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## Procurement Audit as a Tool for Performance of Supply Chain Management

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### **Abstract:**

*With an increasing number of organizations using suppliers based emerging economies, potential opportunities for fraud and corruption especially within the supply chain management are likely to escalate. The need for procurement audit is imminent. Procurement audit refers to an objective investigation, examination, inspection, observation, review, inquiry, perusal, search, survey, scrutiny, interrogation, studying and testing of a government procuring entity or procurement environment. Its objective and tactics are to identify problems and opportunities and facilitates the development of appropriate action plans. Although there has a lot of researches undertaken on the subject of procurement audit and supply chain in general, researches linking procurement audit and supply chain management as a tool for performance aspect are still meager. This concept paper sought to provide an elaboration of these terminologies and how they are likely to result into supply chain performance with the view of leading to an empirical study on the same subject.*

**Keywords:** Procurement audit, supply chain management, performance, procurement

### **1. Introduction**

The progression of procurement auditing seems to be less compared to accounting with the advance of civilization. The audit always seems to be a most important activity to ensure the transparency, way of working, record keeping etc. It helps to reduce asset misappropriation, detects swindle within business and non-business activities. It reduces error in process, record keepings up to a great extend. Procurement audit is a popular concept among accounting and inventory management practitioners.

Lewis and Media (2014) posit that procurement audit ensures timely and adequate identification and evaluation of stocks. Procurement audits reduce inventory losses and ensure inventory accuracy. It enables an organization reduce risks associated with inventory such as, inadequate and inappropriate inventory, unnecessary over stocking, inaccurate and incomplete inventory records, poor inventory security and obsolete inventory. Johnstone (2014) said providing health facilities to the public with drug and medical supplies is a very cumbersome process that involved a large variety of actors from both the private and public sectors. Governments health ministries often lack the proper procurement audit, due to lack of the proper procurement audit and supervisory skills of the managers are very much needed to draft technical disclaimer, administer competitive bidding, observe and appraise the contract performance. Corruption can occur at any stage of the process depending on the type and volume specification and selection methods of procured items (Smith, 2010).

#### **1.1. Statement of the Problem**

Marie (2015) postulated that most organization across the world which have been able to embraced the procurement auditing have recorded good results in terms of enhanced profitability, cost saving, growth and developments, better relationship with their stakeholders they have experienced effectiveness in terms of services delivery and efficiency throughout their organization by ensuring purchasing activities are done in accordance to procurement rules and regulations and that there is reduced fraud and increased transparency.

Sandara (2017), the institutions that embraced procurement audit enjoy the benefits of compliance to procurement manual where there activities and documentation are done as stipulated in there manuals and face little to almost no divergence from their procurement manuals or the establish procedures, the institution have procurement

system which are clear throughout the organization giving room for review and follow-up, moreover they experience a high sense of accountability where procurement personnel take responsibility of their individual action and in case of questionable or undesirable events the personnel are held personally answerable. These works did not look at the determinants of procurement audit. A gap this study sought to fill.

This study therefore sought to exhibit the role of procurement audit as a tool for performance of supply chain management performance in University College Hospital (UCH) Ibadan.

### *1.2. Objective of the Study*

The objective of this paper is to highlight and emphasize the procurement audit as a tool for performance of supply chain management.

## **2. Literature Review**

### *2.1. Public Procurement Audit*

According to Abdolmohmmadi and Thibodeau (2007), the auditing function has a main objective to find criteria while evaluating sufficient evidences to check if they adhere to a specific standard, rules or not. Broadly types of audit can be segregated into two domains: Internal and External. Internal audit deals with financial aspects and operations of an Institution. It has mainly five control objectives. The financial performance of an institution can be evaluated by the external audits (encyclopedia of small business, 2007). Public procurement audit is a procedure of assembling and accessing adequate confirmation on government procurement activities. For ensuring, integrity, lucidity, answerability, deterrence of indecent procurement practices, and improving upon past procurement performance, it is hugely trusted (Mapesa and Kibua, 2006).

#### 2.1.1. Reasons for Public Procurement Audit

The primary reason of conducting the public procurement audit is to ensure, whether performance is up to the mark or as per the standard or not (Hart, Northmore and Gerhardt, 2009). Fraud prevalent is another important reason behind it. Sticking to rules and regulations is another criterion behind it. Finally running every operation smoothly are reasons behind it. Making operations error free is the main purpose of the public procurement audit (Wayne state University, 2014, retrovits, Shakepare and Shih 2009, Krivinsh and Vilks, 2013).

#### 2.1.2. Public Procurement Audit Procedures

Complete evaluation and the estimation steps or processes are there in the public procurement policies. All kinds of policies, processes operations, contract related documents are important here (Audit services department, Chesapeake-Virginia, 2010).

On the basis of government auditing standards, the office of the Auditor General of Nepal, outlines the following procurement audit procedures for issuing a guideline for public procurement audit.

- On the basis of government approved accounting practices, examination of accounting records, financial statements are required.
- Records and papers are need to be evaluated and maintained properly by the designated person to check whether they are properly kept or not.
- Field observations can be conducted as it gives good opportunity to check and scrutiny.
- Verbal interviews with personnel's, suppliers, contractors and other stakeholders can be included in the field observation.
- As per the documentation of the office of the auditor-general-Nepal (2005), pertinent lawful necessities need to be preserved. The confirmation of all the legal and regulatory provisions is crucial.

### *2.3. Procurement Transparency*

Transparency ensures the truthfulness and open communication. According to Kararja & Mugo (2010), it is a capability to gain full control of the information. David Gebler (2011) highlighted that if a proper synergy exists between organizational, standard and values, transparency will stay strong. No one will be afraid of elevating or disclosing difficult issues. Value of truthfulness will prevail. Staffs, managers can admit errors, mistake in public, rectify them, deal with tough issues, can challenge them easily. Procurement has direct relevance to information, when people a right to information that demand and received information about projects, processes and funds. It is important to note that transparency when it comes to transaction and payment is sensitive and may affect in a great way the relationship and reactions of the stakeholders.

### *2.4. Procurement Performance*

Zairi (2012) opined performance as an accomplishment of a given task measured against pre-arranged know standards, this measurement is the trigger for improvement. A balanced scorecard can provide guidance on critical areas where action may be needed to ensure achievement goals. Three key outcomes of success are; better, faster and cheaper. The goals combine customer-based measures of performance in terms of total quality with internal measures of resources and asset utilization. Bench marking helps identify currently best practice then focuses on how processes could be re-engineered and managed to achieve excellence in critical procurement areas.

Emphasis should be on search for strategies that provide superior value in the eyes of customers seeking greater responsiveness and reliability. Natasa (2012) explained features of a responsive organization. Major transformation is from function to process, profit to performance, products to customers, inventory to information and transaction to relationships. Critical measures of procurement performance need to be continuously monitored. The idea of 'key performance indicators' (KPI) framework suggests that whereas there are many measures of procurement performance to be employed in an organization, only a small number of critical dimensions contribute more than proportionately to success or failure.

### 3. Theoretical Review

#### 3.1. Agency Theory

This theory would guide the study in establishing the relationship between supply chain risks and procurement audit. A theory in this area of procurement can help all stakeholders in public procurement better understand the role they play in providing incentives for utilizing cooperatives in purchasing decisions. This work will be based on Jensen's and Meekling's (2006). Agency theory states that, an agency relationship is a contract under which one or more persons (principal) engages another person (agent) to perform some services on their behalf which involves delegating some decision-making authority to the agent.

#### 3.2. Lean Theory

The study conducted by Lemming (2008), highlighted the authority of inventory control on procurement audit from the perspective of a public hospital. The lean management has been started practiced by the Toyota (Lysons, 2006). Lean product is 'lean' with using reduced quantity (less) of everything compared with mass production, (Eroglu, 2011). The expected results are fewer defects while producing a greater and every growing variety of products.

#### 3.3. Deming's Theory

This theory is immensely popular in the domain of quality management and procurement audit in the public hospitals. Williams Edwards Deming gains huge popularity for establishing the theory. The continuous quality control model is called Deming cycle. It is also known as (plan-do-check-act) PDCA cycle. It is also known as Deming wheel. This step is also called Shewart-cycle. It works on a principal that the ratio of quality is equal to the result of work efforts over the total costs (Brighthub, 2013).

Edwards E., (2005) highlighted the management as a dominant player for delivering the quality timely.

### 4. Findings

Procurement audits can influence supply chain performance, from this paper the literature focused on how procurement audit can be used as a tool for supply chain managements performance, several authors views were cited on different aspects of procurement audit, how it can be used to influenced supply chain performance.

### 5. Conclusions

From the study, it can be concluded that procurement audit measures (financial and duties) had significant and positive influence on supply chain performance. One can therefore clearly concluded that procurement audit greatly influences procurement performance.

### 6. Recommendations

Policy maker should formulate the best practice to approach the procurement audit in a way that will achieve supply chain performance. This can be achieved by having improved and enhanced procurement audit rules and regulation in place.

Also, formulation and cultivation performance culture in terms of appropriate audit procedures, structures and systems for procurement that would provide appropriate direction for the institution.

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