

Governance Arrangements Guideline

Purpose

This Guideline provides guidance for public authorities on establishing suitable procurement governance structures/arrangements for their procurement and contract management operations.

Role of the Chief Executive

The public authority Chief Executive (or equivalent) is responsible for ensuring their public authority has an appropriate internal procurement framework and governance structure in place to satisfy the requirements of the South Australian Government Procurement Framework (the Framework).

The Chief Executive may choose to establish a Central Procurement Unit (CPU) and/or be supported by a Procurement Governance Committee (PGC) to govern key procurement functions.

Governance Structures

The ideal procurement governance structure can vary between public authorities. A range of factors should be considered when determining whether to establish a PGC and/or CPU, including the public authority's procurement profile, organisational structure and strategic direction.

The governance structure should operate to ensure:

- governance arrangements for procurement are clear, understandable and, where relevant, integrated with other governance functions of the public authority
- procurement delegations (i.e. authority to approve an approach to market or a procurement outcome) are documented, integrated with broader organisational delegations, kept up-to-date and communicated internally
- procurement risk management processes are incorporated into the public authority's overall risk management systems
- appropriate systems and processes are in place to monitor and benchmark procurement performance and outcomes
- internal procurement policies, guidelines and templates meet the public authority's needs and are updated regularly
- records are maintained, and confidential information is appropriately managed
- suppliers have a transparent and effective experience working with the public authority.

Overall, the chosen procurement governance structure should maximise opportunity and minimise risk for the public authority. Further information is provided at Appendix 1.

Governance Arrangements Guideline

Procurement Governance Committee (PGC)

If it is determined that a PGC is required, it is required to operate according to a written Terms of Reference which should specify the function, membership, roles, responsibilities, meeting conduct and minimum training requirements.

Membership of the PGC should comprise a mix of senior level officers (including executives), and technical staff from the public authority. Members should have capability to contribute appropriate management and subject expertise in areas such as risk, financial management, strategic planning, project management, and/or information systems.

It is critical that members of the PGC have the appropriate capability to make timely and informed procurement decisions, which meet the requirements of the South Australian Government Procurement Framework and assist the public authority to achieve its strategic objectives.

Central Procurement Unit (CPU)

The Chief Executive will decide whether to establish a CPU based on the public authority's procurement governance structure and procurement profile.

An effective CPU should be supported by appropriate procurement governance arrangements to ensure the CPU has the requisite authority to deliver its objectives. Additionally, staff within the CPU undertaking procurement functions should have the appropriate expertise and experience to deliver the scale and complexity of those functions.

If a CPU is established, the public authority should consider the role of the CPU in relation to the following procurement functions:

- communication with suppliers
- procurement reporting
- forward procurement planning
- oversight of contract management
- relationship with internal audit.

Examples of some procurement models (including centralised and decentralised models), and risks and opportunities are outlined in *Appendix 2*.

Procurement as part of project governance

Certain projects (i.e. higher value, complex/strategic or sensitive projects) may require their own project governance structures. For those projects with their own project-specific governance arrangements in place, the public authority should consider whether those arrangements are suitable to oversee the procurement

Governance Arrangements Guideline

governance activities related to the project. If not, then all procurements related to the project should follow the public authority's usual approval processes.

If the project-specific governance structure will be responsible for procurement-related decisions, then the public authority should consider how that governance structure will integrate with/report to the public authority's usual procurement governance structure (i.e. CPU and/or PGC).

Alignment of public authorities

Chief Executives may choose to implement an internal procurement framework for their own public authority or elect to follow the internal procurement framework of another public authority i.e. become 'aligned' to that public authority's internal procurement framework. This can be achieved through either a written agreement between the two public authority Chief Executives or by Ministerial direction.

Where two public authorities become aligned, the 'host' public authority may take on all responsibilities related to the procurement operations of the 'aligned' public authority, or they may only be aligned for a limited purpose (i.e. procurement reporting and/or approval processes). The written agreement (or direction) should specify the roles and responsibilities of each public authority so that the governance arrangements are clear, with no ambiguity as to which public authority is responsible for what.

Procurement Services SA

Procurement Services SA's Client Services team can support public authorities with the management of specific goods and service procurement processes for public authorities with limited internal capability under a fee for service arrangement.

Review

The governance structure supporting the public authority's procurement and contract management practices is likely to evolve as its procurement profile (or organisational structure/strategic direction) changes.

Public authorities should regularly review their procurement practices and related governance structures to consider the extent to which it continues to meet the needs of the public authority. It is recommended that this analysis forms part of the required Biennial Internal Review.

Governance Arrangements Guideline

Appendix 1: Key factors when determining the optimal procurement governance structure

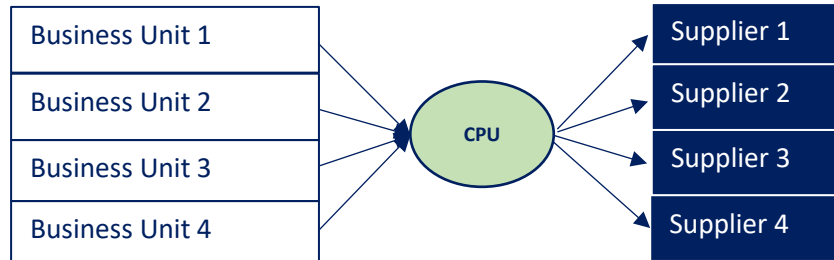
When analysing the public authority’s procurement activity holistically (not per activity), consider the following factors:

<p>The Public Authority Context</p>	<ul style="list-style-type: none"> • Spend profile • Typical complexity and risk of procurement activities • Diversity of procured goods and services • Whether the public authority has an emergency management function • Geographical coverage/location(s) of the government services provided, government offices • Overall risk of the government services provided • Procurement capability within the public authority • Operating systems (i.e. current systems that support procurement activity in a centralised or decentralised model) • Maturity of the public authority • Executive oversight of the procurement function
<p>Supplier Market</p>	<ul style="list-style-type: none"> • Diversity, maturity and quality of supplier markets • Size of supplier markets • Importance of public authority’s purchases within the supplier markets • Location of suppliers
<p>End-User Needs</p>	<ul style="list-style-type: none"> • Regularity of the needs (i.e. one-off or regular use) • Need for customised vs standard goods and services • Diversity/similarity of needs between end-users • Contract management requirements



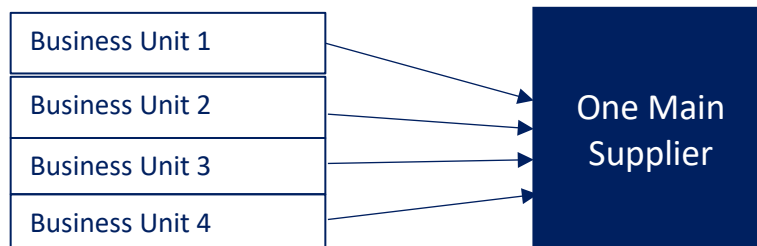
Appendix 2: Example Procurement Operating Models

Fully Centralised Procurement Unit System



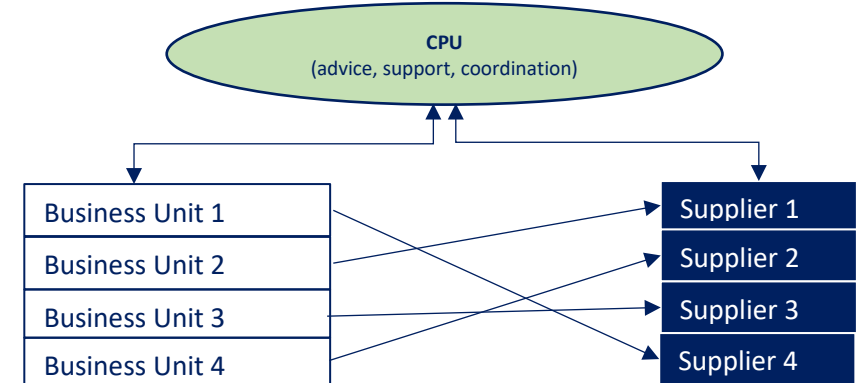
- CPU undertake all procurement activity
- Suppliers have a relationship with the CPU only
- Business units provide information to CPU relevant to support procurement processes.

Decentralised Procurement System with one Main Supplier



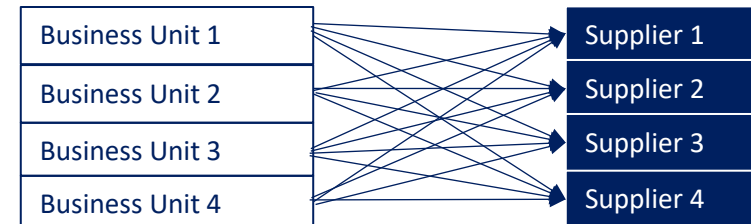
- All procurement functions undertaken by individual business units
- Direct relationships between business unit and supplier
- Supplier has multiple relationships within the public authority
- Supplier may be delivering multiple goods and services
- Coordination may exist between business unit.

Coordinated / Hybrid System



- CPU provides a support, advisory and coordination function to Business Units and suppliers
- CPU often most involved during planning & sourcing phase, and business units often involved in contract management phase.

Decentralised Procurement System – multiple suppliers



- All procurement functions undertaken by individual business units
- Direct relationships between business units and suppliers.

Opportunities and Risks of Centralised / Decentralised Procurement Functions

	Centralised Procurement Unit	Decentralised Procurement Model
Opportunities	<ul style="list-style-type: none"> • Qualified/trained full-time procurement staff and professionalisation of the procurement function • Increased purchasing power and realisation of better value-for-money outcomes • Improved supplier relationships through one, consistent and central point of contact • Independent assessment of proposed purchase and review of need • Standardised procurement activities, ensuring best practice processes are followed, promoting transparency, accountability and probity • Automated and integrated procurement systems and processes • Greater attention to contract management • Consistency in reporting • Consistent and centralised records management • Fewer overheads and reduction in duplication of staff efforts • Efficiencies created for ad-hoc purchasing (often taking up time of staff in the business unit) • Information sharing and cross-pollination of lessons learnt. 	<ul style="list-style-type: none"> • Access to technical/subject matter expertise, resulting in high quality specifications • Ability to be more agile and flexible to meet the needs of both the business and suppliers (lack of administrative duplication) • Strong supplier relationships developed by the intimate technical/subject matter expertise • Ability to make use of local supplier relationships and local discounts (particularly relevant is very geographically diverse) • Potential to be more cost-effective for small public authorities • Procurement expertise is disseminated throughout the public authority • Ability for greater agility in procurement operations • Procurement outcomes directly aligned to strategic direction of a particular area of a public authority.
Risks	<ul style="list-style-type: none"> • Loss of technical/subject matter expertise, leading to purchase of unsuitable goods and services • Loss of local knowledge and local relationships if the public authority is particularly geographically diverse (this could lead to the decrease in opportunities for Small to Medium Enterprises (SME) to compete for contracts) • Delays in the procurement of ad hoc, transactional goods and services • If it is a small public authority, it may not be cost effective to have staff and systems that only deal with procurement • A centralised function could increase opportunity for corruption and favouritism due to resources concentrated in one Unit • Complexity of managing large business units. 	<ul style="list-style-type: none"> • Inconsistent practice across the organisation • Lack of suitably qualified personally undertaking procurement functions • Inefficiencies and inconsistencies in procurement reporting • Risk of policies and procedures not being followed • Lack of central oversight within the public authority which may lead to inefficiencies and missed opportunities • Harder to realise purchasing power • Probity issues due to the lack of oversight and limited ability for peer review • Missed opportunities for information sharing with procurement professionals (best practice).

