



# Effectiveness of Public Procurement in the Interior

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## Audit report

Effectiveness of Public Procurement in the Interior  
8 November 2024



Performance audit “The efficiency of the public procurement system in the Interior and the state public procurement policy affecting it”, where two audit reports, “The efficiency of the public procurement system in the Interior” and “Problems and opportunities for the development of public procurement”, were drafted.

The audit was conducted by Senior State Auditor, Lawyer Agnese Oļševska, Senior State Auditor, Lawyer Iveta Laicāne (until 11 December 2023) and Senior State Auditor Linda Freidenfelde-Purgaile (from 18 April 2024), State Auditor, Lawyer Elīna Krauze (from 1 November 2023), Head of the Responsible Sector Kaiva Skalbiņa, Department Director Kristīne Jaunzeme (until 19 May 2024), Department Director Gatis Litvins (from 20 May 2024) based on audit schedule No 2.4.1-1/2023 of the Second Audit Department of the State Audit Office of Latvia of 2 January 2023. Audited entities: Ministry of the Interior, Ministry of Finance.

The cover design includes an image generated on 7 October 2024 by means of AI tool *OpenAI ChatGPT/DALL-E*.



Dear Reader,

The State Audit Office of Latvia has completed audit “The effectiveness of the public procurement system in the Interior and the state public procurement policy affecting it”, where two audit reports, “Problems and opportunities for the development of public procurement” and “The effectiveness of the public procurement system in the Interior”, were drafted.

The public procurement system is an essential part of public administration by ensuring the acquisition of necessary goods, services and construction work. Its effectiveness and transparency affect public trust in state institutions and the effective use of resources directly. A well-organised procurement system promotes the rule of law, competition and economic development.

The report “The effectiveness of the public procurement system in the Interior” has been drafted with the aim of improving the effectiveness of public procurement in the Interior by reviewing existing procedures and approaches, as well as identifying areas for increasing effectiveness. Considering that the state institutions of the Interior safeguard the internal security of the country and require significant resources, these changes are particularly material.

The audit has identified several significant problems and challenges that require solutions.

Firstly, the staff involved in the performance of the function has a low capacity, which is influenced by several factors such as workload, which varies significantly across corresponding institutions, uncompetitive remuneration, as well as the fact that procurement practitioners do not maintain sufficient professionalism regularly. In addition, the different performance of the staff involved in the implementation of the procurement function in different institutions indicates the possibility of reducing the total number of positions assigned to the function in the Interior.

Secondly, there are shortcomings in procurement planning. The audit shows that deadlines are often not set precisely enough, which makes it difficult to adhere to the timeframe. For example, over a three-year period, an average of 73% of procurements (as much as 82% of procurements in 2023) were planned to start in the first half of the year. Moreover, the opportunities for combining procurements with similar subjects are not fully used, which could reduce long-term costs significantly.

Thirdly, not all the opportunities provided for in laws and regulations that could contribute to the successful conduct of public procurements are used. Insufficient attention is paid in procurement to both measures to promote competition and the preparation of high-quality procurement documentation. It indicates insufficient understanding of the importance of various factors or a lack of time at the procurement drafting stage.

The report makes recommendations to improve the effectiveness of the procurement system and rationalise the use of resources. Better human resource management and procurement planning and organization will increase the effectiveness of procurement.

Positive changes should also be emphasised, as the Ministry of the Interior already initiated significant improvements in the organisation of procurement during the audit by demonstrating its commitment to solving the identified problems.

I would like to express my sincere gratitude to my colleagues who participated in the audit and gave their best in drafting the report. I would also like to thank the industry representatives for their hard work and cooperation.

Respectfully  
Mr Gatis Litvins  
Department Director

## Summary

Public procurement is an essential part of state activity. State administration, including public procurement, must be organised as effectively as possible to ensure reasonable and rational use of state budget funds.

The Interior consists of broad services that are crucial for the internal security of the state, which must be provided with the extensive resources necessary for the performance of their assigned functions. For example, service and operational vehicles, ICT, uniforms, equipment, fuel, weapons and ammunition. Also, the needs of state institutions must be ensured by the construction of new infrastructure facilities such as disaster management centres and maintenance, repair and energy efficiency improvement measures for real estate and infrastructure facilities.

In previous years, several cases have been identified where the allocated funding was reallocated to other purposes or had to be lost because the construction of essential facilities and the procurement of goods and services was unsuccessful.

To determine the reasons that hinder the successful implementation of procurements and opportunities for improving the public procurement process so that the goods, construction work and services necessary for the Interior are purchased with the lowest possible consumption of resources of the Interior institutions, the audit conducted an analysis of the procurement documents of the Interior, a detailed assessment of 31 announced procurements, an analysis of the announced procurement data, interviews with the staff involved in the performance of the procurement function, and an analysis of international best practice.

## Main conclusions

The public procurement system established in the Interior is not efficient enough and must be improved so that it can meet the needs of sectoral institutions in a timely manner and to the required extent.

The most significant obstacle to the successful conduct of procurement is the low capacity of the staff involved in the performance of the function influenced by several factors such as workload currently, which varies across sectoral institutions significantly, uncompetitive remuneration, as well as insufficient training.

Shortcomings in staff capacity also have a negative impact on the planning and implementation of work to be performed by staff in the field of procurement. Namely, they affect the ability to meet deadlines, prepare high-quality procurement documentation, promote supplier awareness of procurement, as well as apply more flexible regulations intended for procurement in security.

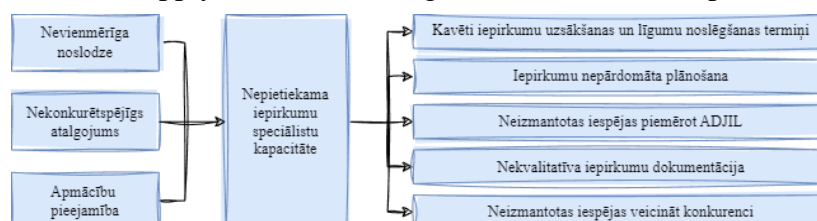


Chart: uneven load; uncompetitive remuneration; availability of training -> insufficient capacity of procurement specialists -> delayed terms for procurement beginning and contract conclusion; ill-considered procurement planning; unused opportunities for applying the Law on the Procurement in Defence and Security; low-quality procurement documentation; wasted opportunities to promote competition.



### Lack of staff capacity is the most significant factor hindering the successful conduct of procurement

**The HR resources** involved in the implementation of the procurement function **are not distributed optimally among state institutions and do not correspond to the amount and complexity of the work.** A centralised procurement institution, the Agency, ensures a third of all sectoral procurements, and an average number of procurements per procurement specialist in the institution is three times higher than in the State Fire and Rescue Service and almost twice as high as in the State Border Guard. Thus, the Agency performs a larger amount of work than other sectoral institutions. In addition, the Agency has other tasks within its competence like providing methodological support in the procurement process, coordinating the procurement plans of state institutions, and drafting a sectoral centralised procurement plan.

**The different performance of the staff** involved in the implementation of the procurement function **indicates not only the need to change a distribution of HR resources among institutions but also the possibility of reducing a number of procurement specialist positions in the Interior.** By increasing efficiency of procurement specialists and further developing the centralisation of procurement, a total number of people involved in the execution of the function could be reduced from 77 to 64 positions. It would also be a way to find additional funding to increase a monthly salary of procurement specialists.

**The monthly salaries** of procurement professionals **are low and uncompetitive** although procurement specialists play a significant role and influence on the ability of state institutions to perform their assigned functions successfully. This is most likely the reason why it is difficult to attract and retain the best specialists. In none of the institutions of the Interior, an average monthly salary of the staff involved in the performance of the procurement function reaches the midpoint of the monthly salary group specified in the Remuneration Law. Mostly, monthly salaries are set closer to the minimum limit. It means that the remuneration of specialists in the sector lags behind the monthly salary of equivalent positions in the private sector significantly. Moreover, it is also generally the lowest among other public administration sectors.

Procurement specialists have not improved their knowledge regularly and systematically. The opportunity to **improve their knowledge** regularly and build professional competence is of great importance in strengthening the capacity of staff but procurement specialists in the state institutions of the Interior are not even scheduled to receive one training per year. The situation improved in 2023, when the Procurement Monitoring Bureau began offering a free training program for procurement specialists in cooperation with the State Administration School. However, knowledge development is still not regular. In 2023, not even half of the specialists involved in the implementation of the procurement function of the Interior attended two or more training courses per year (which is a desired indicator according to the State Audit Office of Latvia).

### Ill-considered procurement planning process

During the drafting of procurement plans and procurement planning stages, several factors have been identified that have affected the course and results of future procurements negatively.

**The procurement time provided for in the plans has not always been sufficient and feasible objectively.** Insufficient time (two to three months) from the announcement of the procurement to the conclusion of the procurement contract was provided for in 22% of open tenders in 2022

and in 40% of open tenders in 2023. Even three months for a national-level open tender is an optimistically set deadline that could be met if a procurement proceeds “smoothly”.

**The uneven planning of procurement within a year further** aggravates the situation. Over a three-year period, one planned to start an average of 73% of procurements (as much as 82% of procurements in 2023) in the first half of a year. Such planning errors both affect the outcome of a specific procurement negatively and delay the start of other procurements and create an unequal workload for procurement specialists in general.

**The provision of short contract execution periods** and the fact that **not all opportunities to combine procurements** with a similar procurement subject are used **cause the need for greater human resource involvement, which is not economical in the long term**. Between 2021 and 2023, more than half of the contracts in the Ministry of the Interior were concluded for a period of up to two years but only 4% of contracts were concluded for five years. State institutions purchase the same procurement subject every couple of years or even several years in a row that requires a greater investment of resources in the long term.

**The desire to fit into a contract price threshold of a less regulated (simpler) procurement method also creates the need to organise procurements more frequently**. State institutions organise “small” procurements once every two years or annually instead of carrying out a more complicated procedure but much less often, for example, once every five years. Contracting authorities can provide for price indexation options in a procurement documentation to respond to potential price changes. It enables concluding procurement contracts for a longer period and conduct procurements less frequently.

The **work organisation of procurement commissions** can be significantly improved. Unjustified interruptions in a commission’s work (up to three months) prolong the procurement process and make meeting originally set deadlines difficult. The work of the commission should be planned more effectively to prevent conflicts of interest in a timely manner, coordinate the absences of commission members, and ensure the necessary quorum for decision-making.

**The statutory opportunities for more effective implementation of procurement have not been exploited**

The institutions of the Interior do not always use the opportunities in full that could contribute to the successful conduct of public procurement. It indicates an insufficient understanding of the importance of various factors or a lack of time at the procurement preparation stage. **Insufficient attention is paid in procurement to both measures to promote competition and the preparation of high-quality procurement documentation.**

**The market is not informed in a timely and complete manner about expected procurements.**

- The two centralised procurement authorities in the Interior, the Agency and the Information Centre, had not published information in the EIS on the procurement plans for the following year yet several months after the approval of an annual budget.
- The information published in the EIS on planned procurements is not always complete and consistent with a procurement plan of a state institution. In 2022, the EIS contained information on only 69 out of 98 procurements envisaged in the Agency’s procurement plan, while 45 out of 91 planned procurements were indicated in 2023.

- The possibility of publishing a prior information notice in procurements where it is not mandatory (below the EU contract price thresholds) is almost not used. Potential suppliers learn about such procurements later that reduces their opportunities to prepare for and participate in the procurement.

State institutions **do not use the opportunity to elaborate procurement documentation** not only in Latvian **but also in English** and to allow tenderers to submit their offer in Latvian or English at their choice. This jeopardises the successful conduct of procurements in areas where there are few or no local contractors particularly. For example, in the procurement for the establishment and maintenance of the early warning system (ABS+), it would have been possible to attract a larger number of tenderers if the procurement documentation had been additionally prepared in English. Interested tenderers also pointed it out by explaining that there were no suppliers in Latvia that met the requirements.

The opportunity **to organise a meeting of interested tenderers** during the procurement process **is used insufficiently**. Sometimes, it is not convened even in cases where many questions have been received from potential suppliers about technical specifications and ambiguities in procurement regulation. The lack of full communication is often the reason why a procurement ends without a result.

**Insufficiently clear and unambiguously defined conditions for contract amendments** in a draft contract could also affect competition in procurement by the state institutions of the Interior so that a tenderer could count on them already during the preparation of a bid. According to the State Audit Office of Latvia, such provisions were missing in 29 out of 31 procurements included in the audit sample. In addition, 20 contracts with a term of more than a year did not include price indexation provisions. Since the beginning of the COVID-19 pandemic and the war in Ukraine, it has been particularly relevant to reduce the risks that suppliers will not be able to ensure contract performance due to unpredictable price changes or will increase the price of the tender initially.

At the same time, state institutions tend to provide for **disproportionate contract performance provisions** in draft procurement contracts. The liability of contractor is often set disproportionately high compared to the contracting authority's liability. The means of reinforcing the performance of obligations (contractual penalty, compensation for losses, warranties, suspension of payments, etc.) have also not always been proportionate. It could have made a tender more expensive or discouraged tenderers from participating in the procurement altogether.

**Insufficiently qualitative procurement documentation** has also affected procurement results negatively, which can be explained both by shortcomings in market research and, possibly, by insufficient competence of procurement commissions. A procurement commission has not always managed to determine appropriate and clear requirements for contractor selection and criteria for evaluating submitted tenders. It has created ambiguities and prolonged the procurement process due to amendments to the documentation or complaints. For instance, dividing the procurement into parts (lots) is one of the tools that increases the chances of receiving the best offer and attracting a larger group of tenderers. However, when deciding on dividing the procurement subject into parts in practice, the risk of lack of competition is not always assessed sufficiently. The procurement subject has been divided into parts in repeated procurements when the procurement has been concluded without

a result without dividing it in advance or dividing it in insufficient detail.

### **Special regulation for defence and security procurement has not been applied**

The purpose of the development of the Law on the Procurement in Defence and Security was to provide for a more flexible regulation for procurement in defence and security; however, it has almost not been used in the Interior.

According to the defence sector that is the main implementer of the Law on the Procurement in Defence and Security and the Ministry of the Interior, several factors influence a broader application of the Law on the Procurement in Defence and Security like the practice of applying this Law has not been facilitated and developed in the public administration, and procurers know and understand the Public Procurement Law better. In addition, when applying the Law on the Procurement in Defence and Security, additional time must be anticipated for receiving an opinion from the state security institutions, which can extend the procurement by as much as three months. The Ministry of the Interior finds that the Law on the Procurement in Defence and Security also does not facilitate competition and obtaining a lower price since the range of contractors in procurements carried out under the Law on the Procurement in Defence and Security procedure is limited.

Yet, critical assessment is important under the complicated geopolitical situation whether carrying out certain procurements in accordance with the Public Procurement Law is the most appropriate solution. A possibility of reducing risks regarding information protection, as well as the safety of contract execution are significant advantages of the Law on the Procurement in Defence and Security compared to the Public Procurement Law regulation. The Law on the Procurement in Defence and Security can also provide greater stability in the long term, as it allows for longer framework agreement periods. Moreover, unlike the Public Procurement Law, the Law on the Procurement in Defence and Security allows for the use of the negotiated procedure without preconditions and obtaining the most suitable offer through negotiations and provides for a more flexible framework for amendments to a procurement contract.

### **The changes initiated in the sector to improve public procurement are evaluated positively**

The initiatives launched by the Ministry of the Interior in 2023 to improve the public procurement are evaluated positively.

The Advisory Procurement Council established at the Ministry of the Interior is an essential tool for monitoring the activities of procurement sector regularly, following the implementation of procurement plans and identifying problems, as well as providing proposals for improvements.

The list of goods and services to be procured centrally has been supplemented, the process of elaborating procurement plans has been improved, the implementation of medium-term procurement plans is envisaged, specialising procurement specialists in market research is planned, etc. The implementation of the aforementioned improvements could eliminate several problems identified in the audit. The changes should accelerate the planning process, preventing situations where, due to delays in procurement plans, it is impossible to start planned procurements at the beginning of a year, procurement “compression” occurs and the progress of planned procurements is disrupted.



The planning of targets and results to be achieved in public procurement has improved in the Strategy for the Interior 2023–2027. However, there is also room for improvement. The currently set indicator for improving the qualifications of employees is too low. The effectiveness of public procurement in the sector as a whole is also not measured but only in the Agency responsible for centralised procurement.

## Recommendations

Based on the audit conclusions and taking into account the changes already initiated in the Interior during the audit, there are five recommendations provided to the Ministry of the Interior for improving the public procurement domain.

By implementing the recommendations issued by the State Audit Office of Latvia, the proportion of successfully concluded procurements in the Interior shall reach 80% of the total number of procurements; the effectiveness of public procurement in the sector as a whole shall be monitored and measured; the workload of procurement specialists will be balanced and their qualifications will increase; the work organisation of state institutions in planning and conducting procurement will improve; and understanding of the importance and benefits of the Law on the Procurement in Defence and Security will increase.

Recommendations provided by the State Audit Office of Latvia:

- Improve the indicators set for assessing the performance of the sector, also providing for other significant indicators that measure the effectiveness of public procurement including indicators that characterise the public procurement area of the Interior as a whole;
- Execute a reasonable distribution of staff involved in the implementation of the procurement function in the Interior among state institutions that would correspond to the amount and complexity of the work, actual needs and a current situation, including taking into account the planned development of procurement centralisation in the sector;
- Take targeted measures to increase the professional competence of employees by safeguarding an opportunity to improve their knowledge regularly by attending training courses appropriate to their needs;
- Take measures that would facilitate centralisation, consolidation of procurement and optimal determination of procurement contract terms, especially in cases where purchasing well-known and regularly needed goods and services is planned;
- Act to promote the application of the Law on the Procurement in Defence and Security and the use of the advantages of the law for procurements related to information security or the need to ensure the security of contract performance even in the event of a crisis.