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முகாமைத்துவக் கணக்காய்வுத் திணைக்களம்  
DEPARTMENT OF MANAGEMENT AUDIT

මුදල් අමාත්‍යාංශය  
මහලේකම් කාර්යාලය,  
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செயலகம்,  
கொழும்பு 01.

Ministry of Finance,  
The Secretariat,  
Colombo 01.

මගේ අංකය  
எனது இல  
My No

DMA/PRF/10/2020/46

ඔබේ අංකය  
உமது இல  
Your No

දිනය  
திகதி  
Date } 20.09.2020

**Project Directors,**

Project Internal Auditors,

**Audit Checklist for Project Contract Administration**

Adherence to Formal Contract Management Practice is a critical factor in achieving Project Objectives. Accordingly, it is essential to pay special attention to Contract Administration by the Project Internal Auditor within the scope of the audit.

02. The Department has prepared an Audit Checklist for Project Contract Administration which could be used as a guidance and herewith attached it. (Annexure 01)

03. Based on the audit evidence collected through this Checklist, Improvements to Internal Control or Suggestions with Recommendations could be submitted to the Project Director or Heads of Divisions as Internal Audit / Management Reports.

04. Further, it should be examined if any other special issues available that are not included in this Checklist, and you may informed them to us since they are very useful for further development it.

Your corporation in this regard is very much appreciated.

  
S.A. Chandrika Kulathilaka  
Director General

Copy – Chief Internal Auditor - For Information

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## Audit Checklist for Project Contract Administration

Serial No.	Areas to be Audited	Source Documents to be examined	Whether Checked?		Remarks
			Yes	No	
<b>1</b>	<b>Initial Documents Reviewing</b>				
1.1	Ensure whether the Approved Procurement Plan is available for the Project Procurement and comply with it.	Approved Procurement Plan			
1.2	Assure Procurement Procedure is applicable to the conditions of Loan Agreement and followed correct Procurement Guidelines.	Loan Agreement			
1.3	Check whether the Contractor has been selected by following due Procurement Procedure (if any deviations, please check whether causes affected them are specified?)	Relevant Procurement Files			
<b>2</b>	<b>After the Completion of the Project Procurement, assure the following requirements are fulfilled and Project is on Implementation Stage.</b>				
2.1	<b>Mobilization Stage</b>				
I	Is the Letter of Contract Award issued.?	Awarding Letter/ Letter of Acceptance			
II	Check whether proper approval is obtained from relevant Regulatory Authorities before issuing the Letter of Contract Award.  <ul style="list-style-type: none"> <li>• Prior approval for the award of Contract to the selected Contractor is obtained from the Funding Agency.</li> <li>• Prior approval for the award of Contract is obtained from the Cabinet of Ministers.</li> </ul>	No Objection Letter  Relevant Letters  Cabinet Decision			

## Audit Checklist for Project Contract Administration

	<ul style="list-style-type: none"> <li>• Prior approval for the award of Contract is obtained from the Secretary to the Line Ministry.</li> <li>• Recommendation for the Final Contract Agreement is obtained from the Attorney General</li> <li>• Prior approval from Regulatory Authorities are obtained (RDA, UDA, and CEA etc.).</li> <li>• Acquisition of Land is completed and possession is cleared. (Approval of the Department of Archeological, Wildlife, Forest, Coastal Conservation and other relevant Departments are needed where necessary).</li> <li>• Budgetary Provisions are available and Financing Arrangement have been made.</li> <li>• The Letter of Acceptance is issued during the validity period of the bid and after the decision taken to award the Contract.</li> </ul>	<p style="text-align: center;">Relevant Letters</p> <p style="text-align: center;">Documents relating to Land Acquisition</p> <p style="text-align: center;">Annual Budget Estimate</p> <p style="text-align: center;">Procurement Committee Decision, Bid Bond, Letter of Contract Award and other relevant Documents.</p>			
III	Whether the Letter of Award/Letter of Acceptance is signed by the duly Authorized Officer (Secretary to the Ministry / Head of the Department / Project Director).	Letter of Contract Award			
IV	Whether the Letter of Award/ Letter of Acceptance clearly indicate the Accepted Contract Amount in relevant currency? (VAT percentage should be stated as separate item).	Contract Agreement			

### Audit Checklist for Project Contract Administration

V	Have been copied the Letter of Acceptance/ Award to the relevant Authorities? (Secretary to the Ministry/ Head of the Department / Project Director / Funding Agency/ Auditor General).	Relevant Documents			
VI	Check, Parties are entered into a Contract Agreement within the stipulated time (FIDIC - 28 days) after receiving the Letter of Acceptance to the Contractor.	Contract Agreement			
VII	Has Debriefing been done?	Relevant Files			
VIII	Whether the Contractor submitted Performance Security within the stipulated time (FIDIC - 28 days) upon receipt of the Letter of Acceptance/ Award?	Performance Bond			
IX	Whether the Advance Payment Guarantee and Performance Security received on time when paying Advance Payment to the Contractor? (Advance Payment must be made to the Contractor within 42 days after issuing the Letter of Acceptance or within 21 days after receiving the Documents).	Advance Bond, Performance Bond			
X	Whether the Engineer's Instructions to commence works are issued within the stipulated time to the Contractor? (180 days from the date of receipt of the Letter of Acceptance to the Contractor – FIDIC Pink Book).	Letter issued by the Project Engineer			

### Audit Checklist for Project Contract Administration

XI	<p>Check whether the Project Staff is properly recruited and keep in appropriate salary levels. (All recruitments should be done according to the Management Services Circular No. 1/2019 issued by the Department of Management Services).</p> <ul style="list-style-type: none"> <li>• Appointments to all posts are done only through the Public Advertisements. - Check.</li> <li>• All officers are assigned duties and Appointment Letters are given- Check</li> <li>• Entered into formal MOUs with Local or Foreign Consultants and Performance Appraisals are carried out according to the Terms and Conditions agreed. - Check.</li> </ul>	<p>MSD Circular 1/2019</p> <p>Public Advertisements, Paper Advertisements</p> <p>Relevant Files</p> <p>MOUs, Performance Appraisal Reports</p>			
XII	<p>Check all relevant Documents and Records have been handed over to the Contractors.</p> <ul style="list-style-type: none"> <li>• Contract Documents.</li> <li>• Project Feasibility Reports.</li> <li>• EIA Reports , IEA Reports.</li> <li>• Social Impact Assessment Report and other relevant Assessment Reports. (Approved Archeological Impact Assessment Report, Disaster Impact Assessment Report, Cultural and Religious Feasibility Report, Institutional Feasibility Report).</li> <li>• Compensation Payment Plan and Procedure (If applicable).</li> </ul>	<p>Contract Documents</p> <p>Feasibility Reports</p> <p>EIA Report, IEA Report</p> <p style="text-align: center;">} Relevant Evaluation Reports</p> <p>Compensation Payment Plan</p>			

## Audit Checklist for Project Contract Administration

	<ul style="list-style-type: none"> <li>• Resettlement Action Plan and Information on Land Acquisition.</li> <li>• Approved Letters from the Relevant Authorities to carry out the Project.</li> <li>• Loan Agreement with Funding Agencies</li> <li>• Survey Plans</li> <li>• Soil Testing Reports</li> <li>• Material Testing Reports</li> <li>• Design Reports and Structural Drawings (Floor Plan, Electrical Plan, Water &amp; Drainage Plan, Telephone, Internet Networks and other Internal Networking, AC, Elevators, Fire Protection etc).</li> <li>• Other Documents and Reports</li> </ul>	<p>Resettlement Action Plan, Information on Land Acquisition</p> <p>Central Environmental Authority, National Institute of Building Construction and Research Organization, Local Government etc.</p> <p>Loan Agreement</p> <p style="text-align: center;">} Relevant Documents</p>			
<p>2.2.</p> <p style="padding-left: 20px;">I</p>	<p><b>Commencement of Contract</b></p> <p><b>Contract Start Date</b> Check the date as the date specified in the particular Conditions of Contract or on the date at which the Engineer's Instructions to commence the works.</p> <p style="padding-left: 20px;">a. FIDIC (Yellow Book) Conditions of Contract for Construction stipulated that the Commencement Date shall be within 42 days upon the receipt of the Letter of Acceptance by the Contractor unless otherwise stated in the Particular Conditions of Contract while ICTAD/CIDA stipulated 14 days.</p>	<p>Contract Agreement or Written Instructions given by the Project Engineer</p> <p>Contract Agreement</p>			

### Audit Checklist for Project Contract Administration

	<p>b. The Contractor shall submit a Performance Security/Bond (usually within 28 days of the receipt of Letter of Acceptance – 5% to 10% of the Accepted Contract Amount)) issued by a reputed Commercial Bank operates in Sri Lanka, accepted by the Central Bank before commence the Contract Work. If the bank which issued Performance Bond is not operating in Sri Lanka, the Performance Security must be confirmed by a Correspondent Bank operating in Sri Lanka.</p> <p>c. Ensure that the Contractor submits all Insurance Coverage for Physical and Human Resources related to the Contract (Insurance for Works and Contractor's Equipment, Insurance against injury to Persons &amp; Damage to Property and Insurance for Contractor's Personnel etc). - Check.</p> <p>d. Ensure that the Contractor submitted his Method Statement with Detailed Work Programme. (within 28 days after receiving the Notice to Commence work).</p> <p>e. Check the establishment and implementation of Quality Assurance System and conducting of Periodic Quality Audit.</p> <p>f. Project Engineer's prior consent has been obtained for the Sub-Contracts. - Check</p>	<p>Performance Bond, Letter of Acceptance</p> <p>Relevant Insurance Certificates</p> <p>Approved Detailed Work Programme, Method Statement</p> <p>Quality Assurance System, Periodic Quality Audit Reports</p> <p>Relevant Approved Letters</p>			
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## Audit Checklist for Project Contract Administration

	<p>Further, check following requirements have been fulfilled in relation to sub-contracts.</p> <ul style="list-style-type: none"> <li>• Whether entered into a formal Ccontract Agreement?</li> <li>• Assure, all Contract Agreements have been signed by the Employer and the Contractor.</li> <li>• If a representative signed, check whether the Contractor properly delegated him the Power of Attorney.</li> <li>• Has been entered into the Contract within 28 days of receipt of the Letter of Award?</li> </ul> <p>g. Whether the Project Engineer has delegated the authority in writing to the Assistant Engineers in the various fields. - Check.</p> <p>h. Check whether the lands required for the works to be carried out and effective access to such Lands are acquired and all encumbrances are cleared prior to the Commencement of Contract. (Have Instructions been given on how to dispose of Debris and Waste). - Check.</p>	<p>Sub Contract Agreement</p> <p>Relevant Agreement</p> <p>Contract Agreement</p> <p>Power of Attorney.</p> <p>Contract Agreement, Letter of Award</p> <p>Relevant Letters</p> <p>Relevant Letters</p>			
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## Audit Checklist for Project Contract Administration

	<p>b. Is Unconditional Performance Security (5 – 10% of Accepted Contract Amount) issued by a reputed Commercial Bank, approved by the Central Bank of Sri Lanka available? (Generally, within 28 days upon receipt of Letter of Award, a Performance Security shall be submitted. If not, action could be taken to demand the amount secured under the Bid Security, Time Extension for a reasonable period of time or could be terminated the Contract.</p>	<p>Performance Security, Relevant Documents</p>			
	<p>c. Has the Project Director / Project Engineer verified Performance Security submitted by the Contractor is genuine and enforceable in Sri Lanka? (If the bank which issued Bid Bond or Performance Security is not a bank operating in Sri Lanka, shall be confirmed by a bank operating in Sri Lanka ( a corresponding Bank in Sri Lanka).</p>	<p>Bid Bond, Performance Bond</p>			
	<p>d. The Performance Security must also be adjusted; addition or reduction in parallel to the Contract Price when necessary.</p>	<p>Performance Security</p>			
	<p>e. The Performance Security provided by the Contractor shall remain valid and enforceable beyond the date on which Performance Certificate is issued unless otherwise specified in the particular Conditions of Contract.</p>	<p>Contract Agreement, Performance Security, Performance Certificate</p>			
	<p>f. Has the Performance Security/Completion Report been released within 21 days after the issuance of the Performance Certificate? - Check.</p>	<p>Performance Security, Completion Report, Performance Certificate</p>			

## Audit Checklist for Project Contract Administration

	<p>g. Has an Advance Payment Security been written in the required format in acceptable manner (In accordance with FIDIC/ICTAD Conditions of Contract) - Check. (Advance Payment Guarantee/ Security shall be equal to the amount of Advance Payment)</p>	Advance Payment Security			
	<p>h. If the Advance Payment Security has been issued by a bank not operating in Sri Lanka, it shall be confirmed by a Corresponding Bank acceptable to the Central Bank of Sri Lanka. - Check</p>	Advance Payment Security			
	<p>i. The Advance Bond shall remain valid until the recovery of the full amount taken. If the Advance Bond expires before fully recovered, the extension same, 28 days prior to its expiry is must. - Check.</p>	Advance Bond			
3.3	All Subcontracts should be approved by the Project Director with prior consent of the Engineer.	Relevant Documents			
3.4	Has the Contractor submitted the Work Programme with Method Statement? (The Engineer shall give shortcomings or improvements to the Contractor within 21 days after receiving a Programme) - Check.	Work Programme, Method Statement			
3.5	Are materials including samples complied with the Contract & approved by the Engineer? Check.	Quality Reports, Relevant Documents			
3.6	Review existing Project Quality Assurance System, Reports and Project Quality Plans to ensure the quality of Products or Constructions.	Quality Assurance System, Quality Plan, Other relevant Documents			

## Audit Checklist for Project Contract Administration

4	Monitoring of Contract. (Contract Executing Stage)				
4.1	<p>Whether Monthly Progress Review Meetings are conducted?- Check.</p> <ul style="list-style-type: none"> <li>• Minutes of the Monthly Progress Review Meeting shall be prepared and circulate to all relevant parties? - Check.</li> <li>• Have Monthly, Quarterly, and Annual Progress Reports been prepared by the Project Office properly? - Check.</li> </ul>	<p>Progress Reports</p> <p>Progress Reports</p>			
4.2	<p>Whether Project Steering Committee Meetings are properly conducted and prepare reports while taking follow-up actions. - Check. (Should comply with the provisions of paragraph 09, Circular 1/2019 of the Department of Management Services).</p>	<p>Report of the Steering Committee Meetings</p>			
4.3	<p>Has the Original Contractual Programme been submitted by the Contractor at the start and Project Engineer reviews it properly? - Check.</p>	<p>Original Contract Programme</p>			
4.4	<p>Have Monthly Progress Reports and the Updated Work Programme been submitted by the Contractor properly while reviewing progress by the Project Engineer? - Check</p>	<p>Monthly Progress Reports, Updated Work Programme</p>			
4.5	<p>Is Critical Issues Register maintained by the Project Engineer while following up and taking corrective actions until them resolved? – Check</p>	<p>Critical Issues Register</p>			
4.6	<p>For “Provisional Sums” included within the BOQ/Schedule shall be based on actual amount experienced (for Contract Payment Bills/ Bill of Materials –BOM etc.) by the Contractor should be substantiated by submission of Quotations, Invoices, Vouchers and Accounts or Receipts. - Check</p>	<p>Contract Payment Bills, Bills of Materials, Quotations, Invoices, Vouchers, Accounts Receipts.</p>			

## Audit Checklist for Project Contract Administration

	<p>a. Check whether the works done under Provisional Sum have been measured, checked and certified by Engineer before making the payment.</p>	Relevant Reports		
	<p>b. Have Variation Request, Variation Approval and Payments for Variation been made in proper manner? - - Check.</p>	Relevant Reports		
	<p>c. Requirement of Extra Works has been approved properly? - - Check.</p>	Engineer's Variation Instructions, Cost Proposal, Variation Approval, Engineer's Evaluation Report		
	<p>d. Extension of Time (EOT) for the completion of Contract has been done on reasonable circumstances beyond control of the Contractor. - Check.</p> <p>The Contractor is entitled for an EOT, if he suffers or will suffer a delay under following reasons.</p> <ul style="list-style-type: none"> <li>• Delayed Drawings or Instructions.</li> <li>• Rights of access to the Site</li> <li>• Setting out</li> <li>• Unforeseeable Conditions</li> <li>• Testing</li> <li>• Delays caused by Authorities</li> <li>• Consequences of suspensions</li> <li>• Interferences with Test on Completion</li> <li>• Adjustment for changes in Legislation</li> <li>• Contractor's entitlement to suspend work</li> <li>• Consequences of Employer's Risk</li> <li>• Adverse Climatic Conditions</li> <li>• Delayed in Variation Approval etc.</li> </ul>	Relevant Reports and Documents		

### Audit Checklist for Project Contract Administration

4.7	<p><b>Final Payment Certificate</b> Has the Final Payment Certificate been issued? (Project Engineer should issue Final Payment Certificate to Contractor &amp; Employer).</p>	Final Payment Certificate			
4.8	<p><b>Release of Retention Money</b> When the Taking over Certificate is issued for the works, the Engineer shall certify the payment of 50% of the retention money withheld.</p> <p>If the Contractor requests the total retention amount, a Retention Money Guarantee (Similar Conditions as in Performance Security) for the remaining balance must be obtained in the prescribed form.</p>	Taking over Certificate, Retention Money Guarantee, Other Relevant Documents			
4.9	<p>If Day Works are done in the Contract, all payments with relevant supporting Documents and Reports must be checked and verified by the Engineer. – Check.</p>	Relevant Documents			
4.10	<p>Check, whether every endeavor to avoid claims has been taken during the execution of a Contract by eliminating potential causes for claims; such as,</p> <ul style="list-style-type: none"> <li>• Delays in handing over of Site Possession.</li> <li>• Failure to clear obstructions or encumbrances.</li> <li>• Delays in providing Instructions or Drawings.</li> <li>• Delays in Making Payments</li> <li>• Unnecessary interferences with Tests.</li> </ul>	Relevant Documents			

## Audit Checklist for Project Contract Administration

5	Project Completion Stage				
5.1	<p>Upon receiving of a Notice or an Application from the Contractor to take over of works and if all works are satisfactorily completed according to the Contract Agreement, the Engineer shall issue a Taking over Certificate within 28 days (within 28 days upon receiving of the Contractor's request).</p> <p>The following requirements are needed to be fulfilled before issuing a Taking-over Certificate.</p> <ul style="list-style-type: none"> <li>• Work done/ Output shall verify through Joint Inspection by the Employer, the Engineer and the Contractor.</li> <li>• Before issuing a Taking over Certificate, the Engineer shall ensure that the Contractor submits all As-built Drawings as required.</li> <li>• Check for Completion Report and Taking over Certificate. Upon receipt of the Completion Report, the Employee shall issue a Taking over Certificate to the Contractor after confirming that all defects have been completed in accordance with the Defects Liability Period.</li> </ul>	<p>Notice or Application (Request), Taking over Certificate</p> <p>Relevant Letters and Documents</p> <p>Relevant Documents, Joint Inspection Reports</p> <p>As-built Drawings</p> <p>Completion Report, Taking over Certificate, Other Relevant Documents</p>			
5.2	<p>Performance Certificate</p> <p>Check whether the Performance Certificate has been issued.</p> <p>(The Performance Certificate shall be issued to the Contractor only upon completing and testing of all the works, including any remedying and all the Documents).</p>	<p>Performance Certificate</p>			

### Audit Checklist for Project Contract Administration

	<p>Further, the Engineer shall issue the Performance Certificate to the Contractor within 28 days after the latest of the expiry dates of the Defects Notification Period with a copy to the Employer.</p> <p>All remaining Contractor's Equipment, Surplus Materials, Wreckages, Rubbish and Temporary Works have to be removed from the Site within 28 days after receipt of the Performance Certificate by the Contractor).</p> <p>If he fails to remove any remaining Items after 28 days of receipt of Performance Certificate, steps have to be taken to sell or dispose of them by the Employer.</p>	<p>All works Quality/ Inspections/ Testing Reports, Relevant Reports for the Defects remedying, Performance Certificate, Documents related to dispose, Other Related Documents</p>			
<b>6</b>	<b>Close out of the Contract</b>				
<p>6.1</p> <p>6.2</p> <p>6.3</p>	<p>Check that the following requirements have been met when Closing out of the Contract.</p> <p>Check whether the Final Payment Certificate has been issued. (Before the Final Payment Certificate is issued, a confirmation must be obtained from the Contractor that he has received Full and Final Settlement of Moneys due to him under or in connection with the Contract.(Full &amp; Final Settlement of all Moneys due to the Contractor under the Contract).</p> <p>Check, whether any outstanding payments are available. (Any further to be due to the Contractor, shall be submitted within 56 days after receipt of the Performance Certificate).</p> <p>Ensure that the following Documents/ Items have been handed over properly with the Work Completed.</p> <p style="margin-left: 40px;">a. AS-built Documents / Electrical / Plumbing / Architectures / Fire Protection System etc.</p>	<p>Final Payment Certificate, Other Relevant Documents</p> <p>Performance Certificate, Other Relevant Documents</p> <p>Relevant Records and Documents</p>			



### Audit Checklist for Project Contract Administration

6.4	<p>b. Operation and Maintenance Guides</p> <p>c. Tools and Accessories</p> <p>d. Inspection and Test Equipment</p> <p>e. Warranties for Equipment/Catalogues for Equipment</p> <p>f. Reports issued by the Relevant Authorities (UD/CEA / RDA etc.).</p> <p>g. Examine and assure arrangements made for handing over / ownership transferring process of Assets/Documents acquired/generated by the Project. (Including all Assets purchased from the Project Funds and Assets created / generated through Project activities).</p> <p>It is important to check the actions taken by the Project Executing Agency in accordance with the MFCG / 2 /(Cir) dated 28.06.2017, of the Secretary to the Ministry of Finance in relation to Assets Management.</p>	<p>Public Finance Circular 01/2020 (Para 12.1, 13.2) and Relevant Other Instructions</p> <p>MFCG / 2 /(Cir) dated 28.06.2017</p>			
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## Audit Checklist for Project Contract Administration

7	<b>Project Sustainability</b>				
7.1	Identify the mechanism introduced to ensure the sustainability of the project and its adequacy and efficiency.	Relevant Information			
7.2	<p>Check measures taken to Project Ownership Transfer.</p> <p>a. Assets Operating and Maintenance Procedure,</p> <ul style="list-style-type: none"> <li>• Availability of a Project's Maintenance Fund.</li> <li>• If it is a project, related to Income Generation, ensure the scale of adopted Legal Structure and the Transparency Level of Transactions and steps taken to institutionalize them with proper Accounting System assuring continuousness.</li> </ul>	<p>Relevant Basic Documents</p> <p>Available Maintenance Fund</p> <p>Established System</p>			

Project Internal Auditor

Date