



Executive summary of the public audit report

CENTRALISED PUBLIC PROCUREMENT

31 December 2013 No. VA-P-20-8-1-26



ABBREVIATIONS AND DEFINITIONS

CPO or **CPO LT** means the public establishment Central Purchasing Organisation.

CPMA means the public establishment Central Project Management Agency.

CISPP means the Central Information System for Public Procurement.

Catalogue CPO.lt or **catalogue** means CPO.lt.

CO means the contracting authority.

LPP means the Law on Public Procurement.

PPO means the Public Procurement Office.

Central Purchasing Organisation CPO LT (CPO) means the organisation that carries out procurement procedures for purchasing goods, services or works and awards preliminary contracts to the successful tender. Until 31 December 2012 the functions of the CPO were performed by the CPMA, and since 1 January 2013 – by CPO LT.

Supplier means any economic entity – a natural person, a private legal person, a public legal person, other organisations and their units, or a group of such persons – that can offer or offers goods, services or works.

Framework agreement means the goods, services or works contract made between the supplier and the contractor pursuant to the provisions of the preliminary contract.

Preliminary contract means the contract between the CPO and the supplier, which lays down the conditions for the framework agreements concluded during the term of the preliminary agreement.

Contractor means any legal person or a group of such persons who can purchase, or purchases goods, services or works.

EXECUTIVE SUMMARY

When procurement of goods, services and works is carried out through the Central Purchasing Organisation (CPO) using the electronic catalogue CPO.lt, it is assumed that this is a centralised procurement. The right to perform the functions of the CPO at the national level has been granted to the public establishment CPO LT. The centralisation of procurement helps streamline procurement, reduce procurement procedures, increase the scale of procurement, and create value added without increasing the budget.

Over the period from 2008 to 2012, the value of centralised public procurement carried out through the CPO went up from LTL 8.4 million to LTL 234.8 million, i.e. almost 28 times; in 2012 this amount accounted for 13 per cent of the total value of the centralised public procurement. The volume of procurement through the CPO is likely to grow even more rapidly due to the new provisions of the Law on Public Procurement that entered into force as from 1 January 2014 pursuant to which contracting authorities will be supposed to buy goods, services and works in a centralised manner unless they can purchase the same in a more efficient and cost-effective way.

The objective of the audit was to look at the efficiency of the use of the public sector funds and administrative resources for the purpose of centralised public procurement through the CPO by answering the following questions:

- Is the electronic catalogue CPO.lt useful and convenient for use?
- Does procurement through the CPO ensure the quality and competitive price of goods, services and works?
- What are the difficulties faced by contracting authorities when carrying procurement through the CPO?
- Does the CPO ensure uninterrupted access for contracting authorities to the electronic catalogue CPO.lt?
- Is there a need to change the CPO funding model.

The audit was conducted at the Ministry of Economy which is responsible for shaping the procurement policy, performs the monitoring of the Strategy for Improving and Developing the Lithuanian Public Procurement System, and implements the property and non-property rights and duties of the state, as of the owner of CPO LT. The data and information was collected at the CPO LT, which is engaged in the performance of centralised public procurement and the development of the information systems designed for centralised public procurement. Surveys of the management and public procurement specialists were conducted at the selected contracting authorities. The auditors also analysed foreign practices and research findings.

The audit covered the period 2010–2012 and 10 months of the year 2013. The data of 2008 and 2009 was also used for analysing changes.

The following public audit conclusions and recommendations were drawn upon the assessment of the audit findings.

CONCLUSIONS

On the convenience and use of the catalogue CPO.lt

1. The current electronic catalogue CPO.lt was developed without considering the increasing number of users, expansion of procurement categories, and diversity of orders; however, the development and introduction of the second version of the catalogue has been delayed, so its advantages are not available to all participants of centralised procurement.

2. The number of medicinal products offered for purchasing through the CPO is going up, the number of suppliers and contracting authorities using the CPO is also increasing, however, it is not always that contracting authorities are able to purchase nominal medicinal products, because these are supplied by a single manufacturer which does not always offer the particular product needed.

On the assurance of the quality and lower price of goods, services and works

3. Suppliers do not always guarantee the supply of goods observing the contracts awarded by the contracting authority because the goods, services or works delivered are:
 - 3.1. in poor quality;
 - 3.2. more expensive than specified in the contract;
 - 3.3. other than specified in the contract, or are not delivered at all.
4. Contracting authorities insufficiently communicate with the CPO and so the latter does not have information on unreliable suppliers and the quality of the execution of supply contracts; as a result, the CPO cannot take appropriate action in respect of such suppliers.
5. There are cases when the price of goods is higher when purchasing these through the CPO than buying independently. This is affected by small amounts of procurement contracts and short periods of validity of the contracts. Also, suppliers do not use all possibilities to get included in the catalogue CPO.lt because they do not provide joint offers.

On the possibility of continuous use of the electronic catalogue CPO.lt

6. When purchasing goods, services or works independently, contracting authorities incur additional costs because the CPO does not always ensure uninterrupted use of the catalogue CPO.lt due to:
 - 6.1. technical deficiencies of the catalogue CPO.lt;
 - 6.2. suppliers' appeals court, which suspends the procurement procedures through the CPO.

On the CPO financing model

7. Currently, the activities of the CPO are fully financed from the state budget. This model is not linked with the need to centralise the procurement of goods, services and works. The development of the CPO will demand more public funds, and centralisation of the procurement of goods, services and works will not be financially justified without having changed the CPO financing model.

RECOMMENDATIONS

To the Ministry of Economy:

1. In order to identify the need for centralised procurement of goods, services and works and to prepare for possible modification of the CPO financing model, the Ministry should develop a methodology for calculating the administrative fee, which depends on the introduction and administration costs of each category of the catalogue CPO.lt.
2. The Ministry should provide for preventive measures to avoid the effects of the suspension of centralised public procurement procedures.

To the public establishment CPO LT:

1. In order to ensure that the second generation catalogue CPO.lt is convenient and useful for all users, CPO LT should:

- 1.1. develop a system for surveying contracting authorities concerning the problems encountered in procurement through the CPO and improper execution of the contracts made between the contracting authorities and suppliers and should take measures to address these problems;
 - 1.2. implement measures that will increase competition among suppliers (provide for a possibility of joint procurement by several contracting authorities and a possibility for contracting authorities to enter the desired maximum price in all categories).
2. CPO LT should ensure a possibility for contracting authorities to implement the obligation laid down in the Law on Public Procurement to purchase goods, services and works through the CPO and have an uninterrupted access to the catalogue CPO.lt.