

**SUPREME AUDIT OFFICE'S
APPROACH TO PERFORMANCE
AUDITING PUBLIC PROCUREMENT**

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Nejvyšší kontrolní úřad

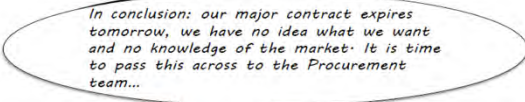
CONTENT

1. Basic facts concerning public procurement (CZ)
2. Planning the performance audits
3. The main study process (fieldwork)
4. Reporting and follow-up activities

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SOUND PROCUREMENT PRACTICES?



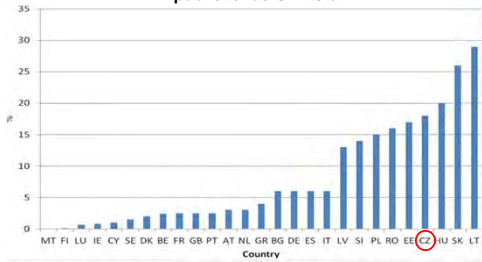
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1. Public procurement in the Czech Republic

Selected public procurement indicators

Restricted tendering procedures as percentage of awarded public tenders in total



Source: EC 2011; Jan Pavel - University of Economics



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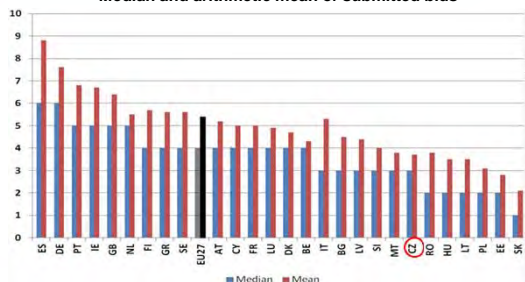
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1. Public procurement in the Czech Republic

Selected public procurement indicators

Median and arithmetic mean of submitted bids



Source: EC 2011; Jan Pavel - University of Economics



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2. PLANNING - What to focus on?

Performance audits with different focus



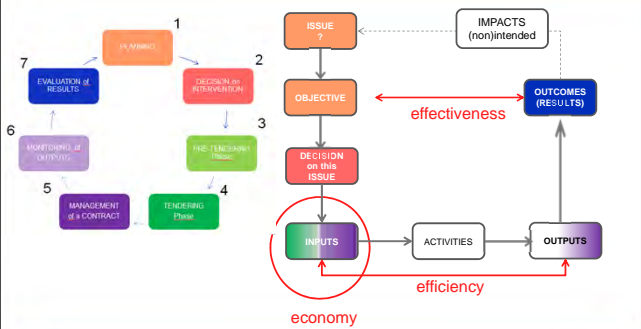
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2. PLANNING – What to focus on



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2. PLANNING - What to focus on

RED FLAGS

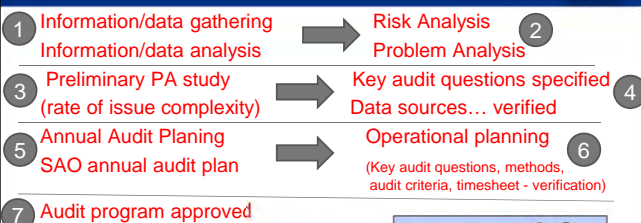
- Non-transparent acquisition planning and unclear or unstable departments' strategies
- Restricted and negotiated procedures applied
- Low number of bids (excluded bidders)
- Sub-criteria (EAT) justifiable with difficulty
- High weight allocated to qualitative sub-criteria as the partial contract award criteria as compared with tender price (EAT)
- Unrealistic expectations and poor results of specific contracts
- Significant contractual modifications after initial contract phase
- Additional works awarded without notification
- DRN – risk based analytical tool (econometric models for each procurement market)

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2. PLANNING – What to focus on



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2. PLANNING – SAO & ISSAI insight

- SAO Audit Standards (Review 2012) comply with ISSAI - minor difference arise from Act on the Supreme Audit Office (planning of individual audit continues after the particular PA approved – 1st step of the fieldwork: delivery of individual audit program)
- Key steps in planning process respected (SAO AS, Act on the SAO)
- ISSAI 3000/3100 – useful recommendations, good practice deduced (two years outlook planning system)
- Full preliminary PA study not performed (reasonable exception covered by ISSAI)
- Audit program refers to SAO AS (not directly to ISSAI)
- Selecting proper audit approach (ISSAI – Result-oriented)
- Not single type of investigation used (ISSAI – mixture of them not mentioned)



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3. The main study process (fieldwork)

WHAT? Centralised procurement – implementation of the CP within the budget chapter of the Ministry of the Interior; Expected benefits (financial savings, better transparency...)

WHO? Ministry of the Interior & Service Agency of the MI

Where? Prague (departments/units involved in acquisition process)

When? Fieldwork (11/2012 – 6/2013),
Audited period (2008-2012)



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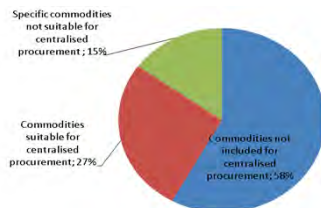
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3. Fieldwork – “Centralised procurement“ (CP)

BASIC FACTS

Proportion (%) of commodities suitable/not suitable for centralised procurement



Source of data: Ministry for Regional Development



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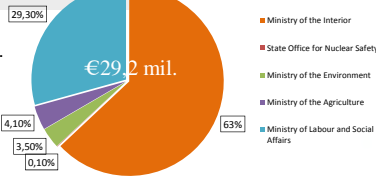
3. Fieldwork – “Centralised procurement” (CP)

BASIC FACTS (in the year 2012)

Obligatory subjects of centralised procurement (since 07/2012)

- Electricity
- Gaseous fuels (selected CPVs)
- Computers and data processing machines
- Office consumers goods (selected CPVs)
- Telecommunication services
- Office equipment (selected CPVs)

Proportion of the value of contracts (framework agreements) awarded through new centralised tenders



➤ Overall value of tenders awarded through centralised tenders: €76,5 mil.

➤ Number of awarded sub-contracts within the performance of framework agreements: 3580 (over 2000 relate to telecommunications services)

Source: Government Resolution no. 580 of 31 July; Annual Report on Centralised procurement 2012



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3. Fieldwork – “Centralised procurement”

Key audit question

Did the implementation of centralised procurement reach the set goals, while minimising the underlying risks and attaining principles of economy, efficiency, effectiveness (3E)?

Setting the goals (sub-questions example)

1. Did the MI set the goals in line with SMART principle?
2. Did the MI create such an environment in which the principles of 3E could be attained?
3. Did the MI set the appropriate metrics that make it possible to compare the achieved results with the specified goals?
4. Did the implementation of centralised procurement reach the prospective goals? - **FINANCIAL SAVINGS**
 - REDUCTION OF SUPPORT PERSONNEL IN ACQUISITION PROCESS
 - SIMPLIFICATION OF ACQUISITION PROCESS IN LINE WITH REGULATION
 - MAJOR IMPROVEMENT IN TRANSPARENCY OF PUBLIC TENDERS



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3. Fieldwork – “Centralised procurement”

Information sources

- Government resolutions and ministerial submissions;
- Management files and strategic and corporate plans;
- Audit reports (08/37), reviews and surveys;
- Internal guidelines, operating manuals and identified best practices;
- Independent experts and observers in the field;
- Discussions with auditee management and key stakeholders;
- Management information and monitoring system of the CP;
- Other relevant information sources as well as official statistics.

Criteria linked to economy (costs)

- Proper procurement procedures
- Appropriateness of the award criteria

Criteria linked to effectiveness (goals)

- Expected outcomes of the CP project implemented by MI
- Expected results of the CP in line with government resolution



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3. Fieldwork – “Centralised procurement“

PA approach and methods used

A result-oriented approach performed from a top-down perspective

- **Quantitative evidence-gathering techniques and analysis**

Open data harvesting and their analysis, studies of documents and management data provided by departmental information systems, measurements of indicators under scrutiny.

- **Qualitative evidence-gathering techniques and analysis**

Interviews (in-depth conversations); observation, studies of project documents, contingency tables; statistical methods – descriptive statistics.



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3. Fieldwork – “Centralised procurement“

PA evidence

Audit covered tenders in the total amount €61 mil. (2008-2012)

Detailed examination of particular public tenders in the total amount €5 mil.

Financial deficiency worth €13,8 mil.

Financial savings – estimated €6,8 mil. for worth €80 mil.

/ measured €19 mil. for worth €74,8 mil.

Personnel savings – not quantified, not measured

Other benefits – not specified/not evaluated



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3. Fieldwork – “Centralised procurement“

Audit findings

- Discrepancy in financial and management control system (FM&C)
- Impact of competitive effect was limited due to unclear contracting strategy
- Poor quality of data used to quantify real needs of MI and subordinated bodies
- Pre-tender process delays – late publishing the contract notice
- Number of errors in the Management Monitoring System (records on financial saving related to major tenders misrepresented up to 80 % of their value)
- Stipulated methods for calculation of financial savings enabled different approach of contracting authorities
- Market price used for calculation of financial saving was based on retail sale prices



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3. Fieldwork - "Centralised procurement"

Audit findings

- Poor procurement information (baseless quantity of supplies)
- Unclear allocation of competence (a lack of internal control)
- Unnecessary tendering exercises (wrong type of tender procedures)
- Economy in some contracts not performed (additional costs)
- Acting not with the key principles of transparency, equal treatment, and non-discrimination (unfair admission criteria)
- A lack of procurement specialists (central acquisition unit)
- Poor management monitoring system (savings overestimated)



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FIELDWORK – SAO & ISSAI insight

QUALITY CONTROL - 3 levels of audit management within the particular audit
- supervision by line manager/director

AUDIT PROTOCOL - complete examination of the audited questions stipulated in a audit program,
- contains facts and findings confirmed by documentation and references,
- gives viewpoints concerning the particular auditee,
- not reported in public,
- the groundwork for Reporting phase



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4. Reporting – SAO & ISSAI insight

AUDIT CONCLUSION = AUDIT REPORT (approved 30. 9. 2013)

- Key findings presented and supported by the facts from the audit protocols (MI and Service Agency of the MI)
- Risks for further development of centralised procurement identified in these areas:
 - Conducting of procurement process
 - Financial and management control system
 - Transparency and Accountability
 - Data reliability and information system support (NIPEZ)
 - Efficiency of the centralised procurement system

Follow-up activities - waiting for the government feedback



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"Thank you" SLIDE

Questions?

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