Pakistan Institute
of Public Finance Accountants

Model Solutions

Procurement and Contracts

(Application)

WAPDA

Winter Exam-2024

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Solutions – Procurement and Contracts (Application)

Q.1. i (P&C-3.6)

In slicing of contract, appropriate sizing and timing of the award of contract is achieved. Accordingly, big works contracts are divided into individual packages that can be handled by domestic bidders and bids are invited for many of these packages at the same time. A domestic bidder can bid for one or many slices according to its capacity. Whereas a foreign bidder can bid for many or all slices in the entire package, offering a discount if all or certain number of slices are awarded to it.

Q.1. ii (P&C-3.6)

Corporate Rules for public sector companies stipulate two types of auditing arrangements i.e. internal audit and external audit. Rules have described both the auditing function as under:

Internal Audit: (1) There shall be an internal audit function in every Public Sector Company. The chief internal auditor shall be accountable to the audit committee and have unrestricted access to the audit committee.

(2) No person shall be appointed as the Chief Internal Auditor of a Public Sector Company unless he has five years of relevant audit experience and is a:

(a) member of a recognized body of professional accountants; or
(b) certified internal auditor; or
(c) certified fraud examiner; or
(d) certified internal control auditor; or

(e) person holding a master's degree in finance from a university recognized by the Higher Education Commission.

(3) Every Public Sector Company shall ensure that internal audit reports are provided for the review of external auditors.

(4) The internal audit function shall have an audit charter, duly approved by the audit committee and shall work, as far as practicable, in accordance with the standards for the professional practice of internal auditors

External Auditors:(1) Every Public Sector Company shall ensure that its annual accounts are audited by external auditors.

(2) In assessing materiality, the external auditor must, in addition to exercising professional judgment, consider any legislation or regulation which may impact that assessment.

(3) The external auditors shall independently report to the shareholders in accordance with statutory and professional requirements. They shall also report to the Board and audit committee the matters of audit interest, as laid down in the International Standards on Auditing.

(4) No Public Sector Company shall appoint as external auditors a firm of auditors which firm or a partner of which firm is non-compliant with the International Federation of Accountants' (IFAC) Guidelines on Code of Ethics, as applicable in Pakistan.

(6) Every Public Sector Company in the financial sector shall change its external auditors every five years.

(7) No Public Sector Company shall appoint a person as its chief executive, chief financial officer, chief internal auditor or director who was a partner of the firm of its external auditors at any time during the two years preceding such appointment.

(8) Every Public Sector Company shall require external auditors to furnish a management letter to its Board not later than thirty days from the date of audit report.

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Q.1. iii Companies Act-Definition – 67-A “startup company” means a company that:
(a) is in existence for not more than ten years from the date of its incorporation or such other period or periods as may be specified.

(b) has a turnover for any of the financial years since incorporation that is not greater than five hundred million rupees or such other amount or amounts as may be specified.

(c) is working towards the innovation, development or improvement of products or processes or services or is a scalable business model with a high potential of employment generation or wealth creation or for such other purposes as may be specified, or

(d) such other companies or classes of companies as may be notified by the Commission: Provided that a company formed by the splitting up or re-construction of an existing company shall not be considered as a startup company.

Q.1. iv Contract Act- section 127, 129 provides detail of these two types of contracts. The examinee is expected to discuss this part of the question on the following outline:

A “contract of guarantee” is a contract to perform the promise, or discharge the liability, of a third person in case of his default. The person who gives the guarantee is called the “surety”: the person in respect of whose default the guarantee is given is called the “principal debtor”, and the person to whom the guarantee is given is called the “creditor”. A guarantee may be either oral or written.

Continuing guarantee”. A guarantee which extends to a series of transactions is called a “continuing guarantee”.

Q.2. **P&C – 5.4.3**
Domestic preference refers to the margin of preference given to local companies or individuals, and to locally made products, in the procurement of goods, works, consulting services, and non-consulting services. The examinee may answer this question as per following outline. Main objective of domestic preference is promotion of local industry.
In order to determine a company deserves a preference or not, the Procurement and Contract Manual divides the bids in three categories A, B and C.

- Group-A has further three categories; those for which labour, raw material and components account for at least 20%, 20-30% and above 30%.
- Group-B bids are for those goods where domestic value addition is less than 20% of the manufacturing cost.
- Group-C are foreign goods

Price preference will be accorded to Group-A only in following cases:
Only in cases of procurement by the government and in case of procurement by other public sector agencies, bidders tendering for engineering goods produced in Pakistan shall be accorded a price preference in rupees up to a specific percentage (in proportion to the value addition) of the lowest quoted landed cost of an item of foreign origin with similar specifications as mentioned in the tenders provided that:
(a) the saving in foreign exchange is not less than the amount of price preference
(b) it is ensured that in each case of such preference, the total import requirements for producing the supplies tendered for locally manufactured items has been duly indicated by the bidders

Price preference shall be allowed as under:
(a) Having minimum of twenty per cent value addition through indigenous manufacturing price preference shall be fifteen per cent.
(b) Having over twenty per cent and up to thirty per cent value addition through indigenous manufacturing, price preference shall be twenty per cent, and

(c) Having over thirty percent value addition through indigenous manufacturing, price preference shall be twenty-five per cent.

Q.3. Procurement and Contract Manual section-7.6 provides safeguard for an increase in prices. This safeguard is called price adjustment. Price adjustment clauses are an integral part of the contract agreement. Answer should be given accordingly.

Q.4. The terms of reference of the audit committee may also include the following:

- **(a)** Determination of appropriate measures to safeguard the Public Sector Company's power plant.
- **(b)** Review of financial results
- **(c)** Review of quarterly, half-yearly and annual financial statements of the Public Sector Company, prior to their approval by the Board, focusing on:
  - **(i)** Major judgment areas.
  - **(ii)** Significant adjustments resulting from the audit.
  - **(iii)** The going concern assumption.
  - **(iv)** any changes in accounting policies and practices; and
  - **(v)** Compliance with applicable accounting standards.
- **(d)** Facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary).
- **(e)** Review of management letter issued by external auditors and management's response thereto.
- **(f)** Ensuring coordination between the internal and external auditors of the Public Sector Company.
- **(g)** Review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Public Sector Company.
- **(h)** Consideration of major findings of internal investigations and management's response thereto.
- **(i)** Ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective.
- **(j)** Review of the Public Sector Company's statement on internal control systems prior to endorsement by the Board.
- **(k)** Recommending or approving the hiring or removal of the chief internal auditor.
- **(l)** Instituting special projects, value for money studies or other investigations on any matter specified by the Board, in consultation with the chief executive and to consider remittance of any matter to the external auditors or to any other external body.
- **(m)** Determination of compliance with relevant statutory requirements.
- **(n)** Monitoring compliance with the best practices of corporate governance and identification of significant violations thereof.
- **(o)** Overseeing whistle-blowing policy and protection mechanism; and
- **(p)** Consideration of any other issue or matter as may be assigned by the Board.

Q.5. **Bidder A:** Although the delay in the submission of the bid security may have been due to circumstances beyond the control of the bidder, the length of the bidding period was adequate to permit bidders to make arrangements for the timely submission of the bid security. The bidder is responsible for the timely submission of the security. Bidder A's bid will be rejected.

Bidder B: Failure to mark the bid envelopes correctly is considered a minor deviation from the provisions of the bidding documents. Such a deviation has no effect on the validity of the bid and is not substantial in nature. Similarly, if an authorized representative of the bidder signs a bid, it is valid and binding. It does not have to be signed by the Chief Executive of the bidding company. These deviations would not be cause for rejection of the bid. The bid will be accepted.

Bidder C: The EC rejected the bid of Bidder C because it did not submit the required technical guarantee from its foreign associate with its bid. The EC considered this a major deviation.

Bidder D: Bidder D submitted a joint venture agreement among the parties concerned. However, it did not clearly state that in addition to being responsible for their respective component parts, each party would also be jointly responsible for the execution of the whole contract. Bidder D complied with the EC's post bid-opening request and submitted a supplementary agreement, signed by all consortium parties, providing for undertaking joint as well. This was considered acceptable and Bidder D's bid was accepted.

Q.6. Answer should be in accordance with Contract Act-clause-19/illustration-b

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