



COMPLIANCE AUDIT OF PROCUREMENT



“of the construction of a new bridge over the Saramacca canal, a bridge over the Dominee creek, the protection construction for the main supply pipe of the Suriname Water Supply Company and connecting roads”

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SUPREME AUDIT INSTITUTION OF SURINAME
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Preface

On grounds of its duties, the Supreme Audit Institution of Suriname (SAI Suriname) conducted a legitimacy audit pursuant to the Audit Act 1953.

This audit pertained to the tender for the construction of a new bridge over the *Saramaccakanaal* [Saramacca canal], a bridge over the *Domineekreek* [Dominee creek], the protective construction for the main supply pipe of the *Surinaamse Waterleiding Maatschappij* [Suriname Water Supply Company - SWM) and connecting roads.

SAI Suriname has incorporated its findings with regard to the aforementioned audit into a final report.

The audit, which started in July 2017, was conducted under the auspices of the Caribbean Organization of Supreme Audit Institutions (CAROSAI).

This audit was conducted simultaneously with other CAROSAI members under the guidance of technical experts from CAROSAI and financed by both the World Bank and the Inter American Development Bank.

Paramaribo, October 2018

Supreme Audit Institution of Suriname

Mrs. C.O.C Felter, MBA

(Chair)

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Executive summary

PART 1

Understanding the Ministry

One of the tasks of the Ministry of Public Works, Transport and Communication is the preparation, the implementation and maintenance of all civil engineering works.

The procurements of the ministry are done according to the Procurement Rules and Regulations for Public Works in Suriname 1996 (AWS – *Dutch abbreviation* – 1996), Terms and Conditions for the Performance of Works in Suriname 1996 (UWS – *Dutch abbreviation* – 1996) as well as all other relevant laws and regulations.

Supreme Audit Institution of Suriname

The audit is conducted in accordance with Chapter XVI, article 149 of the Constitution and the articles 1 and 26 paragraph 1 of the Audit Act 1953 (Bulletin of Acts and Decrees – *G.B.* – 1953 no. 26) and the International Standards of Supreme Audit Institutions (ISSAI 400).

In addition, SAI Suriname will as far as possible ensure that the progress and obligations of the State are settled sufficiently expeditiously and that all assets and property of the State are efficiently managed.

Scope of the audit

This audit focuses on the entire procurement process, namely planning, sourcing and contract management.

Audit method

The method used to collect information was data analysis, documentation reviews and interviews with key officials of the ministry.

PART 2

Findings from the agreement entered into with the contractor

The project was postponed for six months.

The project was postponed by the ministry of Public Works twice. Furthermore, there were other obstacles, such as impediments as regards purchasing the necessary land, activities of the utility managers and payment arrears.

Up to now the additional work approved since 2014, has not started yet.

These activities implied asphaltting the surrounding roads.

Findings from the agreement entered into with the consultant

The announcement regarding the submission of the tender was not drawn up according to the guidelines laid down in article 4 paragraph 2 of the Procurement Rules and Regulations for Works in Suriname 1996 (AWS 1996).

Not all relevant information listed according to article 4 paragraph 2 was formulated in the announcement.

The Contingent expenses of SRD. 167,270.40 were used without approval of the ministry.

The consultant invoiced the contingencies, which equals two monthly installments of SRD. 83,635.20.

Six years and four months after the first delivery, the project has still not been completed.

The agreement entered into with the consultant lays down that the project will take fourteen months, with a defects liability period of twelve months. The contract was signed on July 22, 2010 and the project needed to start on the fourteenth day following such signing. However, the first delivery was effectuated on September 28, 2014.

The consultant did not comply with the contractual time schedule with regards submitting the reports.

In April and June 2010, the consultant submitted two reports, which is respectively eight and ten months following the planned date of submission.

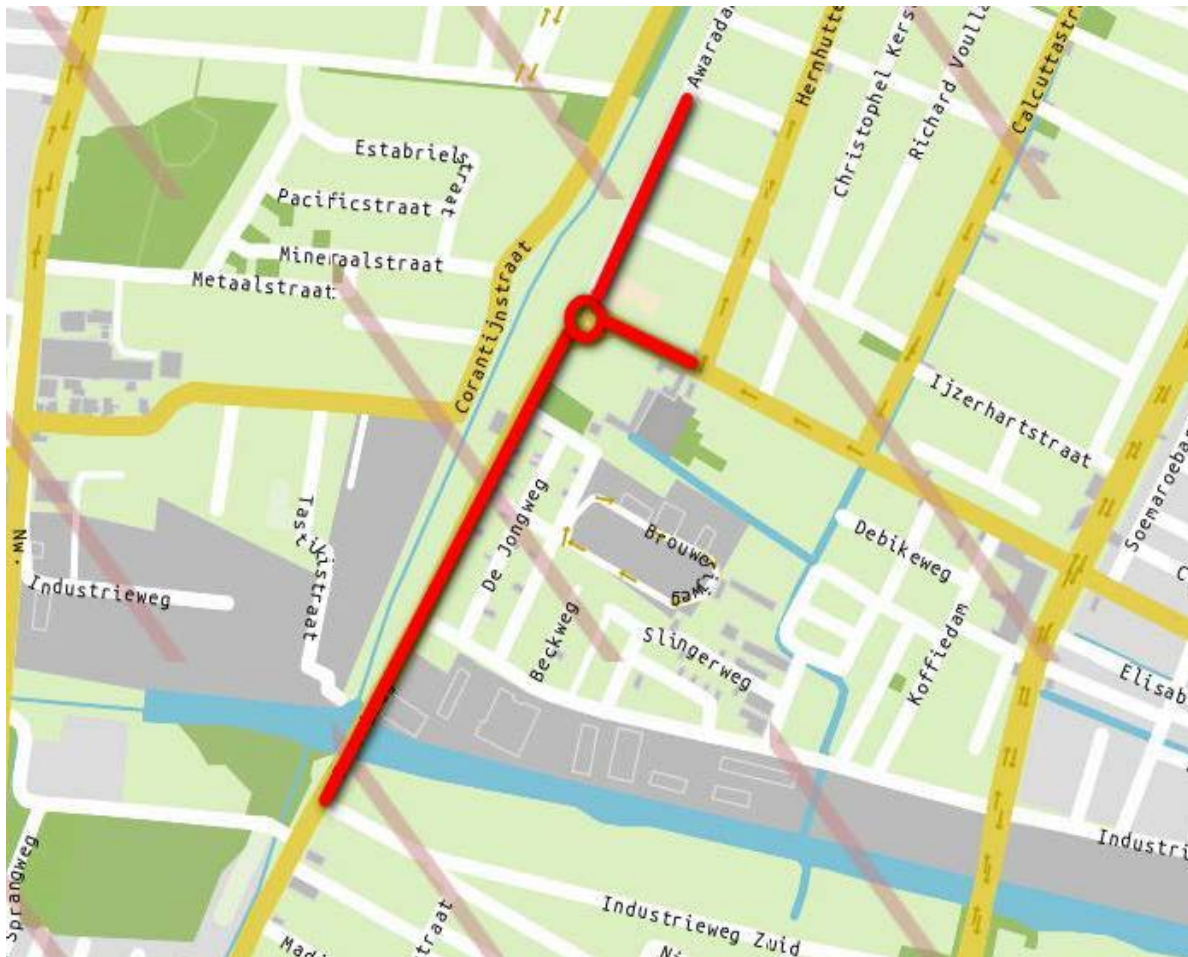
The breakdown of the revised offer of the consultant in the contract cannot be verified, because this document cannot be found.

The Internal Audit Department does not monitor the activities and reports of the consultant.

However, the department is present on the day of the tender and sign on all documents, including the official report.

Conclusion

Contract monitoring is insufficient to guarantee the compliance. The ministry must develop a risk identification process to determine the risks that may occur and lead to the project not achieving its objectives. In addition, the responsible parties must collaborate to find a solution to complete this project.



PART 1

Background information of the ministry

The main object of the Ministry of Public Works, Transport and Communication (OWT&C – *Dutch abbreviation*) is supervising the development, the management and the maintenance of sustainable collective property. In general, the ministry takes care of the living environment. In addition, the Permanent Secretary of the Directorate Civil Engineering Works and Services is the highest administrative official at the ministry.

Laws and regulations of the ministry

The ministry derives its task from the Job Description Departments Decree 1991 (Bulletin of Acts and Decrees – *S.B.* – 1991 № 58), amended in *S.B.* 2010 № 174. In addition, the ministry must also comply with the rules laid down in the Government Accounts Act 1952 (as amended in 2003), the Government Accounts Decree 1953 (as amended in 2004), the Audit Act (*G.B.* 1953 № 26), the Procurement Rules and Regulations for Works in Suriname 1996 (*AWS* 1996), the Terms and Conditions for the Performance of Works in Suriname 1996 (*UWS* 1996) and other relevant laws and regulations.

The tender procedure

The following departments are involved in the tender process:

- Procurement
- Internal Audit
- Legal Affairs
- Project Monitoring and Administration
- Public Relations
- And the department the project comes under. In this respect the department Bridges is concerned.

The Legal Affairs department examines all the legal aspects of the specifications, while the Public Relations department publishes an announcement concerning invitation to tender to a public procurement in the local newspapers. Interested contractors may thereafter purchase the specifications.

The Procurement department organizes the mandatory site visit and the day of submission of tender. The Internal Audit Department only comes into the picture on the day of registration, together with the Award Committee. The Advice and Award Committee deliberates on all registrations before an advice is issued. After this they prepare an award advice for the minister. A preliminary advice is also issued by the consultant to the minister.

Audit Mandate

This audit was conducted in accordance with Chapter XVI, Article 149 of the Constitution and the Audit Act 1953 (G.B. 1953 № 26). This Act grants SAI Suriname the following mandate: "... Supervision of the resources in accordance with the budget, as well as the approval of the account of receipts and expenses, and also the monitoring of the financial management of the Government in the broadest sense ...".

Responsibilities SAI Suriname

Article 26 paragraph 2 of the Audit Act lays down the following: "SAI Suriname shall furthermore as far as possible ensure that the claims and obligations of the Country are settled sufficiently expeditiously and that all resources and property of the Country are efficiently managed".

Article 29 of the Audit Act furthermore specifies that the report about the supervision exercised by the Court shall be submitted to the National Assembly, the Council of State and to the Government periodically, yet at least once a year.

Objective of the audit

The objective of the audit is to assess the procedure of the ministry on the basis of the planning, support and management of contracts as well as procurement activities and to provide a reasonable extent of certainty as regards:

1. an adequate management control framework required to support contracts and procurement activities.
2. tendering and procurement activities performed in such manner so that these are in accordance with the applicable procedures and regulations.

Scope of the audit

This audit focuses on the contractual and procurement activities (the entire procurement process), pertaining to planning, sourcing and contract management. The audit team assessed two contracts.

Method of the audit

The audit pertains to the question whether the resources of the ministry are managed on grounds of good financial management and accountability procedures and whether all the stocks purchased by the ministry are received, registered and physically verified.

With the tendering audit of this project it is specifically determined whether the procurement process has been implemented in accordance with the applicable tendering rules and regulations and whether suitable tendering rules and/or appropriate inspections have been conducted. The audit is conducted in accordance with ethical and generally accepted

standards for auditing as determined by the International Organization of Supreme Audit Institutions (INTOSAI).

The approach of the audit is risk-based. This means having a good understanding of the duties and the objectives of the ministry. In addition, a risk-based approach does not only depend on risk. It is also important that the internal audit system is applied.

In order to achieve our objectives, we requested and analyzed the necessary documents on the basis of the materiality of the contracts. At the same time a risk assessment was performed to obtain a good understanding of the planning, sourcing and contract management of the procurement practices of the ministry.

At the same time talks were conducted with the following officials of the ministry:

- The Permanent Secretary of Civil Engineering Works
- The Deputy Permanent Secretary of Dry Works
- The Head of the Bridges Department
- The Head of the Internal Audit Department
- The Chair of the Advice and Award Committee
- The Head of the Financial and Accounting Affairs
- The Head of Legal Affairs

PART 2

Findings

CONTRACTOR'S AGREEMENT

1. The project was postponed for six months.

- The agreement with the contractor was signed in July 2010.
- Immediately following the signing, the project was put on hold by the ministry. All documents already submitted pertaining to this project had to be submitted again. In this respect the specifications with the summary of additional information and changes, award advice, construction calculations and project correspondence were concerned.
- The activities resumed in October 2010.
- In November 2010 the activities were put on hold again by the ministry due to the change in government¹.
- In January 2011 the selected contractor obtained approval to start again.

In addition to the above-mentioned delay there were also delays as regards purchasing the necessary land, activities of utility managers and payment arrears.

This situation resulted in the advantages of the project not being realized as intended. This also meant a violation of the procurement rules and regulations (AWS), which lay down that the work must start within 14 days following the signing of the contract. This is also in violation of article 13.1 of the procurement rules and regulations 1996 (AWS), which stipulates that the tenderer who is eligible to grant the contract must submit specific documents within two weeks following receipt of the award letter, such as a bank guarantee, a work plan (threefold), a cost estimate, a list of the persons who will perform the work and their experience.

Response Ministry

“Page 2 states that the project was postponed at least twice by the ministry. We may indicate that the project was postponed more than twice by the ministry. The various reasons for delays were clearly summarized in a letter of the consultant dated July 30, 2014. From the correspondence it becomes evident that the stagnations are due to the following reasons:

- *putting project on hold for re-evaluation with the entry into office of a new Government, Minister and Management Team.*
- *land purchases and the procedure to have available lots as building site.*
- *delays as a result of the activities of the utility companies.*
- *non-compliance with the payment obligations of the government to the contractor. This created problems with the financier of the contractor.*

¹ Elections were held in May 2010 and the new administration period started in October 2010.

The payments were not made in accordance with the provisions of the UWS 1996 paragraph 42, namely 4 weeks following approval of the invoices.

- *Exchange rate increases/inflation and an increase in fuel prices.*

By means of a letter dated May 6, 2014 Re.SS/Bruggen/jd/Ag.no. 3066 the building activities over the Dominee creek were canceled as well as the provisional sum approval no. 2595 dated April 22, 2014 because of changed policies. These change policies pertain to the various presentations from the Office of the President concerning the train project, which was projected over the Dominee creek with as terminal station Poelepantje. Due to these changes, the former Minister of Public Works instructed to cancel the building of the bridge”.

RECOMMENDATION 1

The ministry must ensure that all departments strictly comply with the tendering rules and regulations. In addition, the ministry must develop a risk assessment for delays of tendering projects. This must comprise all reasons of delay that may occur during tendering projects.

2. Up to now the additional work approved since 2014 has not started yet.

The additional work consisted of asphaltting the surrounding roads, which was recommended at the time by the consultant and approved by the ministry.

The Implementation Condition (§44.6 UWS 1996) lays down that a term must be agreed on within which the additional work will be completed.

Response Ministry

No response from the ministry.

RECOMMENDATION 2

The Permanent secretary must establish an impartial committee to evaluate the incomplete project and a report with suggestions concerning further progress of such a project.

Response Ministry:

“As is evident the contractor is willing to work after payment and when the cash flow has been guaranteed. In my opinion it is completely clear what the cause is that almost all non-financed projects lasted longer than the implementation period. An impartial committee will also come to the conclusion that the commissioning authority is obliged to pay in accordance with the provisions as laid down in the UWS 1996. At government level a decision must be taken about continuing the project with the possible financing modalities”.

3. The Announcement was not drawn up in accordance Article 4 Paragraph 2 of the Procurement Rules and Regulations (AWS 1996).

Not all the relevant information was included in the announcement. Such relevant information includes the implementation terms with regard to where and on which date the specifications, the memorandum of alterations, the summary of additional information and changes and the official report of award are submitted for inspection.

Response Ministry:

“The following may be stated on account of the statements on page 3 with regard to not including the guidelines for the announcement in accordance with article 4 paragraph 2 of the AWS. It appears that for the specifications, the ABS (General provisions for the implementation of and invitation to tender for works under the management of the Department of Public Works and transportation in Suriname) was declared applicable and NOT the AWS 1996. The announcement was drawn up in accordance with the provisions of the ABS. The UWS 1996 and the AWS 1996 were approved and promulgated in August 2011 by State Decree. It appears that in the implementation agreement the UWS 1996 and the AWS 1996 were declared applicable”.

Substantiation SAI Suriname:

The SAI determines that the following was stated in the announcement: “A public invitation to tender will be held by the Permanent Secretary of Public Works, Directorate Civil Engineering Works, in accordance with the relevant applicable rules of the ABS for: ...”. Three applicable rules produced for this public invitation to tender; the ABS for the specifications and the AWS and UWS which had not been promulgated yet, for the contract with the contractor. It is worth mentioning that the training in the use of the AWS and UWS influenced the project.

RECOMMENDATION 3

The Permanent secretary will have to take the necessary measures so that a public invitation to tender is accurately prepared.

THE CONTRACT OF THE CONSULTANT**4. The use of the contingencies of the amount of SRD. 167,270.40 was not approved by the competent authority (UWS 1996 §56 paragraph 3).**

The contract lays down that the consultant must be paid a fee of SRD. 83,635.20 per month for the management and this during 14 months.

According to the verified invoices the consultant received 16 payments instead of 14 payments of SRD. 83,635.20 each. It was concluded that this is inclusive of the Contingencies, which agrees with a payment of two months (SRD. 167,270.40).

We did not find an application or approval in the file for the use of the contingency sum.

Response Ministry:

“With regard to the Contingencies approved without the approval of the ministry, the following can be mentioned. The quotation of the contractor states that the estimated building time amounts to 14 months with a possible extension of 2 months, so a total of maximally 16 months. For that matter the amount of the Contingency Sum in the contract signed by the former Minister of Public Works was inaccurately indicated (SRD. 167,270.20 instead of SRD. 167,270.40). In practice it appears that the implementation term was amply exceeded. The consultant indeed submitted an invoice for the two terms and this was settled by the ministry because the project indeed lasted longer than planned. The consultant did not request a separate approval for this purpose”.

Substantiation SAI Suriname:

After his reaction to the report, the Permanent secretary again circulated through the ministry, the rules pertaining to the approval when charging a provisional sum. Furthermore, it was determined that the minister also has to sign for approval.

RECOMMENDATION 4

It is recommended to conduct a refresher session about the procedures together with the departments involved in invitation to tender.

Response Ministry:

“An engagement letter of the permanent secretary is required for the availability of payment of the invoice as regards payments at the expense of the item Contingencies or a provisional sum.

The procedure for this purpose has already been started”.

5. The aforesaid project is still ongoing (Six years and four months) following the first delivery.

Paragraph 2 of the contract states that the project has been approved for a period of fourteen months and a defects liability period of twelve months. According to the official report of the first delivery, the work officially started in January 2011. The first delivery should have been in March 2012, and the second delivery twelve months later. Ultimately, the first delivery was on September 28, 2014.

Response Ministry

“Page 3 states that six years and four months after the first delivery, the project has still not been completed. For the sake of completeness, it is good to mention that per letter of May 6, 2014 no. 3066 part of the project was canceled. Also during the drafting of the budget of the Bridges department of the past years, it appears that due to payment arrears of various projects, this project could not be completed. A proposal by the contractor to offer financing for this project, by analogy with other contractors offering financing to the government, was not approved”.

Substantiation SAI Suriname:

After the draft report of that audit was sent for a response, the minister made the decision to withdraw the additional work activities and to have the final completion of the project take place.

RECOMMENDATION 5

The permanent secretary must ensure that all departments must act in accordance with the Tendering Provisions (AWS and UWS) when issuing invitations to tender.

Response Ministry:

"It is even the job of the permanent secretary to ensure that the tendering provisions are adhered to. The Permanent Secretary of OWT&C, however, is unable to respond to "force majeure" situations, price increases, fuel price increases, and changes in government policy. Unfortunately, these also have a major influence in monitoring the implementation period for projects the financing of which is not organized in advance.

It is now proposed to the Ministry of Finance that in the case of new capital intensive projects, financing should be in place".

6. As regards submitting the reports, the consultant did not comply with the agreed deadline.

In the contract "*designing and preparing specifications for the construction of a new bridge over the Saramacca canal as the continuation of the Indira Gandhiweg*", it has been agreed that the consultant will get four calendar months to carry out the work laid down in the contract. This work involved designing and preparing specifications for a new bridge and these reports were not submitted on time. The contract with the consultant was signed on August 26, 2009. The consultant drew up two reports (one in April and one in June 2010); that is eight and ten months respectively, after the planned submission date.

Response Ministry

"The traffic research conducted by CESWO took more time than planned, due to a lack of manpower for the traffic counts.

Similar counts are prepared for an IDB project by mid-September 2018. For this route special drones will be taken to Paramaribo from abroad and traffic loops will be automatically measured in cooperation with the Road Authority. This because of a lack of trained manpower in Suriname "

RECOMMENDATION 6

The permanent secretary must ensure that all instructions / regulations and policies, as well as the tendering procedures, are taken into account.

7. The audit team cannot verify whether the specification of the revised offer from the consultant matches his offer.

In paragraph 1 of the contract the offer is specified according to the revised offer. This offer (dated June 2, 2010 no. CED-10/075) cannot be submitted for verification / assessment.

Response Ministry

"Page 3 states that the specification of the revised offer of the consultant in the contract cannot be verified because this offer cannot be found. Further investigation shows that no revised offer dated June 2, 2010 no. CED-10/075 was submitted by the consultant. This was mistakenly mentioned in the service agreement. This letter was not sent by the service provider to the ministry and it was not registered as a received document. Furthermore, from the RvM [Council of Ministers] proposal, award advice and the offer from the consultant it may be concluded that the document CED-10/75 dated June 2 was NOT evaluated and sent to the RvM. Following the request for offer June 2, 2010, the consultant made an offer with a total amount of SRD. 1,475,539.20. The Advisory Committee Consultant has assessed the adjusted offer of April 20, 2010 for a total amount of SRD. 1,427,963.20, which amount is also included in the RvM proposal. The services agreement incorrectly states a revised offer dated June 2, 2010 no. CED-10/075, the relevance of which is also not apparent from the documents".

RECOMMENDATION 7

The permanent secretary must ensure that all relevant documents must be submitted for verification.

Response Ministry:

"See the previous reaction to the document CED-10/075 dated June 2, 2010. Carelessness can not be blamed on the permanent secretary. However, it can be blamed on the parties who have signed the construction contract earlier".

Substantiation SAI Suriname:

SAI Suriname proposes that agreements are carefully screened before the ministry proceeds with signation. In this project, in the management agreement with the consultant, negligence was found, namely a wrong addition and a reference to a revised offer from the consultant that does not exist.



Conclusion

The Ministry of Public Works [OW – Dutch abbreviation] did not meet all material criteria aspects.

The main purpose of this audit was to assess whether the management control framework of the ministry is sufficient and effective to support the procurement of “*the construction of a bridge over the Saramacca canal, a bridge over the Dominee creek, protection structure of the main pipe for the water supply and four connecting roads*”.


After the audit work and the analysis, the audit team arrived at the following conclusions:

1. Contract monitoring is insufficient to ensure compliance. In assessing the compliance with the regulations laid down in the contacts, a number of areas were identified as regards to which neither the contractor nor the consultant adhere to the regulations.

The ministry did not take a few regulations into account. These comprise ¹⁾ the areas where the work was delivered, ²⁾ frequent periods of postponement, ³⁾ preparation for the invitation to tender and ⁴⁾ the use of the contingencies item.

During the examination of **SAI Suriname** concerning the contractor's contract, the following issues were noted:

- in addition to the fourteen-month implementation of the project, the contractor has another twelve months to complete the project. These twelve months relate to the defects liability period.
- even before the first delivery of the work, the consultant advised to do extra work on the project, which was approved by the ministry. Because of the period in which the approval took place, the extra work was considered part of the total project. This means that the official first delivery can only take place when the extra work has also been completed.



Contract monitoring is insufficient to guarantee compliance.

The preparation of tendering must be in accordance with the requirements as stated in the Procurement Rules and Regulations for Works in Suriname 1996 (AWS 1996). Although the announcement of the public tender made it clear that the ABS will be used, the rules of the AWS and the UWS, which had not yet been announced, were used. However, these rules require accuracy in maintaining the objectives with respect to all tendering parties.

During the examination of the consultant's contract, it was also established that the contingencies item was paid to the consultant without an application and a written permission from the permanent secretary. Since the consultant is also mainly responsible for supervising the project, he should also have been able to account for the long-term process.

The importance to follow up contract monitoring procedures is underlined by the UWS 1996 §3 paragraph 5, whereby the ministry outlines the responsibilities for contract monitoring. In the end it is stated that "*the management supervises the execution of the work and the compliance with the agreement*".

Substantiation SAI Suriname:

It is worth mentioning that the AWS and UWS 1996 were both promulgated on August 17, 2011. In preparation for the invitation to tender, on the basis of the announcement, the 'old' tendering procedure (ABS) was used. The announcements were published around April 2010. The contract, on the other hand, with the contractor was signed on July 22, 2010 and the AWS and UWS 1996 were used in this case.

Furthermore, **SAI Suriname** wants to underline that most delays in the project were due to overdue and arrears in payments on the part of the Government.

