



Executive summary of the public audit report

## PUBLIC PROCUREMENT IN THE NATIONAL DEFENCE SYSTEM

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# SUMMARY

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## The importance of the audit

Having regard to today's geopolitical situation of Lithuania, one of the most important conditions for the safety of the state is the strengthening of the national defense system. The financing, which increases every year, and the goal to grant 2% of the country's GDP in order to reach the obligation adopted by the members of NATO is an important goal of the country.

Since 2014, the financing of the national defense system has increased by 79% and in 2016 was 574.6M EUR. After restoring compulsory military service, the total number of personnel in the national defense system has increased from 16 thousand in 2014 to more than 19 thousand in 2016. Since 2015, the budget of this system has been balanced in accordance to the NATO requirements regarding the distribution of the proportions of expenditure areas, which is why the increasing Lithuania's military capabilities results in bigger financing. In 2016, the expenses for acquiring long-term assets and using goods and services were approximately 64% of all expenses in the system, which is why a big portion of the expenses are incurred while carrying-out the public procurement contracts.

When actively participating and organizing international trainings, together with allies participating in the international missions and in order to earn the name of a reliable partner it is mandatory that the funds intended for the national defense system would be used rationally and the goods, services and works, which are credible and necessary for achieving the goals, acquired.

The increasing financing and scope of procurement demands bigger control and maintenance in order to avoid the ineffective use of funds, which is why it was decided to evaluate the functioning of the national defense public procurement system.

## The aim and scope of the audit

The aim of the audit is to evaluate whether the national defense public procurement system is operating effectively.

The main questions raised during the audit:

- Whether the public procurements are oriented towards effective acquisition of goods, services and works;
- Whether the conditions are established for the contracting authorities to properly carry-out public procurements;
- Whether the possibility to carryout centralized/consolidated public procurements is exploited.

The Ministry of National Defense, which is responsible for the organizing and carrying-out of public procurements in the national defense system, was chosen by the subjects of the audit.

The audit covered the third quarter of 2016-2017 period. This quarter was chosen in regards to the in 2016 started reorganization of the public procurement system of national defense. In order to comprehensively evaluate the system, in certain cases we analyzed the data from previous periods.

The audit was carried-out in accordance to the public audit requirements and international standards of the supreme audit institutions. The scope of the audit and methods applied are described in more detail in Annex No.: 2 "The Scope of the Audit and its Methods".

## The main results of the audit

### **In 2016, not all rational use of funds ensuring actions were carried-out**

In the national defense system, the contracting authorities not at all times of procurement planning determined the planned procurement values, which conform to the market prices, while carrying-out the procurements arbitrary adopted decisions to increase the determined planned value of the public procurement and there were cases when the value of concluded contracts was higher than the average market prices. In 2017, the Ministry of National Defense identified these shortcomings and took-up means to eliminate them; additional control means were envisaged to control these risks. In order to implement the confirmed means properly, the management must pay attention to the security of internal control operation.

### **Information regarding the administrative expenditures of the public procurements is not collected**

The Ministry of National Defense does not have information neither on the expenditure for initiating the public procurement, neither on the expenditure incurred while carrying-out the procurement contract. During the audit, only the expenditure incurred while carrying-out the public procurement was calculated. Information on these expenditures is not comprehensive, because the Ministry does not have information on all of the employees, who participated in the public procurement commissions. This data is important when carrying-out the monitoring of the public procurement system and adopting substantiated decisions regarding system enhancement, implementation of new means of control etc.

### **In 2016, the contracting authorities did not have full capabilities to perform public procurements properly**

Not all contracting authorities of the national defense system assess that they have enough number of public procurement specialists; the contracting authorities state that the evaluation of the competence of public procurement specialists is not carried-out and that not all specialists of the contracting authorities in 2016 participated in the public procurement trainings. Part of the public procurement organizing and execution functions was carried-out by specialists to whom this was not a primary function; this increases the risk regarding improperly carried-out procurements. In 2017, the Ministry of National Defense took-up means to solve issues related to proper procurement fulfillment conditions, however, a mechanism for accumulating and analyzing information on all of the employees, who participate in the planning and execution processes of public procurements, was not created and the issue on how to evaluate the competence of these specialists was not determined.

### **A proper monitoring of the public procurement system is not ensured**

In order to evaluate the public procurement activity properly, the determined goals, tasks and performance indicators of the public procurement system are one of the most necessary conditions. The goals, tasks and performance indicators of the national defense system were confirmed in 2012. Additionally, the management of public procurement data is carried-out, the data gathering system and control evaluation system was created. However, after confirmation the goals of the public

procurement system, tasks or performance indicators were not reviewed, a systemic analysis of performance indicators is not carried-out. Due to these reasons, it is impossible to adopt substantiated decisions regarding the enhancement of the system, its efficiency and effectiveness cannot be evaluated, comparative analysis performed and certain tendencies, which are necessary to enhance the area of public procurement further, envisaged.

### **A confirmed action plan, by which it is intended to centralize the national defense system's acquisitions, contributes to the effectiveness of the national defense system**

On 24-03-2017, an action plan, which reorganizes the national defense system's acquisition area by establishing an agency responsible for defense provisioning and system control, was confirmed. The means envisaged in it and which are being now implemented contribute to the increase of the public procurement system's effectiveness. However, in order to ensure a proper future functioning of this system, it is purposeful to analyze continuously the risk factors associated with the acquisitions centralization process.

## Conclusions

In 2016, the national defense public procurement system operated with shortcomings. At the end of the same year, the Work Group on Review of Acquisition Process, Procurement Organizing and Enhancement of Control and Maintenance, which was formed in the Ministry of National Defense, provided means to eliminate these shortcomings. Having regard to this, the plans for enhancing the current public procurement system and means for reorganizing the acquisition area by establishing an agency, which carries-out the centralized procurements, were confirmed; these plans are being implemented at the moment. They contribute to the betterment of the system's effectiveness. However, a proper monitoring mechanism of the public procurement system was not created (the means envisaged in the plans do not encompass all possible methods for promoting effectiveness, e.g., a sufficient monitoring mechanism of the effectiveness of the public procurement system is not envisaged, the issue on how to evaluate the competence of specialists participating in the public procurement processes is not solved and the analysis of risk factors associated with the centralization process of public procurement is not envisaged). Moreover, in order for the additional means of control, which were confirmed during the reorganization and which are oriented towards the system's enhancement process, to function properly, the management must pay enough attention to ensure the proper functioning of internal control.

## Recommendations

### For the Ministry of National Defense

1. In order to ensure a continuous public procurement system's enhancement process, a proper monitoring mechanism of the effectiveness of the system must be envisaged, which would encompass:
  - The continuous analysis of the determined performance indicators;
  - The evaluation of competence of the specialists participating in the public procurement process;
  - The analysis of risk factors associated with public procurement centralization process.

The means and terms for implementing the recommendations are provided in the “Recommendations’ implementation plan” (p. 23) of the report.