

PROCUREMENT AND SUPPLIES SERVICES PROVIDED BY THE GOVERNMENT LOGISTICS DEPARTMENT

Executive Summary

1. The Government Logistics Department (GLD) provides bureaux/departments (B/Ds) with procurement and supplies services, which include procuring stores that exceed their direct purchase authority limits and coordinating the purchasing card programme for low value purchases. In 2011, the GLD handled some 450 contracts on procurement of stores and services on behalf of B/Ds at a total value of \$5,385 million, representing one third, in value, of stores and general services purchased by the Government. The remaining two thirds were procured by the B/Ds without going through the GLD. About 260 posts in the GLD are involved in providing the procurement and supplies services. The Audit Commission (Audit) has recently conducted a review of the GLD's provision of these services.

Procuring stores and services

2. Roughly 70% of the contracts handled by the GLD were awarded by tender which required the GLD and B/Ds to follow a set of prescribed procedures that on average took 211 days to complete. The remaining 30% of the contracts were awarded by quotation, which involved only selected suppliers and less elaborate procedures. The average time of completing procurement by quotation was 87 days. Because of the long time it takes to complete an open tender exercise, there may be a tendency to find ways to do the procurement by quotation even when open tendering is desirable for obtaining more competitive bidding. In Audit's view, the GLD, together with the respective originating B/Ds, needs to better plan and explore ways to shorten the time required to complete the tender exercises.

3. *Use of tender procedures.* Achieving best value for money and maintaining open and fair competition are the twin policy objectives for government procurement. In this respect, the Government Stores and Procurement Regulations (SPRs) require that B/Ds shall follow tender procedures when making purchases of

Executive Summary

stores and services exceeding \$1.43 million which is a requirement set by the Financial Services and the Treasury Bureau in reference to the Agreement on Government Procurement of the World Trade Organization. However, Audit sample check of purchases made for B/Ds by the GLD has revealed cases of non-compliance with these SPR requirements (i.e. making repeated purchases of less than \$1.43 million each by quotation instead of adopting tender procedures for bulk purchase).

4. *Use of online tools.* Audit has found that some public sectors of overseas countries have adopted electronic auctions for suppliers to bid via the Internet for a contract to provide goods or services. Electronic auctions are recommended when the contract specifications are clear cut and the contract values are large enough to attract competition. Electronic auctions can achieve cost savings and other benefits, including higher procurement efficiency, enhanced transparency by disclosing all bids in real time and provision of comprehensive audit trails by electronic records. The GLD handles some 270 tenders a year, with the majority over \$3 million in value each. It has the potential to adopt electronic auctions.

Coordinating the purchasing card programme

5. The GLD is the coordinator of the purchasing card programme. The programme, introduced in 2000, requires B/Ds to use purchasing cards as the normal means to purchase low value stores and services not exceeding \$50,000 in accordance with the SPRs and the GLD's guidelines. The programme objectives are to streamline the procurement and payment processes and improve administrative control over low value purchases.

6. Audit examination revealed that the purchasing card programme had still not been fully implemented service-wide. In 2011, seven B/Ds spent a total of \$290 million on low value purchases which were made without approvals for not using purchasing cards. According to the GLD's guidelines, B/Ds should review cardholders' activities regularly to identify inactive cardholders, rejected transactions and other issues for taking appropriate follow-up actions. However, Audit found that in 2011 there were many inactive cards and many rejected transactions, suggesting room for improvement in B/Ds' management of the purchasing cards issued to their staff. In addition, Audit review of two selected departments (namely the Department of Health and the Electrical and Mechanical

Executive Summary

Services Department) has identified problems (such as purchases exceeding \$50,000) in their use of purchasing cards.

Monitoring compliance with Stores and Procurement Regulations

7. According to the SPRs, Controlling Officers are responsible for the general supervision and control of stores and stores accounts and the services procured under their control, ensuring that the activities are conducted within financial limits and are in strict accordance with the SPRs. The GLD conducts stores verifications of B/Ds at least once every three years to verify stocks of government stores held by them and check whether they comply with the SPRs on the management and procurement of government stores and services.

8. Audit review of the results of the GLD's stores verifications of B/Ds in the past three years (2009-10 to 2011-12) revealed that many B/Ds had not strictly complied with the SPRs. For example, 44 B/Ds were found to have excessive/dormant stocks. In addition, 30 B/Ds had not taken proper follow-up actions on the recommendations in the GLD stores verification reports.

Audit recommendations

9. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director of Government Logistics should:**

Procuring stores and services

- (a) **explore ways to shorten the time required to complete a tender exercise;**
- (b) **uphold a culture of compliance with SPR requirements and remind B/Ds to closely monitor their staff's compliance in adopting tender procedures when the procurement requirements of stores of a similar nature exceed \$1.43 million;**

Executive Summary

- (c) establish procedures to monitor user B/Ds' repeated requests for procuring stores of a similar nature by quotation and promptly advise those B/Ds with procurement requirements exceeding \$1.43 million to adopt tender procedures for the bulk purchase of these stores;
- (d) in consultation with the Government Chief Information Officer, explore the feasibility of introducing electronic auctions for procuring goods and services, taking into account overseas experience;

Coordinating the purchasing card programme

- (e) conduct further studies of the administrative problems commonly encountered by B/Ds and seek the support of the Secretary for Financial Services and the Treasury to implement other improvement measures as appropriate;
- (f) regularly remind B/Ds of the need to comply with the SPRs and the GLD's guidelines in their use of purchasing cards, including the need to review cardholders' activities to identify issues such as inactive cards for appropriate follow-up actions; and

Monitoring compliance with Stores and Procurement Regulations

- (g) closely monitor B/Ds' compliance with the SPRs in respect of the general supervision and control of stores and services.

10. Audit has also *recommended* that the Director of Health and the Director of Electrical and Mechanical Services should, with the assistance of the GLD, implement appropriate measures to address the problems identified by Audit in their use of purchasing cards.

Response from the Administration

11. The Administration agrees with the audit recommendations.