



Performance Audit

Procurement Capability across the Public Administration

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List of Abbreviations

AFM	Armed Forces of Malta
CPRT	Centre for Policy Research and Training
CIPS	Chartered Institute of Purchasing and Supply
DAS	Departmental Accounting System
DoC	Department of Contracts, Ministry of Finance, the Economy and Investment
DOI	Department of Information
EC	European Commission
ECJ	European Court of Justice
EU	European Union
FMMU	Financial Management and Monitoring Unit, Ministry of Finance, the Economy
GPS	Government Pharmaceutical Services
HD	Health Division within the Ministry for Social Policy
IT	Information Technology
ICT	Information and Communication Technology
MPF	Malta Police Force
MITA	Malta Information Technology Agency
MSCT	Malta Council for Science and Technology
MEPA	Malta Environment and Planning Authority
MFEI	Ministry of Finance, the Economy and Investment
MFSA	Malta Financial Services Authority
MMA	Malta Maritime Authority
NAO	National Audit Office
OJEU	Official Journal of the European Union
OPM	Office of the Prime Minister
R&I	Research and Innovation
SOP	Standard Operating Procedures
WTO	World Trade Organisation



Executive Summary

Executive Summary

1. Procurement is the whole process of acquiring goods, services and works from third parties. The process spans the whole cycle from the identification and specification of a required item or service, to its purchase, delivery, payment for, storage, release and monitoring of supplier performance. It also covers the conclusion of a service contract or the end of the useful life and subsequent disposal of an asset (*paragraphs 1.1.9 to 1.1.15*).

2. The amounts involved in the procurement of goods, works and services are significant and improvements in public procurement processes can have a substantial impact on the Government's finances, freeing up resources for other priorities (*Table 1.1*).

3. Furthermore, public services can be at considerable risk if procurement is not well planned, efficient and cost-effective. Delivery of public services may be of a sub-standard quality or delayed due to essential supplies not being made available in the right quantities and of the right quality when required. Goods, works and services may also end up costing more if they are procured at short notice (*paragraph 1.1.2*).

4. Individual organisations across the public administration are responsible for identifying and managing their own procurement requirements and for the expenditure they incur for meeting those requirements. They have a wide range of possible options when making purchases and a number of key factors can influence their approach to procurement. In addition, the Department of Contracts (DoC) manages the tendering and award procedures of contracts exceeding the thresholds established by legislation (*paragraphs 1.1.5 to 1.1.8*).

5. Procurement is central to the management of Government operations. Organisations within the public administration need to have the appropriate structures for the procurement of different types and ranges of goods, works and services, as well as adequate plans, capabilities,

information and resources to ensure best value for money (*paragraphs 1.2.1 to 1.2.7*).

6. Audits carried out by NAO have, however, over the years shown that in certain instances procurement systems and capabilities have not been adequate and had critical shortcomings (*Table 1.5*). This has prompted NAO to carry out a study that examines the procurement capabilities and practices applied across the public administration, using twelve government departments and regulatory bodies as case studies (*Table 1.6*). In addition, NAO seeks to encourage, through this report, the development and dissemination of good procurement practices, in particular in organisations where procurement capabilities are less well developed (*paragraphs 1.3.1 to 1.3.4*).

7. The following is a list of the various aspects of public procurement covered by NAO in this report:

(a) Structure and Resources (Chapter 2)

- The strategic importance and organisation of the procurement function.
- Staff with required knowledge and skills in procurement, including training.
- Policies and procedures to govern procurement.
- Internal controls to ensure compliance.
- Planning of procurement requirements.
- Technology to enhance and facilitate the procurement function.

(b) Information Management and Monitoring (Chapter 3)

- Stock management system to help keep track of inventories and to set efficient stock order volumes.

- Data on procured items and on levels of consumption to identify where there is potential for cost savings.
- Information on suppliers.
- Monitoring of suppliers' performance.
- Sharing of information within the public administration.

(c) *Continuous Improvement and Development (Chapter 4)*

- Initiatives to review and continuously improve procurement activities.
- Management of procurement risks.
- Opportunities for collaborative procurement and framework agreements.

Structure and Resources

8. The nature of procurement and the type of operations of specific organisations influences the degree of centralisation and delegation of procurement responsibilities. The twelve organisations interviewed by NAO as part of this study have adopted a centralised or a partly-centralised approach to procurement management. In the case of the latter, procurement is organised along category lines and decentralised to specific budget holders (*Table 2.1*).

9. A centralised function provides more opportunities for improvement of process efficiency, for better buying practices, the development of a standard approach, as well as better overall monitoring and control. A decentralised procurement function is in itself not necessarily a bad practice. However, it has to be supported by a coherent set of policies and procedures; open communication channels; as well as frequent sharing of information on procurement activity. Within every organisation, there should also be a designated individual or a competent body (such as a Purchasing Committee) responsible for overseeing and monitoring the adequateness of the overall procurement processes (*paragraphs 2.1.1 to 2.1.6*).

10. Effective public procurement also requires an adequate number of staff with the right experience, skills and knowledge to ensure that buying requirements are reliably determined, appropriate contract strategies are developed, contracts are well-managed and that opportunities to get the best deal are taken (*Appendix C*). It is also advisable for staff involved in procurement to have access to appropriate training and expertise in order to enable them to acquire new knowledge, share good practices, as well as to keep abreast of modern and more efficient approaches to procurement (*paragraphs 2.1.1 to 2.2.4*).

11. Most of the staff involved in procurement within the twelve interviewed organisations were reported to have acquired related knowledge and skills through a mix of methods, including on-the-job training, by learning from colleagues, 'one-off' courses, and years of hands-on experience. Overall, NAO noted that there is a general need that organisations within the public administration devote more time and resources to training and further developing staff's skills and competences required by purchasing professionals (*Appendix C*). Insufficient continuous professional development increases the risk of unawareness of the important elements of public procurement and good practices, as well as the inadvertent use of costly or ineffective approaches (*paragraphs 2.2.5 to 2.2.12*).

12. Organisations must also ensure that their procurement processes comply with national and European legal framework governing public procurement, government-wide initiatives and circulars, as well as internal rules and controls. They are also expected to ensure good governance, accountability, transparency, fairness, integrity and value for money. It is therefore a good practice to establish, document and regularly review internal policies and procedures that set out clearly the main common steps involved in conducting a procurement process and in choosing the appropriate procedure or approach. Documentation can include an internal procurement manual, guidelines, standard operating procedures, code of ethics, as well as the relevant process maps, flowcharts, templates and standard forms (*paragraphs 2.3.1 to 2.3.17 and Table 2.7*).

13. A number of the interviewed organisations reported that they generate complementary internal procedures including *ad hoc* documents and circulars outlining specific steps to be followed. Other organisations rely mainly on the General Financial Regulations to guide them in their procurement activities. Organisations across the public administration should be aware of the higher risks that they face if internal formal policies, procedures and control mechanisms are not in place or are insufficiently documented (*paragraphs 2.3.18 to 2.3.23 and Table 2.8*).

14. The increasing complexity of public procurement, the importance of managing suppliers, as well as the need to ensure value for money, all underscore the need of a timely and well-thought procurement planning process (*Table 2.10*). A degree of planning for procurement requirements was reported to be carried out by all the twelve organisations interviewed for this study. However, none indicated that they prepare detailed procurement strategies (*paragraphs 2.4.1 to 2.4.7 and Table 2.11*).

15. Use of electronic methods in the procurement process (also referred to as electronic procurement), when implemented effectively in every stage of the

purchasing process, can offer a return on investment. This is especially so if electronic procurement supports delivery and modernisation of core business, from identification of requirement through to payment, and potentially to contract management (*Figure 2.1*). Implementing electronic procurement solutions requires up-front investment of time and money. Organisations must also take into consideration key issues such as legal and policy obligations, data protection, system interoperability, ICT capabilities of suppliers and online security (*paragraphs 2.5.1 to 2.5.7*).

16. The development of electronic procurement methods is driven by the Government's National ICT Strategy 2008-2010 and Malta's commitments in this area as an EU Member State. In 2009, DoC launched new electronic procurement services which include a procurement management system and a new website (*Table 2.13*). Since 2004, Government has also been administering a website for electronic procurement of IT desktop equipment costing less than €5,823. Other Government websites also provide details of published tenders. Furthermore, public administration also uses accounting and stock control applications to provide some level of automation to their procurement processes (*Table 2.14*). Overall, NAO noted that there are key areas where public administration can further exploit technology to improve performance. Such investment should, however, be complemented with wide radical changes in business processes and a drive to introduce a broader framework of good procurement practices (*paragraphs 2.5.8 to 2.5.20*).

17. Action to consolidate and strengthen the structure and resources of the procurement function in an organisation requires top management (or Board level) commitment and support. Such involvement includes giving a clear direction from the top about the importance they attach to procurement in delivering an organisation's objectives; actively supporting the procurement function, endorsing top level procurement strategies, ensuring a clear procurement framework aligned with good practice; as well as monitoring performance and cost savings. Placing emphasis on these issues highlights the strategic importance of the procurement function, apart from its role in providing technical and administrative support to business operations (*paragraphs 2.6.1 to 2.6.2*).

Information Management and Monitoring

18. Comprehensive and reliable procurement information systems are valuable for an organisation to help it take informed decisions on how much to spend, what is really required, when to buy, from which suppliers, what level of competition can be attracted, and which procurement route should be adopted. Procurement activities should also be regularly monitored, reviewed and audited to keep track of suppliers' performance, to help identify areas of high risk, as well as to determine where

these is need for improvement, increased efficiency and better value for money (*paragraphs 3.1.1 to 3.1.5*).

19. Accurate and complete inventory management systems are essential to ensure that inventories are available to meet the needs of ongoing activities; excessive or insufficient stock levels are avoided; the level of funds tied up in inventory and storage costs are minimised; and good internal inventory control is in place to reduce loss through damage, deterioration or theft. A number of measures were reported to be used by the twelve participating organisations to manage inventories, albeit to varying extents and frequency. Different practices and methods to plan for and manage inventories have been adopted. Systems in place also vary in their degree of maturity, completeness and consistency, with some adopting a more systematic approach, while others reported to use ad hoc or reactive methods to address specific concerns (*paragraphs 3.2.1 to 3.2.10*).

20. Organisations also require reliable and timely information on their procurement spend; well-maintained records on existing suppliers' performance; as well as sufficient market and supplier intelligence. This information is vital for effective management of the procurement activities, as well as for the appropriate planning of procurement requirements. The practice of routinely collecting, analysing and reporting information on procurement spend and on suppliers is not well established across the public administration and there is scope for further development in this area (*paragraphs 3.3.1 to 3.3.27, as well as Table 3.1 and 3.2*).

21. The information generated from management information systems (such as knowledge on the markets, suppliers, prices and buying arrangements) can also be potentially shared and exchanged across the public administration. Information sharing would help identify opportunities for collaborative procurement, sharing of expertise, reduction in costs, benchmarking of activities, improvements in general practices, more competitive buying, and better value for money. NAO observed that given Malta's size, information sharing across the public administration is, however, a very limited practice. More advantage should be taken of such opportunities (*paragraphs 3.4.1 to 3.4.3*).

Continuous Improvement and Development

22. It is good practice for organisations to systematically measure, benchmark and review their procurement performance and the cost-effectiveness of their activities. In addition, organisations should also keep track as to how far their procurement activity is meeting the demanding standards to deliver value for money (*Table 4.1*). In the twelve interviewed organisations, the prevailing practice is for management to carry out *ad hoc* reviews.

Some organisations also mentioned that they monitor and review, to varying degrees, procurement of one or more elements, as well as take initiatives to achieve savings. It is important that organisations are always motivated to improve the economy, efficiency and effectiveness of their procurement function (*paragraphs 4.1.1 to 4.1.11*).

23. Organisations should also be aware of the risks they are facing with respect to procurement and have adequate arrangements to mitigate and manage these risks. Risk management practices should be embedded in the procurement processes and regularly reviewed. None of the twelve interviewed organisations reported to have a formal risk management system in place to address procurement risks. However, many had an informal way of dealing with such risks, mostly based on their experience working in the field (*paragraphs 4.2.1 to 4.2.5*).

24. Many organisations across the public administration purchase a range of similar goods and services. This commonality provides opportunities to purchase items collectively through framework agreements and collaborative procurement, especially where there is high demand for specific goods and services. The certainty and level of business that public administration can offer

to suppliers through these arrangements can be attractive to them and provides considerable potential for public administration to secure better deals (*paragraphs 4.3.1 to 4.3.7*).

25. Joint procurement is being used to a limited extent in the public administration, and there is scope for further identification and development of such advantageous opportunities. A few of the interviewed organisations have joined up with other public entities to procure collectively certain common items. Furthermore, most organisations use ‘period contracts’ coordinated by the DoC for a limited range of store items (*Table 4.6*). They reported that they find these arrangements useful and beneficial, although they also indicated areas where these arrangements can be strengthened and developed (*paragraphs 4.3.8 to 4.3.13*).

Conclusion

26. This report has illustrated that there are many ways of how organisations across the public administration can continuously seek to improve and strengthen their procurement function and capabilities, including streamlining their processes and adopting best practices.

Chapter 1

The Importance of Procurement Capability



Chapter 1 – The Importance of Procurement Capability

1.1 What is public procurement?

1.1.1 Procurement is the whole process of acquiring goods, services and works from third parties. The process spans the whole cycle from the identification and specification of a required item or service, to its purchase, delivery, payment for, storage, release and monitoring of supplier performance. It also covers the conclusion of a service contract or the end of the useful life and subsequent disposal of an asset.

1.1.2 Public procurement ranges from the purchase of *ad hoc* and low value routine items to complex expenditure areas such as high volume or high value contracts. It includes much that supports the work of public administration and plays a central role in delivering all Government priorities, from health and education to regulation and revenue collection. Successful public procurement is important to the citizen using a public service, for the taxpayer, and for the businesses supplying Government (Table 1.1).

1.1.3 Limited data exists on the total value of public procurement of goods, works and services. It is, however, clear that the amounts involved are significant as can be noted from the data collected by NAO from various sources (Table 1.2.).






Table 1.1	Impact of successful procurement
	Public services can be at considerable risk if procurement is not well planned, efficient and cost-effective. Essential items not being available in the right quantities and of the right quality when required can result in an operation, project or service being of sub-standard quality or delayed.
	Goods and services can cost more if they are procured at short notice.
	Improvements in public procurement processes can have a substantial impact on the Government’s finances, freeing up resources for other priorities.
	Effective public procurement also has the capacity to develop and transform the market, as well as drive the efficiency of suppliers and their supply chains.
<i>Source: NAO Working Papers (2009)</i>	

Table 1.2	Indicators showing significance of public procurement
	<p>In the Government's Financial Estimates of 2009, €99 million were allocated to total 'Operational and Maintenance Expenses'. Items in this category include utilities, materials and supplies, repair and upkeep, rent, international memberships, office services, transport, travel, information services, contractual services, professional services, training, hospitality, incidental expenses, improvements to property and equipment. In addition, procurement is included in other expenditure items listed under other categories such as 'Capital Expenditure', 'Programmes and Initiatives', or 'Contributions to Government Entities'.</p>
	<p>The report of July 2007 of the eProcurement Implementation Task Force (Strategy for the Implementation of eProcurement in the Public Sector Ministry of Finance) estimated that total payments by cheque (that is, excluding debit advices) made by the Treasury Department on behalf of Government to local and foreign suppliers amounted to around €192 million in 2006.</p>
	<p>The Director General of Contracts awarded a total value of €146 million of contracts in 2008.</p>
	<p>The Malta Environment and Planning Authority reported that public procurement was approximately 18 per cent of Malta's Gross Domestic Product in the draft National Action Plan on Green Public Procurement prepared in 2006.</p>
<p><i>Source: NAO Working Papers (2009)</i></p>	

1.1.4 Given Government's limited budgetary resources and the importance of achieving good value for money from public procurement, organisations across the public administration should apply the highest professional standards when spending money on behalf of taxpayers to procure required goods, works and services.

1.1.5 Individual organisations across the public administration are responsible for identifying and managing their own procurement requirements and for the expenditure they incur for meeting those requirements. They have a wide range of possible options when making purchases and a number of key factors can influence their approach to procurement. In addition, the Department of Contracts (DoC) manages the tender and award procedures of contracts exceeding the thresholds established by legislation. DoC also supports the public procurement process through the development of policies.

1.1.6 There is no single method that guarantees the delivery of procurement. Organisations need to be clear about the overall objectives of their procurement strategy and select those methods providing the best value for money.

1.1.7 The approach to public procurement often varies widely due to differences in organisations' size, programmes and activities. Procurement of a specific item could be repeated due to an ongoing requirement or it could be a one-off activity such as in the case of a bespoke software program¹.

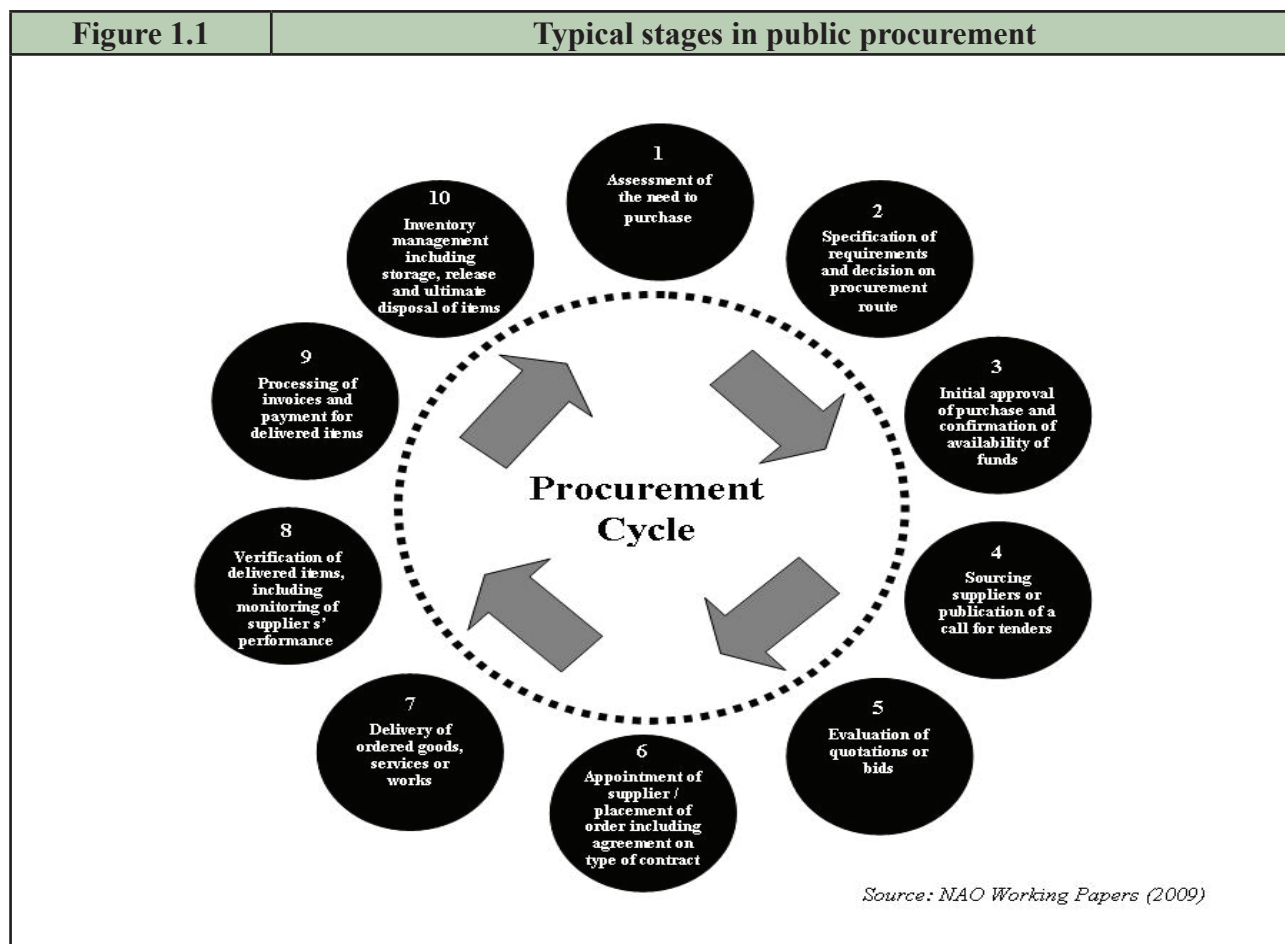
1.1.8 Procurement could also differ depending on the level of complexity and the risk associated with the purchase to be made. Moreover, organisations can have specialist requirements such as medical supplies,² road construction works,³ and outsourced services⁴.

¹ Refer to NAO Performance Audit Report: NAO Report: *School Information System* published in December 2002.

² NAO Performance Audit Report: *Inventory Strategy and Distribution of Pharmaceutical Products - Health Division* published in November 2004.

³ NAO Performance Audit Reports: *Managing Procurement - Road Construction and Restoration Contracts* published in January 2004; *Improving the Management of Roads Projects* published in September 2005; and *Enquiry on Road Construction Projects partly financed through Fifth Italo-Maltese Financial Protocol* published in June 2009.

⁴ NAO Performance Audit Reports: *School Transport System* published in September 2002; and *Enquiry on Direct Orders and Outsourcing at Mater Dei Hospital: Clerical/Reception, Security, Car Park and Traffic Management Services* published in May 2009.



1.1.9 Figure 1.1 shows the typical stages in public procurement. The cycle generally starts with the identification of the need to procure specific goods, works and services. This should be followed by the drawing up of sufficiently detailed specifications by the internal customer and a decision of the organisation on whether or not there is the need to purchase. Attention should be given at this stage to affordability. If the purchase is approved and funds are available and committed, the required requisition forms and other supporting documentation are generated.

1.1.10 Required items should then be sourced using the established public procurement regulations and procedures. This can be through direct order, or by approaching suppliers and requesting quotations, or through the issue of a public call for tenders. The procurement process should help to ensure open and effective competition, and be fair and transparent. It should not be inefficient or too burdensome for bidders and create barriers when bidding for Government business.

1.1.11 A supplier should then be selected based on the lowest price or the most economically advantageous offer (best value for money), with due regard being given to propriety and regularity (discussed in Table 1.3). A strong competition from a vibrant market generally delivers a value for money outcome. Where competition is limited

or even absent, other approaches may have to be used to achieve value, such as benchmarking and the development of cost models.

1.1.12 When necessary, depending on the nature of the purchase, detailed contract conditions should be agreed by both parties. Once this has been concluded, the supplier should be formally appointed and the order is confirmed.

1.1.13 A key stage of the procurement process is the inspection and confirmation of delivered goods, services or works and taking action when these do not meet the agreed specifications and standards. In the case of a contract for service or works, suppliers' performance should also be systematically monitored.

1.1.14 Once the delivery of ordered items and suppliers' performance have been accepted by the procuring organisation, invoices are processed and due payments are made to the supplier in question.

1.1.15 Another important element of procurement is inventory management, including control over the storage, release and ultimate disposal of expired or unrequired stock items.

Table 1.3	Value for money, regularity and propriety in public procurement
<p>Value for Money</p>	<p>Value for money is not simply achieving the lowest price. It involves buying a product or service that is ‘fit for purpose’, and achieving the optimum combination of whole life costs, sustainability issues and quality. Moreover, as a purchaser, public administration should also take into account economic and social considerations that may be of less importance for private sector organisations.</p> <p>Public Contracts Regulations (Subsidiary Legislation 174.04 of the Laws of Malta) specifies that when selecting the most economically advantageous offer, various criteria relating to the subject matter of the contract, including but not limited to, price, delivery date, delivery period or period of completion, running costs, cost-effectiveness, quality, aesthetic and functional characteristics, technical merit, profitability, after-sales service and technical assistance should be taken into consideration.</p>
<p>Regularity and Propriety</p>	<p><i>Regularity or legality</i> refers to compliance in terms of authority, legislation and regulations.</p> <p>On the other hand, the concept of <i>propriety</i> refers to conduct and behaviour when carrying out public business. It is concerned with fairness, appropriateness and integrity, and includes principles such as:</p> <ul style="list-style-type: none"> • The prevention of waste and extravagance. • Taking decisions solely in terms of the public interest. • Not placing oneself under any financial or other obligation to outside individuals or organisations that might influence them in the performance of official duties. • Being reasonably open about all the decisions and actions that are taken, including giving reasons for decisions and restricting information only when the wider public interest clearly demands. • Declaring any private interests relating to public duties and taking steps to resolve any conflicts arising in a way that protects the public interest. • Promoting and supporting these principles by leadership and example. <p>Non-compliance with regularity or legality issues could be inadvertent, depending on the circumstances. Impropriety more usually carries an assumption of a deliberate act or a willfully careless one.</p>

Source: NAO Working Papers (2009)

1.2 Why focus on procurement capability?

1.2.1 Procurement is central to the management of Government operations. Organisations across the public administration need to have the appropriate structures for the procurement of different types and ranges of goods, works and services, as well as adequate plans, capabilities, information and resources to ensure best value for money.

1.2.2 Table 1.4 lists the various aspects of public procurement covered by NAO in this study.

1.2.3 Public administration requires the appropriate systems and capabilities in order to address risks related to achieving value for money in public procurement. Such risks include, for example, that an organisation has poor market knowledge;

quality and services requirements are not clearly defined in contracts; and the price paid is not the most competitive.

1.2.4 This can result in an organisation not getting the optimal level or quality of service from a contract, or in resources being tied up and not being directed to where they can best contribute to public service delivery. Furthermore, goods and services may not be delivered on time or at the right quantity, possibly leading to failures in performance or higher purchasing costs. On the other hand, unnecessary purchases and stock piling of goods can be wasteful.

1.2.5 Another critical risk in public procurement is that internal controls are not in place and that the appropriate procurement procedures are not adhered to. As a consequence, contracts may not be awarded fairly and organisations can be further exposed to the risks of fraud, overpayments, misappropriation or waste.

Table 1.4	Aspects of public procurement covered by the NAO report
Structure and Resources	The organisation and strategic importance of the procurement function.
	Staff with required knowledge and skills in procurement. Training of staff involved in procurement in this area of expertise.
	Development of policies and procedures to govern procurement. Internal controls to ensure compliance.
	Planning of procurement requirements.
	Technology to enhance and facilitate the procurement function.
Information Management and Monitoring	Stock management system to help keep track of inventories and to set efficient stock order volumes.
	Data on procured items and on levels of consumption to identify where there is potential for cost savings.
	Information on suppliers. Monitoring of suppliers' performance.
	Sharing of information within the public administration.
Continuous Improvement and Development	Initiatives to review and continuously improve procurement activities.
	Management of procurement risks.
	Opportunities for collaborative procurement and framework agreements.
<i>Source: NAO Working Papers (2008)</i>	

1.2.6 Having a well-developed professional procurement capability with the expertise and commercial acumen to deal with these and other risks is, therefore, a key requirement for all organisations within the public administration.

1.2.7 Audits carried out by NAO have, however, over the years shown that in certain instances procurement systems and capabilities have not been adequate and had critical shortcomings. This has prompted NAO to carry out this study and recommend areas for improvement and strengthening of procurement processes, as well as the dissemination of good practices in public procurement.

1.2.8 Table 1.5 highlights examples of recurring procurement-related observations from financial and compliance audits included in the Auditor General's Annual Audit Reports. The audits cover Government Ministries and Departments, other public sector entities, local government, as well as non-governmental organisations benefiting from public funds.

1.2.9 The issues and concerns highlighted by NAO indicate the importance of strengthening public procurement capabilities and practices. This is especially

so when taking into account the obligations of Government to buy products and services under a fair and open competitive tendering process, to guard against corruption and fraud, and to ensure value for money. These principles of public procurement are also underpinned by European Union (EU) legislation and World Trade Organisation (WTO) agreements.

1.3 Objectives and scope of the study

1.3.1 The main objective of this performance audit was to examine the procurement capabilities and practices applied across the public administration. The study also sought to define key limitations and challenges, as well as to identify opportunities for improvement and strengthening of the public procurement processes.

1.3.2 In addition, NAO seeks to encourage, through this report, the development and dissemination of good procurement practices, in particular in organisations where procurement capabilities are less well developed. The presented recommendations cover critical areas for improvement and organisations need to apply them in ways appropriate to their individual circumstances.

Table 1.5	Illustrative examples from the Auditor General's annual audit reports showing shortcomings in public procurement practices
<i>Annual Audit Reports of the Auditor General, based on financial and compliance audits, have repeatedly identified common issues and concerns related to public procurement. A number of these observations are presented in the following broad categories.</i>	
Concerns related to quotations and direct orders	Expenditure is made by direct order without obtaining a minimum of three quotations or through the issue of a call for tenders.
	Quotations are requested instead of the required publication of a call for tenders.
	Only one or two quotations are obtained instead of the required minimum of three quotations.
Limitations on the issue of purchase orders and lack of certification on delivery	Purchase requisition forms and purchase orders are not raised on certain items of expenditure.
	Purchase orders are drawn up after the purchase is made.
	Lack of segregation of duties in the purchase ordering process.
	Received goods and services are not certified.
Deficiencies in the tendering procedures	Non-compliance with tender rules and regulations.
	Inadequate tender documentation is published including missing standard contract clauses.
	Bidders fail to meet all the requirements of the tendering process.
	Shortcomings in the tender award process.
Weakness in contract management	Services of a supplier continue to be utilised after a contract has expired and authorisation has not been obtained.
	A supplier increases the rate of a service without obtaining the required covering approval.
	Penalties are not enforced when a supplier delivers goods and services that do not meet specifications, or when a supplier abandons a contract.
Shortcomings in the payment process	Payments are not supported by a fiscal receipt or an invoice for tax purposes.
	Received invoices lack detail of the provided good or service leading to problems when reconciling invoiced amounts with the supplied quantities and contracted rates.
	Invoices are not verified and as a consequence suppliers are overpaid.
	Contractors are paid different rates from those stipulated in the contracts.
	Payment vouchers and items of expenditure are not posted to the proper account.
	Invoices for completed services and works are not included in the financial statements.
<i>Source: NAO Working Papers (2007-8)</i>	

1.3.3 The emphasis of the NAO examination was limited to the areas of public procurement outlined in Table 1.4 above. A group of twelve organisations made up of government departments and regulatory bodies (listed in Table 1.6), were chosen as case studies for the purposes of this exercise. These were selected to reflect different types of organisations within the public administration. NAO would like to thank these twelve organisations and the DoC for their participation in the study.

1.3.4 Details on the methods applied to this study are outlined in Appendix A. Unless otherwise stated, findings in this report reflect conditions up to the end of February 2009.

Table 1.6	Organisations within the public administration participating in the study
Government Departments	Armed Forces of Malta
	Corporate Services Department within the Ministry of Education, Culture, Youth and Sport
	Education Office in the Customer Services Department within the Ministry for Gozo
	Health Division within the Ministry for Social Policy
	Inland Revenue Department
	Malta Police Force
Regulatory Bodies	Malta Environment and Planning Authority
	Malta Financial Services Authority
	Malta Maritime Authority
	Malta Tourism Authority
	Malta Transport Authority
	National Statistics Office - the executive arm of the Malta Statistics Authority
<i>Source: NAO Working Papers (2008)</i>	

1.4 Structure of the report

1.4.1 The rest of this report is structured around the following three key areas:

- Chapter 2 - Structure and Resources:** This chapter assesses the organisation and strategic importance of procurement, including planning of procurement requirements, as well as the establishment of procurement policies, procedures and internal controls. In addition, it also focuses on the knowledge and skills required by procurement staff, and the use of technology in procurement.
- Chapter 3 - Information Management and Monitoring:** This chapter focuses on the use of stock management systems, together with the collection and use of data on procured items and on levels of consumption. The Chapter also assesses the type of information kept on suppliers and the level of monitoring of suppliers' performance. Moreover, the Chapter explores the possibility of information-sharing on procurement across the public administration.
- Chapter 4 - Continuous Improvement and Development:** The last chapter of this report examines the practices that can be used to continuously improve and develop the procurement function, including the review and analysis of procurement activities; actions to improve efficiency and achieve cost savings; the management of procurement risks; as well as opportunities for collaborative procurement and collaboration.



Chapter 2

Structure and Resources

Chapter 2

Structure and Resources

Chapter 2 assesses the organisation and strategic importance of procurement, including planning of procurement requirements, as well as the establishment of procurement policies, procedures and internal controls. In addition, it also focuses on the knowledge and skills required by procurement staff, and the use of electronic methods in procurement.






2.1 Organisation and strategic importance of procurement

2.1.1 In order to ensure efficient and effective procurement, an appropriate structure for the procurement function should be in place in every organisation across the public administration, with a manager (or in some cases a team of officials) being delegated the responsibility

for the management of procurement activities within the respective organisation.

2.1.2 An organisation can be structured centrally or be decentralised in relation to the management of its procurement function. The twelve organisations reviewed by NAO as part of this study have adopted, in general, a centralised or a partly-centralised approach within their respective organisations. In the case of the latter, procurement is organised along category lines and decentralised to budget holders (Table 2.1).

2.1.3 Moreover, most of the officials responsible for procurement in these twelve organisations were also reported to be responsible for other functional areas such as administration, finance, human resource management, as well as information and communication technology

Table 2.1	Examples of how procurement is decentralised for specific procurement activities
	<p>The Education Division devolves responsibility for the procurement of day-to-day items in schools to their management. Specific funds are allocated to schools by the Education Division to purchase their own routine materials and supplies.</p>
	<p>The Armed Forces of Malta (AFM) segregate low value routine procurement activities from the purchase of major equipment, supplies and capital projects. Quartermasters are allocated funds for day-to-day low value requirements and senior officers handle the purchase of the major and higher-value items.</p>
	<p>Procurement activities related to ICT at the Malta Environment and Planning Authority and the Malta Maritime Authority are carried out separately from the main procurement operations in order to optimise on the expertise of the officials responsible for such technology.</p>
	<p>The Malta Police Force delegate procurement along category lines, depending on the nature of the purchase and the value of the item. For example, different officials are responsible for stationery supplies; for items related to forensic work; for the procurement of supplies and parts related to the vehicle motor fleet; as well as for the purchase of uniforms, materials and supplies.</p>
	<p>At the Health Division, the medical supplies are procured separately by a specialist section due to the level of technical knowledge required to affect such purchases.</p>
<p><i>Source: NAO Working Papers (2008-9)</i></p>	

(ICT). This situation is a reflection to the way the public administration is typically structured and how it carries out its business.

2.1.4 Clearly, the nature of procurement and the type of operations of specific organisations influence the degree of centralisation and delegation of procurement responsibilities. Organisations having a centralised procurement function tend to be more in line with good practice than if this structure is not found, although such an approach should not lead to an insufficient segregation of duties and result in a weak system of checks and balances. A centralised function provides more opportunities for improvement of process efficiency, for better buying practices, for the development of a standard approach, as well as for better overall monitoring and control.

2.1.5 Nevertheless, a decentralised procurement function is in itself not necessarily a bad practice. However, decentralisation has to be supported by a coherent set of policies and procedures that are followed by all; open communication channels between those responsible for the different areas of procurement; as well as frequent sharing of knowledge and information on procurement decisions and activity. Within every organisation, there should also be a designated individual or a competent body (such as a Purchasing Committee) responsible for overseeing and monitoring the adequateness of the overall procurement processes. The Malta Financial Services Authority, for example, has a Board of Management and Resources that, amongst other responsibilities, oversees procurement of a significant value carried out by the organisation's different units.

2.1.6 Overall, a more focused and coordinated procurement function raises the profile of procurement in the organisation, helps to reduce wastage and generates efficiency gains.

2.2 Knowledge and skills of procurement staff

2.2.1 The procurement field is evolving in response to technological advances and the increasing importance of procurement to the overall strategy of organisations. In this dynamic environment, effective public procurement requires an adequate number of staff with the right experience, skills and appropriate training.

2.2.2 Ideally, staff involved in procurement should also have access to a professional network to enable them to acquire new knowledge, share good practices, as well as to keep abreast of modern and more efficient approaches to procurement.

2.2.3 The lack of a fully resourced procurement team with sound commercial knowledge of suppliers in the market and appropriate professional skills is a barrier to maximising procurement performance. Cost-effective procurement depends on specialist skills to ensure that buying requirements are reliably determined, appropriate contract strategies are developed, contracts are well-managed and that opportunities to get the best deal are taken.

2.2.4 The types of skills and competence mix required by purchasing professionals can be varied. Appendix C provides an illustrative example of the type of expertise required of procurement staff in the United Kingdom. These include:

- a) An in-depth awareness of the strategic value of procurement to the achievement of an organisation's corporate objectives.
- b) Sound working knowledge of public procurement regulations, procedures and government accounting practices.
- c) Thorough knowledge of markets and supply chains.
- d) Ability to define requirements, including an in-depth understanding of the business processes and activities of the organisation.
- e) Ability to determine appropriate procurement routes (for example, whether to outsource or carry out an activity in-house).
- f) Know-how on preparation of tender and contract documents.
- g) Ability to effectively evaluate offers and ensure value for money.
- h) Strong negotiation and interpersonal skills to attain desired outcomes.
- i) Well-developed risk management and contract management skills.
- j) Knowledge of inventory management and stock control practices.
- k) Ability to efficiently apply ICT and software to procurement processes.
- l) Strong analytical skills and financial knowledge.

2.2.5 Interviews with the twelve case studies on the extent to which they are developing their staff in the field of procurement indicated that most of the individuals


involved acquired related knowledge and skills through a mix of methods, including on-the-job training, by learning from colleagues, ‘one-off’ courses, and years of hands-on experience (including a few in the private sector):

- a) The ‘one-off’ training courses mentioned by these organisations were related to training given by the public administration to staff on national and EU tendering procedures, accrual accounting and on the Departmental Accounting System (DAS). Table 2.2 highlights some of the courses offered by the Centre for Policy Research and Training (CPRT) on areas linked to public procurement activity.
- b) It was also reported that certain staff had attended short courses or workshops on contract management, negotiation skills, innovative procurement and asset management.

- c) In addition, one of the participating organisations - the Armed Forces of Malta (AFM) - mentioned that their staff learn and adopt good procurement practices used by other military organisations with which it has contact and access to opportunities for joint training.
- d) An official responsible for procurement in one of the twelve organisations also mentioned that she is an affiliate member of the Chartered Institute of Purchasing and Supply (CIPS), an international professional body based in the United Kingdom.

2.2.6 Overall, NAO noted that:

- a) The procurement-related training courses identified from the twelve case studies were often separately organised as a direct response to individual developments and

Table 2.2	Examples of existing training opportunities for public officers on areas linked to public procurement
	
<p>Financial Management and Control This course, spread over six half days, targets middle managers who are involved in the accounting function. Its objective is to provide training in financial management and accounting and methods of control for better financial accountability and performance. The course discusses the importance of understanding and interpreting financial statements; cash flow projections; budgetary mechanisms, etc.</p> <p>National Procurement This course, aimed at public officers whose work is directly related to public procurement, is spread over six half days. It provides training on the public procurement regulations; on how to prepare public tenders using updated templates; as well as knowledge on the tender evaluation and appeals processes.</p> <p>Procurement by Contracting Authorities This half day course, also aimed at public officers whose work is directly related to public procurement, covers training on the public procurement regulations; how to prepare public tenders up to the value of Euro 47,000 using updated templates; as well as training on the evaluation and appeals process.</p> <p>Departmental Accounting System (DAS) The course, primarily aimed at public officers working in finance and administration departments and those working on accounting duties is provided over four half days. The objectives of the course are to provide participants with an insight into the whole application of the Departmental Accounting System (DAS), with specific emphasis on the departmental routines; the various functionalities within the DAS; as well as on how to make basic enquiries and reports.</p> <p>Anti-Fraud and Corruption The course, spread over eight half days, helps participants develop their understanding of fraud, corruption and their causes, and to familiarise themselves with anti-fraud and corruption legislation. Participants also learn how fraud and corruption can be prevented, deterred and detected through risk management and internal control. Specific areas of fraud and corruption addressed in this course includes procurement and asset management.</p>	
<p><i>Source: Training Prospectus 2009 (Staff Development Organisation), Centre for Policy Research and Training, Office of the Prime Minister (2009)</i></p>	

were not part of a holistic professional development programme for procurement professionals.

- b) None of the participating organisations indicated that their staff possessed or are pursuing formal professional qualifications specifically related to procurement.
- c) There is a general need for organisations across the public administration to devote more time and resources to training and to further developing their staff's knowledge and skills in areas highlighted in Appendix C.

2.2.7 Skills related to procurement are in short supply and it takes time for staff to build up skills that they may not have. Moreover, insufficient continuous professional development increases the risk of unawareness of the important elements of public procurement and good practices, as well as the inadvertent use of costly or ineffective approaches.

2.2.8 NAO encourages the public administration to aim for year-on-year increases in the proportion of staff training on procurement. This could be achieved by launching, perhaps through CPRT, additional tailored training courses related to the management of procurement, the enhancement of procurement capabilities and the professional development of related knowledge and skills (Appendix C).

2.2.9 Such training can also be extended to take account of the use of procurement to support wider policy objectives such as sustainability and environmental concerns. It can also include an induction programme to new appointees or recruits in the procurement field.

2.2.10 Moreover, consideration could also be given to the setting up of a professional public procurement support

network to discuss standards, general improvement of procurement skills, access to professionals outside the public administration, as well as a way of sharing and developing best practice.



2.2.11 Other initiatives aimed at raising the skills of procurement staff across the range of procurement activity could include:

- a) Events, such as seminars and workshops, on specific issues for staff involved in procurement.
- b) The issue of tools and best practice guides or a regularly updated website dedicated to good procurement practices.
- c) Incentives to encourage staff to train for professional qualifications in procurement, in particular those staff directly involved in procurement processes, those taking decisions or those giving procurement advice.

2.2.12 Table 2.3 provides examples of how the Governments in the United Kingdom and the Netherlands are providing structured professional development programmes to strengthen the competences of staff involved in public procurement.

2.3 Procurement policies, procedures and internal controls

2.3.1 Organisations across the public administration must ensure that their public procurement contracts and agreements are properly approved and appropriately tendered. It is therefore a good practice to have in place robust internal procurement policies and procedures that take into account National and European legal framework governing public procurement, as well as Government-wide initiatives and circulars.

Table 2.3	Examples of structured training and professional development programmes
	<p>United Kingdom: Government encourages staff involved in procurement to obtain the Chartered Institute of Purchasing and Supply (CIPS) Graduate Diploma which is the core graduate procurement qualification.</p> <p>In addition, the Office of Government Commerce has promoted the development of better procurement through the establishment of the Government Procurement Service defining a set of core competences which all procurement staff should demonstrate. It also issued a range of guidance and advice to assist their development.</p>
	<p>Netherlands: An independent professional institute, <i>De Nederlandse Vereniging voor Inkoopmanagement (NEVI)</i> provides purchasing officers with training on four competency levels and this is a recognised procurement qualification in the public administration.</p>
<p><i>Source: NAO Working Papers (2008)</i></p>	

National legal framework governing public procurement

2.3.2 The national legal framework governing public procurement (Table 2.4) was extensively revised in recent years to mirror EU procurement directives. Appendix B provides an outline of the revised legal framework and procedural requirements governing public procurement. The legal framework is based on the principles of competitive procurement, non-discrimination, confidentiality, transparency, as well as the opening of public procurement to competition from all Member States (the European Single Market).

2.3.3 Legislation allows the procuring organisations to award public contracts either on the basis of the most economically advantageous offer, or on the basis of the lowest price offered in compliance with tender specifications. Where the award is made to the most economically advantageous offer, various criteria relating to the subject matter of the contract should be taken into consideration. These include but not limited to, price, delivery date, delivery period or period of completion, running costs, cost effectiveness, quality, aesthetic and functional characteristics, technical merit, profitability, after-sales service and technical assistance.

2.3.4 Procurement legislation also provides the legal framework for innovative procurement procedures, such as competitive dialogue, framework agreements, dynamic purchasing systems, and electronic procurement (Table 2.5).

2.3.5 Public administration should be aware of, and comply with, all applicable national and European legislation when procuring goods, services or works. It must also ensure that all decisions and actions taken are within the law and that they always act fairly, reasonably and transparently.



Table 2.4	The national legal framework governing public procurement
	Financial Administration and Audit Act (Chapter 174 of the Laws of Malta)
	General Financial Regulations (Subsidiary Legislation 174.01)
	Public Contracts Regulations (174.04)
	Public Procurement of Entities operating in the Water, Energy, Transport and Postal Services Sectors Regulations (174.06)
<p align="center"><i>Source: NAO Working Papers (2009)</i></p>	

Table 2.5	Types of EU procurement procedures
	Open Procedure: Legal Notice 177/05 Reg. 24(2)
	Restricted Procedure: Legal Notice 177/05 Reg. 24(2)
	Negotiated Procedure: Legal Notice 177/05 Reg. 24(4)
	Competitive Dialogue: Legal Notice 177/05 Reg. 24(3)
	Framework Agreements: Legal Notice 177/05 Reg. 25
	E-Auctions: Legal Notice 177/05 Reg. 29
<p align="center">Dynamic Purchasing Systems: Legal Notice 177/05 Reg. 26</p>	
<p align="center"><i>Source: NAO Working Papers (2009)</i></p>	

2.3.6 Furthermore, public administration should also assess and manage potential legal risks related to, for example, contractual obligations they enter into, confidentiality, intellectual property rights and liability. Organisations should seek legal advice at an early stage when required.

2.3.7 Appropriate application of national and EU legal requirements is essential. Breaches can result in action by potential suppliers or contractors against the Contracting Authority in the Courts of Law or by the European Commission (EC) against the Member State in the European Court of Justice (ECJ).

Government-wide initiatives and circulars

2.3.8 There is a duty on public administration when procuring goods, works and services to apply the administrative regulations, directives and guidelines issued by central Government. Most of the circulars related to procurement and financial management are issued by the MFEI or through its departments (namely, DoC, the Treasury and the Financial Management and Monitoring Unit - FMMU).

2.3.9 In addition, public administration is expected to also implement procurement-related initiatives, such as innovative procurement, green public procurement and electronic procurement.

- a) According to the *National Strategy for Research and Innovation: 2007-2010* launched by Government in August 2006, public administration is expected to use procurement as a “powerful instrument” to

promote research and innovation (R&I) and adopt transparent mechanisms to reward R&I through public procurement.

- b) In 2006, Government also launched a draft national action plan to promote and achieve green public procurement across the public sector. This draft document was prepared by the Malta Environment and Planning Authority in light of Malta's environmental obligations and aspirations for sustainable development, and in a bid to encourage eco-innovation. Public administration is expected to integrate environmental criteria into all stages of their procurement process by seeking and choosing outcomes and solutions that have the least possible impact on the environment throughout their whole lifecycle.
- c) Furthermore, the EC has developed environmental criteria which can be readily introduced in tender documents for ten product or service groups considered as most suitable for green public procurement (Table 2.6). Criteria for a second set of product groups has also been compiled and will be proposed for formal endorsement by Member States in the second half of 2009.

Internal policies and procedures

2.3.10 Apart from the applicable legislation, as well as central Government's directives and guidelines, individual organisations within the public administration need to also establish their own set of formal rules and controls to ensure good governance, accountability, transparency, fairness, lawfulness, integrity and value for money.

2.3.11 A procurement function cannot operate successfully in a policy vacuum and organisations must ensure that sound, well-thought policies and procedures are internally formulated, documented, and applied sensibly and consistently at all levels of the organisation.

2.3.12 Individual organisations can develop an internal procurement manual, guidelines, standard operating procedures (SOPs), together with the relevant process maps, flowcharts, templates and standard forms. This set of documentation should set out clearly the main common steps involved in conducting a procurement process and in choosing the appropriate procedure.

2.3.13 The SOPs should also set out the responsibilities of each authorising officer and indicate the cases where particularly important variations in the internal procedures can occur. These documented procedures should also be comprehensive and regularly reviewed to reflect new developments.

2.3.14 Table 2.7 gives some illustrative examples of procedures and guidelines that can be used to enhance the internal management and control of procurement within an organisation. Reference should also be made to the *Guidelines for Internal Control Standards for the Public Sector* published by the International Organisation of Supreme Audit Institutions (INTOSAI), as well as the *Enterprise Risk Management – Integrated Framework* (for internal control) issued by the Committee on Sponsoring Organisations of the Treadway Commission (COSO).

2.3.15 Moreover, organisations should also incorporate in a procurement manual their code of ethics related to procurement. The code of ethics should cover matters such as the conduct of staff when dealing with suppliers (including corporate entertainment, gifts and other inducements) and reflect the principles outlined in the *Code of Ethics for Employees in the Public Sector* issued by the Management and Personnel Office within the Office of the Prime Minister (OPM). Overall, the documented code of ethics should be used during procurement activity as a key reference document to ensure integrity, openness and fairness when procuring goods, works and services.

Table 2.6	First group of products and services for which environmental criteria was developed by the European Commission	
	Copying and graphic paper	Office IT equipment
	Transport	Cleaning products and services
	Electricity	Food and catering services
	Gardening products and services	Construction
	Furniture	Textiles
<i>Source: European Commission (2009), DoC (2009)</i>		

Table 2.7	Examples of procedures and guidelines that can be used to enhance the internal management and control of procurement within an organisation in the public administration
	Documented rules, process maps and flowcharts on processes to be implemented for orders within different categories and specified value thresholds to ensure compliance with relevant legislation and applicable government circulars, as well as integrity and value for money.
	Clear delegated authorities and roles for ordering goods, works and services, including appropriate segregation of duties and sufficient level of control. This often relates to the monetary size of the purchase and its relation to operations.
	Procedures and proper documentary forms related to a planned purchasing action, including the determination and authorisation of internal requirements (such as product specifications, quantities and delivery requirements), the analysis of potential suppliers and markets, and the development of an appropriate procurement strategy.
	A systematic, fair and transparent approach for tender preparation, evaluation and supplier selection in order to ensure value for money and optimal matching of supplier offer with requirements. This includes the development of standard templates and supporting documentary forms.
	A standard approach to contracts and contract management to ensure savings in time spent drawing up contracts, avoidance of poor quality contracts, as well as effective control and risk management. Internal rules should also be established to ensure adequate follow-up action and to deal with potential variations. Moreover, the procedures should ensure that sufficient verification of delivered goods and services is made before payment to suppliers is approved and processed.
	Clear guidance on ethics and the proper conduct of relationships with suppliers to ensure integrity, propriety and value for money in procurement.
	Procedures and proper documentary forms concerning financial settlement of invoices in terms of the purchasing agreements, including the monitoring of any continuing warranties and release of guarantee funds.
	A systematic approach for inventory management, replenishment of stock items and disposal of assets. This includes having in place established procedures for pre-determining stocking levels for individual items, as well as the generation of purchase order requirements as the stock level reaches the given minimal point.
	Documented processes to monitor procurement expenditure, as well as to ensure that spend is within budget, that funds were appropriately used, and procedures are complied with.

Source: NAO Working Papers (2009)

2.3.16 In addition, organisations should also ensure that their internal policies, procedures, specifications and processes are non-discriminate, fair and transparent. For example, attention should be given to ensuring that procurement policies do not discourage or deter new or small suppliers from competing successfully for government business. Organisations should also take steps to remove any identified barriers that are hindering competition.

2.3.17 Different procedural options can also be adopted by a procuring organisation when approaching markets to ensure value for money.

- a) For example, in the case of low risk products, works or services (such as items with common standards and no special quality, safety, reliability or environmental implications) the procurement procedures should be documented and kept relatively simple to minimise procurement and transaction costs. Procurement for low risk items can also be aggregated, including setting up standing offer arrangements with electronic ordering and transaction processes (for example, booking travel).

b) In the case of high risk items (such as high-tech medical or military equipment) procedures should take into consideration that there are often very few potential suppliers, price may not be the principal factor in the procurement, and the required items are critical to the service delivery of an organisation.

2.3.18 As part of the analysis, NAO asked the twelve case studies whether they developed and maintained internally-generated documented policies and procedures related to procurement, apart from the rules established through Government circulars and legislation.

2.3.19 A number of participating organisations reported that they generate complementary internal procedures including *ad hoc* documents and circulars outlining specific steps to be followed in their organisations. Others indicated that they rely mainly on the General Financial Regulations to guide them in their procurement activities. In addition, a few organisations reported that they were in the process of reviewing and updating internal procedures in order to ensure that these reflect current procurement needs and changes to public procurement regulations.

2.3.20 NAO also discussed with the twelve participating organisations their priorities when ensuring compliance with established policies and procedures, apart from external auditing.

a) In most cases, the management of these organisations reported that their main focus is ascertaining that all the necessary procurement procedures are followed. Action can include ensuring that a minimum number of quotes are obtained prior to making a purchase or undertaking random spot checks to ensure compliance. Management of these organisations also mentioned that checking required approvals or authorisations prior to ordering of items and payment of invoices is another

measure of control. Nonetheless, NAO observed that in most cases these control procedures are not officially documented and therefore there is risk of inconsistent or irregular application.

b) Furthermore, a number of participating organisations, in particular regulatory bodies, indicated that they appoint special committees to oversee the adequate management of major purchases.

c) It was also observed from these interviews that there is a general underlying need for increased systematic internal audit activity on procurement processes across public administration. This is important in order to complement management checks and provide greater independent assurance on whether procedures are adequate, well-documented, periodically reviewed, and consistently applied.

2.3.21 Organisations can face higher risks inherent to the management of public procurement if internal formal policies, procedures and control mechanisms are not in place or are insufficiently documented (Table 2.8). Organisations across the public administration should be aware of these risks and put in place robust measures to guard against such risks and malpractices.

2.3.22 Policies and procedures are also more effective when they are up to date and easily available to all staff who need to access them. Organisations should, therefore, also adopt a process of regularly reviewing the internal policies and procedures, together with assigning responsibility for updating them and ensuring that the latest version is used.

2.3.23 In order to ensure a systematic process-based approach, as well as effective review and continuous improvement, organisations can also apply structures and criteria developed by recognised institutions, such as the


Table 2.8	Risks arising from a lack of effective internal formal policies, procedures and control mechanisms
	Duplication of effort and inconsistency leading to inefficiency.
	Costly delays due to lengthy processing in the absence of established procedures or ambiguous work practices.
	Waste due to wrong or inconsistent decisions.
	Failure to comply with procurement regulations due to staff being unaware of what is required of them.
	Misappropriation of funds.
	Illegal collusion with suppliers.
	Fraud.
<i>Source: NAO Working Papers (2009)</i>	

Table 2.9	Criteria showing the different levels of maturity of a system (adapted from EN ISO 9004:2000)
No formal approach	The approach is unsystematic. Results are unpredictable or poor. Data on improvements is unavailable.
Reactive approach	The approach is systematic but oriented towards problem-solving or corrective action. Minimum data is kept on improvement results.
Stable formal system approach	The approach is systematic and process-based. The organisation has basic systems for systematic improvement, including information on improvement trends and data on conformance to objectives.
Continual improvement emphasised	The approach is systematic with improvement processes in place. At this level of maturity, the organisation achieves good results and sustained improvement trends in their systems.
Best-in-class performance	The approach represents a strongly integrated improvement process. The organisation can demonstrate best-in-class benchmarked results.
<i>Source: NAO Working Papers (2009)</i>	

International Organisation for Standardization (Table 2.9) and the Chartered Institute of Purchasing and Supply, to guide the process. The organisations can also carry out periodic self-assessments and benchmarking exercises of procurement systems and procedures to identify areas for improvement (refer to Section 4.1 in Chapter 4).

2.4 Planning of procurement requirements

2.4.1 The increasing complexity of public procurement, the importance of managing suppliers, as well as the need to ensure value for money, all underscore the need of a

timely and well-thought procurement planning process for all commercial activity within an organisation (Table 2.10).

2.4.2 In addition, adopting a strategic approach to procurement is important as it gives answers to the question whether the procurement function is ‘fit for purpose’ (in terms of strategy, capability and resources) to cope with the planned activity, risk and potential cost-saving opportunities. This includes developing a specific procurement strategy document that is endorsed by senior management. Table 2.11 highlights the key features of a good procurement strategy.

Table 2.10	Benefits of early planning for procurement requirements
<ul style="list-style-type: none"> • Purchases can be aggregated to obtain greater bargaining power and reasonable prices. • Markets are well researched on the latest technological innovations. • A sufficiently detailed business case is prepared, including evaluations on whole life costs. • Clear and unambiguous contract specifications for the procured items are compiled. • Supplied items are tailored to the needs of the procuring organisation. • Sufficient time is given to put in place well-thought risk management measures covering specifications through to delivery and successful implementation. • Sufficient supplier performance monitoring arrangements are put in place to ensure value for money. 	
<i>Source: NAO Working Papers (2009)</i>	

Table 2.11	Key features of a clear procurement strategy
<p>The procurement strategy should include:</p> <ul style="list-style-type: none"> • The general procurement principles, policies and methods as well as issues of good governance, corporate social responsibility (including sustainability) and risk management. • Updated information on the procurement activities of the organisation. • The strategic corporate objectives of the organisation, the business outcomes being sought, and their relevance to procurement activities. • An analysis of the key goods, works and services required by the organisation, as well as details of their cost. • An assessment of the way in which the required goods and services are to be procured, highlighting differences in the scale, complexity, inherent risk and value. • Details of buying arrangements and terms to be adopted. • Information on the current contracts with renewal/replacement dates. • An evaluation of the performance of key suppliers and how this can be improved, including areas where there is scope for improved relations, less dependency, innovative approaches and price reductions. <p>The procurement strategy should also consider:</p> <ul style="list-style-type: none"> • The structure and performance of the procurement function within the organisation. • The tools and resources to be deployed to support the procurement processes (for example, electronic procurement). • The extent to which professional staff are to be involved in procurement. • The ways of how professional expertise is to be further developed. • Areas where more action can be taken to further develop procurement capabilities, reduce risks or improve value for money/quality of service (for example, targets for the reduction of internal procurement processing costs). 	
<p><i>Source: National Audit Office and Office of Government Commerce (UK), Getting value for money from procurement: how auditors can help (2001); Audit Commission (UK) Competitive Procurement (2002)</i></p>	

2.4.3 Furthermore, as many strategic decisions taken by the public administration have procurement implications, it is essential that procurement expertise is involved at the outset of any major decision or project and there is clear ownership. This does not only mean creating a procurement strategy but also involving the right people at the right level on key strategic decisions affecting the delivery of public services.

2.4.4 In the private sector companies consulted by NAO, the value of a strategic approach to procurement was evident. As procurement can have a significant impact on profits, these companies frequently review their performance, expect regular reports, discuss at strategic level how procurement decisions feature in the delivery

of major projects and programmes, as well as periodically re-examine their long-term relationships with key suppliers.

2.4.5 A degree of planning for procurement requirements was reported to be carried out by all the twelve organisations from the public administration that were interviewed for this study. However, none of the organisations indicated that they prepare detailed procurement strategies as defined in Table 2.11.

2.4.6 In most cases, the organisations reported that planning activities were mainly focused on preparing yearly budgets showing projections on recurrent and capital expenditure. Moreover, some of the interviewed

organisations indicated that procurement priorities were also taken into consideration, in some form or another, in their standard business planning processes.

2.4.7 Based on the feedback received from these interviews, it is evident that:

- a) There is scope for greater importance to be given to the strategic planning of procurement requirements, including setting out the corporate objectives for procurement and linking these directly with the business outcomes that an organisation is seeking to achieve.
- b) The development and updating of a procurement strategy can make the role of procurement more visible across its many constituent parts, provide clarity on how procurement will be undertaken, and highlight areas where more action can be taken.

2.5 Use of electronic methods in procurement

2.5.1 Use of electronic methods in the procurement process (also referred to as electronic procurement), when implemented effectively in every stage of the purchasing process, can offer a return on investment. This is especially so if electronic procurement supports delivery and modernisation of core business, from identification of requirement through to payment, and potentially to contract management (Figure 2.1).

2.5.2 Potential benefits of electronic procurement can include savings in administrative costs and overheads, increased efficiency and control of procurement activities, reduced costs for suppliers dealing with Government, as well as greater transparency.

2.5.3 Broadly, electronic procurement methods relate to the following two aspects of public procurement, namely *sourcing activity* and *transactional purchasing*.

- a) Sourcing activity: Electronic tools and systems used during sourcing activity can include supplier databases, electronic publication, electronic tendering and auctioning, as well as other electronic methods to evaluate, collaborate, negotiate and support contract management activity. An example of the electronic tools used in the United Kingdom for sourcing activity is outlined in Appendix D.
- b) Transactional purchasing: Electronic approaches deployed in transactional purchasing can include seamless purchase-to-pay systems that allow online trading and transactions between buyer and supplier (Table 2.12), purchasing cards and electronic invoicing solutions.

2.5.4 Implementing electronic procurement solutions requires up-front investment of time and money. Purchasing the required applications, allocating and training staff on the new procedures, change management and supplier engagement, all form part of that investment.

2.5.5 To achieve the go-ahead for this commitment and expenditure, a business case needs to be developed. This must demonstrate that the projected value of the benefits from the investment in electronic procurement makes the costs worthwhile. Benefits can include both financial and less tangible gains. The business case needs to accurately define the current purchasing processes, operations and costs and compare them with an electronic procurement environment. To do this, an analysis of existing expenditure and processes is necessary (refer to sections 3.3 in Chapter 3 and 4.1 in Chapter 4).

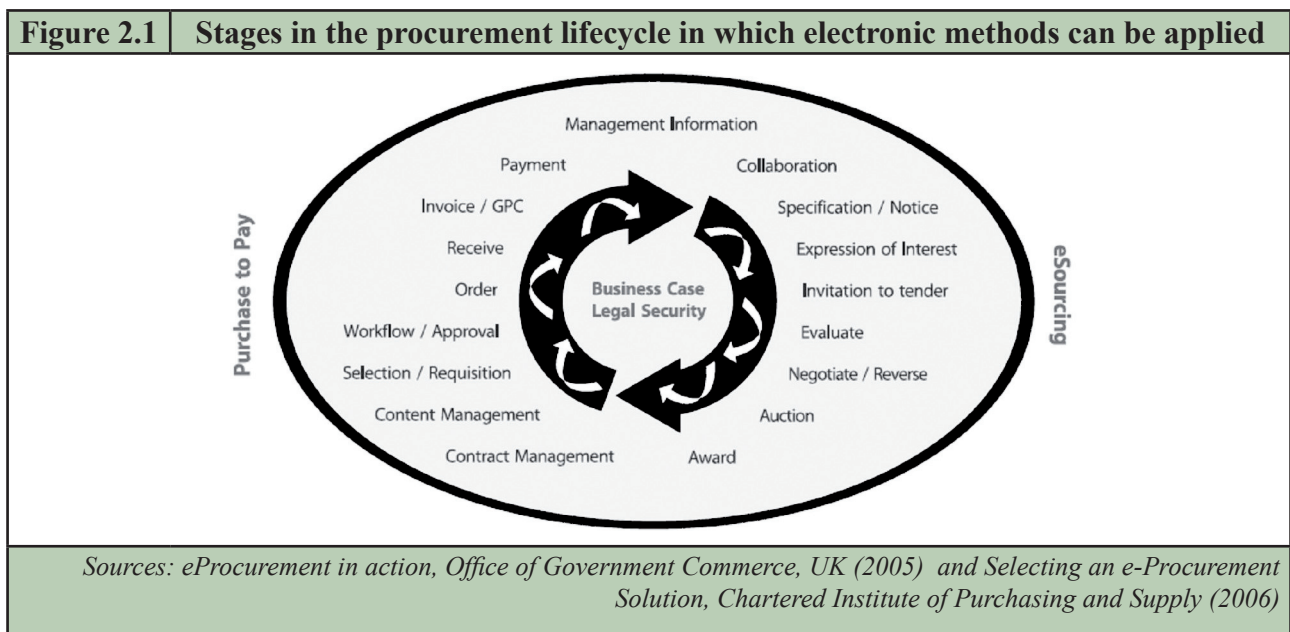



Table 2.12	Purchase-to-pay Systems (P2P)
	<p><i>Purchase-to-pay</i> systems include:</p> <ul style="list-style-type: none"> • Buy-side systems: Applications provided by an organisation to its employees to streamline the internal workflow associated with procurement and to assist staff to locate and procure goods and services electronically. • Marketplaces hosted on the internet where many buyers and suppliers can trade online. • Sell-side solutions or suppliers' own web shops. <p>These tools offer a variety of functions to support transactional purchasing, such as electronic catalogues, electronic Requests For Quotations, shopping basket, electronic checkout, electronic invoicing and payment, as well as any follow up activity in the event of error, such as electronic credit notes and returns handling.</p> <p>Implementing a comprehensive P2P system can free up significant amounts of staff time, improve internal efficiency, and reduce order error rates.</p>
<p><i>Source: eProcurement in Action, Office of Government Commerce, UK (2005)</i></p>	

2.5.6 When implementing electronic procurement systems organisations across the public administration must also ensure that any associated new procedures adhere to the legal and policy obligations that govern all public procurement (refer to section 2.3 in Chapter 2). They must also take into consideration key issues such as data protection, system interoperability and online security.

2.5.7 Furthermore, implementing electronic procurement requires consultation with an organisation's suppliers in order to ensure that their ICT capabilities sufficiently meet requirements and that any critical obstacles to electronic commerce are addressed. Sustained interest amongst suppliers should also be generated through promotional activities in order to ensure that a sufficient number sign up to the system and full utilisation is made of the offered functionalities.

2.5.8 The development of electronic procurement methods by organisations across the public administration is driven by the Government's National ICT Strategy 2008-2010 (*The Smart Island Strategy*). The Malta Information Technology Agency (MITA) is responsible for implementing the national programme. This includes the development of new electronic government services and applications as well as the management and upgrading of critical ICT infrastructures (such as the electronic identity for individuals and organisations and the Government's Payment Gateway).

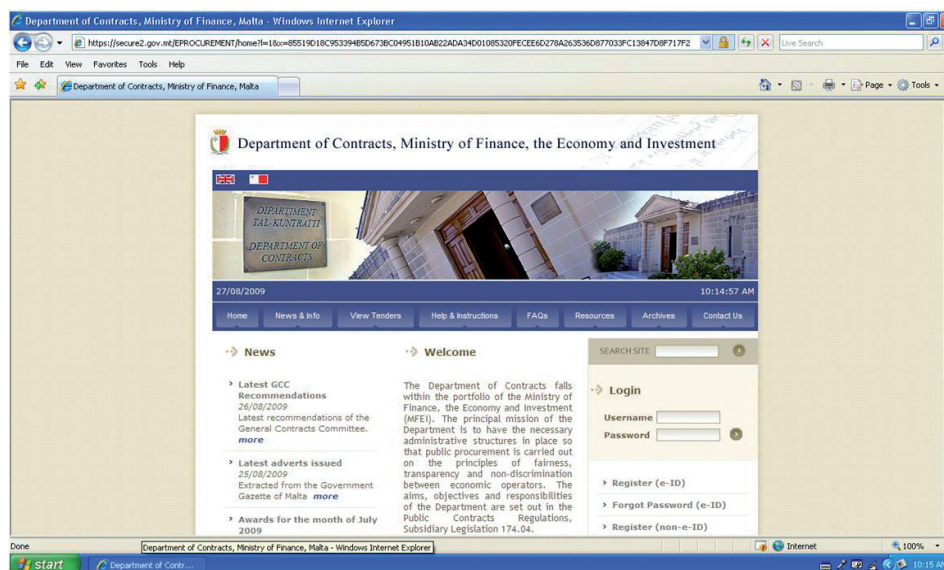
2.5.9 Electronic procurement initiatives are also closely linked to Malta's commitments in this area as an EU Member State:

- The EU is promoting further increased opportunities for electronic procurement as a means of opening and expanding the Internal Market, as well as achieving greater efficiency in procurement and improved governance.
- The EC anticipates that in the long term electronic procurement practices will greatly influence the way national public procurement practices are organised, including the re-engineering of administrative practices linked to procurement processes.
- The Commission also favours a phased development approach to electronic procurement with Member States being left free to decide on which type of procurement processes are to be automated, as well as the systems and tools to be used.

2.5.10 In 2009, DoC launched new electronic procurement services which include a procurement management system and a new website. Table 2.13 highlights the main features of these new electronic procurement services.

Table 2.13

New e-procurement management system and website of the Department of Contracts



The DoC, in January 2009, increased the online services offered through its website to potential suppliers and to all other parties requiring information or services related to public procurement.

Users can view and download through this website, without the need to register or log in, information and any relevant documentation, including:

- Circulars issued by the DoC.
- Explanatory notes and guidance on public procurement.
- Tender document templates.
- Published calls for tenders, including archived calls for tenders.
- A preview of the tender document prior to purchase (including clarifications and lot details).
- Details of clarification meetings with interested parties.
- Tender schedules and summary of tenders received by the DoC.
- Recommendations of the General Contracts Committee (GCC).
- Details of awarded tenders.
- Information on any objections or questions raised for each tender.

Moreover, the website offers a secure, single-point-of-entry for online services, including the opportunity to:

- Purchase and download a complete tender document.
- Receive alerts through email and/or SMS regarding new calls for tender, new clarifications/notifications issued by the Department, as well as developments on submitted tenders.
- Register online attendance to any scheduled site visits and/or clarification meetings.
- Post online questions to the DoC.

Source: Department of Contracts (2009)

2.5.11 Furthermore, the Department of Information (DOI) within OPM provides details of all published tenders and sends email notifications of calls for tenders issued by Government departments, the Department of Contracts, Local Councils and Government Corporations. Information through this website can be accessed by selecting the official publication date. However, the website does not provide for the downloading of tender documents but gives directions to the prospective bidder on how the tender documents can be obtained. Apart from this facility, some individual Government-run organisations also post their calls for tenders on their corporate websites.

2.5.12 Since 2004, Government has also been administering a website for electronic procurement of IT desktop equipment costing less than €5,823. The website offers opportunities to purchasing officers across the public administration to procure hardware from authorised ICT suppliers vetted by MITA. Its main functionalities include: registration of authorised suppliers, the publication of tenders or requests for quotations, electronic submission of quotations by suppliers, approval and evaluation processes, status reporting and search facilities.

Table 2.14

Illustrative examples of accounting and stock control applications across the public administration

Public administration uses various accounting and stock control applications to provide some level of automation to their procurement processes, including:

- a) The main financial accounting system used within Government is the *Departmental Accounting System (DAS)*. The application provides for the posting of all transactions related to procurement and is based on a SAGE product. Government has plans to replace the DAS.
- b) A number of organisations make use of other SAGE products such as *SAGE Line 100, Line 50, Enterprise, Pastel, Pastel Partner, and Pastel Evolution*.
- c) Government-run schools make use of the *School Information System*, an information system which incorporates modules for budgeting and financial accounts.
- d) Other organisations have installed accounting and stock control applications that form part of a suite of commercially available business packages to support their procurement processes. These include:
 - (i) *Access Accounts*: This is a modular system of *Access Dimensions*, used by certain organisations. *Access Accounts* includes an inventory management module which is integrated into the financial control aspects of the system. The software provides opportunities for extracting information on items and their prices, the type and quantity of items held in stores, as well as usage by departments.
 - (ii) *Shireburn Business Suite*: This locally-developed system consists of a number of products including the *Financial Manager* and the *Inventory Manager*. The products adopt a modular approach and can integrate with one another.
- e) Furthermore, a number of organisations use Microsoft Excel databases, *StoreIT* or *Stock Ledger* for stock control purposes:
 - (i) *Microsoft Excel databases* are used to keep track of purchase requisitions raised by user departments and to record tenders, award decisions and fixed assets held on premises.
 - (ii) *StoreIT* was designed specifically for use in the public service. The development language and the database used for this application are nowadays considered to be obsolete and there are plans to replace *StoreIT* as part of the DAS replacement project. The application has the facility to maintain a database of suppliers and prices, as well as information on items that are received, stored and released.
 - (iii) *Stock Ledger* is intended to provide a simpler electronic solution to organisations that do not use the *StoreIT* application. It offers basic functionality to record stock movements and was designed for a single user mode. The application uses an Access database.

Source: *eProcurement Implementation Task Force: Strategy for the Implementation of eProcurement in the Public Sector Ministry of Finance (July 2007), NAO Working Paper (2009)*

2.5.13 Moreover, since 2004, the Government Pharmaceutical Services (GPS) has provided electronic procurement services through the website of the Ministry responsible for Health. The website includes the publication of requests for quotation and tenders below €47,000, as well as schedules with details of recommended bidders and awarded departmental tenders. It also offers prospective bidders the opportunity to receive email alerts on changes to tenders, quotations and notices.

2.5.14 A number of Government-owned entities, such as Enemalta Corporation, MMA and MITA also allow prospective bidders to download/purchase online tender.

2.5.15 Across the public administration, organisations also use accounting and stock control applications to provide some level of automation to their procurement processes (Table 2.14). These include systems designed specifically for the public administration as well as commercially available applications that can be purchased ‘off the shelf’.

2.5.16 All the twelve case studies interviewed by NAO reported to use forms of electronic methods to support their procurement processes (mainly those outlined in Table 2.14). Some also reported that they generate electronic purchase requisitions to facilitate internal processing. Online tendering for higher value purchases is done through the DoC (refer to Table 2.13).

2.5.17 Overall, NAO noted that none of the twelve organisations had in place electronic systems that cover all the key stages of a comprehensive electronic procurement lifecycle as defined in Figure 2.1.

2.5.18 NAO recommends that public administration gives greater consideration to the use of electronic methods in procurement in order to ensure having a complete set of automated electronic systems embedded in their organisations for regular use across the full range of procurement activities.

2.5.19 There are key areas where public administration can further exploit technology to their advantage.

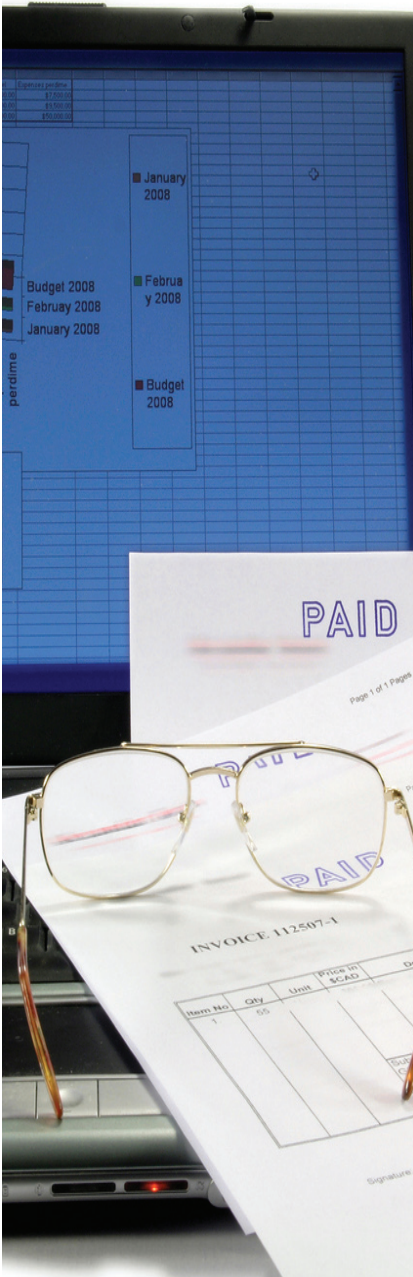
This includes having reliable and sufficiently detailed management information systems about products, suppliers and prices, as well as using intelligent stock management systems to identify instances of excessive or insufficient stock levels (discussed in greater detail in Section 3.2 in Chapter 3).

2.5.20 Investment and application of technology in procurement should also be complemented with wide radical changes in business processes, a drive to introduce a broader framework of good procurement practices, and changes in the attitude of the people who operate them. These changes are essential to improve efficiency and reduce costs, as well as simplify and speed up all stages of procurement (discussed in Section 4.1 in Chapter 4).

2.6 Overall conclusions

2.6.1 NAO, in identifying opportunities for enhanced planning and control, adequate resourcing, as well as the development of the procurement function, concluded that there is significant scope for the general strengthening of procurement capabilities of organisations in the local public administration. A robust procurement function enables an organisation to better identify requirements for goods and services, as well as to take sounder and swifter purchasing decisions.

2.6.2 Action to consolidate and strengthen the structure and resources of the procurement function in an organisation requires top management (or Board level) commitment and support. Such involvement includes giving a clear direction from the top about the importance they attach to procurement in delivering an organisation’s objectives; actively supporting the procurement function; endorsing top level procurement strategies; ensuring a clear procurement framework aligned with good practice; as well as monitoring performance and cost savings. Placing emphasis on these issues highlights the strategic importance of the procurement function, apart from its role in providing technical and administrative support to business operations.



Chapter 3

Information Management and Monitoring

Chapter 3 – Information Management and Monitoring

Chapter 3 focuses on the use of stock management systems by organisations across the public administration. It also covers practices related to the collection and use of data on procured items and on levels of consumption, as well as the type of information kept on suppliers and the level of monitoring of suppliers' performance. Moreover, this Chapter explores the possibility of information-sharing on procurement across the public administration.

3.1 Why is sound information management and monitoring critical in procurement?

3.1.1 Comprehensive and reliable procurement information systems and robust monitoring mechanisms are valuable for an organisation to help it take informed decisions on how much to spend, what is really required, when to buy, from which suppliers and the potential value for money options of different procurement routes. Having sufficient information of how supply markets for specific goods and services are organised is also essential in order to assess the level of competition that can be attracted and to adjust contract strategies accordingly.

3.1.2 Procurement is rarely a static activity due to changes in the market and supply chains, developments in technology, new demands for products and services, likely increases or decreases in procurement spend, as well as alternative ways for delivering services. Information on procurement activities, therefore, needs to be regularly updated and reviewed.

3.1.3 Moreover, procurement activities should be regularly monitored, reviewed and audited to help identify areas of high risk, as well as to determine where there is need for improvement, increased efficiency, better value for money and the achievement of targeted improvements (refer to Section 4.1 in Chapter 4).

3.1.4 A reliable and cost-effective management information system requires the use of electronic tools to collect the relevant data on procurement activity (Section 2.5 in Chapter 2 discussed the use of IT applications, including accounting and stock management software). A key challenge for organisations lies on:

- a) How to routinely extract and analyse key data from these systems.
- b) How to produce regular reports on what the organisation is buying and the volumes involved.
- c) Why and how such purchases are being made.
- d) Who are the key suppliers.
- e) What contractual commitments have been entered into.
- f) How much the organisation is spending in each broad category of purchase, including any procurement that falls outside organised arrangements.

3.1.5 Such data can also be used to exploit buying power opportunities, to review the performance of suppliers and to manage them proactively.

3.2 Inventory management system

3.2.1 Organisations across the public administration are expected to keep accurate, complete and up-to-date inventory management systems.

3.2.2 Essential to the effectiveness of inventory control is the implementation of an intelligent inventory management system which ensures that:

- a) Inventories are available to meet the needs of ongoing activities.

- b) Excessive or insufficient stock levels are avoided
- c) The level of funds tied up in inventory and storage costs are minimised.
- d) Good internal inventory control is in place to reduce loss through damage, deterioration or theft.

3.2.3 Inventory systems usually fall into one of two types, namely:

- a) *Perpetual systems*, through which inventory records are updated upon each movement in inventories (for example, receipt, consumption or disposal of items).
- b) *Periodic systems*, through which information on the level of goods held is obtained through data received from periodic stocktake. Periodic systems are usually only relevant for slow-moving or a small number of items.

3.2.4 Where the level of inventories is significant or there are significant movements in inventories, it may be desirable for the inventory system to be computerised and interfaced to the purchasing, accounts payable and receivable systems (for example using *SAGE* or *Access Dimensions* referred to in Section 2.5 in Chapter 2). This approach will assist in ensuring that all inventory movements are reflected in the general ledger. As a check, the inventory system should be regularly reconciled to the general ledger.

3.2.5 Whatever system is adopted, diligent recording and reconciliation of movements and changes in the state of items, as well as proper control procedures, are essential to keep track of inventory items and ensure that the balances held in the inventory systems are accurate.

3.2.6 Organisations should also have in place a programme of regular stocktake.

- a) It is advisable that the majority (by value) of inventory items are covered by an annual stocktake at the period end. Where entities hold significant balances of inventory, it may be more appropriate to develop a cyclical stock programme, whereby inventory items are counted on a regular basis (with the majority counted each year), but not necessarily all at the period end.
- b) Either way, it is important that all discrepancies identified during stocktaking are recorded accordingly and appropriate action is taken. For low value discrepancies, management may decide that limited action, if any, is required. However, recording the discrepancies will help identify trends and allow future action, as appropriate, to limit losses. Management should also consider the risk of fraud in such cases.

3.2.7 Furthermore, organisations across the public administration can adopt other good practice initiatives to continuously improve their inventory management. These include:

- a) Setting targets for reducing stock to drive down surplus items which are a drain on resources.
- b) Systematic inventory reviews, including analysing high value and slow-moving items to identify surplus stocks, or carrying out timely reviews of requirements by internal users to determine which items in stock are surplus and need to be disposed.
- c) Transferring stock management risks to suppliers, when this is found to be cheaper than the cost of holding stock. For example, just-in-time inventory models (JIT) can be used to avoid excess inventory and its associated costs. As a result, organisations receive replenishments only when the need for more stock is approaching.

3.2.8 A number of measures were reported to be used by the twelve participating organisations to manage inventories, albeit to varying extents and frequency. These included:

- a) Use of special forms to record receipt and movement of items.
- b) Keeping electronic and/or manual records of movement of goods including registration of items received, released or disposed of.
- c) Reconciling the stores information system with the accounting system.
- d) Generating regular reports (e.g. monthly or yearly) on consumption of particular items.
- e) Establishing minimum stock levels.
- f) Physical checks of stock.
- g) Random spot checks.
- h) Updating of inventory lists including details of the location of assets.

3.2.9 For the purposes of this study, NAO's evaluation was limited to assessing the importance being given and the practices being used by the twelve case studies to maintaining an appropriate inventory management system and did not assess the reliability and completeness of records kept in the inventory management systems of the organisations.

3.2.10 Nevertheless, it was possible to conclude from the discussions held with the organisations that, across the public administration, there is no consistent formal approach to inventory management. Organisations have adopted different practices and methods to plan for and manage inventories. Systems in place vary in their degree of maturity, completeness and consistency, with some adopting a more systematic approach, while others reported to use *ad hoc* or reactive methods to address specific concerns.

3.3 Spend analysis, market intelligence and monitoring of suppliers' performance

3.3.1 Organisations across the public administration require reliable and timely information on their procurement spend; well-maintained records on existing suppliers' performance; as well as sufficient market and supplier intelligence. This information is vital for effective management of procurement activities, as well as for the appropriate planning of procurement requirements (discussed in section 2.4 in Chapter 2).

3.3.2 Without sufficient intelligence and information on spend, markets, options and suppliers, organisations risk uncoordinated procurement, inappropriate buying arrangements and poor value for money.

Spend analysis

3.3.3 Spend analysis is a tool that provides knowledge about how much is being spent; with whom and on what







goods and services; and on the frequency of such purchases. It also provides opportunities of where to save money, reduce purchasing costs and increase efficiency.

3.3.4 Spend analysis is important to keep under review the volume of procurement, to benchmark prices paid for key items, avoid unnecessary purchases, as well as to identify inappropriate buying arrangements. Where purchases represent a significant source of business to a supplier, spend analysis can also be used to take advantage of buying power by using such information to negotiate better deals with suppliers.

3.3.5 Moreover, spend analysis is essential when developing a comprehensive procurement strategy for the organisation, for determining the likely future demand for products and services, and for ensuring sustainable development (refer to section 2.4 in Chapter 2).

3.3.6 Implementing spend analysis is challenging and can take time, especially if simplified data does not exist or is not easily available. However, its potential to easily identify significant benefits and opportunities in public procurement is significant. Organisations can use a number of practices involving automating, extracting, supplementing, organising and analysing procurement data to carry out thorough spend analysis (Table 3.1).

3.3.7 Establishing the foundations for a thorough spend analysis involves creating an automated information system for compiling spending data. The system should be able to routinely extract data from other systems within an organisation. The data is then automatically compiled

Table 3.1		Spend Analysis: Best Practices	
	Automation: Data on procurement is automatically compiled through information systems.		
	Extraction: Essential data is collected from accounts payable and other internal systems.		
	Supplemental information: Additional data is sought from other internal and external sources.		
	Organisation: Data is reviewed to ensure accuracy and completeness, and is organised in a logical and comprehensive format covering different categories of products, services and suppliers.		
	Analysis and strategic goals: Standard reporting and analytical tools are used to analyse data on a continual basis to support decisions on procurement management. The data is used to institute a series of structural, process and role changes aimed at moving away from a fragmented procurement process to a more efficient and effective system.		
<p><i>Source: Best Practices using Spend Analysis to help Agencies take a more strategic approach to procurement, Government Accountability Office, USA (2004)</i></p>			

into a central data warehouse or a spreadsheet application, which is continually updated.

3.3.8 For spend analysis to be effective, data files must be accurate, complete, and consistent. Steps should also be taken to standardise the data in the same format, including, for example, the creation of uniform purchasing codes. Furthermore, the data can be organised into comprehensive categories and sub-categories of suppliers and goods that cover all of the organisation's purchases. Information from the compiled data can then be accessed and analysed on an ongoing basis, using standard reporting and analytical tools.

3.3.9 The twelve organisations interviewed by NAO for this report indicated that they mainly rely on their finance systems and reporting for procurement information (including the compilation of management accounts and periodic comparisons with budgetary allocations). This approach means that the organisations can easily extract information about who has been paid, how much and under which expenditure heading.

3.3.10 In parallel, the organisations reported that they keep filed documentation with information related to spend. Documents in these files can include copies of internal requisitions, quotations, purchase orders, delivery notes, invoices and internally generated documents.

3.3.11 Moreover, some organisations keep and monitor data on the consumption of specific items. Examples include the monitoring of paper consumption by the Inland Revenue Department, or the procurement of food for immigrants' open centres by AFM. Other organisations examine records of past purchases prior to issuing a purchase order for a particular item in order to avoid unnecessary or double purchases. Moreover, a few use inventory management software and customised spreadsheets to maintain electronic records on quantities ordered and prices, as well as on internal consumption (refer to section 2.5 in Chapter 2).

3.3.12 However, in most of the case studies, structured information such as what has been bought and in what volumes was indicated to be more difficult to extract. Although the information is available from different sources, the organisations are not well placed to organise the data in a format that can be used to easily and regularly evaluate procurement spend.

3.3.13 Overall, it appears that the practice of routinely organising, analysing and reporting on procurement spend is not well established across the public administration and there is scope for further development in this area. Without regular and indepth spend analysis embedded within procurement management information systems it is difficult

for organisations to determine where value for money improvements can be made and where efforts have led to tangible benefits. The quality and depth of available spend information can also influence the ability of organisations to undertake cost reduction initiatives (refer to section 4.1 in Chapter 4).

3.3.14 NAO recommends that procurement functions across the public administration periodically undertake a comprehensive spend analysis and that this assessment should go into the spend by category, by business unit and by supplier. It should also be done in conjunction with a thorough analysis on current sourcing strategies and policies by category area.


Information on supplier performance

3.3.15 Supplier management is a considerable responsibility. To effectively manage relationships with suppliers, it is important that organisations maintain relevant, easily accessible and up-to-date records of their main suppliers. The organisations should also use this information to manage and monitor suppliers proactively and ensure that they are delivering what they were contracted to deliver in terms of quality, price and reliability. The information can also be used as market intelligence for future supplier selection.

3.3.16 Supplier profiles could be kept in databases and master vendor files and include critical information on each key supplier (Table 3.2). Furthermore, supplier profiles can be enhanced through information gathered via monitoring systems put in place to measure the performance of key suppliers.

3.3.17 For example, organisations can develop indicators that track supplier performance and systematically generate quantifiable and comparable information. The performance measures can cover key categories (such as quality, cost, delivery, development and management) and these are evaluated and reported periodically to suppliers for any required follow-up action. Such a structured approach can enable procuring organisations to proactively manage the performance of suppliers and compare their performance over time.

3.3.18 In addition, a register of contracts entered into by an organisation should also be maintained. Information that can be kept on contracts can include contact details of the supplier, essential details of each contract (including expiry and renewal information), documentation related to the calls for expression of interests and calls for tenders, details of quoted prices and proposals underpinning the awarded contract, any special conditions, as well as updated information on volumes and spend against the contract.

Table 3.2	Details that can be included in supplier profiles
	Basic company and contact details
	Records of spend by product and service
	Details of all contracts entered into with the supplier, including confidentiality agreements
	History of critical issues raised with the supplier (for example, a document trail showing complaints raised by user departments and follow-up action taken to address such issues)
	Financial information, including financial capability
	Supplier assessments, including information on the supplier's position against competitors with respect to quality, quantity, price, latest offers, delivery conditions and reliability
	Performance information on delivered contracts, including key performance indicators and records on the level of general satisfaction with the performance of the supplier
<i>Source: NAO Working Papers (2009)</i>	

3.3.19 The twelve organisations interviewed by NAO reported that although they do not compile detailed and complete profiles on their main suppliers, they keep key basic information using different methods. This includes keeping information on the name of the suppliers, contact details, bank details, related financial data, copies of major suppliers' Memorandum of Articles, as well as data on total value of purchases made with each supplier. In the case of the latter, this is typically compiled using records kept in accounting systems.

3.3.20 It was also reported that, in general, the organisations have informal mechanisms for the collection of information related to concerns with suppliers and complaints from internal users. A number of organisations also mentioned that they keep a list of blacklisted suppliers who seriously default from their obligations.

3.3.21 Overall, it was indicated that information is mostly gathered through informal verbal and email communication channels. Some organisations, such as the Health Division, the Education Division and the Malta Police Force (MPF) also indicated that the staff involved in procurement generate individual reports on faulty items on which action is then taken.

3.3.22 In general, NAO concluded that none of the organisations have the established practice of integrating such information into consolidated supplier profiles including complete records on supplier performance. NAO opines that the systematic compilation of such profiles would be beneficial to organisations across the public administration as it would enable effective supplier management and the facilitation of open and timely engagement with suppliers. These profiles on suppliers should be kept in a structured and easily accessible format and be proactively used when taking key decisions on procurement.

Market and supplier intelligence

3.3.23 Apart from spend analysis and records on the performance of existing suppliers, organisations across the public administration also require sound commercial awareness and reliable information on key issues such as the organisation of supply markets, supply chain reliability and new developments.

3.3.24 Market and supplier intelligence is important to enable organisations to assess the level of competition they can reasonably expect to attract for their business and to assess the resilience of supply chains. Useful information should also be kept on potential suppliers, apart from that kept on the existing ones.

3.3.25 Procuring organisations may also be wary of suppliers, particularly as to whether their prices are reasonable, whether they might seek to unduly exploit market advantages, and whether suppliers can be relied on to deliver to time, cost and quality requirements. This lack of trust often arises from a lack of sufficient market and supplier intelligence and can result in missed opportunities to identify ways of getting better value for money or innovation.

3.3.26 The interviewed organisations use various practices to collect information on markets and potential suppliers. These include keeping copies of quotations and promotional material received from interested suppliers, information on products and services available in the local and international markets, as well as lists of reliable suppliers.

3.3.27 NAO encourages organisations across the public administration to have in place established processes that systematically monitor and collect reliable and up-to-date information on markets and suppliers in order to obtain best value from procurement.

3.4 Overall conclusions

3.4.1 Sound management information systems are essential to support the procurement activity of any organisation. They ensure that processes and decisions are driven by efficiency, cost-effectiveness and value for money, and that these are in line with strategic business objectives and policies.

3.4.2 The information generated from management information systems (such as knowledge on the markets, suppliers, prices and buying arrangements) can also be potentially shared and exchanged across the public administration. Information sharing would help identify opportunities for collaborative procurement, sharing of expertise, reduction in costs, benchmarking of activities, improvements in general practices, more competitive buying, and better value for money.

3.4.3 At present, collaboration and exchange of knowledge on public procurement is a very limited practice across the public administration. Only half of the twelve organisations used as case studies indicated that they share information with other organisations. Furthermore, it was noted that most of the information exchanged was limited to tender documentation. The participating organisations expressed their interest to collaborate further by assisting each other to prepare complex tender documents and specifications. NAO observed that given Malta's size, more advantage should be taken of opportunities across the public administration to share procurement-related information and knowledge maintained by individual organisations.



Chapter 4


Continuous Improvement and Development

Chapter 4 – Continuous Improvement and Development

Chapter 4 examines the practices that can be used to continuously improve and develop the procurement function, including the review and analysis of procurement activities, the management of procurement risks, as well as actions to improve efficiency and achieve cost savings.


4.1 Initiatives to review and continuously improve procurement activities

4.1.1 It is good practice for organisations to systematically measure and review their procurement performance and the cost-effectiveness of their activities.

Table 4.1	Examples of how organisations can achieve value for money gains in procurement
	<p>A value for money improvement may arise from:</p> <p><i>Direct negotiation with suppliers:</i> For example, reduced prices, better terms and an improved service for the same price.</p> <p><i>Aggregation:</i> For example, organisations across the public administration act together to procure jointly through central contracts.</p> <p><i>Project, contract and asset management:</i> For example, organisations reduce lifetime operating costs.</p> <p><i>Reduced processing and transactional gains:</i> For example, more efficient methods are used to reduce staff time devoted to procurement.</p>
<p><i>Source: Adapted from a report by the Office of Government Commerce (2003)</i></p>	


In addition, organisations should also keep track as to how far their procurement activity is meeting the demanding standards to deliver value for money (Table 4.1).

4.1.2 The major focus of procurement reviews should be on whether entities have overall organisational and management capability to procure efficiently and cost-effectively. In addition, the reviews should focus on how activities can be done better. This includes examining how the needs for procured items are determined, how goods and services are being procured, the cost of purchasing and the time it takes, where an organisation’s money is being spent, the whole life costs of procurement (Table 4.2), as well as what value is being achieved from existing arrangements.

Table 4.2	Evaluation of whole life costs
	<p>Evaluations on whole life costs should cover all costs related to the acquisition of goods and services and doing business with suppliers (such as purchase price and transaction costs), as well as the costs of maintenance and operation over the whole life of the asset or service up to the conclusion of the service contract or ultimate disposal of the asset.</p>
<p><i>Source: NAO Working Papers (2009)</i></p>	

4.1.3 The reviews can also incorporate the results of other key assessments such as:

- a) The regular analyses of the purchasing spend and evaluations of suppliers’ performance (discussed in section 3.3 in Chapter 3).
- b) Individual assessments and reports on the outcomes of major procurement initiatives or specific contracts.
- c) The conclusions and recommendations of internal and external audits.

Table 4.3	Sustainability in procurement
	<p>It is becoming increasingly important for the public administration to work and think in ways that take account of long-term sustainability.</p> <p><i>Sustainability</i> involves thinking broadly about objectives, considering long-term as well as short-term effects; assessing indirect as well as direct effects; considering economic, social, and environmental aspects; and taking extra care when procurement causes changes that might be irreversible or uncertain (the precautionary principle).</p> <p>The New Zealand and Australian Governments have developed the following set of guiding principles on the development of sustainable procurement:</p> <ul style="list-style-type: none"> • Adopting strategies to avoid unnecessary consumption and manage demand. • In the context of whole-of-life value for money, selecting products and services that have lower environmental impacts throughout their lifecycle compared with competing products and services. • Fostering a viable market for sustainable products and services by supporting businesses and industry groups that demonstrate innovation in sustainability; and • Supporting suppliers to government who are socially responsible and adopt ethical practices. <p>Examples of the types of activities that can be carried out, as part of procurement, to assist sustainability include:</p> <ul style="list-style-type: none"> • Specifying products and services considered to be sustainable; • Verifying suppliers' sustainable management standards, including a sustainability clause in contracts; • Rating supplier performance against sustainability criteria; • Insisting on sustainability improvement targets for suppliers; • Assisting suppliers to improve their sustainability performance; and • Encouraging sustainable innovation in the supply of goods or services.
<p><i>Source: Procurement guidance for public entities, Office of the Controller and Auditor-General, New Zealand (2008)</i></p>	

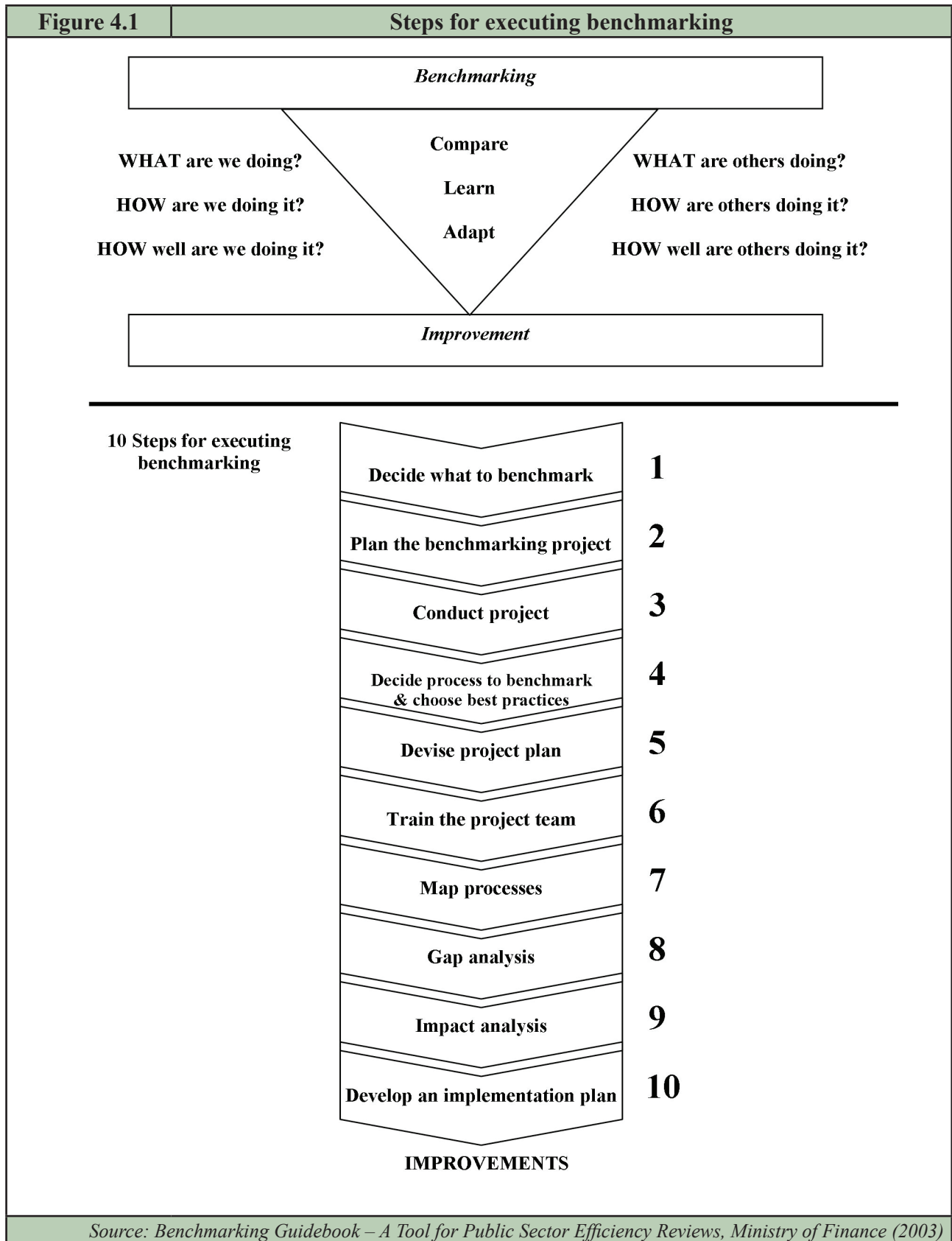
4.1.4 Furthermore, a thorough review is useful to identify priority areas for improvement, including, for example, a greater focus on risks reduction, innovation, staff training, sustainability, reduced costs of procurement, and enhanced quality of the goods and services purchased. Table 4.3 highlights examples and good practices of how to ensure sustainability in procurement.

4.1.5 When carrying out procurement reviews, it is important that the developmental lifecycle of the procurement function and the complexity of procurement needs are clearly understood. Recommendations of the reviews should result in action to strengthen the procurement function, to streamline or re-engineer purchasing processes, and to develop skills.

4.1.6 In addition, realistic and measurable targets, aimed at delivering value for money improvements, can be established to help focus organisations' attention

on the cost-effectiveness and performance of their procurement activities, as well as to instigate a mindset in the organisation on the need to continuously improve. Furthermore, organisations can work more closely with suppliers and use an outcome-based approach to exploit the use of innovation, science and technology to drive quality and productivity improvements.

4.1.7 Public administration can also actively seek to identify good procurement practices developed in other industries and which can be applied to their systems. The existing mix of procurement methods and work practices used by an entity and its organisational performance can be benchmarked against those of other organisations considered as leaders in the field. The process should also lead to the identification of the organisation's comparative strengths and weaknesses, as well as provide it with insights on how to improve and adopt best practices.



4.1.8 It may not always be easy to benchmark, and such collaboration and information sharing may need to be developed over time. Organisations can use the comprehensive guide developed by the Ministry responsible for Finance (*Benchmarking Guidebook – A Tool for Public Sector Efficiency Reviews*) and which highlights the steps that should be taken when benchmarking (Figure 4.1).

4.1.9 Leadership also plays an important role. The private sector companies consulted by NAO as part of this study highlighted the strong top management drive to continuously identify and exploit opportunities for cost savings and improved efficiencies. Efforts to strengthen the procurement function and enhance its effectiveness need to be championed and supported by senior management.

4.1.10 NAO asked the twelve participating organisations to outline the extent to which they periodically review and analyse current operating procurement capabilities and set targets for improvement:

- a) The prevailing practice among these organisations is that they carry out *ad hoc* management reviews as part of the day-to-day routine. Most of these examinations are initiated following feedback from user departments or after a problem has been identified.
- b) Moreover, reviews are carried out following concerns raised during internal brainstorming sessions, management and Board meetings, by an internal audit committee or following queries from the Ministry responsible for the particular organisation. It was reported by some organisations that these assessments are carried out by the procurement function, an internal audit section and/or a special *ad hoc* committee.
- c) Some organisations also mentioned that they monitor and review to varying degrees procurement of one or more elements. These cover, for example high-risk expenditure items (such as fuel claims, use of paper, food consumption and mobile phone charges); items that could be standardised so as to save on costs; or the purchasing arrangements of goods that require low stock levels.
- d) A particular entity, the Malta Transport Authority, also reported that it is reviewing its procurement activities through the current development of a manual that outlines procurement policies and procedures.
- e) However, none of the twelve participating organisations reported that they carry out indepth, regular and systematic performance reviews that cover all aspects of procurement performance but rather assess reactively particular activities. Also, none of the case studies indicated that they use techniques such as benchmarking.

f) The main reasons reported by the twelve organisations as the main drivers for carrying out assessments were: to identify variances between budgeted and actual expenditure; to improve on identified shortcomings; to avoid wastage and excessive consumption; as well as to identify areas for improvement in the procurement processes and ensure overall value for money.

g) Furthermore, a number of organisations reported that they take initiatives to achieve savings, although in most cases no specific targets are set. Moreover, it was indicated that reduced funding from MFEI acts as a form of curtailment on procurement expenditure. The organisations reported that they mainly focus, to varying degrees, on some of the following initiatives related to achieving savings:

(i) *Obtaining better deals from suppliers*. This includes, for example:

- Enhancing their market intelligence to identify the best suppliers or to identify innovative and cost-effective solutions.
- Exploring opportunities to use available resources and in-house skills before resorting to external suppliers and service providers.
- Negotiating better prices using information on the total value of purchases by supplier.
- Collaborating with other organisations to procure jointly.

(ii) *Reducing excessive stock levels and avoiding unnecessary purchases*.

(iii) *Reducing consumption of items and waste*. This includes, for example:

- Monitoring expenditure of internal units responsible for procurement by capping budgets.
- Requesting justifications from internal users on higher-than-average consumption or requests to purchase specific items.
- Purchasing economical equipment (such as print devices with the option of duplex printing).
- Introducing energy saving measures.

4.1.11 It is important that organisations across the public administration are always motivated to improve the economy, efficiency and effectiveness of their procurement function.

Table 4.4**Getting the most of the procurement function**

In 2009, McKinsey & Company published a study on how public institutions can get the most out of the procurement function.

Their experience suggests it is possible for such institutions to apply the same approaches and tools as those used in the private sector and still operate a rigorous tender process within the constraints of relevant rules and legislation.

These include developing systems that provide the organisation with a consolidated view of purchasing spend, setting high aspirations for change, streamlining buying processes and strengthening the purchasing organisation.

McKinsey also suggest that initially public institutions can start small and capture considerable savings from a few high potential areas. This will allow for credibility to be built through early success and lead to the setting of more ambitious targets, as well as obtain the visible support of senior management. Roles and responsibilities should also be clearly defined and the required formal mechanisms/processes are established. Initiative should also be taken to develop critical skills and capabilities, as well as exploit the use of available ICT systems and applications. Once this stage has been accomplished, McKinsey recommend that a cascade approach is used to roll out the change programme to capture the full value and develop the appropriate structure.

Source: Improving Public Sector Purchasing. McKinsey on Government (2009)

- a) NAO recommends that greater focus is given to continuously review and analyse such performance. This should be part of an ongoing cost-reduction strategy.
- b) These reviews should be used as tools to help raise awareness of the significant commercial contribution that procurement can make and for driving greater efficiencies and cost-savings in systems and processes.
- c) This requires leadership, setting an appropriate aspiration for change, an effective organisational platform and a phased change management approach (Table 4.4).

these factors are taken into consideration in the decision-making and management processes.

4.2.3 Organisations can ensure good governance, sound management and value for money in procurement by:

- a) *Figuring out what can go wrong during any stage of the procurement process.* An organisation can determine the levels of risk exposure that it is willing to tolerate for different areas of procurement, as well as establish appropriate controls to ensure that these levels are not exceeded. The level of tolerance may vary for different risks and circumstances. Examples of procurement-related risks include:

4.2 Management of procurement risks

4.2.1 Many of the contracts for goods, works and services are critical to the delivery of an organisation's business objectives and carry significant risk. It is, therefore, important that contract and supplier risks are clearly identified and managed. For example, purchasers can ask bidders to include an analysis of the risks in their proposals and how these can be mitigated with a view to making it easier to judge whether the risks are acceptable.

4.2.2 Furthermore, innovative solutions in procurement often entail higher risk than off-the-shelf products or tested services, even if the return is relatively higher. Failure may be total if the supplier is unable to deliver what has been agreed, or partial if performance of innovative solution falls below expectations or delivery is late. Failure can also come from practical difficulties in applying a new solution and integrating it within the organisation. It is desirable that

- (i) *Requirements for goods and services are not properly specified or outdated specifications are used.* As a consequence user departments are not supplied with the goods and services that they need or technical equipment is not compatible with existing systems. Furthermore, the quality of service delivery can be jeopardised or additional investment is required if the equipment or other assets used become obsolete after a relatively short time due to technological advancements (for example, in the case of medical or ICT equipment).

- (ii) *When drawing up tender documentation, a critical clause is omitted.* The impact of this shortcoming could be that the organisation is unable to impose penalties, delivery is delayed and matter has to be resolved through time-consuming court proceedings.

- (iii) *The procurement process is poorly managed.* As a result, delivery of goods and services is not timely and may lead to delays in services delivered to the public.
- (iv) *Inadequate information on the markets.* The impact of this constraint is that goods and services are purchased at prices above the prevailing market rates, or the organisation is unable to respond effectively to changes in the market place such as increased competition or innovative products. In addition, efficient suppliers may be overlooked.
- (v) *Unreliable supply chain.* Suppliers, almost inevitably, will have their own suppliers. For example, an importer would rely on the manufacturing capacity of a foreign company. Non-performance, poor quality or late delivery by one supplier in the series of mutual interdependencies between suppliers (the supply chain) can ultimately put the company providing goods and services to Government at risk.
- (vi) *Staff undertake unauthorised procurement spending.* This could lead to the possibility of impropriety or fraud, as well as potential litigation and requests for redress through the courts.
- (vii) *Poor evaluation of tenders.* As a consequence, the contractor could fail to meet performance standards for service delivery.
- (viii) *The number of suppliers is too high.* The impact of this risk is that goods and services are purchased in uneconomic quantities and potential economies of scale are lost. Moreover, such a situation can lead to disproportionately high administrative costs.
- (ix) *Insufficient competition due to restricted competition or there are only a few dominant suppliers.* Such a situation can lead to over dependency on a supplier; premium prices; industry may be unable to meet Government's needs; requirements may not be met in a timely way; or products and services may be sub-standard or outdated.
- (x) *Insufficient supplier performance monitoring arrangements.* This can have serious implications such as confidential information being leaked by a supplier, or quality of supplies/services becomes inferior over time.
- b) *Defining the principal risks and understanding how likely each one is to occur.* A risk register can be created to document and keep track of high priority risks related to procurement. The register should feed up to the organisation's strategic risk register/s (such as the one for ICT) and should contain:
- (i) A description of the nature of each identified risk.
 - (ii) Details of the risk monitoring system, such as information on the early warning mechanism in place to raise the alert that a risk is increasing, as well as details on how improvements are to be reported.
 - (iii) A risk assessment rating of the possible impact of an event, should it actually occur.
 - (iv) The likelihood of its occurrence with existing controls.
 - (v) An overall assessment of residual risk based on the combination of likelihood and impact;
 - (vi) A summary of the agreed controls or appropriate responses to ensure that the risk is managed.
 - (vii) Clear identification of the risk owner/s who is given the responsibility for assessing and monitoring specific risks.
- c) *Having in place a risk plan to deal with the identified risks.* The risk plan should include the steps necessary to avoid the risk or to mitigate the fallout from the risk if it does happen. It should also specify how the responsibility for risk management is to be allocated, as well as how it will be regularly updated to address new developments, changes to the identified risks, or when controls are found to be inadequate. For example:
- (i) If the spend is forecast to increase, or there are plans to outsource critical activities, the assigned level of risk in the organisation's plan should increase to reflect this development.
 - (ii) When the reliability of strategically important suppliers and their supply chains is at risk, the risk plan would need to be updated to reflect the threat to continuity of service/operation, and lead to preparations for contingency provisions.
- If the risk plan is not well-developed, experience shows that an organisation would take longer to react and in turn is subject to increased costs, loss of business continuity and a damaged corporate reputation.
- 4.2.4 None of the twelve interviewed organisations reported to have a formal risk management system in place to address procurement risks. However, many had an

informal way of dealing with such risks, mostly based on their experience working in the field.

4.2.5 NAO recommends that organisations across the public administration are aware of the risks they are facing with respect to procurement and have adequate arrangements to mitigate and manage these risks. Risk management practices should be embedded in the procurement processes and regularly reviewed.

4.3 Opportunities for collaborative procurement and framework agreements

4.3.1 Many organisations across the public administration purchase a range of similar goods and services. This commonality provides opportunities to purchase items collectively through framework agreements and collaborative procurement, especially where there is high demand for specific goods and services. The certainty and level of business that public administration can offer to suppliers through these arrangements can be attractive to them and provides considerable potential for public administration to secure better deals.

4.3.2 *Collaborative procurement* practices involve two or more organisations making arrangements to negotiate jointly with a specific supplier for the goods, works or services.

4.3.3 *A framework agreement* means an agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the terms, in particular with regard to the prices and, where appropriate, the quantity envisaged, governing the contracts to be awarded during a given period.

4.3.4 Framework agreements are entered into competitively for a fixed period and can cover a range of low and high volume goods and services. A commonly cited example of a framework agreement is stationery with a supplier being contracted to provide all the needs for this category of items. A minimum amount to be purchased may be set for each year and prices are agreed on the award of the contract. Provisions for price increases to cover inflation can also be made. The supplier, in turn, is committed to provide goods in the required quantities when needed. A good practice is for suppliers to provide catalogues of the goods that they can provide and their price in electronic format. This will allow staff to order directly from the suppliers thus reducing purchasing and administration costs.

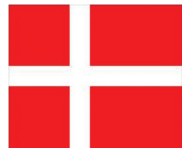
4.3.5 The use of both collaborative procurement methods and framework agreements can lead to various benefits. These include:

- a) Savings in administrative costs of procurement.
- b) A reduction in the need to undertake frequent calls for expression of interest or tenders.
- c) Use of standard terms and conditions, helping to ensure that best practice is followed.
- d) Potentially lower prices are paid for goods and services purchased through aggregated demand (economies of scale).
- e) If managed well, the longer term nature of framework agreements can provide opportunities for organisations to better influence the quality of service which a supplier provides as the latter has a guaranteed business for a number of years and has more of an incentive to work with the procuring organisations and improve quality.
- f) Through framework agreements, suppliers can gain a deeper knowledge over time of organisations' requirements and this can contribute to driving costs down and to continuous improvement in the quality and service provided. Development of partnerships with suppliers do not necessarily mean increasing the risks of financial impropriety if appropriate oversight mechanisms are in place (for example, clear definition of responsibilities and proper monitoring of supplier performance).
- g) Reduced stock levels as the supplier is contracted to provide goods within a set time period, often at short notice or immediately.
- h) Opportunities to share market intelligence and operational expertise with other organisations.

4.3.6 A downside to framework agreements is that they may attract the larger suppliers and procuring organisations may lose the benefits of using smaller suppliers who may provide more flexibility and better communication.

4.3.7 Table 4.5 presents three examples of countries adopting centralised procurement arrangements for particular goods and services.

4.3.8 Collaborative procurement and framework agreements are being used to a limited extent in the public administration, and there is scope for further identification and development of such advantageous opportunities. All the twelve interviewed organisations rely on their individual buying power for most of their purchases. The organisations, however, pointed to a few cases where they have joined up with other entities within the public administration to procure collectively certain common items. For example, the MPF and AFM have procured jointly for ammunition.

Table 4.5 Cross-organisational framework agreements: examples from European countries

In Denmark, National Procurement Limited (*SKI - Statens og Kommunernes Indkøbs Service A/S*) brings together public purchasers and suppliers by coordinating public procurement, issuing calls for tenders, and negotiating large framework agreements in line with EU Directives.

The Agency represents 11,500 public organisations and currently manages fifty-five framework agreements covering a varied product range including ICT, furniture and office equipment, stationary, energy, motor vehicles, food as well as travel services.

SKI is owned jointly by the State through the Ministry of Finance (55 per cent) and the National Association of Local Authorities in Denmark (45 per cent). The Agency's contracts have been made mandatory in Denmark for certain public purchasers with the aim of increasing demand and obtaining more competitive prices.



In Italy, Consip S.p.A, a company owned by the Ministry of Economy and Finance is responsible for implementing the Programme for the Rationalisation of Public Expenditure of Goods and Services, using information technologies and innovative purchasing tools. The Agency is also responsible for the development of IT services for the Ministry.

Consip provides services to central government, local government, universities and health services. Central government departments are obliged to buy certain products through Consip. Other public sector organisations are expected to use the prices obtained by Consip as a benchmark.

Framework agreements cover a wide range of products and services including energy, communication services, ICT, security and reception services, catering services, transport and motor vehicles, as well as office furniture, equipment and supplies.

Consip measures the value for money savings of its contracts by determining savings on obtained prices and incurred processing costs. Savings are also calculated by the Italian Office for Statistics on the basis of ten product categories, by comparing the public sector market prices with the prices obtained by Consip.



In the UK, OGCBuying.solutions was established as an executive agency of the Office of Government Commerce, an Office of HM Treasury, in 2001. OGCBuying.solutions' remit extends across both central government and the wider public sector.

The primary role of OGCBuying.solutions is to maximise the value for money obtained by government departments, and other public bodies, through the procurement and supply of goods and services under arrangements that provide quality assurance and comply with public purchasing policy and regulations, including those of the European Union.

OGCBuying.solutions' operations cover three main areas: framework agreements, managed services and memoranda of understanding. Framework agreements represent the bulk of the Agency's business.

OGCBuying.solutions measures value for money savings in two ways:

- 1) *Price savings*: value for money savings associated with paying a lower price for goods/services as a result of using OGCBuying.solutions compared to the public sector market average price.
- 2) *Process cost savings*: value for money savings associated with the avoided cost of letting and managing contracts as a result of using OGCBuying.solutions.

Sources: Assessing the value for money of OGCBuying.solutions, National Audit Office, UK (2006); Framework agreements: Comparing the use of framework agreements by central procurement offices, Belgian Court of Audit (2008); SKI (2009); and Consip (2009)

Table 4.6		Examples of period contracts for various items: Department of Contracts	
Clear sheet glass	Rectangular precast hollow concrete blocks	Xerographic paper	
Wired glass	Ready mixed concrete	Computer continuous paper	
Glass hammered	White deal and red deal	Envelopes	
Putty (suitable for both wood frames and metal casements)	Mahogany boards	DAS forms	
Batteries	Iroko and parana timber	Wall calendars and tablet diaries	
Mild steel: bars; hollow sections; angle; sheet/plate	Fibre board (hardboard)	Boiler suits	
Brass round sections	Chipboard plain	Summer and winter uniforms / trousers / skirts / shirts / walking shoes	
Channel bars	Meranti: block board and plywood	Pullovers	
Expanded metal steel sheets	Marine plywood	Anoraks	
Steel plated chequered	Portland cement ordinary	National and European Union flags	
Sheets: electro galvanized and galvanised	Ready mixed concrete for general-maritime use (lan Mix)	Towels	
“Z” iron or “H” iron	Paints and varnish	Toilet paper	
Steel wire mash for concrete reinforcement	Bottled oxygen and acetylene		

Source: Contracts Circulars 2008-9, Department of Contracts

4.3.9 Furthermore, organisations across the public administration make use of ‘period contracts’ - coordinated by the DoC - for a limited range of store items (Table 4.6). A period contract combines the requirements of various Ministries and Government Departments and is awarded to a single supplier for a stipulated period of time. The DoC issues circulars to these organisations on a regular basis requesting their estimated requirements for an established list of items. The returns from the procuring organisations enable the Procurement Section of the DoC to issue appropriate calls for tenders for period contracts.

4.3.10 Most of the twelve case studies make use of period contracts, indicating that they find these arrangements useful as they cut short the time that would otherwise have been required to independently source suitable suppliers, draw up specifications and award contracts. Moreover, the management of the call for tenders by the DoC minimises the risk of non-compliance with the legal requirements of the procurement regulations. Period contracts also provide the organisations with stability for a period of time in terms of prices.

4.3.11 During the interviews, the organisations also pinpointed areas where there is scope for improvement in the period contract system operated by the DoC. These included:

- (i) Offering a wider range of products and services through the period contract system and introducing framework agreements with more than one approved supplier.
- (ii) Drawing more suitable specifications for certain products to satisfactorily meet the needs of the procuring organisations.
- (iii) Less emphasis on choosing the cheapest quote when this does not result in value for money, provided that sufficient justification is presented.
- (iv) Ensuring that period contracts are awarded on time to safeguard against discontinuity of supply between the end of term of a contract and the initiation of another.
- (v) More effective measures to ensure that the suppliers consistently provide products of the agreed quality and standard, as well as to ensure that selected suppliers are reliable in terms of timely deliveries and stability of supply.
- (vi) The DoC takes more effective corrective action to address certain problems with suppliers reported to it by the procuring organisations. This is particularly critical when a contract matures and a level of indifference on the part of the supplier may set in. It was also suggested that increased rights are given to the

procuring organisations, through preventive measures in the contracts, to terminate contracts of suppliers who continuously fail to meet their obligations and commitments.

- (vii) Increasing the possibility of allowing flexibility to tailor supplied goods to the specific needs of the individual organisations and not restrict the range of offered products to a few standardised items.

4.3.12 While there is much that organisations can do on their own, collaborative procurement provides opportunities to share expertise, reduce costs, benchmark activities, and achieve better value for money. Furthermore, there may be scope for Government to introduce framework agreements to cover other products and services and possibly use ‘call-off’ arrangements to stimulate further competition. The latter are contracts with suppliers to provide goods and services at a fixed price over a fixed period of time and which the purchasing organisation is not obliged to use.

4.3.13 The decision on whether a framework agreement is the right approach for the particular goods, works or services to be purchased is a value for money judgment for the contracting authority or authorities concerned, and this should take into account the kinds of purchases involved (including assessing whether these are substantial and can be aggregated) and the ability to specify such purchases with sufficient precision upfront.

4.4 Overall conclusions

4.4.1 As this Chapter has illustrated, there are many ways of how organisations across the public administration can seek to improve and strengthen their procurement function and capabilities, including streamlining their processes and getting better value for money.

4.4.2 Collectively, organisations across Government can also achieve more by collaborating together and aggregating demand.



Appendices

Appendix A

Methodology

A.1 The performance audit was divided into three phases and included the following main elements:

- a) **Phase One - Preliminary Research:** This was carried out between March and May 2007 and included:
- (i) An extensive review of literature on procurement capabilities and on public procurement to understand the legislative framework and collate good practices in this field;
 - (ii) Consultations with a number of organisations within the Public Administration to learn more on the nature and size of public procurement spend. There is no single definitive source of information on public sector spend and, therefore, various sources had to be tapped;
 - (iii) A review of key audit findings and conclusions of audits carried out by the NAO in recent years to identify key issues and areas of concern. The examined audit reports included financial, compliance and performance audits and these were used to inform about the audit approach for this study (refer to Table 1.5 in Chapter 1);
 - (iv) Discussions with MFEI, including DoC, FMMU and the 'eProcurement Task Force' on initiatives, concerns and priorities related to public procurement;
 - (v) Informative meetings in April 2007 with the National Audit Office and the Office of Government Commerce in the United Kingdom, both of which have carried out considerable developmental and review work on public procurement capabilities;
 - (vi) Good practice visits to three leading local commercial organisations operating in the financial services, hospitality and travel industries in order to learn more on their mature procurement systems, on different aspects of good practice in procurement, on modern approaches in this field, as well as on the lessons learned from developing such systems.
 - (vii) Consultations with the Working Group on Public Procurement of the *Contact Committee of the Supreme Audit Institutions of the European Union* on the guidelines that were developed by this EU Group.
 - (viii) Participation in locally organised seminars on public procurement, in particular one on innovative procurement and another on EU public procurement procedures.
 - (ix) Preliminary pilot meetings with the selected twelve case studies, listed in Table 1.6 in Chapter 1, to test and assess the:
 - *feasibility* of the considered exercise;
 - *relevance* and *significance* of the selected audit questions;
 - *interviewing techniques* that could be used to successfully carry out this audit;
 - *type of information and supporting documentation* that could be potentially collected from the identified case studies;
 - *typical challenges faced by the public administration* using current approaches to procurement;
 - *the interest of the targeted organisations* to participate in this exercise; and
 - *added value* that can be obtained from the full study.
- b) **Phase Two – Definition of areas to be covered by the NAO study:** This phase of the study was carried out in October 2008 and included the design and construction of a framework of good practices for each identified procurement capability (refer to Table 1.3 in Chapter 1). The selected framework was used to develop the structured questions and sub-questions that were applied during the interviews with the case study organisations. The list of questions was further fine-tuned following in-depth internal reviews. The questionnaire used in the interviews was then finalised.
- c) **Phase Three – Fieldwork and reporting:** Fieldwork and reporting was carried out between December 2008 and August 2009, covering the twelve case studies. Structured interviews were used to collect the required information, with supplementary documentary evidence being requested whenever deemed necessary or feasible. The NAO study was limited to identifying the use and prevalence of specific procurement measures, and did not test the reliability, soundness and completeness of the discussed systems and practices.

Appendix B

Changes made to the national legal framework governing public procurement

B.1 The restructuring of the legal framework governing public procurement in Malta was commenced in 2003 with the replacement of the Public Service (Procurement) Regulations of 1996 with the Public Contracts Regulations of 2003 (Legal Notice 299/2003).

B.2 In 2005, the Public Contracts Regulations (Subsidiary Legislation 174.04; Legal Notice 177/2005) and the Public Procurement of Entities Operating in the Water, Energy, Transport and Postal Services Sectors Regulations (Subsidiary Legislation 174.06; Legal Notice 178/2005) were revised to adopt EU Directives 2004/18EC and 2004/17/EC respectively. The legislative amendments came into force in June 2005 bringing the regulatory framework governing public procurement in Malta in line with the relevant EU Directives.

B.3 The current legal framework stipulates that contracting authorities which desire to procure either supplies, works or services must abide by the following basic rules, depending on the value of the procured item:

- a) Where the estimated value does not exceed €2,500, the equipment, stores, works or services may be procured departmentally either after obtaining quotations or direct from the open market at the discretion of the Head of Department taking into consideration the amount involved, the urgency attached to the procurement and restrictions of choice and availability;
- b) Where the estimated value exceeds €2,500 but does not exceed €6,000, the equipment, stores, works or services may be procured departmentally after a call for tenders, or after obtaining quotations, or direct from the open market, taking into consideration the amount involved, the urgency attached to the procurement and restrictions of choice and availability. This shall be approved by the Minister responsible for that department, or by such member of the department as may be authorised by that Minister;
- c) Purchases of the same or closely similar material in different lots under paragraphs (a) and (b) during a period of six months shall not exceed a total value of €25,000;
- d) Where the estimated value exceeds €6,000 but not €47,000, the equipment, stores, works or services may be procured after a departmental call for tenders. The

tenders shall be opened in public by three senior officers of the said department and the prices quoted shall also be made public;

- e) Where the estimated value of a public contract exceeds €47,000, the contracting authorities are required to procure through the Director of Contracts.

B.4 Figure B.1 overleaf depicts the different thresholds and procedures to be applied.

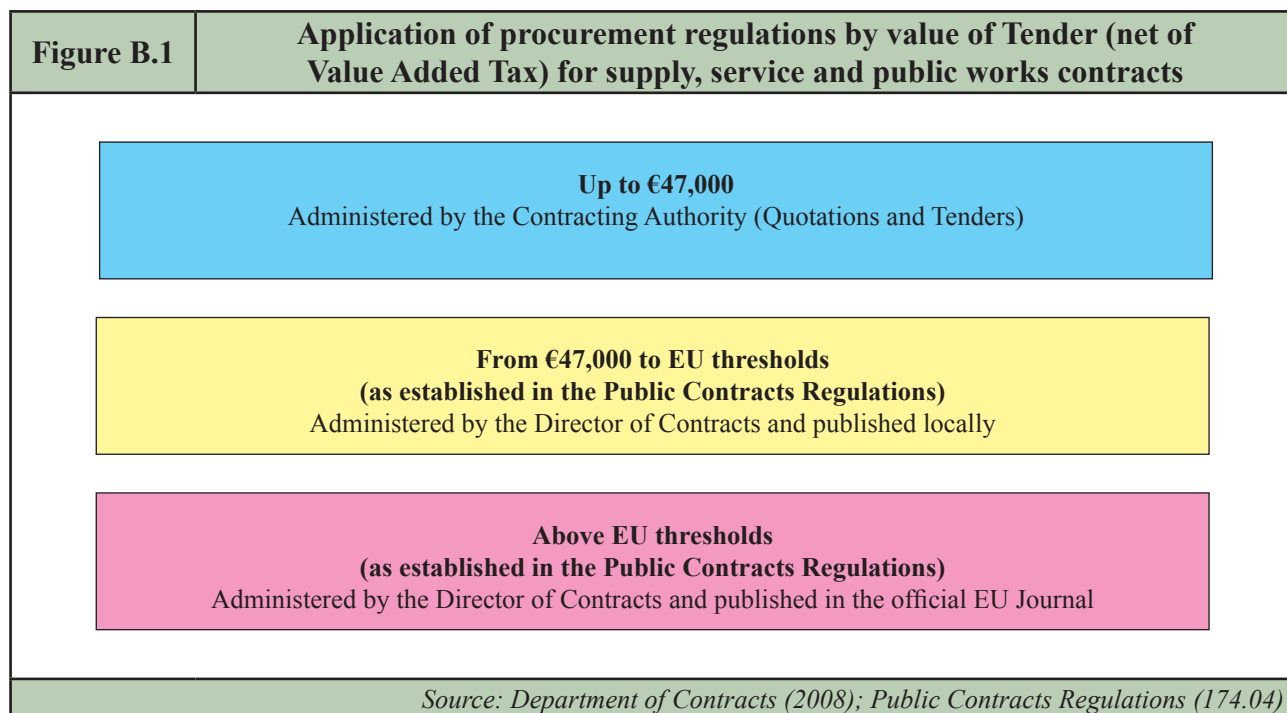
B.5 The legal changes to public procurement were also accompanied with the introduction of detailed requirements for the publicity of tenders and the selection of bidders, as well as new templates for the creation of tender documents, forms for publication of tenders in the Official Journal of the European Union (OJEU) and a template for the tender evaluation report. These templates merged the local tendering process with that of the new and enhanced EU public procurement procedures.

B.6 Furthermore, the legal framework includes two basic procedures by which tenders are to be submitted:

- a) The single envelope system whereby all documents including the financial offer are inserted in a single envelope and all the elements are opened at the same time;
- b) In respect of tenders whose estimated value exceeds the threshold of €600,000 it is mandatory that the three package procedure is used. In this case the tender consists of three packages with package one containing the Bid Bond, package two comprising of technical specifications, supportive documents and samples, and package three including price schedules, payment terms and other commercial details. The packages are opened in public in the above sequence, provided that if at any stage the bidder fails to comply with the procedural requirements or with the technical specifications, the remaining packages in his tender are discarded unopened.

B.7 A procurement process typically requires the involvement of various parties, namely:

- a) The *Contracting Authority*. Schedules 2 and 3 of the Public Contracts Regulations (174.04) list the Contracting Authorities that are within or outside the

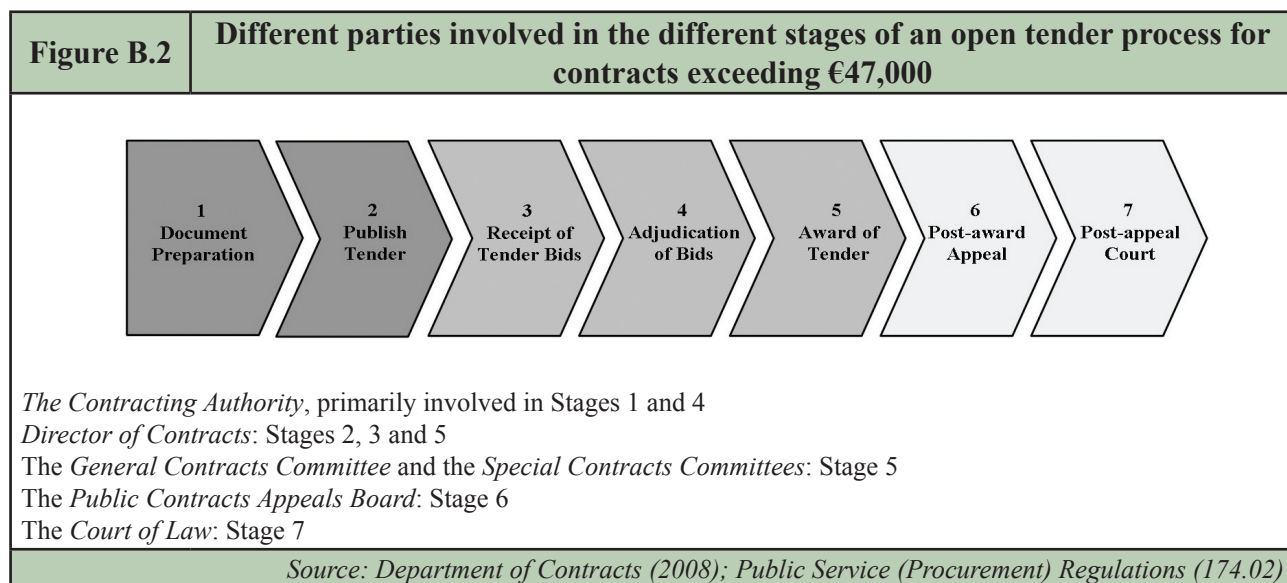


- competence of the DoC. In the case of the latter, the Contracting Authorities administer their own public procurement in accordance with the provisions of the Public Contracts Regulations.
- b) The Head of the DoC legally referred to as the *Director of Contracts*.
 - c) The *General Contracts Committee (GCC)* and the *Special Contracts Committees*. In the latter case, the law provides for the setting up of these committees for the adjudication and award of tenders requiring special expertise, skills or other input.

- d) The *Public Contracts Appeals Board*.
- e) The *Court of Law*.

B.8 Figure B.2 illustrates the roles of the key parties involved in an open tender process for contracts exceeding €47,000.

B.9 In respect of redress, the legal framework provides for two procedures based on the estimated value of the contract. For contracts whose estimated value exceeds €12,000 but not the €47,000 threshold, the complaint is examined by the GCC, while in the case of contracts whose estimated value exceeds €47,000, the complaint is handled by the Public Contracts Appeals Board.



Appendix C

Skills for procurement practitioners⁵

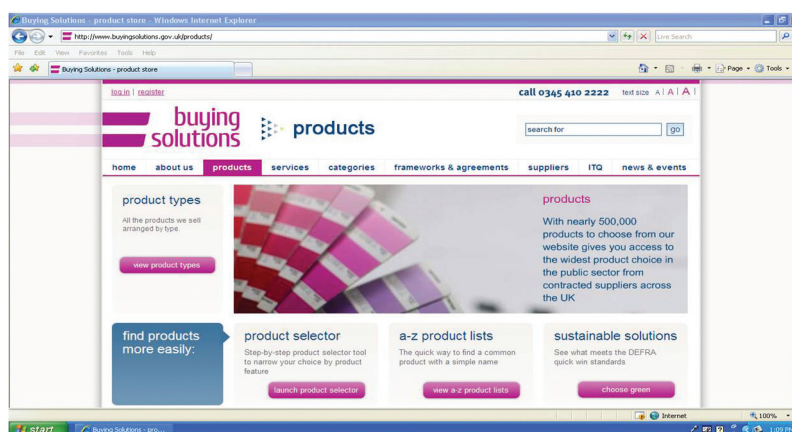
1. Strategic awareness	Able to develop and apply an organisational procurement strategy that supports business objectives.
	Knowledgeable about quality management, applicable standards and procedures, as well as continuous improvement. Able to apply these to the procurement processes.
2. Public procurement context	A working knowledge of the regulatory framework, including public procurement and financial regulations. Fully conversant with, and follows, government accounting practices.
	Aware of the key principles of corporate social responsibility and develops measures to ensure that these are built in the procurement processes.
3. Procurement processes	Has a thorough understanding of the types of supplies and services that are required, as well as knowledge of internal business processes and activities. Able to identify and analyse suitable suppliers, markets and potential solutions. Can evaluate suppliers' pricing structures and whole life contract costs of procured items. Fully conversant with procurement planning and contract timescales.
	Able to understand the principles and processes of category management. Capable of organising existing and emerging requirements into appropriate categories and sourcing plans. Has the know-how to develop supplier capabilities and can use appropriate techniques to assess benefits and options of the various procurement routes to acquire services and products.
	Capable of contributing to business case development to secure budgetary approval. Has the ability to: clarify requirements of complex procurement and determine the best-value type of procurement route to be followed; develop specifications that encourage innovative solutions and mitigate risks; and to specify details to be included in the contracts.
	Has a working knowledge of legal issues in relation to public sector procurement and the ability to develop effective terms and conditions. Has sufficient understanding of the practical effects of key contract conditions, including techniques on how to drive improved performance through contracts. Able to negotiate and develop solutions to areas of conflict.
	Able to draw up comprehensive calls for tenders ensuring compliance with applicable legislation and public procurement procedures. Has expertise in evaluating and selecting suppliers in a fair and consistent manner, based on the tender specification and evaluation criteria, and is able to resolve ambiguities in consultation with the customer. Capable of developing negotiation strategies, defining parameters and adapting to new circumstances and issues.

⁵ Adapted from: Government Procurement Service (GPS): Skills Framework for Procurement Practitioners (version 3), Office of Government Commerce (UK), 2008

3. Procurement processes (cont)	Has an understanding of the principles of contract administration, and ability to effectively manage/resolve disputes in difficult cases, escalating any critical issues to the appropriate level. Capable of developing systems to collate and optimise performance information on suppliers. Able to drive improvements through constructive feedback.
	Know-how related to the scheduling and monitoring of delivery of orders, inventory management, as well as the development of mechanisms for checking of invoice and payment of contractors.
	Able to lead on the development of key procurement processes, ensure conformance and regularly review to improve effectiveness.
	Competent in the use of relevant ICT systems and electronic procurement applications.
4. Contract management	Aware of procurement ethics, as well as on different types of model contracts and procurement arrangements. Able to develop clear and effective contracts that deliver stated outcomes. Has an understanding of the use of key performance indicators to manage contracted risks and performance. Knowledgeable on how to manage contract variations, ensuring that these are clarified, planned and agreed.
5. Relationship management	Capable of managing supplier relationships through structured supplier and contract management processes, resolving issues in supplier performance and escalating issues when necessary.
6. Markets	Have sufficient knowledge and information to source diverse requirements, identify supply options and build specifications. Ability to analyse and interpret data to identify opportunities for collaboration.
7. Inventory or logistics management	Has a working knowledge of stores and inventory management systems and related technology, as well as a thorough understanding of the principles and systems used for the physical storage and distribution of stock. Able to identify problems with storage facilities or supplies for resolution and improvement.
	Knows what data to collect and use to manage supplies being stored and to evaluate the requirements. Able to evaluate demand for supplies; decide on stock holdings and procurement policies; develop storage strategies and plans that meet the needs of the organisation and optimise supply chain costs; apply inventory control techniques to optimise stock levels; and select optimal distribution and transportation methods.
8. Finance	Aware of the different approaches to purchasing and their respective impact on the organisation's costs and delivery of service. Has a working knowledge of different financing solutions, including partnering approaches with the private sector.
	Capable of identifying and analyzing relevant financial information to undertake comprehensive financial evaluations and calculations.
9. Programme or project management	Able to apply project management principles and change control processes. Capable of providing advice and guidance to project teams and Boards on the implications and consequences of changes on the procurement element of a programme/project.

Appendix D

UK's Buying Solutions' eSourcing Services



In the UK, public sector entities have access to Buying Solutions' *eSourcing Services** framework agreement delivered by three service providers. This provides them with access to a suite of secure web-based collaborative tools specifically designed to assist them, their stakeholders and suppliers throughout the procurement lifecycle, from requirements definition and tendering through to effective contract management.

eSourcing Services are available either as separate stand-alone modules, as a suite of interoperable tools to support the sourcing and contract management activities or in any permutation as an integrated combined service to suit individual customer needs.

The five *eSourcing Services* elements are:

- eTendering
- eEvaluation
- eContract Management
- eVendor Management
- eAuctions

Additional services in the form of consultancy, training and extended helpdesk support are also available to assist customers with the introduction and use of the *eSourcing service*, as well as any change management activities they may wish to consider as a consequence.

* Buying Solutions is an Executive Agency of the Office of Government Commerce in the UK Treasury.

Source: *Buying Solutions, 2009*

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