

# **VALUE FOR MONEY IN PROCUREMENT: THE SUPPORTIVE ROLE OF ACCOUNTANTS**


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# **INTRODUCTION**

**Procurement is defined as a function that basically entails acquisition of goods, works and services to meet a specifically identified need e.g. a need to have medical equipment repaired or a need to buy cars, computers, skills etc.**

- ◆ **Takes roughly/on average 65% of every shilling in the organization's budget – Average procurement spent**
- ◆ **For a need to be satisfied /met, the needed item must be sourced to make it available in the hands of a consumer (user). Hence it has to be procured. Technical specifications must be clearly detailed by the user in conjunction with procurement staff & finance/accounts. Procurement therefore calls for teamwork or integration within the supply chain.**
- ◆ **It is a function that is seriously monitored and undertaken through an ACT of parliament in the Public Sector and by Policy in the Private sector whereby there are set rules and regulations to be followed**

# RIGHTS OF PURCHASING & SUPPLY

- ◆ THEORY AND PRACTICE - ESTABLISHED GUIDING RULES/RIGHTS
- ◆ RIGHTS – LEGAL TERM HERE MEANING OBLIGATIONS
- ◆ LET US ATTEMPT TO LIST THE RIGHTS DOWN IN A DISCUSSION
- ◆ **TIP:** A REQUIRED (QUALITY & QUANTITY) OF A PRODUCT (OR SERVICE) COMES FROM A SUPPLIER (SOURCE) AT A GIVEN PRICE, TIME, TO A GIVEN DELIVERY POINT,

# RIGHTS OF FULFILLMENT

- ◆ **RIGHTS OF FULFILMENT – ABOUT THE PERFECT ORDER**
- ◆ Preferred product available for order, Correct order, Shipping the entire order via the means that you request, provide you with an advanced shipping notification and tracking number, deliver the complete order on time and without damage, and bill you correctly
- ◆ Language and tricks to be avoided
- ◆ Accounts/Finance has a critical role .



# EXERCISES

## Management Lessons in 5 Minutes

1. A gentleman gave a lift to a very beautiful Nun. On the way he was overcome by Human Weakness and so began to slid his hand up the legs of the nun. When almost beginning to loose concentration on the road Nun would remove his hand gently away from his actively engaging mind; and then the Nun would say Mathew 7:12. This went on until he dropped her off at the gate of her Mission Centre. On reaching home without much niceties, he took a Bible and read perhaps for the first time in Ten years.

## **Management Lessons in 5 Minutes Cont'd**

**2. In a Race Accounting/Finance (Or even Procurement) is last but one. What number is this?.**

**In the Race for optimal use of resources there are many races**

# Key Lessons from the Management lessons in Five Minutes

- ◆ Arm yourself with all the relevant information on the other functions. Today we are encouraged to integrate functions for optimal operations
- ◆ Go out of your way/Take courage to explore. Find out what happens in the other departments, how the staff operate, how they think, what they think of your function etc.
- ◆ Always be a Strategic Thinker. Ask your questions on the basis of the **5 Wives** and the **1 Husband**

# Procurement – Accountancy Interface

- **Accounting - usually signs LPOs/LSOs**
- **Accounting/Finance - Role in Evaluation and Acceptance**
- **Accounting/Finance – Checks all the documents for compliance**
- **PS/CEO (Finance Director) is supposed to give opinion once Procurement Head or Accounting/Finance Head presents all the documentation**

## **Procurement – Accountancy Interface Cont'd**

- **Accounting/Finance – Initiates the payment process**
- **Once approved, payments are then effected online or through other means (physical collection of cheques/Checks; Bank transfers etc.)**
- **Ideal systems require closure by all the parties involved (Heads of dept. or their Representatives)**
- **In the Public sector all does not work well today because of the changes that have been made**



# Procurement – Accountancy Interface Cont'd

- ◆ The Locus of control has been changed
- ◆ Conflicts and discouragements have increased
- ◆ Too much interference by elected leaders/Interest Group Politics in Kenya are both very deep and very wide/MCAs and MPs have their own interests
- ◆ The Changes have contributed to misuse of Authority and Power
- ◆ Procurement Committees may be reduced to rubber stamping roles
- ◆ Under the circumstances the real saviour is the Accounting/Finance Function
- ◆ Individual Accountants/Finance Officers must rise up above the call of duty here



# DISCUSSION

- 1. HOW DOES THE INTERFACE BETWEEN PROCUREMENT/SUPPLY CHAIN AND ACCOUNTING TAKE PLACE IN YOUR ORGANIZATION?**
- 2. WHAT ARE THE KEY PROBLEMS IN TRYING TO EFFECT THE INTERFACE BETWEEN THE PROCUREMENT AND ACCOUNTING FUNCTIONS?**
- 3. WHAT ARE THE KEY PROBLEMS IN PROCUREMENT IN THE PUBLIC SECTOR?**
- 4. WHAT ARE THE KEY PROBLEMS IN PROCUREMENT IN THE PRIVATE SECTOR?**

# The Rights of Purchasing & Supply

- ◆ Relationship between procurement and finance in major organisations is described by Tension and conflicts.
- ◆ The two functions and the people who work within them are in many ways linked closely and even inextricably, yet there has often been considerable tension between the parties.
- ◆ That is true even when procurement reports into finance, which it does in perhaps a third of all organisations. Where it doesn't, the tension can run over into outright conflict,

## 5 Rights Cont'd

- ◆ The procurement role is all about helping to spend the organisation's money well, so that should align perfectly with finance goals around managing the balance sheet and profit-and-loss account successfully. Yet the areas of potential conflict also seem to be extensive.
- ◆ They can include the focus of finance on savings, budgets and unit cost reduction, which can at times drive procurement into behaviour that does not align with other budget holders and stakeholders around the organisation.

## 5 Rights Cont'd

- ◆ The need for financial control is also clear, but that can also lead to procurement playing a role it does not feel comfortable with, as it looks to gain stakeholder credibility. But even areas where the two functions in reality share the same goals and interests can be a source of disagreement ...
- ◆ What is the basis of Procurement?

## 5 Rights Cont'd

- ◆ Quality traditionally referred to the quality of the product or service ordered and the standards required. Although the quality of the product or service is relevant, today's approach considers greater aspects of quality including the need for Total Quality Management (TQM).
- ◆ Quality objectives no longer only apply to the material or product. It now includes:
  - ◆ Quality of relationships
  - ◆ Quality of communication
  - ◆ Quality of process
  - ◆ Quality of management
  - ◆ Quality of (company) image.

## 5 Rights Cont'd

- ◆ Quantity always dictated that the buyer should buy the right quantity of product or service.
- ◆ Too much or too little could result in higher costs or unfulfilled orders. This still rings true, yet there are more aspects to quantity that the procurement professional needs to consider. With the focus on the triple bottom line, (the three P's: **People, Profit, Planet**), there are a number of considerations that need to be taken into account. It is not just the product that must be of the right quantity.



# 5 Rights Cont'd - Quantity

- ◆ Quantity objectives as part of the five rights of procurement, no longer only apply to the material or product. It now includes:
  - ◆ Quantity of Orders
  - ◆ Quantity of Staff
  - ◆ Quantity of Suppliers
  - ◆ Quantity of Products
  - ◆ Quantity of Customers.

## 5 Rights Cont'd - PRICE

- ◆ Price is important to everyone and not least to procurement. Procurement professionals are taught to aim for a competitive price
- ◆ Price no longer only applies to the amount paid for materials or product in the five rights of procurement. It now looks at the costs involved in:
  - ◆ The cost of the procurement department
  - ◆ The cost of acquisition and operation
  - ◆ The cost of holding and moving stock
  - ◆ The price to the environment
  - ◆ The price to society

## 5 Rights Cont'd - PLACE

- ◆ Place has usually referred to goods and services being delivered to the right place.  
‘Last mile’ is a term used in supply chain management and transportation planning to describe the movement of goods and services from a transportation hub to a final destination
- ◆ Place no longer only applies to the delivery of materials and products. It now includes:
  - ◆ The source from which materials are acquired
  - ◆ The other sources in the chain
  - ◆ The location of the procurement function
  - ◆ The location of the customer
  - ◆ The location of the other activities involved in the supply network

## 5 Rights Cont'd - TIME

- ◆ Time waits for no man. And we no longer wait to consider the time of delivery as the only aspect of time that needs to be considered.
- ◆ Time and money are often considered together and in modern times this is no exception. Time spent on analysing time is never wasted.
- ◆ Therefore the procurement & Accounting professional need to think about other areas of time.

## 5 Rights Cont'd - TIME


- ◆ Time no longer only applies to the lead-time required for materials and products. It now includes:
- ◆ Time of order
- ◆ Time spent negotiating
- ◆ Time spent ordering
- ◆ Time spent with suppliers
- ◆ Time management
- ◆ Time spent analysing.

# Summary on the 5 Rights

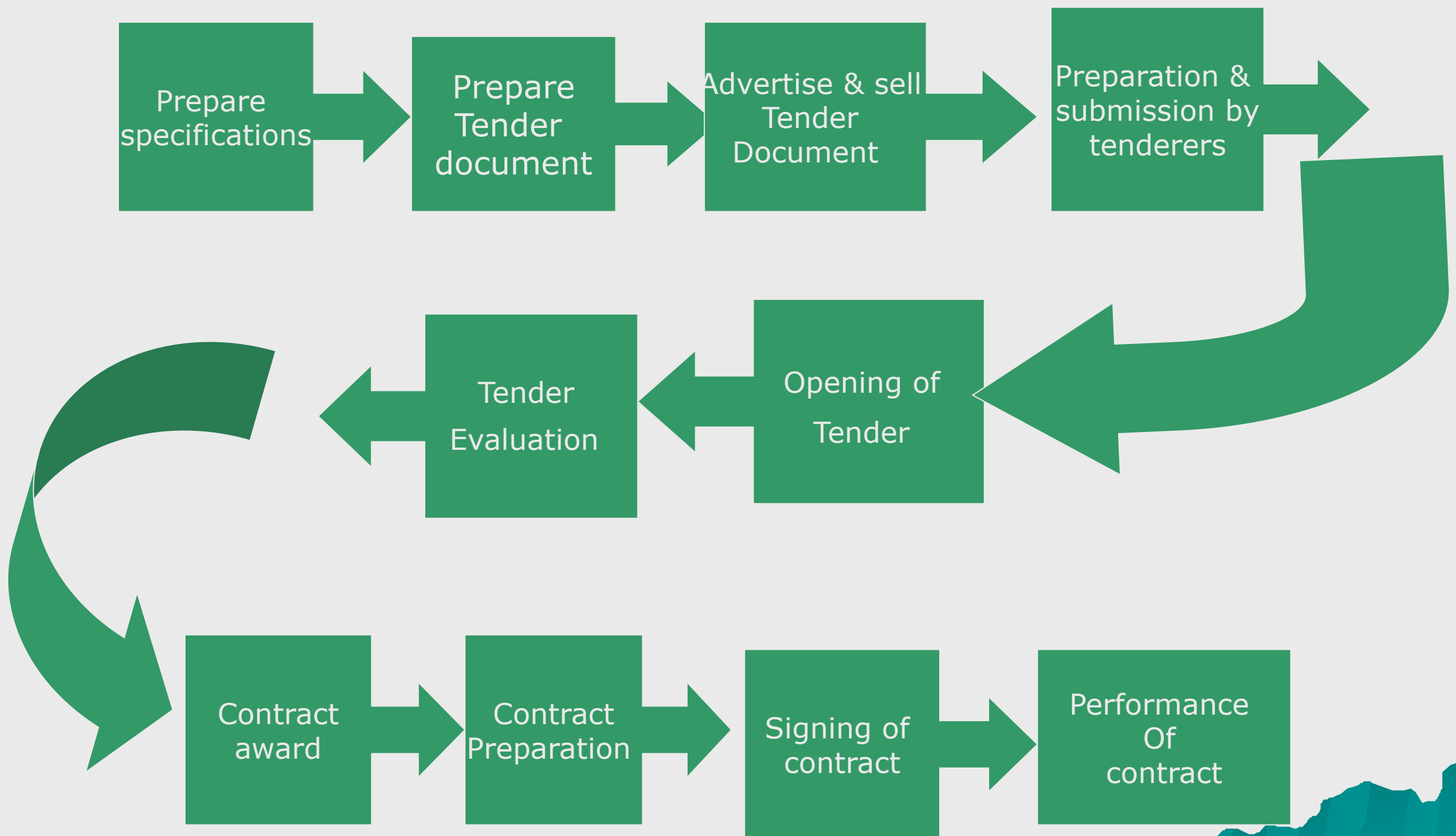
- ◆ Each of the five rights of procurement must be viewed from a broader angle taking into account the wider implications of quality, quantity, price, place and time. Only then will we achieve the greatest success and understand the true meaning of the five rights
- ◆ Finally and most importantly, the issues of **Sustainability & Integration** require that the Accounting/Finance Function gets involved at all stages of the Procurement process. **The reforms must capture this.**



# **BENEFITS OF USING OPEN TENDER SYSTEM OF PROCUREMENT**

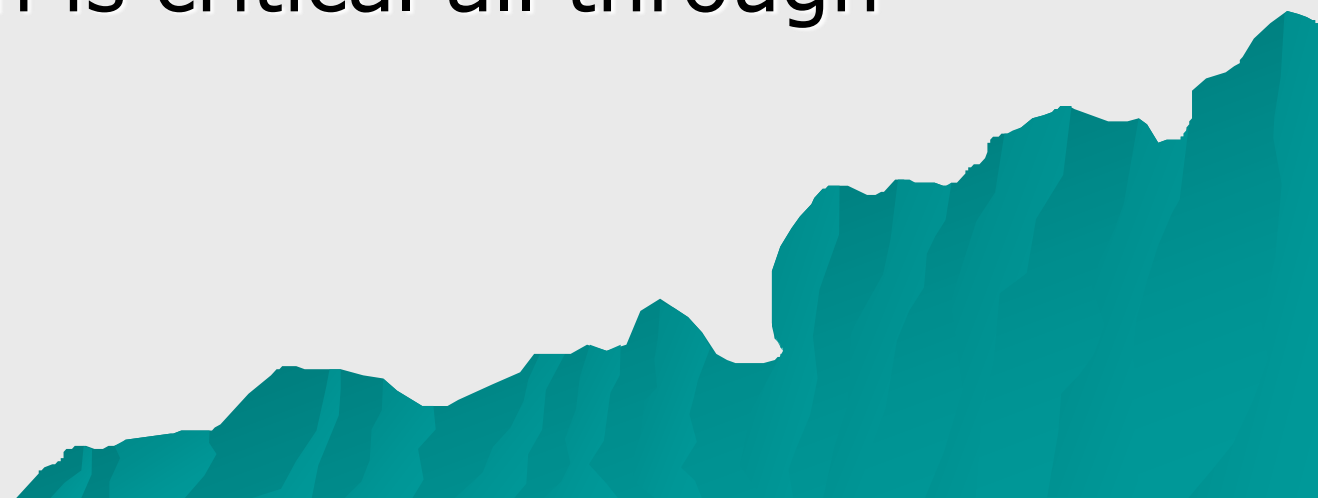
- ◆ Most procurement is done through Tenders, RFQ,
  - ◆ It is also accomplished through Direct buying from the Seller; by Cash payment;
  - ◆ Gives eligible bidders equal opportunity to compete.
  - ◆ Enhances economy and efficiency in procurement (value for money)
  - ◆ Increases the supply base
  - ◆ Enables a more spread of the potential risks
  - ◆ Very transparent and accountable if well handled
  - ◆ Experiences and practices especially in the Public sector suggest otherwise
  - ◆ Accountancy/Finance function is challenged to get much more involved in safeguarding the finances
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# STAGES IN OPEN TENDER PROCESS: GENERAL




# EVALUATION OF TENDER


- ◆ Preliminary evaluation: decide who to evaluate technically. Quoted for the item under analysis?
- ◆ Technical evaluation :by technical evaluation committee on resources, equipment, legality etc.
- ◆ Financial evaluation: Only the bidders who have been technically qualified.
- ◆ Tender security – Not to exceed 2% of the estimated value of contract
  - Optional
  - Insurance company accepted if approved by company/Authorities in Government depending on the entity involved
- ❖ Accounting/Finance function is critical all through



## **MANDATORY RULES IN PUBLIC PROCUREMENT**

- 1) A procuring entity must ensure that decisions are made in a systematic and a structured way i.e. who authorizes what?**
  - 2) Procuring entity shall maintain specimen signatures for all persons authorized to make approvals in the procuring process.**
  - 3) Procurements shall be within approved budgets through an annual procurement plan**
  - 4) Procuring entities must be staffed with professionals**
  - 5) Orders should never be split in order to avoid abuse of the procurement procedures**
  - 6) Today there is need for more synergy between Accounting/Finance and Procurement departments**
  - 7) The Law on procurement is being reformed**
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# DISPOSAL OF STORES IN THE PUBLIC SECTOR

- ◆ This is charged to the procuring entity's disposal committee that must be established (section 128) of the ACT and Regulation 92.
  - ◆ The committee is meant to dispose unserviceable, obsolete or surplus stores or equipment.
  - ◆ The committee shall recommend to the accounting officer a method of disposing the items which may include any of the following.
    - a) Sale by public tender
    - b) Sale by public auction
    - c) Transfer to another public entity or parts of a public entity without financial adjustments.
    - d) Destruction, dumping or burying.
    - e) Trade- in.
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## Documents used:

- ◆ Board of survey form
- ◆ Disposal certificate
- ◆ Destruction certificate
- ◆ Standard tender document for disposal.





# Seven Principles of SCM

- ◆ The dynamics in Procurement practices are changing. The Accounting/Procurement functions need to be in constant touch with changing market dynamics
- ◆ More than ten years ago, a research study of 100+ manufacturers, distributors, and retailers uncovered some widely used supply chain strategies and initiatives. These ideas and practices were distilled down to seven principles. They are still relevant today
- ◆ Find out where they may apply in the Public sector

# Seven Principles Cont'd

- ◆ **Principle 1:** Procurement should segment customers based on the **service needs of distinct groups** and adapt the supply chain to serve these segments profitably/Economically.
- ◆ **Principle 2:** Customize the logistics network to the service requirements and profitability of customer segments – Government depts.; SOEs, Private sector, etc..

- ◆ **Principle 3: Listen to market signals and align demand planning accordingly across the supply chain, ensuring consistent forecasts and optimal resource allocation.**
- ◆ **Principle 4: Differentiate product closer to the customer and speed conversation across the supply chain.**
- ◆ **Principle 5: Manage sources of supply strategically to reduce the total cost of owning materials and services. Need for Synergy here**

# Seven Principles Cont'd

- ◆ **Principle 6**: Develop a supply **chain-wide technology strategy** that supports multiple levels of decision making and gives clear view of the flow of products, services, and information to all.
- ◆ **Principle 7**: Adopt channel-spanning performance measures to gauge collective success in reaching the end-user effectively and efficiently.
- ◆ **e-Procurement is here today. Can't avoid it. It has advantages**

THANK YOU FOR YOUR ATTENTION AND  
CONTRIBUTIONS

