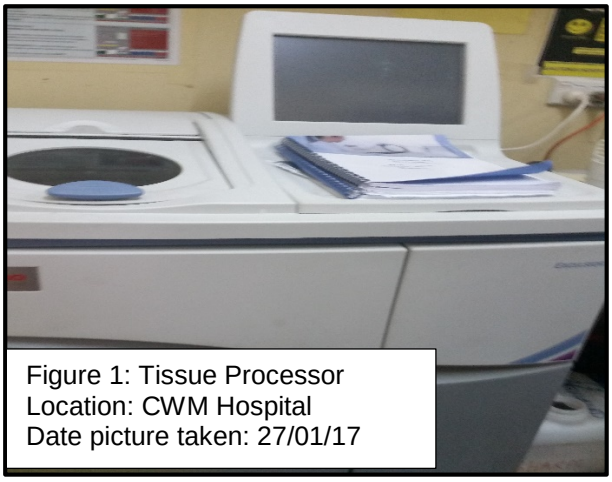


Figure 1: Tissue Processor
Location: CWM Hospital
Date picture taken: 27/01/17

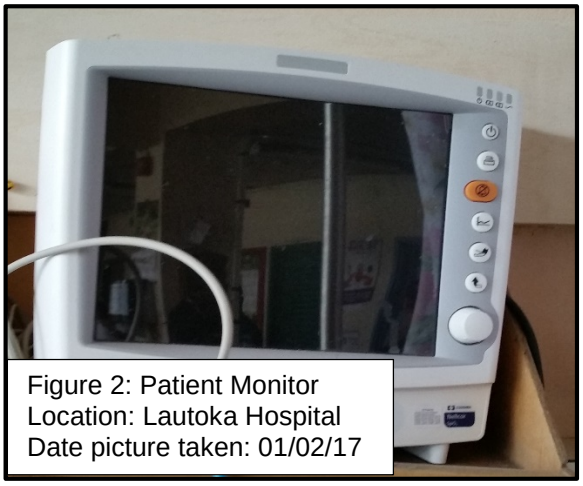


Figure 2: Patient Monitor
Location: Lautoka Hospital
Date picture taken: 01/02/17

Figure 3: Defibrillator
Location: Lautoka Hospital
Date picture taken: 01/02/17

Figure 4: Anesthetic Trolley
Location: Lautoka Hospital
Date picture taken: 30/01/17

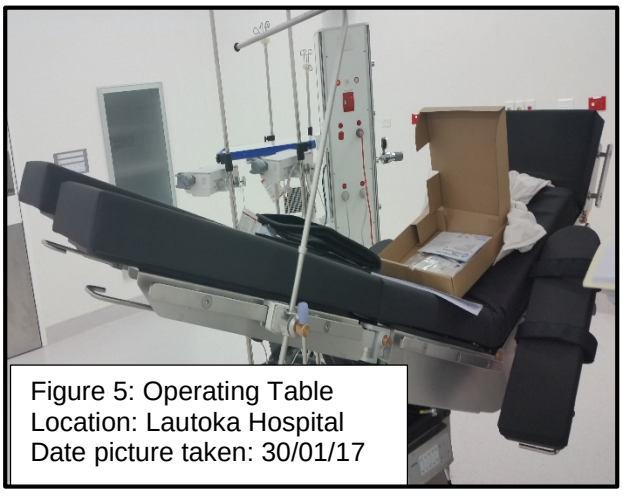


Figure 5: Operating Table
Location: Lautoka Hospital
Date picture taken: 30/01/17

Figure 6 – Unused equipment Location:
CWM Hospital – Ante Natal Ward
Date picture taken: 07/06/18

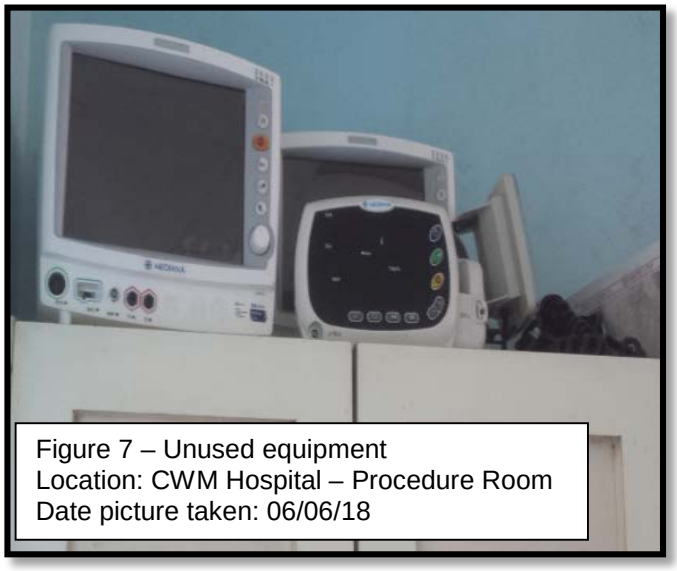


Figure 7 – Unused equipment
Location: CWM Hospital – Procedure Room
Date picture taken: 06/06/18

Figure 8 – Unused equipment still in cartons
Location: CWM Hospital – NICU
Date picture taken: 07/06/18

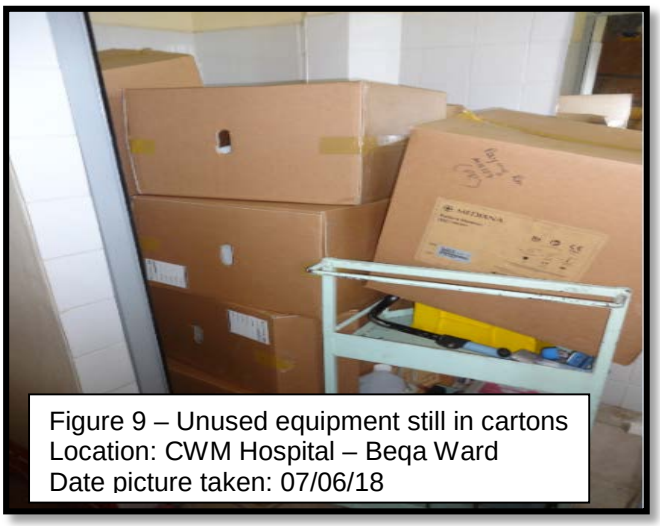


Figure 9 – Unused equipment still in cartons
Location: CWM Hospital – Beqa Ward
Date picture taken: 07/06/18

Audit of Rural Postal Services Quarterly Returns 2013-2017

TABLE OF CONTENTS

1. Introduction (Background)

Post Fiji operates as a commercial entity with a view to providing returns on its investments to its shareholders.

Although Post Fiji has not made profits through the provision of rural postal services, the Ministry has agreed that Post Fiji continue to provide such postal services particularity to those on the rural areas. Pursuant to Section 84c of the Posts and Telecommunications Decree 1989 the Ministry has agreed to clear the losses incurred by Post Fiji in respect of such postal services.

Under the agreement dated 21 May 2013, Post Fiji shall calculate the net loss for providing Rural Postal Services at every quarter of a given year by providing the Ministry with details of the net loss it had had incurred in providing the Rural Postal Services in accordance with the reporting and timely requirements under the said agreement.

The Ministry shall pay Post Fiji in the last quarter of a year the amount equal to the net loss provided an audit of Post Fiji' Annual accounts is done prior to payment.

The Ministry may also request the Office of the Auditor General (OAG/Appointed Auditors for a special audit to validate the Rural Postal Services net losses/figure provided by Post Fiji.

Responsibility

In accordance with the Rural Postal Services Agreement between Post Fiji Limited (PFL) and the Ministry of Finance/Ministry of Economy dated 21 May 2013, PFL's management are responsible for the preparation submission and maintenance of records for the 19 quarterly returns with effect from Quarter 1 of 2013 to Quarter 3 of 2017.

Auditors Responsibility

Our responsibility is to perform an audit as provided in the agreement and as communicated in a memorandum from Permanent Secretary for Economy dated 09 October 2017.

The Ministry of Economy vide a memorandum dated 09 October 2017 requested the Office of the Auditor-General to undertake a special audit on the Rural Postal Services provided by PFL.

2. Executive Summary

Key Findings

- We were not able to obtain sufficient appropriate audit evidence relating to eight quarterly reports from Quarter 1 of 2013 to Quarter 4 of 2014. The risk of undetected misstatements exists for the period 2013 and 2014. Data from the accounting system used by PFL for recording of transactions during the two years could not be retrieved as the server supporting it had crashed due to frequent power outages.

- We were also not able to obtain sufficient appropriate audit evidence to substantiate and validate the movement from one quarter to the next as reconciliations were not prepared and signed-off by Management of PFL as part of their submission to the Ministry of Economy.

- The required controls over the process of preparing, reviewing and final approval of the 19 quarterly reports from Quarter 1 of 2013 to Quarter 3 of 2017 are not documented in the Standard Operating Procedures of the Company.

- We have noted that the percentages used to apportion costs "Basis of apportionment of Costs" as per Rural Postal Services Agreement between the Ministry of Economy and PFL dated 21 May 2013 have been complied. However, for the 11 quarterly returns from Quarter 1 of 2015 to Quarter 3 of 2017, the audit was not able to reliably validate sufficient appropriate audit evidence to explain the major variations of costs claimed.

Overall conclusion

Apart from the eight quarterly reports from Quarter 1 of 2013 to Quarter 4 of 2014 which was not audited due to missing system records and except for the lack of reliable and sufficient appropriate audit evidence to explain the major variations of costs claimed in the quarterly submissions, the application of the grant agreement in the 11 submitted quarterly returns from Quarter 1 of 2015 to Quarter 3 of 2017 are consistent to the requirements of the Rural Postal Services agreement.

3. Scope

This special audit includes the verification and validation of the 19 Quarterly Returns submitted by Post Fiji Limited to the Ministry of Economy for the periods beginning from the first quarter of 2013 to the third quarter of 2017.

4. Audit Objectives

The objectives of our audit were to:

- verify and validate the 19 Quarterly Returns by Post Fiji Limited from Quarter 1 2013 to Quarter 3 of 2017 under the Rural Postal Services Agreement; and

- Advice of any issues for which the Ministry of Economy should be aware of.

5. Audit Criteria

This section explicitly identifies the laws, legislation, rules and regulations that were used in the audit and is identified in this audit report.

(i) Continuous Year to Year Agreement dated 21 May 2013 with PFL to provide postal services to the rural services of Fiji for which the Government subsidises net losses incurred by PFL on a quarterly basis; and

(ii) Post Fiji Finance Corporate Governance Manual Finance

6. Methodology

This audit is based on document analyses, reviews, interviews and meetings with key personnel. We have further assessed controls around the 19 quarterly reports for the five years from 2013 to 2017 which was related to the audit criteria identified in Section 3 above.

7. Response from PFL

The detail responses from PFL has been incorporated in **Section 8** of this report.

We also provided a full copy of this report to PFL with request for any further comments. Copies of letters issued are in **Appendix A.**

8. Detailed Findings

8.1 Lost Data: Financial information relating to 2013 and 2014 was lost due to crash of the accounting system

Ministry of Economy vide a memorandum dated 09 October 2017 to audit quarterly submissions for the Rural Postal Services.

The scope of our audit was limited to the three year period from 2015 to Quarter 3 of 2017 as data providing detailed transactions for the years 2013 and 2014 were not provided for audit. PFL advised us in an e-mail dated 8 November 2017 that data for the two years were not available as the previous accounting system (IMAS system) could not be accessed because the server (AS400) it was stored in had crashed due to frequent power outages.

As a result, we were not able to select samples from these periods for our audit. Consequently, we were not able to validate and verify the eight quarterly reports amounting to $816,229 covering Quarter 1 of 2013 to Quarter 4 of 2014. Refer to details below.

Quarter	Amount ($) VEP	
Year	**2013**	**2014**
Quarter 1	128,187	72,739
Quarter 2	126,140	80,204
Quarter 3	97,335	118,554
Quarter 4	92,385	100,685
Total for year	**444,047**	**372,182**
Total for 2 years	**816,229**	

The PFL management while noting the audit finding indicated that they can retrieve this information but it will be time consuming and costly as they need to hire expatriates for this as their financial system has changed from November 2014. Soft and hard copies of information has been provided and submitted to Ministry and compiled for our quarterly reports.

However, the information provided was not sufficient for audit purposes as these were of secondary source of evidence and secondly expenditure was summarised and lacked detailed information to enable the audit to verify the primary source of the revenue and expenditures.

Recommendation

PFL should ensure that a risk mitigation plan is put in place to ensure that historical data and records are archived and can be accessed when required.

8.2 Difference in Annual Figures

Our audit noted variances between the total of the four quarters for the financial years ending 31 December 2013 to 31 December 2016 and the audited accounts as reflected in the table below.

Table 1 Variances noted

Year	2013	2014	2015	2016
Quarter	VEP ($)	VEP ($)	VEP ($)	VEP ($)
Quarter 1	128,187	72,739	112,614	219,298
Quarter 2	126,140	80,204	132,483	198,531
Quarter 3	97,335	118,554	159,415	149,612
Quarter 4	92,385	100,685	169,101	196,693
Sum of 4 quarters	**444,047**	**372,182**	**573,613**	**764,134**
As per signed accounts*	394,155	399,381	499,696	721,542
Variance	***49,892***	***(27,199)***	***73,917***	***42,592***

*Government grants rural revenue.

The Finance Manager revealed that the variance arises in every 4th quarter when accruals are processed in the general ledger system. The book entry for actual is only realised when year-end accounts are finalised

The variance highlighted above implies that the total annual reimbursement made under the Agreement is not consistent with the annual figures presented in the financial statements. Details of the variances were not provided for our audit.

PFL management has taken note of this issue. However the signed accounts and the total of four quarters for that particular year does not match because in the 4th quarter, accruals are booked by PFL Finance team and this is reflected in FS. The actuals amounts are submitted to the Ministry by PFL management after finalisation of accounts and this is reflected in the following year. The accruals are booked as per budget. The PFL management will ensure annual reconciliation is carried out and explanations narrated on the variance between FS and total of four quarters.

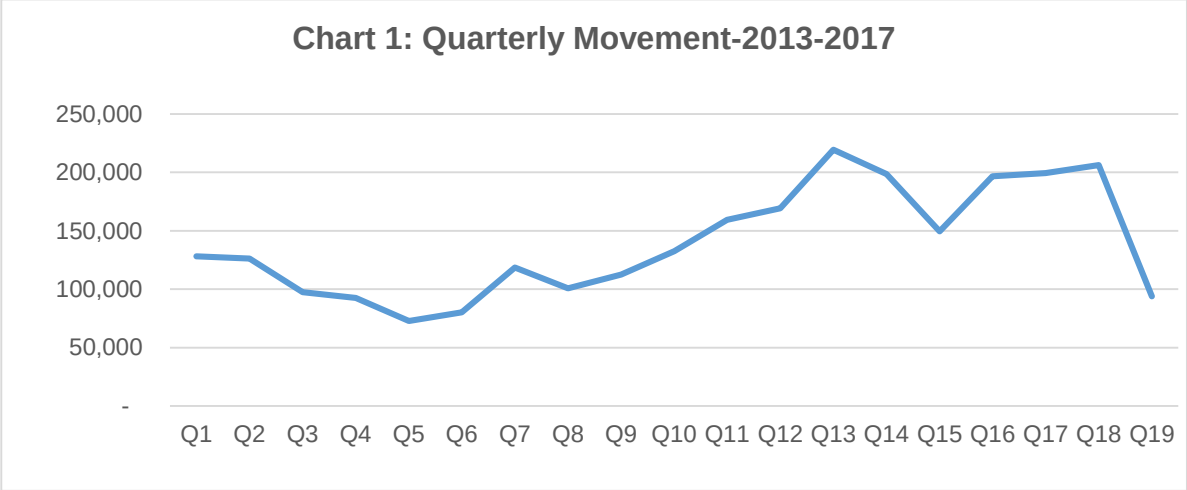
Recommendation

The Ministry of Economy and PFL should ensure that an annual reconciliation is carried out during the submission of Quarter 4 of each year to ensure that the signed accounts and total of the four quarters are reconciled.

8.3 Explanation for Movement between quarters not provided

As at 14 March 2018, the PFL was not able to provide satisfactory explanations together with related supporting documents as requested by the audit team on 12 February 2018 to enable us to substantiate and validate the movements noted from one quarter to the next.

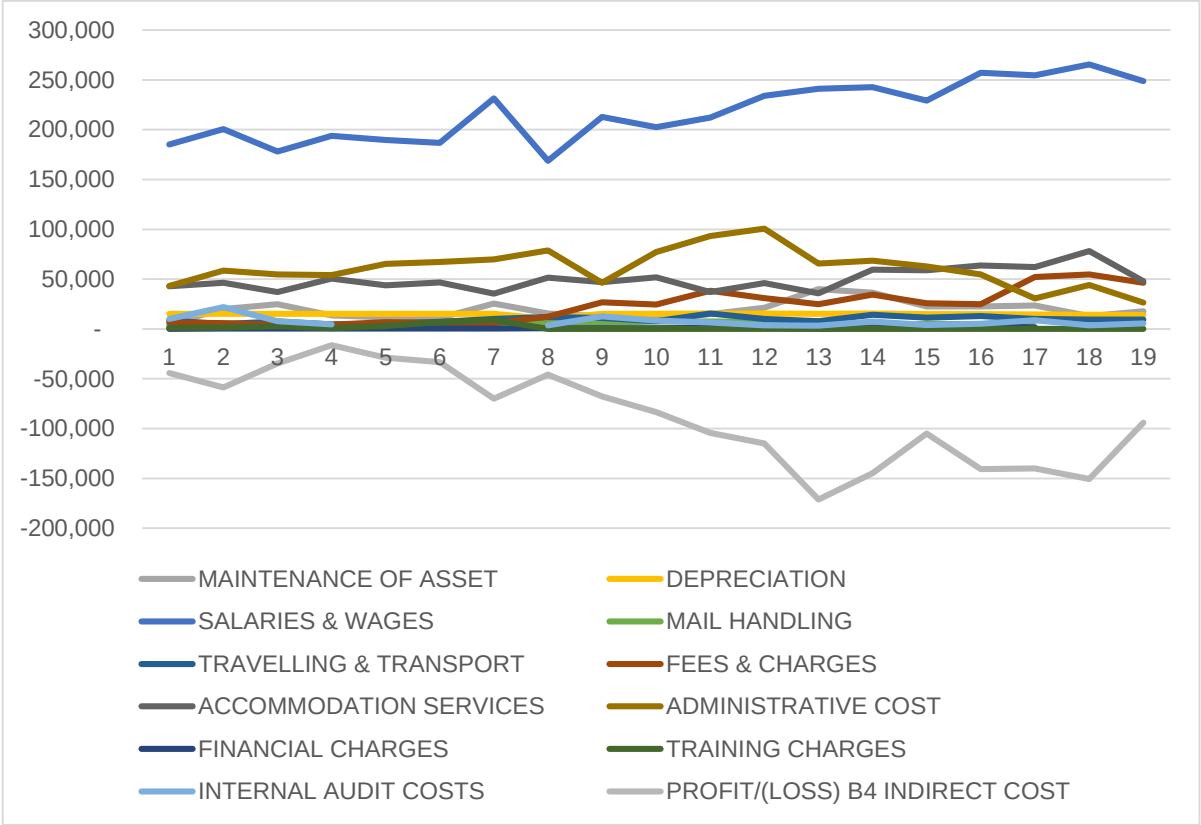
A significant increase of around $120,000 (as shown in Chart 1 below) was noted from Quarter 4 of 2013 to Quarter 1 of 2016 for which satisfactory explanations together with supporting documents were not be provided for audit verification.



PFL has explained that the reason for the increase in salaries and wages was due to a job evaluation done in 2013 (2013 in the graph above relates to quarter 1 (Q1) to quarter 4 (Q4). The explanation provided is not consistent with the decline in the first quarter for 2014 (Q5). Apropriate documentations was not provided to audit for the high costs from from the fourth quarter of 2015 (Q12) to second quarter of 2017 (Q18) before the sharp decline for the third quater (Q19) of 2017.

Chart 2 below indicates the trend for direct costs with salaries and wages which comprises of a significant portion of the direct costs. It also indicates a negative correlation between the movement in wages and salaries and the movement in net loss /profit before accounting for indirect costs.

Chart 1 Trend of Direct Costs Expenditure



We were unable to obtain satisfactory explanation and documentary evidence of the causes of the increases in the expenditure and consequently the changes in quarterly expenditure.

On 15 March 2018, PFL provided six variance analysis as explanation for the six movements from Quarter 1 of 2016 to Quarter 3 of 2017.However, these analysis have not been signed-off as evidence of review and corroborating evidence provided did not have elements of validity and authenticity.

Management of PFL has taken note of this issue. The variance analysis with the supporting documents between the quarters has been gathered for review. Going forth, PFL management will ensure that reconciliations are carried out between the quarters.

Recommendations

- ***PFL should ensure that relevant supporting documents are available for audit to validate and verify the movements noted between the quarters.***
- ***From the above, a reconciliation should be prepared, reviewed and approved by the Finance Controller and submitted to the Ministry of Economy as part of its quarterly submissions.***

8.4 Absence of Standard Operating Procedure for Rural Postal Services

Well-defined policies, procedures and processes also provide a basis for an organisation to analyse how to get from their existing state to a target state. Standard Operating Procedures (SOPs) reduce learning curve/training time for new employees; ensures business continuity; standardise processes and tasks delegations becomes more effective.

Our audit noted that updated SOPs to guide new and existing staff on how the operations of the Rural Postal Services should be carried out were not prepared by the company. It was noted that PFL has not reviewed and updated the manual to suit the current business environment.

The absence SOPs increases the risk of errors and omissions through inconsistent application of policies and procedures.

PFL Management stated that an operations manual for Postal Agents written in 1988 has been made available. The manual will be reviewed and updated to suit the current business environment.

Recommendation

PFL should ensure that SOPs for Rural Postal Services is developed and implemented as soon as possible

8.5 Delays in submission of additional information required for audit

Timely provision of additional information required for audit greatly facilitates timely completion of audit.

Our audit was delayed as additional information requested from PFL was not always provided on time. Table 2 below reflects the flow of information between the audit team and respective PFL staff.

Table 2 Facilitation of audit request for information

Information Requested	Audit Request date	Date Information Provided
Payrun reports, Branch reports and source documents for Payroll (e.g. appointment letter, Board approval for pay increment etc.)	16/11/17	15/12/17
Confirmation of Agreements for Connect and Family Assistance	30/11/17	18/12/17
Reconciliation for Movement between Quarters (including relevant and adequate supporting documents)	19/01/18	15/03/18

Information was not readily available when we requested for further supporting documents. The delay in submission of the above information greatly affected the finalisation of our report on the 18 quarterly reports from Quarter 1 of 2013 to Quarter 2 of 2017.

PFL indicated that the company's Payroll Officer had provided the information but the information requested by the auditors varied resulting in the delay in submitting the details.

Recommendation

PFL should ensure that additional information requested for audit purposes is provided on a timely basis.

8.6 Invoices not attached

An organisation must have procedures in place to ensure that invoices or statements are not paid twice and that fraudulent or erroneous claims are detected. The Accounts Supervisor must not certify a payment as correct unless they are satisfied that it is in accordance with an LPO, indent, contract, invoice or other authorisation. Invoices provide evidence that a service or good has been provided.

Our review of the supporting documents to payment vouchers for expenditures revealed that invoices were not always attached when payments were effected. For example, we could not establish the accuracy of electricity paid for the postal agency in Waiyevo, Taveuni as electricity bills invoices were not attached to the payment vouchers. Refer Table 3 below for details.

Table 3 Details of payments vouchers for electricity not attached

Date	Payment Voucher	Invoice for the month of	Amount ($)
11.06.17	121360	May 2017	622.50
14.05.15	121115	May 2015	622.50
14.01.16	123271	January 2016	677.00
02.02.15	120250	February 2016	639.00
Total			**2,561.00**

The Chief Operating Officer revealed that the electricity for this postal agency is sourced from generator hence the amount varied from time to time. However, there was still no valid document (including an invoice) specifying the exact amount of electricity to be paid as original bills to the above four payments.

Hence, without sighting of the invoices, we could not ascertain the accuracy of the payments made.

PFL Management while noting of the recommendation, stated that without the attached invoices the respective checking officers and approving officers of PFL Finance Team would not have signed on the payment vouchers. The telephone bill is attached to the payment voucher when it is processed. However, when making payment, the bill is dispatched with the cheque which is required by Telecom Fiji Limited. Details are maintained by PFL accounts in excel.

We also noted that the Finance Manual of PFL is silent on the need for invoices and does not specifically mention the need for invoices as supporting documents for any payments to be made.

Recommendation

PFL Finance team should ensure that invoices are attached together with all relevant sources documents to the payment vouchers before payment is made.

8.7 Variances in Payroll between Payrun reports and General ledger for Rural Postal Services

The total of each payroll report generated from the payroll software (PayGlobal) should be reconciled with the amount recorded in the general ledger.

We noted variances between the payroll reports (wages and salaries) when compared against the respective amounts posted in the general ledger.

Given a sample of payroll tested as shown on Table 4, the total payroll costs reported in the general ledger report of $257,085.35 is less by $190,474.15 when compared against the actual pay run report of $447,559.50. Table 4 below reflects the details of this variance.

Table 4 Variance in wages and salaries reporting

Date	Pay No	Pay Period	Gross Pay per Pay Run Report	Total Pay as per GL	Variance
Wages					
19.08.17	3	13/08-19/08/17	8,279.74	6,988.52	1,291.22
12.08.17	2	06/08-12/08/17	8,181.12	6,948.58	1,232.54
30.09.17	9	24/09-30/09/17	7,887.76	6,952.18	935.58
15.04.17	15	09/04-15/04/17	7,453.69	7,141.78	311.91
25.02.17	8	19/02-25/02/17	7,028.18	6,834.58	193.60
11.02.07	6	05/02-11/02/17	7,042.54	6,859.54	183.00
087.04.17	14	02/04-08/04/17	7,179.27	7,043.05	136.22
01.04.17	5	29/01 -04/02/17	7,195.62	7,183.54	12.08
01.04.17	13	26/03 -01/04/17	6,910.11	7,638.58	-728.47
Difference in reporting of wages amount			***67,158.03***	***63,590.35***	***3,567.68***
Salaries					
7/03/2017	P5/17	22/02-07/03/17	81,016.85	27,388	53,628.85
10/03/2015	P5/15	25/02-10/03/15	22,982.91	30,975	7,991.59
16/06/2015	P12/15	03/06-16/06/15	25,566.19	30,748	5,181.66
10/03/2015	P5/15	25/02-10/03/15	22,982.91	25,169	2,185.98
13/06/2017	P12/17	31/05-13/06/17	70,270.12	27,192	43,077.74
7/04/2015	P7/15	25/03-07/04/15	72,706.79	26,659	46,047.79
23/02/2016	P4/16	10/02-23/02/16	84,875.70	25,364	59,511.73
Difference in reporting of salaries amount			***380,401.47***	***193,495.00***	***186,906.47***
Total difference in reporting of wages and salaries			**447,559.50**	**257,085.35**	**190,474.15**

As at the date of our audit[1], the Payroll Officer could not explain the reasons for the variances. Further enquiry revealed that the current payroll system (Pay Global) has not been subject to regular maintenance.

In the absence of reconciliation, there exists a high risk that payroll expenditure may be understated in the general ledger and consequently in the quarterly reports submitted to Ministry of Economy.

The Payroll Officer of PFL noted that the variance was due to the payroll report required as per location. It was explained that once pay has been processed, payroll listing is saved as per surname. The report required was per location and some of the staff have resigned or were terminated in that particular period and when the report is run as per location it will show the variance.

Recommendation

PFL should ensure regular maintenance of the payroll system is carried out to ensure that the pay run report reconciliation is done fortnightly for established staff and weekly for unestablished staff.

8.8 Overall Review of Rural Postal Services

The terms and conditions of the agreement shall be reviewed by the parties on or before the first day of January of each year. The first review shall take place on or before the last day of November. Without limiting and generality of the same, such review shall include the rural postal services, the nature of postal service to be supplied to rural areas, and the amount of the annual payment by government to PFL .[2]

We noted that the review was limited to the terms and conditions of the agreement. It did not extend to reviewing the effectiveness and efficiency of actual operations of the post offices in rural areas and its services to the public.

MOUs are also drawn for new additions of the Rural Postal Services. If there is a theft committed on the existing postal services, they are also required to sign new agreements to re-commence the rural postal services after the loss has been recovered.

PFL revealed that they now have a Memorandum of Understanding (MOU) with Postal Agents (Cash Accounting Post Agencies) which clearly outlines their responsibilities and those of the company. In the revised MOU, the Village/Tikina Committee/Council have also been engaged as a party to the agreement and their responsibility is also clearly outlined.

In the absence of an operational review of postal services, government and PFL are not aware on how the post offices or agencies in rural areas are performing and whether the objectives of setting up rural post offices are being achieved.

[1] 08 January 2018
[2] Section 6.3 of the Agreement between the then Ministry of Finance and Post Fiji Limited dated 21 May 2013

PFL explained that review of current operations is evaluated by their monthly cash accounts which are received by PMBA (Finance). Monthly cash accounts will state their monthly transactions. Branch Reports are also provided monthly by Finance Team of PFL but the figures are amalgamated.

However, the company will take on board suggestion from the Auditor General's office and will be more vigilant in the scrutiny of PAs operations.

Recommendation

A review of the operation of rural postal services should be carried out on a regular basis to determine the efficiency and effectiveness of the services provided.

8.9 Inconsistencies in the determination of the Rate of Allowance

Rural post offices and agencies are paid agency allowance according to the type and volume of service they provide. An agency that only provides mail service gets a monthly allowance of $11 or $114 annually, whereas the "cash-accounting" agency's allowances are determined according to the volume of work they provide[3].

Although the cash-accounting agencies are responsible for similar activities, the annual allowance paid to them differed.

While the allowance paid is based on the volume of work/business handled, it was noted that a standard method was not used in calculating the allowance to be paid.

Discussion with the PFL officials revealed that the determination of allowance depends on the nature of work and also the population of the area.

There are two types of postal agencies namely:

- Cash accounting postal agency which basically handles receiving and sending of mails, Cash (selling of stamps) and financial services for example TMO and rural banking on behalf of post Fiji.
- Non-cash accounting postal agency only handles the delivery of mails to recipients or customers in rural communities.

In the absence of a standard formula, we could not establish the fairness in the determination of allowances paid to cash accounting agencies.

PFL management has noted that most of the Postal Agency allowance is from when they started operating way back in the 90's. With the inclusion of new services and increase in volume, PFL has tended to increase their monthly allowance. The $80 per month is only given to cash accounting postal services with an inclusion of bond payment from their Village/Tikina amounting to $5,000.00

[3] As communicated vide e-mail by the Supervisor of Rural Postal Services on 8 January 2018

The bond amount is used as leverage to avoid any financial loss by PFL through embezzlement by the Postal Agent.

PFL will take on board the suggestion for a formula for the rate of allowance.

Recommendation

PFL should have in place a formula which determines the rate of allowance for cash accounting agencies.

8.10 Expiry and non-existence of Agreements for Agency Commissions

The terms and conditions of the agreement shall be reviewed by the parties on or before the first day of January of each year. The first review of the performance shall take place on or before the last day of November 2013. Without limiting the generality of the same, such review shall include the rural postal services, the nature of postal service to be supplied to rural areas, and the amount of the annual payment by government to PFL[4].

Agency commission are received from various organisations for collecting or making payments on their behalf by rural post offices or agency. Examples include commissions received from Company A, FNPF, Company B, Social Welfare Department, LTA, etc.

A formal agreement was drawn up between PFL and various organisations to formalise the terms and conditions of the arrangements.

We noted that the following agreements listed in Table 5 below are outdated, with some having been entered into more than 20 years ago without being reviewed to factor the changes in the economic conditions.

Our review of the agreements revealed the following deficiencies:

i. Most of the agreements were signed more than five years ago and have not been reviewed. The agreements between PFL and other organisations did not state the effective date of executing the agreement between the two parties ; and

ii. In 2007, it was established that the agreement between PFL and Department of Social Welfare was more than five years and was yet to be reviewed. We could not determine if this agreement has been reviewed and renewed.

Table 5 Outdated agreements

Agreement with	Tested amount (VEP) ($)	Audit Comments
1. FNPF Pension	25,045.94	Agreement currently in use dates 1996

[4] Section 7.3 of the Rural Postal Services Agreement

Agreement with	Tested amount (VEP) ($)	Audit Comments
2. Company C	11,966.12	Agreement, commission rate is provided by Company C dated 1996
3. Family Assistance	74,784.66	Agreement yet to be drawn
4. Social Welfare for Food Vouchers	43,137.75	Agreement yet to be provided
5. Company D	5,298.84	
6. Government Ministries		Last agreement received was dated August 2009 and is still being used

We further noted that although some of the contractual agreements have expired, payments are still being done on behalf of these agencies.

PFL Management have not reviewed these agreements.

In the absence of current postal services agreement, the Ministry of Economy and PFL are not fully aware how the related parties are performing and whether the objectives of entering into such agreements are being achieved. In addition, PFL may not be able to exercise its rights in case of disputes/disagreements. In addition, failure to review the agreements on an annual basis may result in PFL losing out on substantial amount of income as the cost of providing the services in the agreement would have increased over time.

Management of PFL has noted the recommendation and is in the process of reviewing all agreements that have expired.

Recommendations

- ***All agreements including the primary agreement (Rural Postal Services Agreement) must be reviewed on a timely basis.***
- ***PFL should make an effort to obtain a copy of the contractual agreements with the Department of Social Welfare for services rendered as an agent for payment of family assistance allowances or otherwise draw up and sign a new agreement.***

Appendix 1: Response from the Entity

A copy of the requests for additional comments is shown below together with the response from Post Fiji Limited.

OFFICE OF THE AUDITOR GENERAL
Excellence in Public Sector Auditing

6-8TH Floor, Ratu Sukuna House
2-10 McArthur St
P. O. Box 2214, Government Buildings
Suva, Fiji

Telephone: (679) 330 9032
Fax: (679) 330 3812
E-mail: info@auditorgeneral.gov.fj
Website: http://www.oag.gov.fj

INCONFIDENCE

File: 1267

25 June 2018

The Chief Executive Officer
Post Fiji Limited
SUVA

Dear Sir

DRAFT SPECIAL AUDIT REPORT FOR RURAL POSTAL SERVICES

Attached is the draft report for the audit of the Quarterly submissions of Rural Postal Services for the period Quarter 1 2013 to Quarter 3 2017 which I intend to submit to the Honorable Minister of Economy for tabling in Parliament. You will note that comments received has already been incorporated in the report where appropriate.

The draft report is submitted for your information and comments (in any) which we expect to receive by 28 June 2018. Comments provided would be included in an appendix to the report. Therefore we will be grateful if further comments are limited to 500 words.

We trust that you will keep the contents of the report confidential.

Yours sincerely

Ajay Nand
AUDITOR-GENERAL

INCONFIDENCE

Post Fiji Limited
Head Office : 10 Thomson St., Suva
Postal Address : P.O. Box 40 Suva, Fiji.
Telephone : 330 2022 Fax : 330 6088

Your reference
In reply please quote File: 1267

4 July 2018

The Auditor General
Office of the Auditor General
6-8th Floor, Ratu Sukuna House
Suva

Dear Sir

Response to the Draft Special Audit for Rural Postal Services

We acknowledge receipt of the Draft Special Audit Report.

PFL management takes note of audit findings in the report with recommendations. The current management is working on rectifying the issues highlighted and putting in corrective measures to ensure that records and reconciliations are carried out on a periodic basis. The financial year 2018 has been targeted in ensuring that all policies and guidelines are updated and implemented.

We also agree that the review of Rural Postal Service agreement with MOE is overdue and needs amendments to suit the changing business dynamics. The services that PFL is providing in the rural areas is not so commercially viable, however, as a social responsibility, we need to continue with the services to the disadvantaged and underprivileged in rural and maritime. One of the challenges that PFL has is to identify and retain quality staff in rural and maritime locations. As such, PFL management will be implementing some form of incentive schemes for staff to be retained in rural and maritime locations, which will have impact on overall employee cost.

However, PLF management will work closely with the Ministry of Economy in ensuring that rural postal services are provided in a more efficient and effective manner.

Yours sincerely

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Raiyaz Ahmed
Head of Finance
For CEO

We Deliver More ...