

Governance Arrangements Guideline

Purpose

This Guideline provides guidance for public authorities on establishing suitable procurement governance structures/arrangements for procurement and contract management within their agency. It is intended to support public authorities to improve the quality, consistency and professionalisation of their procurement and contract management practices.

This guideline should be read in conjunction with the *Procurement Governance Policy*.

Role of the Chief Executive (CE)

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

In accordance with the *Procurement Governance Policy*, public authorities are required to have appropriate internal governance arrangements in place to make timely and informed decisions and deliver the public authority's Internal Procurement Framework.

To efficiently and effectively manage this responsibility, the CE may authorise/delegate other persons to carry out these functions.¹

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

Governance Structures

The ideal Procurement Governance Structure can vary between public authorities. It will ultimately depend on the public authority's procurement profile, and the public authority's organisational culture and strategic direction. There are a range of factors for consideration when determining whether to implement a PGC and/or CPU.

Outcomes of a Governance Structure

The following outcomes are required of public authorities, and any proposed governance structure should operate to effectively meet these suggested requirements:

- governance structures for procurement are clear, understandable and, where relevant, integrated with other governance functions of the public authority;

¹ As per the Governance Policy, the CE cannot delegate the approval of an Acquisition Plan for a single source market approach valued over \$550,000.

Governance Arrangements Guideline

- procurement delegations are documented, integrated with broader organisational delegations, kept up-to-date and communicated to appropriate internal stakeholders;
- 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;
- procurement policies, guidelines and templates meet the public authority's needs and are updated regularly;
- records are maintained, and confidential information is appropriately managed; and
- suppliers have a transparent and effective experience working with the public authority.

Factors for Consideration

There are a range of key factors when determining the optimal procurement governance structure, which can be grouped under the following broad categories; the public authority context, supplier market, and end-user needs.

These categories may result in some competing priorities (e.g. internal stakeholders vs suppliers, integration and consolidation vs dissemination). It is unlikely that one governance structure will be able to prioritise each of these factors, therefore adaptability and the ability to balance competing priorities will be a critical aspect of the governance structure. Overall, the chosen procurement governance structure should maximise opportunity and minimise risk for the public authority. Further information is provided at Appendix 1.

Procurement Governance Committee (PGC)

If it is determined that a PGC is required, it will operate according to a written Terms of Reference² which will 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.

² As per the Procurement Governance Policy

Governance Arrangements Guideline

It is critical that members of the PGC have the appropriate capability to make timely and informed procurement decisions, which meet both the requirements of the South Australian Government Procurement Framework, and the public authority's strategic objectives. This may require members of the PGC to undertake training.

Central Procurement Unit (CPU)

The CE will decide³ whether to establish a CPU based on the public authority's procurement governance structure and procurement profile. The establishment of a CPU may support the formalisation and professionalisation of the procurement function within the public authority.

Examples of some Procurement Operating Models (including centralised and decentralised models) are outlined in *Appendix 2*.

An effective CPU should be supported by appropriate procurement governance arrangements to ensure that 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 scope, nature 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;
- Managing procurement risks;
- Oversight of contract management;
- Relationship with internal audit;
- Contribution to public authority's strategic direction; and
- Information sharing with the across government procurement governance structures (i.e. Procurement Review Committee, Industry Advisory Group, and Heads of Procurement).

A list of Opportunities and Risks of Centralised/Decentralised Procurement Functions is outlined in Appendix 3 for consideration.

³ ibid

Governance Arrangements Guideline

Procurement as part of a larger project

Public authorities may undertake specific high value, complex or sensitive projects which may require its own project governance structure. If there is a procurement component to this project, the public authority should consider whether the project's governance structure will oversee the procurement activity, or whether the project's procurement related decisions, activity and approvals will be overseen by the public authority's procurement governance arrangements.

If the project-specific governance structure will be responsible for these procurement decisions, the public authority should consider how the project-specific governance structure would integrate with/report to the procurement governance structure.

Use of another public authority's Internal Procurement Framework

As per the *Procurement Governance Policy*, a CE may choose not to establish its own Internal Procurement Framework (and therefore Governance Structure), but rather choose to be bound by the Internal Procurement Framework of another public authority. This arrangement should be agreed in writing between the Chief Executives of the two public authorities.

The public authority may elect to adhere to the governance arrangements (including procurement reporting and approval requirements) of the other public authority or simply mirror their processes and procedures.

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 agencies 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 culture/strategic direction) changes, or the supplier market or end-user needs change.

Public authorities should review their procurement practices and related governance structures to consider the extent to which it is meeting the needs of the public authority, suppliers, and end-users. It is recommended that this analysis forms part of the required Biennial External Review.

Governance Arrangements Guideline

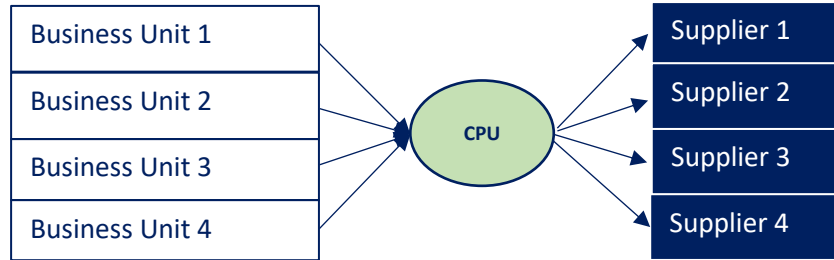
Appendix 1: Key factors when determining the optimal procurement governance structure

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"> • Public Authority 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

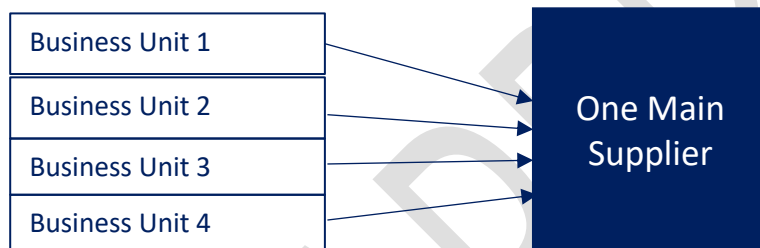
Appendix 2: Example Procurement Operating Models

Fully Centralised Procurement Unit System



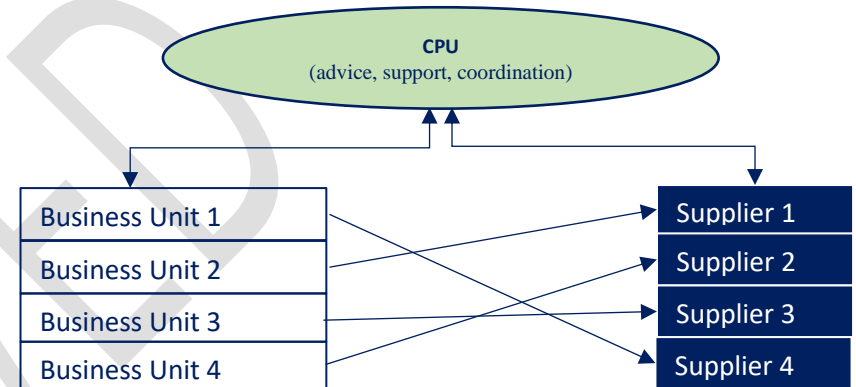
- CPU undertake all procurement activity
- Suppliers have a relationship with the CPU only
- Business units provide information to CPU relevant to support procurement processes.

Decentralised Procurement System with one Main Supplier



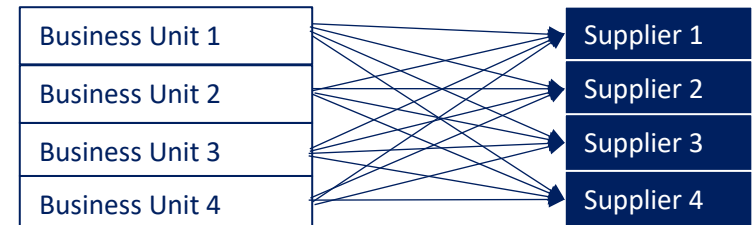
- All procurement functions undertaken by individual business units
- Direct relationships between business unit and supplier
- Supplier has multiple relationships within the public authority
- Supplier may be delivering multiple goods and services
- Coordination may exist between business unit.

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

Decentralised Procurement System – multiple suppliers



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

Appendix 3: 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).

