

Conclusions and recommendations of the National Audit Office

Central government's long-term service procurements

The audit assessed long-term public procurement of services. In this audit, long-term procurement refers to a situation where the central government has purchased certain services from the same service provider for a long time. The audit was launched as it was known that several central government authorities have long-term relations with suppliers and that there were risks related to the regularity, appropriateness and economic efficiency of the procurements.

The audit covered six central government contracting entities and a total of fourteen long-term procurements. The contracting entities were the Development and Administrative Centre for the Ely Centres and TE Offices (KEHA Centre), the Finnish Immigration Service, the National Police Board, the Government ICT Centre (Valtori), the ELY Centre for Southwest Finland and the Finnish Transport Infrastructure Agency. The audit examined the regularity and economic efficiency of long-term procurements and the appropriateness of internal control in the contracting entities. In addition, the audit examined why long-term procurement relationships are established.

Of the fourteen procurements, nine were related to the construction, maintenance or development of information systems, three to the maintenance of transport infrastructure or transport services and two to reception centre services. The procurements varied in value: the value of the smallest procurement totalled about EUR 2 million in seven years, while the value of the largest procurements was EUR 5–10 million a year.

The audit did not assess the necessity nor the quality or success of the procurements audited. The audit was conducted as a combined audit where both the compliance audit and the performance audit approaches were applied.

The long-term service procurements audited included direct purchases that should have been tendered

The long-term central government service procurements audited included direct procurements that, according to the understanding obtained in the audit, should have been subject to competitive tendering. In three of these cases, the contracting entity was the Finnish Immigration Service and in one case, the KEHA Centre.

The Finnish Immigration Service carried out competitive tendering for the UMA Information System in 2006. The National Audit Office finds that the procurement should have been re-tendered in 2011 when major changes were made to it. Instead of tendering, the Finnish Immigration Service started to implement and maintain the UMA Information System through extensive direct

procurements. The framework agreement has expanded considerably both in terms of its content and in euros.

The audit also covered two service procurements of the Finnish Immigration Service's reception centre activities. According to the understanding obtained in the audit, both cases have been partly carried out through direct procurements contrary to the Act on Public Procurement and Concession Contracts (Public Procurement Act).

According to the audit findings, one of the audited long-term service purchases of the KEHA Centre has also been partly implemented as a direct procurement contrary to the Public Procurement Act. The service should have been re-tendered after the expiry of the framework agreement, but instead, the KEHA Centre has continued to purchase the service through direct procurement.

In all the cases above, the National Audit Office paid attention to the fact that the conditions for direct procurement laid down in the Public Procurement Act are exhaustive. As direct procurement is an exception to the general obligation to arrange competitive tendering of procurements in a transparent manner, the conditions for its application must be interpreted restrictively.

The audit did not find any other material shortcomings in the procurement procedures used. No material shortcomings were found in the procedures for announcing the procurement, processing the tenders and making the procurement decision and contract. However, some individual shortcomings were observed, mainly with the above-mentioned direct procurements and particularly with their contract procedures and procurement decisions.

Most of the procurement documents had been archived comprehensively, but there were also shortcomings

The procurement documents were comprehensively and systematically available for the audit in most of the audited central government's long-term service procurements, even though some of them had been tendered quite a while ago. In individual audited cases, deficiencies in the archiving of procurement documents affected the ex-post auditability of the regularity and appropriateness of the procurements.

There are risks related to the internal control of appropriate competitive tendering and the management of procurement contracts

The audit revealed shortcomings in the internal control of appropriate competitive tendering of long-term service procurements in two contracting entities. In addition, in some of the audited procurement cases, all key procurement documents were not available, which may affect not only the ex-post auditability but also the contracting entity's opportunities to appropriately monitor and oversee the procurement.

The audit did not reveal any other material shortcomings in the six contracting entities audited, as regards internal control. However, individual shortcomings were found, for example, in the lifecycle management of contracts.

Lack of competition is an important risk to the economic efficiency of procurement

One of the starting points in the audit was the suspicion that, in long-term procurements, the central government's position as the service buyer becomes weaker, while the price of the service becomes high. In the audited procurements, this hypothesis was not confirmed – at least to any substantial extent. The economic efficiency of the procurements was examined from four perspectives, and the majority of the results were good or moderate. Thus, it did not appear in the audit that, overall, the central government's position as the service buyer would have weakened in such a manner that the prices of the services would have increased considerably.

However, there were clear problems and risk factors in the economic efficiency of the audited procurements. The most important one was the lack of competition: there were individual procurements for which competitive tendering had not been carried out at all, only a small number of tenders had been received in some cases, and a large number of direct procurements had been made to extend a tendered contract period.

In several of the audited service procurements, the contracting entity had received only one or two tenders. The National Public Procurement Strategy emphasises that in order to receive good tenders and achieve sufficient competition, public procurements should be of interest to different tenderers, and it should be easy to take part in the tendering process. Based on the audit, the contracting entities have not fully succeeded in managing procurement as a strategic activity that exploits the competitive conditions in full.

In individual procurements, the grounds for price changes were also problematic as they were presented in the contracts in too general terms. However, in most procurements, price changes had been managed appropriately in the contracts, and the prices had risen in line with indices. In three cases, the anticipated value of the procurement had been exceeded clearly, whereas in most cases, the procurement had remained within the anticipated value.

Recommendations of the National Audit Office

1. The Finnish Immigration Service and the KEHA Centre should take action to ensure appropriate internal control procedures in the competitive tendering of long-term service procurements.
2. The Finnish Immigration Service and the KEHA Centre should ensure that procurement documents are listed, organised and archived appropriately. The Government ICT Centre Valtori should ensure that procurement documents are archived adequately in view of the oversight of transferred contracts.
3. The KEHA Centre should pay attention to the definition of the terms and conditions of price changes in procurement contracts. In steering procurement, the Ministry of Finance should clarify how indices should be used as grounds for price changes.
4. The audited contracting entities should pay attention to the number of tenders and strive to ensure that competitive tendering attracts different tenderers and is easy to take part in so that sufficient competition can be achieved and several good tenders can be received.