

Consultancy expenses made by State-Owned Enterprises – Report No. 32/2010-2nd Chamber

This reports describes the findings of a performance audit entitled “Consultancy expenses made by State-Owned Enterprises (SOE)” and covered contracts awarded in 2007.

The Tribunal de Contas examined 69 companies, which awarded, on the whole, in 2007, nearly 102.7 million Euros in procuring external advice services.

The SOE entities have not always correctly identified their needs. Nor have they rigorously specified the targets to be met, or even defined the scope of the service to be provided and, therefore, failed to provide these items to the awarding authorities. As a consequence, the public resources involved have not been safeguarded or optimized.

Nearly 81% of the public sampled companies had internal standards on contract awarding procedures and criteria to be observed when procuring services, namely in accordance with their value. In fact, in 19% of the services awarded by those companies, the previously mentioned standards have been disregarded, taking away their value as a management instrument and allowing widespread use of awards under non-competitive tendering procedures.

The control of the carrying out of the contracts by the companies surveyed appeared to be weak, resulting in the widespread absence of written contracts and a 26% implementation level of the contract value, which corresponds to 26 million Euros.

Public companies lack the mechanisms that would allow them to quantify the impacts of these actions. In addition, the assessment they make is empirical in nature, which makes it subjective and therefore takes away its value.

According to the findings, the Tribunal recommends the Government:

To enact and publicize the best practices when procuring advice services to be adopted in the different stages of the procurement cycle, giving priority, whenever possible, to the maximization of the use of the internal potential to the detriment of procuring external services and competitive procedures, in order to avoid waste of State resources and to always maximize the efficiency of the money allocated.

According to the findings, the Tribunal de Contas recommends the Companies’ Boards:

To introduce greater rigour in the elaboration of their management forecasting instruments. This means, in this field, specifying and explaining the need for external advice services in their strategic and/or activity plans, avoiding case-by-case approaches on how to award these services.

To strive towards the elaboration of internal manuals to procure goods and services, which include a cost-benefit analysis, awarding procedures and criteria, contract minutes, a model for the assessment of external advisors, a record of well-performing advisors in previous procurement procedures and the disclosure of the lesson learned.

To encourage their companies, when awarding new services, to seek internal competences, including the transfer of knowledge acquired in previous procurement procedures and the performance assessments of external advisors, thereby rationalizing the widespread use of outsourcing when procuring advice services.

To give priority, whenever possible, to competitive tendering procedures. According to the new Public Procurement Code, notwithstanding the optional nature of the request for tenders by direct agreement, the Tribunal de Contas recommends it as a good management practice, following EU directives on public procurement that point out the exceptional nature of non-competitive tendering procedures, therefore striving for transparency and taking advantage of the competitive markets.