Public procurement in the Bank of Estonia

Audit report No. OSI-2-6/06/99 of 11 December 2006

Summary

The purpose of the audit was to identify whether the Bank of Estonia has adhered to the requirements provided by the Public Procurement Act upon purchasing goods and services and commissioning construction work. The National Audit Office audited 32 public tendering procedures (with a total value of EEK 20.5 million) organised by the Bank of Estonia and analysed payments made to various suppliers at the time, which exceeded EEK 100,000.

During the audit it became evident that public procurement is generally well-documented in the Bank of Estonia. The tender documents have been prepared well. Procurement contracts have been made professionally and in the interests of the Bank of Estonia. If possible, two or more tenderers were invited to participate in the tendering procedure. The internal procurement instructions, which are applied in the Bank of Estonia if, according to the estimate of the Bank, the procurement procedure provided for in the Public Procurement Act does not have to be applied, have mostly been followed.

In the audited period the Bank of Estonia has made payments to various suppliers in the amount of EEK 190 million.

During the audit it became evident that public procurement has been implemented to the extent of nearly EEK 86 million without duly following the Public Procurement Act. The National Audit Office is not pleased with the custom of the Bank of Estonia to act pursuant to the Bank's internal procurement instructions rather than the Public Procurement Act when organising public procurement.

Observations

The National Audit Office identified the following violations and deficiencies upon implementation of public procurement in the Bank of Estonia:

- Implementation of public procurement pursuant to a special procedure (the so-called exception of the Bank of Estonia) has not always been convincingly reasoned.
- A tendering procedure has not been organised due to the reason that there are well-functioning supply contracts.
- A tendering procedure has not been organised because similar purchases could not be combined into a larger procurement.
- Public procurement declarations have not always been submitted to the Public Procurement Register.
- Unjustified down payments have been made.

Recommendations to the Governor of the Bank of Estonia

For the purpose of prevention of such deficiencies and improvement of public procurement in the future the National Audit Office recommends the following:

- To establish a work group, which draws up new public procurement instructions of the Bank of Estonia for the purpose of carrying out tendering procedures in compliance with the Public Procurement Act.
- In the new procurement instructions to determine the areas of responsibility of the heads of the structural units upon implementation of the procurements.
- To stipulate in the procurement instructions the principles on the basis of which it is decided whether an exception may be made in the case of the procurement. This allows for choosing and organising a suitable tendering procedure in compliance with the requirements of the Public Procurement Act.
- To obligate the heads of department to review all procurement contracts on the basis of which the purchase of goods/services is continued and if the contract has expired, organise suitable tendering procedures.

- In the new procurement instructions, to preserve the principles which obligates department heads to regularly review the total amount of individual purchases and organise a suitable tendering procedure in the case of goods/services which equal or exceed the public procurement threshold.
- To ensure timely submission of the declaration (public procurement report) to the Public Procurement Register: to make it a direct duty of department heads.
- To preserve the following principles in the new procurement instructions:

    - Making a down payment to the supplier is usually prohibited.
    - In the case of exceptional circumstances the person acting in the name of the Bank of Estonia must coordinate the down payment with an employee having more extensive authorisation pursuant to the transaction procedure of the Bank of Estonia.
    - The circumstances pertaining to the down payment must be documented.

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In his reply the Governor of the Bank of Estonia agreed with the position of the National Audit Office that in order to ensure in the Bank of Estonia the due fulfilment of all the operations provided for in the Public Procurement Act, the organisation of public procurement and the system of planning tendering procedures must be improved in the Bank. The Governor confirmed that in connection with the recommendations made by the National Audit Office a relevant work group will be formed.

The explanations of the Governor of the Bank of Estonia regarding the violations of the Public Procurement Act once again indicate that the Bank of Estonia does not abide by the requirements of the Public Procurement Act due to poorly reasoned and unconvincing security risks as well as that legal tendering procedures are not organised due to inadequate planning. The National Audit Office hopes that the public procurement work group formed by the Bank of Estonia will draw up clear criteria the observation of which would preclude a situation where the so-called exception of the Bank of Estonia would be applied arbitrarily or where inadequate planning of procurement results in violations of the Public Procurement Act.

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