



# Procurement and contract management

Learning from audit findings

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# Audit and Assurance Services



**Audit**



**Assurance**

# Audit and Assurance Services



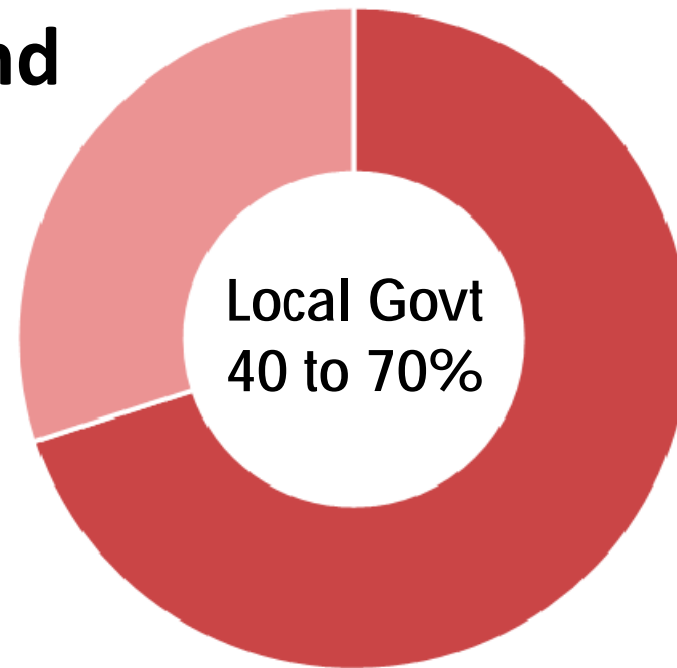
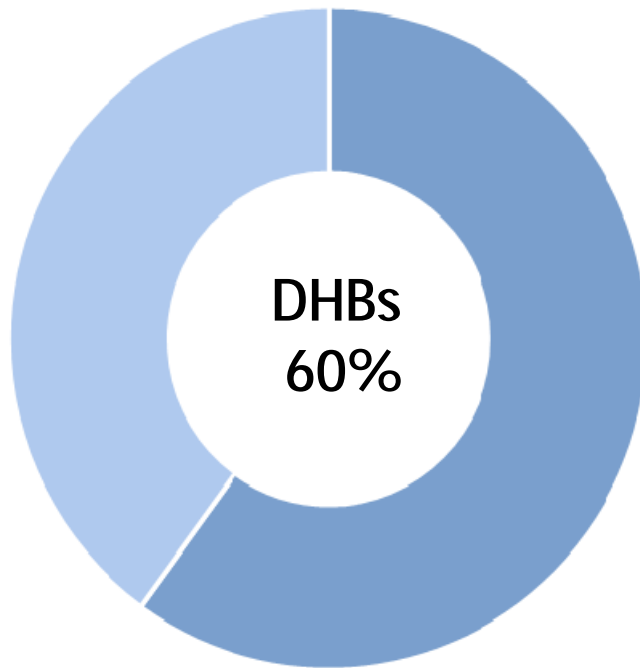
# Why procurement matters (1)



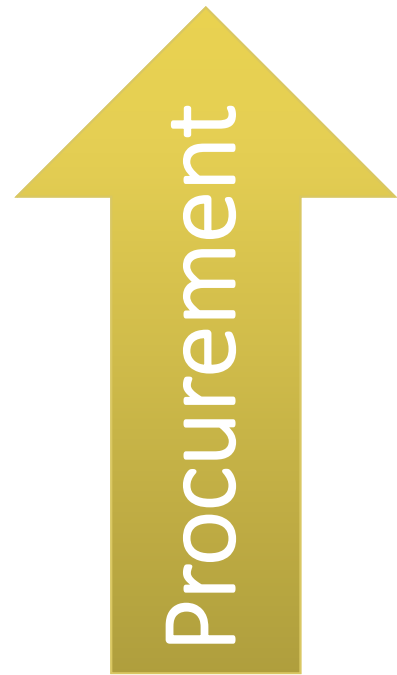
- A major activity for most public sector entities.
- A cross cutting activity - occurring within nearly all parts of an organisation.
- A high risk activity in terms of costs, public and political profile, business reputation and performance.
- Many organisations have large numbers of contracts in place and some are very high value.

# Why procurement matters (2)

## Procurement spend



# Why procurement matters (3)



procurement  
activity growing



risks increasing  
due to the scale and  
value of procurement

# Good practice



[www.procurement.govt.nz](http://www.procurement.govt.nz)

Government rules of sourcing



[www.oag.govt.nz](http://www.oag.govt.nz)

Public sector purchases, grants, and gifts:  
Managing funding arrangements with external parties



[www.cips.org](http://www.cips.org)

CIPS global standard for procurement and supply

# A continuum

## Funding arrangements with external parties

Purchases				Grants		Gifts
Conventional purchase		Relational purchase		Conditional grant	Grant with limited conditions	Gifts and donations
consumables, consultants, contractors	usually an effective market	strategically significant	market may be absent	often 3 <sup>rd</sup> sector	capability development, limited enforcement, lower risk?	low value, No obligations

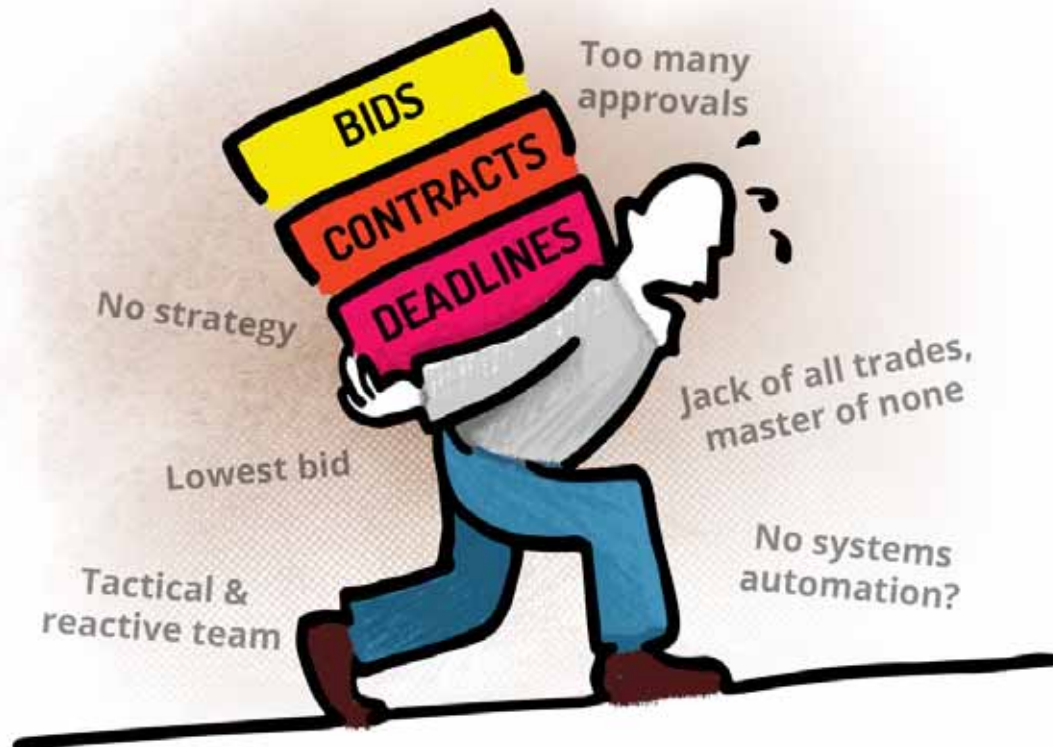


# Emerging practice

- All of Government contracts
- Strategic alliances including Public Private Partnerships
- Panels and pre-qualification
- Early market engagement

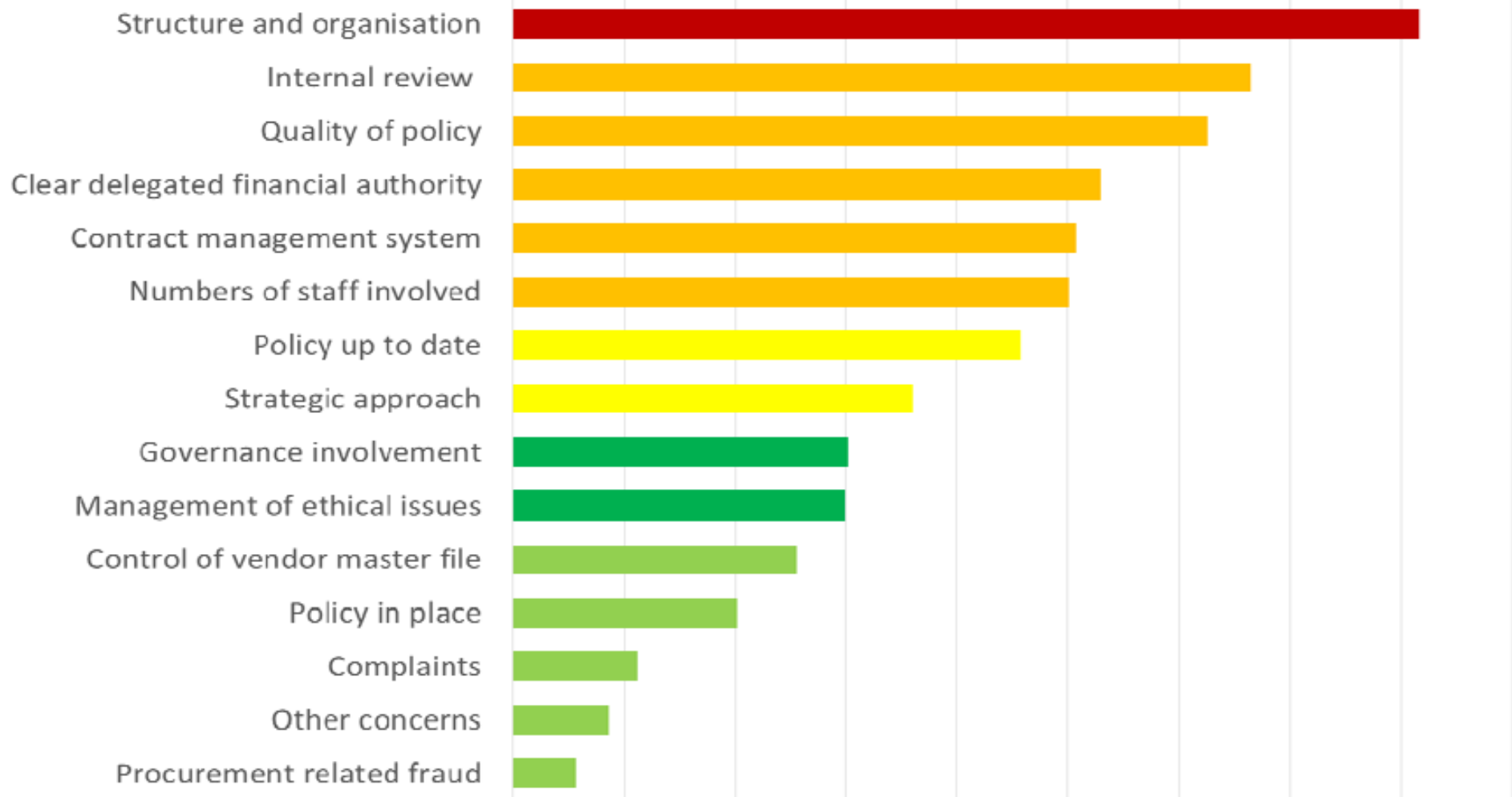
# Observations

## theProblem



# Opportunities for procurement improvement

## Areas for procurement improvement?



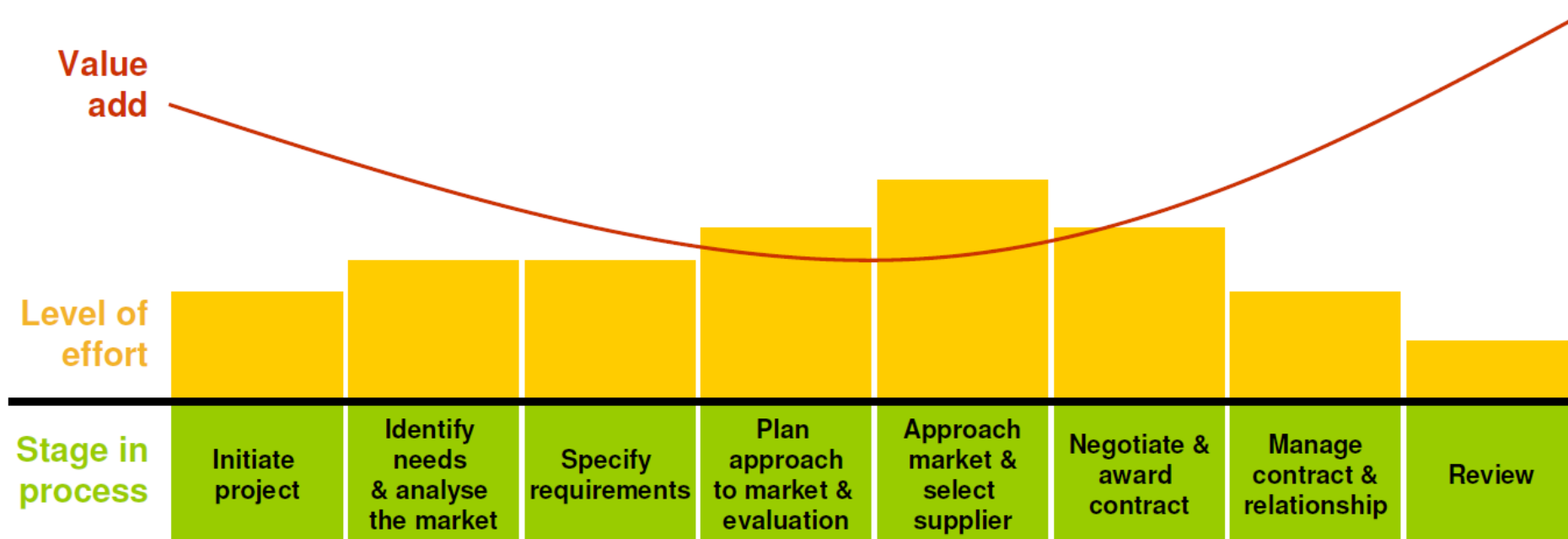
# Opportunities for contract management improvement

## Areas for contract management improvement?



# MBIE's guide to mastering procurement

## Strategic approach to procurement



# Top ten contract management questions for governors and senior managers

1. Is your supplier relationship management strategic?
2. Are your policy, guidance and procedures up-to-date and good?
3. Are staff aware of policy and guidance and supported in its use?
4. Have you got the right number of staff, the right structure & the right capability to manage contracts effectively?
5. Do you have a good contract management and supplier relationship management system?

# Top ten contract management questions for governors and senior managers

6. Are your financial controls robust?
7. Is your contract monitoring sound?
8. How well do you manage completion and transition?
9. Do you review your contract management activities?
10. Are senior management and the governing body interested, well informed and committed to good contract management?



# Some issues



# Early planning

- We find issues with tender processes that can be put down to poor planning.
- Planning may not have occurred early enough.
- Strategy and design for the process may be flawed.
- This can result in short tendering periods and accelerated evaluation of tenders and approvals.
- We still get asked by entities if they are able to award a contract from an RFI process.
- Get the planning right and there is a very good chance of a successful outcome for the tender process.

# Costs of tender processes

- Tender processes can be very costly for everyone.
- Complex lengthy processes may create market concern.
- Shortlisting vendors in a first stage process (ROI, EOI) can reduce the overall vendor costs and only the best vendors are taken forward.

We have found:

- A tender process with 50 odd evaluation criteria - a lot of work for everyone.
- 8 one day interactives for each of 3 shortlisted vendors - an enormous commitment.


# Defining the requirements

- We reviewed a tender process which did not result in any contract.
- The purchasing entity had not understood its requirements well enough and only become aware of this late in the tender process.
- The process had been a lengthy and costly 2 stage process.
- The entity returned to the market at a later time but vendor participation in the new tender process was poor.

# ICT contracts

- This is an area of continuing concern for us.
- A number of ICT projects have not gone well.
- Where failures have occurred issues have been identified with planning, with the definition of requirements and with the contract management.
- A less obvious issue has been that senior management and governance groups were not familiar with the risks.
- The ICT industry also on occasions exhibits behaviours that may not be consistent with public sector expectations.

# Impact of tendering on business as usual



- Major procurements can have a significant impact on the budgets and time demands on organisations and its staff.
- Sometimes staff involved in the procurement struggle to come free of their bau responsibilities.
- This can seriously compromise the robustness of the process.

# Undertaking due diligence

- Identifying a serious issue with a contractor should occur before contract award.
- The more significant the contract then the more comprehensive the due diligence should be.
- Due diligence should include financial status, referee checking, checks for recent or pending legal proceedings, health and safety performance, market reputation, governance etc. It may involve visits to reference sites in NZ or even overseas.
- The results of due diligence should be reported to the governance group for the project.

# Contract management

- It seems ironic that an organisation can undertake a good purchasing process & then fail to manage the resulting contract.
- This is a area of serious weakness that needs to be addressed.
- Contracts don't manage themselves even if some people think they do.
- We find issues with late delivery, cost over runs, poor reporting by both the contractor and the agency's staff, payments in advance of progress, late or no signing of contract documents, insufficient skilled resources to manage the contract, no reporting and no contract management policy, guidance or procedures and no contract management system.

# Managing procurement within a new agency or on a new project

- Potential issues can arise when a new agency is established or where a major new project is to be undertaken.
- Often inadequate public sector experience, training and controls leads to issues.

Some considerations for a new agency or a new project:

- A sound policy environment is needed.
- There needs to be leadership at the top of the organisation.
- Staff need to be trained.
- External support should be considered.
- Internal audit should be implemented early.



# Engagement of consultants

- If you are engaging consultants to assist with a procurement then those consultants should be precluded from supporting any tenderer.
- Otherwise a situation of unfair advantage in the tender process could exist.

# In conclusion

