



**GOVERNMENT OF  
THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE**

**REVIEW OF PROCUREMENT SYSTEM FOR THE MINISTRY OF  
FINANCE**

July 2012

Review of Procurement in the Ministry of Defence and Security for the  
period 1 January 2009 to 30 June 2011

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# 1. Executive Summary

## 1.1 Background

Historically the Ministry of Finance (MoF), through the agency of the Central Procurement Unit, was responsible for the planning and management of major contracts. This was changed in February 2010 with the enacting of Decree Law 1/2010 that vested this responsibility in the Procurement Technical Secretariat (STA) of the Vice Prime Minister's Office. This was part of a Government initiative to decentralise procurement to the Ministries but proved unsuccessful due to capacity constraints in the STA. The STA was abolished and replaced by temporary measures until the National Procurement Commission was established under Decree Law 14/2011 in February 2011.

The National Procurement Commission remains in existence but has been bolstered considerably through further Decree Laws and the establishment of chartered agencies to oversee specific areas of procurement. To complement this approach the MoF developed Best Practice Guidelines in an effort to improve and clarify procurement processes across all Ministries in the Government. As the process of decentralisation continues there is a need to specifically examine the effectiveness of the procurement reform agenda and the processes that have been adopted by Ministries in the Government.

The purpose of this examination is to assist the Government in gaining an understanding of the procurement systems and processes in place throughout the various Ministries within the Government. By extension this examination will also focus on the alignment and conformity of the existing system with the requirements of the Decree Law and the Best Practice Guidelines that have been promulgated by the Government to support these efforts. This specific review will focus on the processes and procedures that exist in the Ministry of Defence and Security.

## 1.2 Scope and Objectives

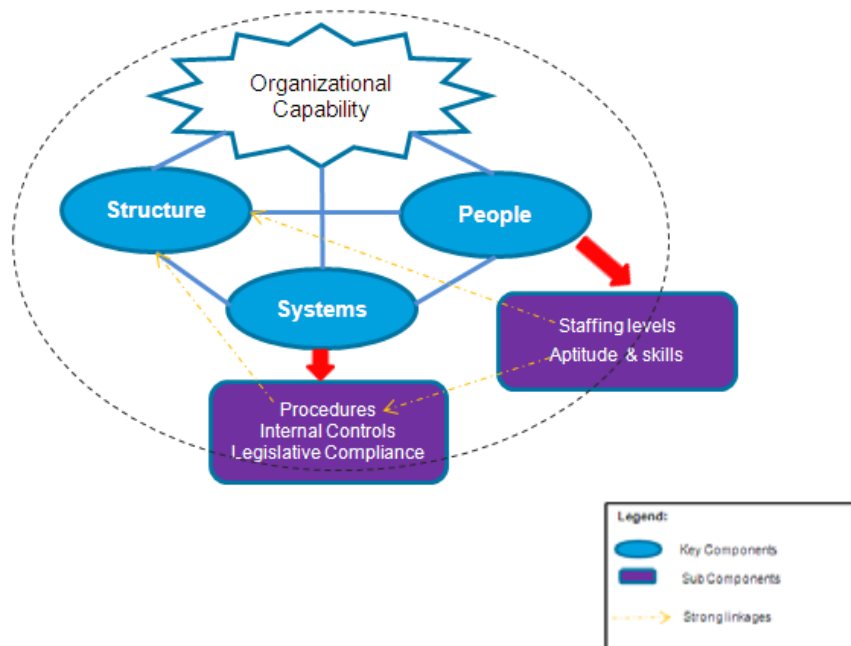
The Ministry of Finance requested that we:

- Examine procurement procedures and internal controls for the Ministry of Defence and Security
- Inspect the Ministry of Defence and Security's compliance with Decree Law and Best Practice Guideline procedures through examination of procurement supporting documentation on a sample basis for the period 1 January 2009 to 30 June 2011
- Prepare a report of findings and recommendations

## 1.3 Approach to engagement

The approach to this engagement primarily entailed examination of procurement documentation and interviewing key stakeholders to obtain their perspectives on the procurement process. The objective being to critically analyse procurement procedures and internal controls in the Ministry of Defence and Security, both to assess their effectiveness as well as their compliance with Decree Laws and the Best Practice Guides.

The framework for the analysis was to examine the elements of organisational architecture that support the procurement process – notably structure, systems and people. The following diagram provides an overview of what those components are and how they fit together:



**Figure 1.** Organisational capability testing framework

The elements of the procurement environment are complementary and need to align for the procurement system to function correctly. For example, if the structure and systems are in place but the staff lacks the appropriate aptitude, skills and knowledge of the procurement system to fully utilise its capability, the system will be dysfunctional.

## 1.4 Key Findings and Recommendations

There are a number of key issues affecting the performance of the Procurement Department in the Ministry of Defence and Security. The detailed findings and recommendations are included in Section 2. The key findings and recommendations are:

### 1.4.1 Systems

#### 1.4.1.1 Procurement Strategy

The significant difference between most line ministries and the Ministry of Defence & Security (the Ministry of Infrastructure would be another notable exception) is the level of complexity involved in the procurement process. Whereas most line ministries would have procurement needs that possess a low level of risk and complexity (referred to as simple procurement), the Defence & Security procurement is often highly complex. With this complexity come raised levels of risk associated with factors such as:

- The high costs involved in the purchase;
- The specialist knowledge required in the process including technical, commercial and legal support; and
- Value for money considerations such as contractual conditions, fitness for purpose considerations, whole of life costing and supplier support capabilities.

Our examination concluded that the procurement strategy and the management of the procurement process in the Ministry were not effective. Poor procurement strategy may result in purchases that don't meet intended performance and cost efficiency outcomes.

## Recommendation

The procurement process that deals with the issues above is referred to as strategic procurement. The approach often adopted in strategic procurement is to manage the purchasing through a capability lifecycle process that incorporates five key phases. Accordingly, we recommend that consideration be given to a more rigorous strategic procurement approach that incorporates the following:

1. **Needs** – there is a requirement to identify a statement of user needs that address the identified capability gap. These are developed, in the Defence context, from strategic guidance, current and future operational concepts, technology considerations, force structure and current or potential threats. There is a need to have the Government endorse any action to address the capability gap prior to establishing a project.
2. **Requirements** – the broad considerations identified in the “Needs” phase are refined into a costed, defined capability solution that provides a schedule for acquisition leading to operational release. Whole of life budgets are developed at this stage incorporating costs for acquisition, operation and support for the capability solution. The procurement plan is developed in the latter stages of this phase including the procurement approach to be adopted such as open tender or sole source approaches.
3. **Acquisition** – The appropriate asset is purchased and a contract established and entered into by the appropriate procurement authority.
4. **In-Service** – the asset is operated, supported and managed to achieve the capability requirement.
5. **Disposal** – In this phase major systems are withdrawn from service in a regulated process and disposed of or redeployed as necessary.

### 1.4.1.2 Procurement procedures & internal controls

Deficiencies in the procurement procedures and internal controls we identified included instances where:

- There were errors in Purchase Requisitions and procurement documentation
- There were errors identified in Purchase Orders
- Purchase Orders were created after the invoice date indicating the proper procurement process had been circumvented
- There was no proof of delivery documentation for the receipt of goods and services
- There were goods paid for that were never received
- Incorrect payments were made to suppliers
- There was missing supporting documentation
- The widespread use of the “Commitment Only” process has resulted in the standard approvals process being avoided and large volumes of goods and services being directly awarded without sufficient justification
- The use of expired central procurement contracts has resulted in the Ministry relying upon expired contracts with an incorrect counterparty. This has also contributed to the direct awarding of purchased goods and services
- The quality of contracts observed is assessed as poor with wide ranging issues including missing or inadequate terms, conditions and annexures
- There is no established and effective contract management
- Procurement Conduct Checklists were not used in the procurement process
- The controls in the operation of the fuel voucher system post issue of the voucher coupons are considered weak and susceptible to misappropriation.

## Recommendation

It is recommended that the Procurement Department of the Ministry of Defence and Security implement standard operating procedures that regulate procurement process at the functional level. While the Decree Law and the Best Practice Guides provide a strategic overview, there is a need to possess specific procedures to guide the procurement processes in the Ministry of Defence and Security.

The strategic nature of the procurement in this Ministry further require that detailed guidance and regulation exist for procurement processes in order to accommodate the complex nature, higher risk and substantial costs associated with strategic purchases. The basis for this should follow the pattern that applies needs, requirements, acquisition, in-service and disposal phases.

The “needs” phase is critically important (and a notable failure in the existing framework) providing an understanding of strategy, strategic guidance, current and future operational concepts, technology considerations, force structure and current or potential threats in order to establish what is required from the purchase. The subsequent “requirements” phase selects the ideal asset to meet the established capability gap. Presently this appears to be lacking and results in poor procurement outcomes that fail to deliver value.

### 1.4.1.3 Non Compliance with Decree Law

There were instances where the Procurement Department of the Ministry of Defence and Security did not comply with the Decree Law including:

- There was no Supplier Registry prepared in accordance with Decree Law
- There is no notification available to confirm that the accreditation process for the Ministry required in the Decree Law and the complementary Best Practice 10: Decentralisation and Accreditation has been followed
- The Procurement Department should provide the Procurement Plan to the Ministry of Finance as mandated by Decree Law 10/2005
- There was no formal process for managing procurement performance
- Tenders were not published in accordance with the Decree Law
- There were direct award purchases (that required multiple quotation or bid processes) that possessed no or insufficient justification for the direct award.

## Recommendation

There are a number of steps that can be taken by the Procurement Department of the Ministry of Defence and Security to resolve issues of non-compliance with Decree Law and the Best Practice Guides. These actions include:

- Create and maintain a Suppliers Registry.
- The Procurement Department should access the registry administered by the National Director of Registry and Notary in the Ministry of Justice to ensure that when assessing quotes or tenders there is no beneficial ownership by one party in separate supplier submissions.
- The Ministry should request the level of accreditation appropriate for the respective needs from the MoF.
- The Procurement Department should provide the Procurement Plan required by the Ministry of Finance as mandated by Decree Law 10/2005.
- The Procurement Department should provide the Compliance Report to the Ministry of Finance as required as part of the Annual Procurement Report submission.

- An extension of the above is to create a more effective performance management system based on the SMART criteria (specific, measurable, achievable, relevant and time-bound). The performance management system should be designed to ensure predictable goal achievement. It should possess the three essential features:
  1. The goals against which performance is measured
  2. The ability to measure performance
  3. The ability to correct deviations.

Commonly used approaches include the Balanced Scorecard encompassing financial, internal business, customer and innovation and learning measures.

However, Deloitte notes that the MoF has developed the report “Establishing Performance and Compliance Indicators in Public Procurement in Timor-Leste” under the auspices of a World Bank IDF grant. Deloitte understands further that the World Bank is providing comments, following which the MoF will roll out the performance system to line ministries.

- The tender requirements articulated within the Decree Law must be abided by.

#### 1.4.1.4 Other issues

There are several recommendations in relation to other issues. These include:

- The Procurement Department should use official government email accounts.
- The Procurement Department should access or create standardised documentation to support their procurement activities. There is some standardised documentation but this should be reconciled against the objectives of the Procurement Department to ensure that it is both effective and complete.
- Significant items bought in volume by line ministries such as vehicle, fuel and travel should be procured centrally to exploit the advantages of volume discounts available.

## 1.4.2 Organizational Structure

### 1.4.2.1 Roles & responsibilities

There were several issues identified in the examination of the structure and human resource management systems in both of the Procurement Departments. These include:

- There are no position descriptions for staff. Position Descriptions describe the essential characteristics of the role such as the reporting lines involved, the task to be performed in the position and the minimum requirements needed to perform the role.

The organisational architecture adopted by the procurement department of The Secretary of State of Security appears suitable to the procurement functions required of the Ministry. Presently the organizational architecture being used in Security would meet these needs if the roles and responsibilities adopted by the respective positions in the organizational chart matched the needs of the Procurement Department. The positions currently exist in the organizational chart but the functions needed are not being performed by the incumbents.

The structure adopted in Security appears to meet these needs better than the architecture adopted in Defence. It should also be noted that the full complement of personnel exist in the Security structure whereas the “Procurement Officer – Tenders” position is vacant in the Defence procurement structure despite the critical importance of this process in the procurement procedures adopted in Defence.

## 1.4.3 People Management

### 1.4.3.1 Staffing levels

Deloitte's examination of the level of transactional activity and staffing levels indicate that there appears to be sufficient staff to meet the demands of the department.

### 1.4.3.2 Aptitude & training

The level of experience of the Procurement staff appears to be comparable with the levels of experience noted in other line ministries. A more suitable assessment would have been to compare the existing requirements within each Position Description for each member of staff to the remuneration levels attained, qualifications and experience. However, no position descriptions exist and this could not be performed. Furthermore, there are several recommendations in relation to training that should be adopted. These include:

- Instituting more effective training tailored to the requirements of the Procurement Department.
- It was noted that all staff attended the 21 Day Procurement Cycle Course. However, no procurement staff attended for the complete 21 days of the course. It is recommended that staff attend the courses on offer in full to ensure that consistent information is made available to members and team members can have greater access to learning the skills necessary for their roles.
- Improving the training development process for staff through improved performance measurement to ensure that individual staff members are monitored and the training required is delivered.
- The commissioning of a better accreditation system to complement the above and provide a formal basis for continuing professional development of staff.
- Adopting a people management strategy that focuses on productivity and embraces, amongst other elements, selection based on current skills and knowledge.

## 1.5 Follow up on recommendations

Due to the critical importance of procurement to both the delivery of government services and the development of Timor-Leste, a process should be implemented to monitor the progress of the Procurement Department of the Ministry of Defence and Security have made against these recommendations.

## 1.6 Acknowledgement

We would like to take this opportunity to thank the management and staff of the Ministry of Defence and Security and the Ministry of Finance for their co-operation and assistance during the course of this examination.



Deloitte Touche Tohmatsu

July 2012



## 2. Detailed Findings and Observations

### 2.1 Considerations for Procurement Strategy

#### 2.1.1 Procurement Strategy

##### **Background:**

The approach often adopted in strategic procurement is to manage the purchasing through a capability lifecycle process that incorporates five key phases. Accordingly, we recommend that consideration be given to a more rigorous strategic procurement approach that incorporates the following:

1. **Needs** – there is a requirement to identify a statement of user needs that address the identified capability gap. These are developed, in the Defence context, from strategic guidance, current and future operational concepts, technology considerations, force structure and current or potential threats. There is a need to have the Government endorse any action to address the capability gap prior to establishing a project.
2. **Requirements** – the broad considerations identified in the “Needs” phase are refined into a costed, defined capability solution that provides a schedule for acquisition leading to operational release. Whole of life budgets are developed at this stage incorporating costs for acquisition, operation and support for the capability solution. The procurement plan is developed in the latter stages of this phase including the procurement approach to be adopted such as open tender or sole source approaches.
3. **Acquisition** – The appropriate asset is purchased and a contract established and entered into by the appropriate procurement authority.
4. **In-Service** – the asset is operated, supported and managed to achieve the capability requirement.
5. **Disposal** – In this phase major systems are withdrawn from service in a regulated process and disposed of or redeployed as necessary.

A review of the procurement activities in the Ministry of Defence and Security indicates that the process has significant inadequacies in each stage. The Acquisition (covered at section 2.1) and In-Service (covered at section 2.1.5.5) phases are discussed separately below.

##### **Recommendation**

There is a need to apply the processes established in the Decree Law and Best Practice Guide. However, there is a need to further develop the procurement processes to accommodate the complex nature, higher risk and substantial costs associated with strategic purchases. The basis for this should follow the pattern stated above that applies needs, requirements, acquisition, in-service and disposal phases.

### 2.1.1.1 Planning for Procurement

The high level strategy around what is required is articulated in the Timor-Leste Strategic Development Plan 2011-2030. It is further complemented by the strategic study “Force 2020” that refines the themes developed in the aforementioned strategic plan into broad objectives for the Ministry.

Amongst the largest acquisitions during the period under review were the purchase of Naval vessels for the Naval Component of FALANTIL-FDTL. In relation to the acquisitions the need is that Naval Component is required to maintain its sovereignty in its Economic Exclusion Zone (EEZ) that lies on major international trade routes between the Asia Pacific and South East Asian trade blocs. In doing so, the Naval Component specifically deals with issues such as illegal fishing, illegal immigration, maritime terrorism, drug trafficking, piracy, pollution and threats to freedom of navigation. This is performed through activities such as monitoring, surveillance, police and rescue activities. The issue is whether the existing Patrol Boats currently operating in the Naval Component are suited to the activities they are assigned.

The strategy and planning components of strategic procurement appear to be inadequate. The lack of transparency in the acquisition of the five patrol boats makes it difficult to determine the strategic planning considered during the procurement process.

We have collected some high level operating data to further understand the capability that is being developed. This is as follows:

	Class of Vessel		
	Albatroz	Chamsuri	Shanghai
Origin	Portugal	South Korea	China
No. in Service	2	3	2
Displacement (tonnes)	45	170	135
Range	2,500Nm at 12 kts	600Nm at 20kts	750Nm at 16.5kts
Main armaments	1 x 20mm Oerlikon cannon, 2 x 12.7mm HMG	1 x 40mm Bofors Naval gun, 2 x 20mm gatling gun	4 x 37mm guns, 4 x 25mm guns
Remarks	Due to be decommissioned prior to transfer to FALINTIL-FDTL		

**Table 1.** High level operational data for FALANTIL-FDTL Naval Component Fleet (Source: Jane’s Fighting Ships - <http://jfs.janes.com/public/jfs/index.shtml>).

Vessel	Date	Destination	Distance (Nm)	Mission Time (Hr)	Navigation Time (Hr)
Jaco	08-Feb-12	Manatuto	15	2.00	2.00
Jaco	05-Apr-12	Atauro	26	7.00	2.00
Jaco	14-Apr-12	Oecusse	236	68.92	11.25
Jaco	17-Apr-12	Liquica	27.38	4.33	4.33
Jaco	23-Apr-12	Com	100	42.33	8.33
Betano	29-Mar-12	Manatuto	15.5	1.20	1.20
Kamnasa	17-Apr-12	Liquica	19	4.00	4.00
Kamnasa	23-Apr-12	Manatuto	65	6.50	6.50
Hera	17-Apr-12	Liquica	27.4	3.13	3.13
Hera	23-Apr-12	Metinaro	28.6	28.10	28.10
Dili	17-Apr-12	Liquica	27.4	3.13	3.13
Dili	23-Apr-12	Metinaro	28.6	6.58	6.58
Total			<b>615.88</b>	<b>177.2</b>	<b>80.6</b>
Daily Average Distance Travelled:			<b>5.26 Nm</b>		
Daily Average Distance per vessel:			<b>1.05 Nm</b>		

**Table 2.** Total F-FDTL Fleet Activity for period 1 Jan 2012 – 27 April 2012 (Source: F-FDTL).

Table 2 shows that in the current year to 23 April 12 the combined time at sea of the vessels was 4 days. This may indicate that the vessels may not suit the objectives for which they were purchased and the the capability of vessels or the vessels' crew might be limited

### Recommendation

Develop requirements and specifications that focus on the outcomes expected from the purchase as part of the planning phase of the procurement proses.

## 2.2 Procurement procedures & internal controls

### 2.2.1 Purchase Order Preparation

#### 2.2.1.1 Purchase requisition error

In our sample we noted the following transaction where the details in the purchase requisition were approved despite a significant of USD 6 Million between the CPV and the purchase requisition. The details of this transaction are as follows:

Related Year	Contract ID	Vendor Name	Amount per CPV	Amount per Purchase Requisition	Difference
2010	10003249	PT SAHABAT TRIGUNA	\$668,941	\$6,668,941	\$6,000,000

**Table 1.** Transaction details for purchase with material differences between the CPV and the purchase requisition.

The implication of the above issue is:

1. Mistakes can lead to incorrect amounts being paid for goods and services. The error above is a material difference; and
2. It suggests that the review process being undertaken by the approving authority is inadequate.

### Recommendation

Procurement should follow the established procedure in the Decree Law. This should include those with the authority to approve payments for goods and services adequately reviewing the documentation prior to its approval.

#### 2.2.1.2 Purchase orders with incorrect details included

In our sample we noted the following transaction where the details in the purchase order and the purchase contract differed significantly. The details of this transaction are as follows:

Related Year	CPV No.	Vendor Name	Amount (\$)
2010	10004359	YISIN REALTY & TRADING PTY LTD	898,500

**Table 2.** Transaction details for purchase with material differences between the PO and the purchase contract.

The differences in the purchase documentation are as follows:

1. The contract provided for the purchase of 30 vehicles for a total of \$898,500. This is unit price of \$29,950 per vehicle.
2. The purchase order stated the quantity ordered was 100 vehicles. This is the same as the total price in the contract (reflected above) but a different quantity.

The subsequent review of the Receiving and Inspection Report indicates that 30 vehicles were received.

The issue is that purchase orders are being approved with incorrect information (in this case the quantities of goods expected). Purchase orders are created with a view to approving both price per unit and the desired quantities to be purchased. A failure to identify the error in quantity indicates that both; (1) the procurement process is not being followed diligently and (2) the approving authority is not performing their role to an adequate standard.

## Recommendation

Procurement should follow the established procedure in the Decree Law. Purchase orders should be created and approved prior to receipt of goods and services. The details contained in the purchase order should be validated against the budget allocation permissible through the CPV process and agreed to other supporting documentation – in this case the tender documents associated with this purchase.

### 2.2.1.3 Purchase orders created after the invoice date

There were a number of instances where the purchase order was dated after the invoice indicating the purchase order was created after the invoicing had occurred. These purchase orders are noted below:

CPV No.	Vendor	Description	PO Date	Invoice Date	Amount
10003249	PT. SAHABAT TRIGUNA	Other Equipment	06-Aug-10	30-Nov-09	\$688,940
10003326	LIFESE PTY LTD	Construction of Temporary Naval Port in Hera, Dili	11-Aug-10	27-Jul-10	\$900,000
10004255	HAT BATU LETEN LTD	Project Construction of Fence for the F-FDTL at Metinaro	05-Oct-10	28-Apr-08	\$500,817
10001954	POLY TECHNOLOGIES, I	Contract for Construction of two Patrol Boats Type 62-1 G	21-May-10	12-Mar-10	\$3,459,656
2011	EVERSON NETWORK SUPP	Supply and delivery of Information Technology equipment	18-Apr-11	12-Apr-11	\$72,970

**Table 3.** Purchase orders created after the invoice

The purchase order process establishes the Ministry of the Defence and Security's acceptance and authority to pay an invoice. Actions that circumvent this can result in payments that have not been approved by the Ministry of Defence and Security being paid. This has the potential to permit fraud or error.

## Recommendation

Procurement should follow the established procedure. Purchase orders should be created and approved prior to receipt of goods and services. The subsequent receipt of the goods and services should be accompanied by goods receipt information such as Goods Receipt Note that should be agreed to the original Purchase Order. Provided that all agree, the Request for Payment can be lodged with the Ministry of Finance and the supplier paid.

### 2.2.2 Receipting of goods and services

#### 2.2.2.1 No proof of delivery

During our testing there were several instances where no proof of delivery could be obtained for goods and services provided to the Ministry of Defence & Security. The details of these findings are as follows:

Related Year	CPV No.	Vendor Name	Actual (\$)
2010	10000035	JORCOS CO.LTD	\$580,748
2011	11000531	JORCOS CO.LTD	\$388,424

**Table 5.** Transactions without proof of delivery

The Ministry should provide a Receiving and Inspection Report to acknowledge the receipt of goods and services for all purchases. A failure to provide any proof of delivery means that there is no evidence that the goods or services were actually provided. This provides latitude for abuse and misappropriation through the ability to submit an invoice and be paid without providing evidence of goods or service delivery.

### Recommendation

Procurement should follow the established procedure. Purchase orders should be created and approved prior to receipt of goods and services. The subsequent receipt of the goods and services should be accompanied by goods receipt information such as Goods Receipt Note that should be agreed to the original Purchase Order. Provided that all agree, the Request for Payment can be lodged with the Ministry of Finance and the supplier paid.

#### 2.2.2.2 Goods paid for but not received

During our testing a transaction was identified where the goods paid for were not delivered. Specifically, the purchase involved the procurement of vehicles in which two of the vehicles paid for were not provided by the supplier. The details of this transaction are as follows:

Year	PO No.	Vendor	Actual Treasury Payment	Payment Request and Invoice amount	Items not delivered on Receiving & Inspection Report
2010	10004325	AUTO DILI	\$877,426	\$827,921	2 x Toyota Rush Type S – Silver

**Table 6.** Details of two vehicles paid for but not received.

The events that preceded this occurred as follows:

1. The two additional vehicles were part of the original purchase order but were removed (manually by pen amendment) later.
2. The payment request did not include the two additional vehicles.
3. The supplier did not invoice for the two additional vehicles.
4. Treasury paid the full amount on the purchase order (\$877,426) including the two additional vehicles that were subsequently removed – the amount was never amended on the FreeBalance system to represent the removal of the two additional vehicles.

The implication of this error is twofold:

- There is an error that has resulted in an overpayment of \$49,505 to the supplier.
- Reviews of document batches and the review and approval of payments do not appear to be undertaken to an adequate standard.

### Recommendation

Procurement should follow the established procedure. Purchase orders should be created and approved prior to receipt of goods and services. The subsequent receipt of the goods and services should be accompanied by goods receipt information such as Goods Receipt Note that should be agreed to the original Purchase Order. Provided that all agree, the Request for Payment can be lodged with the Ministry of Finance and the supplier paid.

#### 2.2.3 Payment remittance

##### 2.2.3.1 Incorrect payment to supplier

During our testing we identified a transaction for the purchase of equipment for the Military Police from Pt. Sahabat Triguna Kesatria. The purchase order and payment request was incorrectly made out for \$688,940.96 instead of \$668,940.96 as per the invoice obtained from the supplier and the Receiving and Inspection Report. The larger amount was subsequently paid to the supplier. The details of this transaction are as follows:

Year	PO No.	Vendor	YTD Actual (USD\$)	Receiving & Inspection Report No.	Amount over-paid (USD\$)
2010	10003249	Pt. Sahabat Triguna Kesatria	\$688,941	567	\$20,000

**Table 7.** Details of overpayment to supplier.

The error appears to have been a simple clerical error. However, it demonstrates that inadequate review and approval processes are being undertaken within the Ministry and the consequence of this is that material errors are being made.

### Recommendation

Procurement should follow the established procedure. Purchase orders should be created and approved prior to receipt of goods and services. The subsequent receipt of the goods and services should be accompanied by goods receipt information such as Goods Receipt Note that should be agreed to the original Purchase Order. Provided that all agree, the Request for Payment can be lodged with the Ministry of Finance and the supplier paid.

### 2.2.4 Other purchasing issues

#### 2.2.4.1 Missing supporting documentation

There were several samples noted where the supporting documentation for a selected transactions could not be provided to us by the Procurement Department. These were as follows:

Year	PO No.	Vendor	Amount	Remarks
2009	915450	Commitment Only	65,957	FY 2009 documents not available
2009	91673	TAURUS CATERING	450,000	FY 2009 documents not available
2009	92572	JORCOS CO LTD	865,800	FY 2009 documents not available
2009	94888	PT. GISTEX (GARMEN D	300,000	FY 2009 documents not available
2009	92438	HAT BATU LETEN LTD	366,042	FY 2009 documents not available
2009	90726	POLY TECHNOLOGIES	21,300,000	FY 2009 documents not available
2009	91486	ENSUL ESPHERA ENGENH	730,000	FY 2009 documents not available
2009	92158	HOLGAPA PTY LTD	470,915	FY 2009 documents not available
2009	91234	SORTE TIMOR PTY LTD	592,450	FY 2009 documents not available
2010	10004359	YISIN REALTY & TRADING PTY LTD	896,500	No supplier invoice provided; No evidence obtained of ITB published in an international newspaper
2010	10001174	GUNUNG KJANG LDA	970,069	Progress Payment Certificates not provided
2011	11002253	PT GAIA SURYA INFRASTRADA	349,970	No justification was provided for this Emergency/Sole Source project
2011	11001591	PT. SHABAT TRIGUNA M	392,030	No documentation were provided

**Table 8.** Samples with missing supporting documentation

Furthermore, there were numerous instances of incomplete information furnished by the Ministry despite the provision of detailed instructions and documentation to support our requirements. This is highlighted as an issue (related to missing supporting documentation) because it reflects inadequate document management practices in the Ministry.

The retention of critical procurement information is essential for the proper functioning of procurement controls. An absence of this information means that there is no mechanism to verify that the correct procedures are being applied or assess the reasonableness of the payment. The potential outcome of failing to apply these principles is fraud or error.

### Recommendation

There is a requirement to obtain or create and retain all the necessary procurement documentation. This should be adhered to rigorously.

#### 2.2.4.2 Use of the Commitment Only purchasing mechanism

The use of the “Commitment Only” procurement approach is in common usage in the procurement process for the Ministry of Defence and Security. The table below illustrates the extent of the practice through providing the volume of transactions undertaken through both “Commitment Only” and the prescribed procurement methodology in the Decree Law and Best Practice Guides (“Standard Procurement”) in the FY2010. The table is as follows:

Process	Grouping			Grand Total
	Goods & Services	Minor Capital	Capital & Development	
Commitment Only	2564	5	3	2572
Standard Procurement	383	108	44	535
<b>Grand Total</b>	<b>2947</b>	<b>113</b>	<b>47</b>	<b>3107</b>

**Table 9.** Number of transactions performed using the Standard and “Commitment Only” processes

Most of the “Commitment Only” disbursements are related to a broad range of purchases including petty cash and district advances (the highest), catering, office supplies and salary cash payments amongst others (refer Graph A2-3 of Appendix 2 for further details). These will be paid by the Finance Officer to the intended parties after Treasury has approved the preceding CPV and payment request.

There are systems for both payroll disbursements and procurement that are being underutilised or avoided. This avoidance may be for reasons of expediency, a lack of knowledge or confidence in the procurement or payroll systems or to take advantage of a weakness in the current systems. Table and Graph A2-2 of Appendix 2 detail the extent of these “Commitment Only” purchases.

The issues arise through the misuse of the “Commitment Only” approach are as follows:

1. There is no purchase order created for the purchase of goods and services. This means that the approval process for these acquisitions has been avoided.
2. These items are being direct awarded. For purchases in excess of \$5,000 there is a need to adopt a competitive process by the mechanisms provided for in the Decree Law and included at Appendix 4 to this review.
3. There are exceptionally large volumes of cash payments (\$3,138,717 in total for FY2010 for both petty cash and district advances) indicate that this approach is being overused. There does not appear to be an effective acquittal process for these payments as the Commitment and Obligation Report records these payments simply as cash payments. As a result no vendors are recorded and the process for vendor selection cannot be readily understood. As a result there is a high potential for misappropriation given the extent to which cash is being handled.
4. There is a requirement to review the “district advances” to appropriately classify these payments in the financial statements. These payments may constitute “Transfers” (refer Appendix 1 – Budget & Actual Expenditure for FY 2010 for an understanding of where this expenditure relates in the financial statements for the Ministry).
5. There are substantial payroll payments being made using manual payments through the “Commitment Only” process. This approach is substantially less controlled payment option than the system that pays directly into a bank account. The manual system should only be used where access to banks is limited such as the districts. The manual approach has the potential for misappropriation given the difficulties associated with administering such a system.
6. The approach is a violation of the Decree Law due both to the direct award nature of the procurement and avoidance of the Ministry’s obligations to undertake procurement in accordance with the Decree Law.

## Recommendation

The practice of using the “Commitment Only” approach for the purchase of goods and services and the disbursement of payroll related monies should cease. In limited cases the payment of per diems and salaries may be appropriately handled through this mechanism but under conditions of strict control.

Furthermore, the extent of “petty cash and district advances” should be investigated to ensure the practice can be curtailed and whether the prior payments were reasonable.

### 2.2.4.3 Reliance on expired central procurement contracts

It was noted that the Ministry purchased fuel from Aitula Fuels and Esperanca Timor. Per discussions with the Procurement Department, these purchases were undertaken under the authority of the contracts maintained by Central Procurement for the supply of fuel to all government ministries and agencies. However, these contracts have expired and should no longer be relied upon.

There implication of these issues is twofold:

1. The current situation is that the contracts in use are both expired and made between the Government of Timor-Leste (whole government) and not the line ministry as the counter party. As a result no existing legal and operative (extant) contract is in place. The Prosecutor General should establish contracts with suppliers in accordance with the decentralisation principles established in Decree Law 1/2010.
2. The Ministry of Defence and Security may be able, through a competitive tendering process, to obtain significant advantages through the provision of discounts, volume rebates and other preferred supplier arrangements.

## Recommendation

The Procurement Department is required, under the decentralized procurement regime established under Decree Law, to establish their own procurement arrangements with suppliers. In establishing these requirements there is a need to acquire three quotes for transactions between \$5,000 and \$100,000 for one-off procurement events or proceed to tender for amounts greater than this threshold that would accommodate larger, longer term supply contracts.

### 2.2.4.4 Contract Quality

There are notable issues with the contracts observed during the examination of procurement documentation for the Ministry of Defence and Security. There were examples of comprehensive and well-structured contracts and there were some contracts that were incomplete and inadequate.

The need to have adequate contracts is essential in order to ensure that the price, quality and surety of supply of the desired goods and services are maintained. Without these it is difficult to adequately ensure value for money.

## Recommendation

The standard of contracting should be improved to provide understandable terms and conditions for contracts and adequately protect the interests of the government in their contractual arrangements. The adoption of the Commercial Principles in Best Practice Guide 6: Establishing Contracts would assist the Ministry to improve the standard of contracting presently being undertaken.



#### 2.2.4.5 Contract Management

There are no established procedures, allocation of tasks or dedicated personnel to manage contracts for Defence. The structure established for Security appears to accommodate a capability to manage contracts – this can be seen at Section 2.4.1. However, discussions with staff at Security indicate that their activities are restricted to contract development rather than contract management. Therefore, it across the Procurement Department of the Ministry of Defence and Security there is no contract management being performed.

The absence of contract management in Defence was contributing factor in the payment of penalty interest charges for late payments to Lifese Pty Ltd for the construction of the temporary Naval Base at Hera. The total of penalty charges for late payment amounted to \$1,515,077 (there was an additional cost of \$60,000 for an Independent Quantity Surveyor not included in this figure).

An indication of the level of dissatisfaction with the contract management process and particularly the payment of due monies was expressed in a letter from Lifese Pty Ltd to the contract representative.

The payment of late payment interest charges is an example of poor contract management and amounts to expenditure that provides no value to the Ministry. Furthermore, there is the reputational risk and increased transactions costs that can arise from poor contract management performances. The fact that a representative from the Ministry of Finance was the RDTL contract representative indicates that no capacity for contract management exists within the confines of the Ministry of Defence and Security.

The framing of contracts should deliver the platform for the effective delivery of goods and services but it must be managed or those anticipated benefits will not be achieved. Best Practice Guide 7: Managing Contracts provides comprehensive guidance on all aspects of contract management and administration.

#### **Recommendation**

There is a need to have contract management processes and dedicated personnel allocated to the task of managing contracts. The Best Practice Guide 7: Managing Contracts provides extensive guidance on the requirements for management process and this should be overseen by adequately trained and experienced staff.

#### 2.2.4.6 Procurement Conduct Checklists

The Best Practice Guide 3: Tender Processes & Documents recommends that Procurement Departments use the Procurement Conduct Checklists in conduct of all tenders. An examination of documentation indicates that the checklists are not being used.

The Procurement Conduct Checklist itemises each issue that will be relevant in the tender process and in doing so is a valuable tool in ensuring that the process is conducted properly.

#### **Recommendation**

The Procurement Department of the Ministry of Defence and Security should use the Procurement Conduct Checklist in the development of all tenders.

#### 2.2.4.7 Fuel Voucher Controls

The controls surrounding the issue and use in purchasing of fuel using the fuel voucher coupons is considered weak. Some of the issues identified include:

- Coupon books being issued to Director Generals and above with no accounting for their usage;
- There is no sign off by the vendor (fuel station) of the fuel voucher to ensure that the receiving vehicle is the authorised recipient;
- There is no statement provided by the vendor and subsequent reconciliation performed against the fuel usage; and
- There are no log books maintained to check mileage performed by the vehicles and ensuring this agrees with the amount of fuel that would reasonably have been consumed.

The outcome of this process is that there are opportunities to misuse this system and misappropriate fuel.

#### **Recommendation**

The controls surrounding the management of the purchasing of fuel using coupons requires improvement. The development and introduction of a basic procedures manual for use of fuel vouchers that eliminates these shortfalls is a simple solution that could be adopted by the Procurement Department.

### 2.3 Compliance with Decree Law & Best Practice Guide Procedures

#### 2.3.1 Non-compliance with Decree Law

##### 2.3.1.1 Suppliers Registry

The Decree Law 10/2005 requires that adequate supplier records be maintained for Government bodies involved in procurement. In the practical application of this requirement, the Procurement Department of the Ministry of Defence and Security has not adopted any form of supplier registry.

The adoption of a Supplier Registry is critical to maintaining control over suppliers. In an absence of this control there is scope for companies to fraudulently misrepresent themselves in the procurement process or conceal participants that may have a conflict of interest.

Furthermore, it was noted that the Procurement Department of the Ministry of Defence and Security does not have access to a Directors and Shareholders registry that would commonly be available through a corporate regulator in other jurisdictions. This creates the potential for suppliers to create a number of corporate entities in which to bid (thereby satisfying the requirement for three quotes for purchases less than \$100K) but in reality being one provider.

#### **Recommendation**

The Procurement Department of the Ministry of Defence and Security should institute a Supplier Registry as soon as is practicable.

##### 2.3.1.2 Accreditation Procedures Not Followed

Decree Law 24/2008 required that the each Ministry, as part of the decentralisation process, undergo a process of accreditation. In this process each Ministry and their related entities was required to request the Ministry of Finance for a level of accreditation appropriate to their needs. This is supported by Best Practice Guide 10: Decentralisation and Accreditation.

The initial change was for the Ministry of Finance to allow procurement to level 2 (\$250,000) across all line Ministries. However, the discontinuing of the Procurement Technical Secretariat (STA)

prompted the Council of Ministers to amend (by Decree Law) that line ministries would be permitted to procure to their budget. Subsequent changes in the Decree Law resulted in the creation of the National Procurement Commission that controls expenditure in excess of \$1M.

The Ministry of Defence and Security has not complied with the accreditation requirements of the Decree Law and complementary Best Practice Guide 10. The numerous changes in Decree Law may have resulted in some confusion.

### **Recommendation**

The Ministry should request the level of accreditation appropriate for the respective needs from the MoF.

#### 2.3.1.3 Mandated Procurement Plan Requirements

The Decree Law 10/2005 Article 24 requires that an Annual Procurement Plan be prepared and submitted to the Ministry of Finance. The Best Practice Guide 1: Procurement Planning provides advice on how this is to be approached including the planned expenditure ranges that are required to be reported on. These ranges are:

- \$1 - \$50,000
- \$50,000 - \$100,000
- \$100,000 - \$250,000
- \$250,000 - \$500,000
- \$500,000 - \$1,000,000
- \$1,000,000 +

However, the Procurement Department of the Ministry of Defence and Security has interpreted this to mean they are required to submit an annual budget. This submission is provided for the total planned spend only and not by the procurement ranges required by the Best Practice Guide.

### **Recommendation**

The Procurement Department of the Ministry of Defence and Security should prepare a procurement plan in accordance with the planned expenditure ranges detailed in Best Practice Guide 1.

#### 2.3.1.4 Procurement performance management system

There is no formal process for reporting procurement performance against the governing legislative instruments. Furthermore, there are no procedures or reporting for the identification of non-compliance in the procurement system.

The Annual Procurement Report required under the Decree Law states that a Compliance Report be included in the submission to the Ministry of Finance. This has not been performed.

The absence of a performance review process limits the effectiveness of the procurement process. Diagnostic systems measure and monitor Key Performance Indicators (KPI) on the procurement system. Discussions have indicated that a "procurement dashboard" reporting system is being developed by the MoF but Deloitte has only viewed a draft copy. Based on discussions with the MoF, progress toward the establishment of a "procurement dashboard" is will significantly address this existing shortfall.

The non-issue of the Compliance Report within the annual procurement reporting framework is a violation of the Decree Law.

## Recommendation

There are two recommendations relating to the performance reviews and non-compliance reporting:

- A performance monitoring system requires implementation. This system requires KPIs to be developed that benchmark against acceptable outcomes. This system needs to report monthly and the consolidated annual results from part of the Compliance Report within the Annual Procurement Report. The KPI reporting can be used for performance assessment of procurement officers.
- The Compliance Statement needs to be completed and included in the submission of the Annual Procurement Report in accordance with the Decree Law.

### 2.3.1.5 Tenders not published in accordance with Decree Law – Incorrect process

As per the Decree Law 10/2005 Article 61, it is compulsory to follow the international public tender process where the purchase of goods or technical services exceeds USD\$250,000 or for construction projects in excess of USD\$1,000,000 (the details of all thresholds for procurement are provided at Appendix 3 to this document).

However, in the following cases it was International Public Tender process was not followed:

Vendor	Amount	PO number	Remarks
AUTO DILI	\$877,426	10004325	Purchases for vehicles were made by the Ministry based on the expired centrally procured contract, instead of procuring a new contract after following the process for an International Public Tender.
JORCOS CO.LTD	\$388,424	11000531	Purchases for catering services were made by the Ministry based on the expired centrally procured contract, instead of procuring a new contract after following the process for an International Public Tender.
LIFESE PTY LTD	\$7,017,715	10003326	Construction of a temporary naval base at Port Hera

**Table 10.** Tender that exceeded threshold for ITB process but followed the NPT process

This is a breach of the Decree Law 10/2005 Article 61.

## Recommendation

As per the Decree Law 10/2005 Article 61, an International Public Tender process should be followed by the Ministry when the purchase of goods or technical services exceeds USD\$250,000 or construction services exceed \$1,000,000.

### 2.3.1.6 Direct award without justification

There were three instances in our sample that involved direct award purchases without any justification. The Article 92 of the Decree Law 10/2010 permits direct award under specified circumstances. In this case there was no evidence that this procedure had been followed or the justifications for the purchase provided. The instances found are as follows:

- Purchase of high density storage racks for F-FDTL
- Construction of 2 x Type 62-1G Patrol Boats
- Construction of Temporary Naval Port in Hera

When direct award purchases are processed without any justification, it can result in procurement procedures being circumvented. This often occurs under the explanation of being urgent or for special matters. The rationale for direct award contracts is provided at Appendix 5 to this document and should be followed or the integrity of the procurement system is compromised.

## Recommendation

All direct award, including emergency cases, are to be processed according to the Decree law and Best Practice Guides, with adequate documentation being maintained as proof of the urgency or special nature involved in procuring the item(s).

### 2.3.1.7 Direct award without sufficient justification

There were a number of significant purchases observed in the examination that were undertaken using the Direct Award provisions of the Decree Law. The Article 92 of the Decree Law 10/2010 states that circumstances for using direct award (including Emergency Procurement) must be accompanied by mandatory documentation. However, there were a number of cases where no supporting documentation was provided to support using this provision. These are as follows:

- Construction of Fence for F-FDTL at Metinaro - \$500,818

*The rationale for the purchase by direct award was not compelling. The existence of multiple construction companies in Dili and the nature of the purchase suggest that proceeding to tender was the appropriate course of action. This will, as is the intent, to better value for money.*

- Supply of Services Related to Operational Material and Supplies - \$392,030

*The assorted services included suggest that the purchase should have been undertaken as discrete goods and services – doing this would promote transparency. Furthermore, the rationale for direct award is assessed as being inadequate to support direct award under Article 92 of Decree Law 10/2010.*

- Supply of Ammunition to the F-FDTL - \$1,299,917. The justification in this case was as follows:

- Ammunition is a sensitive material that not anyone or any company can buy;
- The purchaser has a business license and good experience;
- The ammunition is needed for F-FDTL training quickly; and
- The normal bidding process needed to be circumvented due to the sensitive nature of the purchase (the justification referred to “Nation (sic) confidentiality”).

*The justification is not compelling. The high value of the purchase requires that an International Public Tender be undertaken in accordance with Decree Law. Accordingly, undertaking this process would ensure better value for money as there are no ammunition production facilities in Timor-Leste and this complete order was sourced internationally.*

*The sourcing of the goods from Indonesia undermines the argument that the sensitivity of the purchase in being protected as the direct award was with an agent or middleman. Furthermore, this purchase involved the purchase of small arms consisting mainly of:*

- 5.56mm ammunition (individual and linked)
- .50 Cal linked ammunition
- Grenades
- Weapon oil
- Cleaning kits

*In view of this, the purchase is unlikely to compromise national security as it involves generic small arms held by Defence and Police Forces throughout the world and has to be sourced internationally in any case. Small arms could be purchased directly from a manufacturer instead of via an agent or middleman.*

When direct award cases are processed without the required documentation, or when the justifications do not satisfy the requirements listed under Article 92 of Decree Law 10/2010, it can result in procurement procedures being circumvented under the guise of being urgent or special

matters. The rationale for direct award contracts is provided at Appendix 5 to this document.

## Recommendation

All direct award, including emergency cases, are to be processed according to the Decree law and Best Practice Guides, with adequate documentation being maintained as proof of the urgency or special nature involved in procuring the item(s).

The immediate supply of critical operational materials, such as ammunitions or other combat supplies might be required. In these instances it would be useful for the Ministry of Defence and Security to enter into master agreements with reputable international arms suppliers who are rigorously assessed as capable of providing the types of supplies required. A good master agreement should allow for critical supplies to be ordered, shipped and delivered in short time frames. This could be complemented by a well-controlled system of Inventory Stores that includes processes to monitor minimum stock levels.

## 2.4 Other compliance issues

### 2.4.1.1 Government Procurement Contact Details

The contact details of a number of Procurement Officers in each Ministry under examination were supplied. In all cases (no government email addresses were provided) either a yahoo, Gmail or hotmail account was provided. Furthermore, two of the contact details provided were not correct.

The provision of inaccurate or incomplete information will hinder the delivery of important information to the procuring entity. Furthermore, the use of publically accessed email services does not provide adequate security particularly in the transmission of 'commercial-in-confidence' information.

## Recommendation

All procurement team members should be provided with a Government email account. This should be used to disseminate information to the Procurement teams and be one of the mediums for reporting back to Central Procurement. With the launch of the e-procurement system it is essential that all procurement officers are online.

The Government should ensure that only Government email addresses are used for business purposes.

### 2.4.1.2 Internet Accessibility

The internet and intranet services for the Ministry of Defence and Security are slow and unreliable. As a consequence most of the staff does not have access to the Government server during these periods of poor service performance. This issue will affect access to the e-Portal system.

It was also noted that most senior officials utilise internet services provided by Timor Telecom that is separate from the intranet service commented on above.

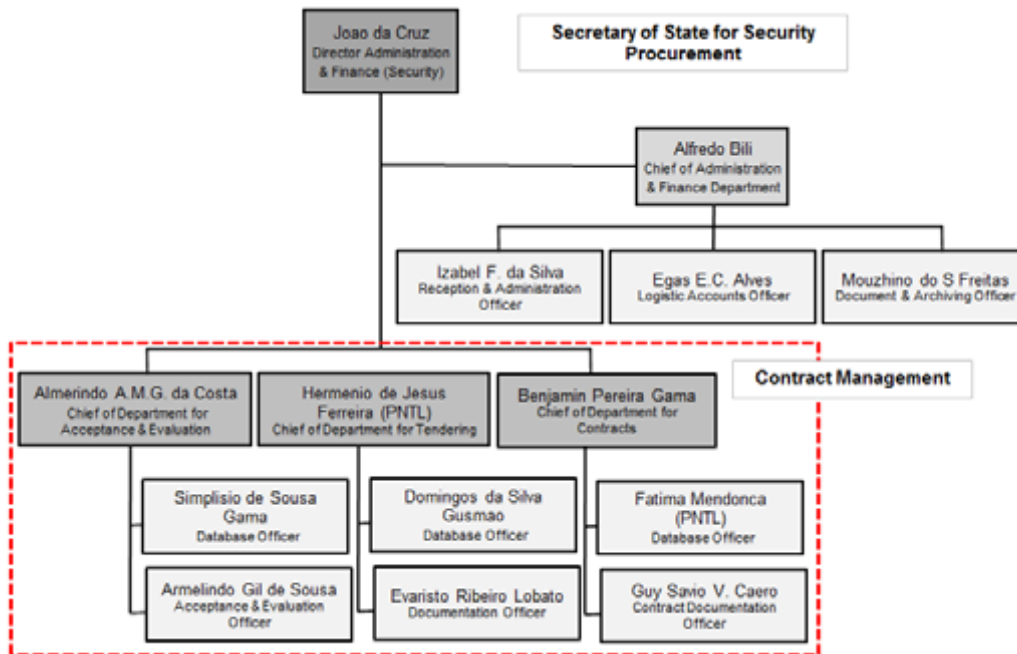
## Recommendation

The Director General of State Finances is currently sponsoring a Management Information Strategy (MIS) Report that comments extensively on this issue. For the purposes of this report the comments above are for information only and more detailed commentary can be gained from the MIS Report.

**2.5 Organizational Architecture**

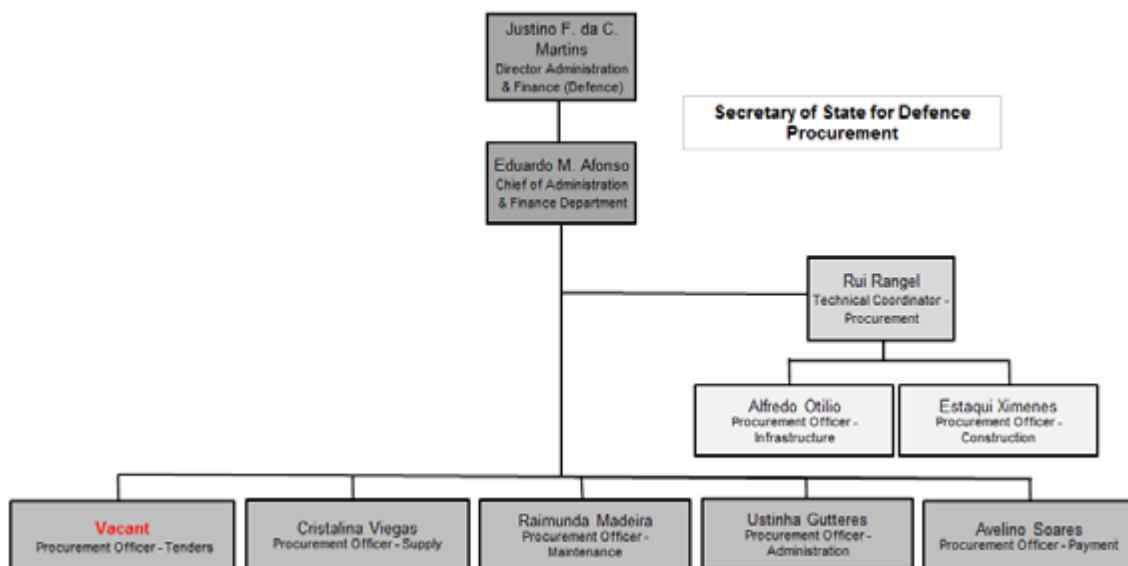
**2.5.1 Organizational structure**

The organizational structure for the Procurement Department of Security within the Ministry of Defence and Security is provided in the organizational chart that follows:



**Figure 2.** Organizational chart for Procurement in the Office of Secretary of State for Security

The organizational structure for the Procurement Department of Defence within the Ministry of Defence and Security is provided in the organizational chart that follows:



**Figure 3.** Organizational chart for Procurement in the Office of Secretary of State for Defence

The organizational chart establishes limits of authority and responsibility. The structure appears reasonable in Security given the quantum of people employed and lines of authority that have been constructed. The structure appears to cater for the need to manage contracts but discussions with the Department indicate that this is not the case (the discussion in section 2.1.4.5 reflects this situation).

Presently the organizational architecture being used in Security would meet these needs if the roles and responsibilities adopted by the respective positions in the organizational chart matched the needs of the Procurement Department. The positions currently exist in the organizational chart but the functions needed are not being performed by the incumbents.

The structure adopted in Security appears to meet these needs better than the architecture adopted in Defence. It should also be noted that the full complement of personnel exist in the Security structure whereas the "Procurement Officer – Tenders" position is vacant in the Defence procurement structure despite the critical importance of this process in the procurement procedures adopted in Defence.

What requires clarification is whether the structure meets the objectives of the Procurement Department for both Defence and Security by adequately providing the expertise in the correct areas. Arguably, this is better examined in the roles and responsibilities section provided below.

### 2.5.2 Roles & responsibilities

There are no defined roles and responsibilities assigned in the Procurement Department of the Ministry of Defence and Security. At the minimum the expectation would be that position descriptions exist for all positions in the Procurement Department providing information including:

- Brief description of role
- Minimum competencies
- Responsible manager
- Qualifications required
- Pay level

This provides a minimum level of information to manage personnel from a human resources perspective. This assists in recruitment, succession planning and training of staff (note the connection between structure and human resources issues in this case).

This information also provides the basis for reconciling the roles and responsibilities of the department with the objectives they are attempting to achieve. Observation of the structure and titles indicates a degree of complexity in the procurement process that may not actually exist. Overall, what function specific people perform and what outcomes are required is unclear.

The outcome of establishing adequate roles and responsibilities may be that the organizational structure requires revising.

### Recommendation

It is recommended that each position have a position description created for it. Furthermore, this needs to be reconciled across the scheme of complement to ensure that the objectives of the department are being met.



## 2.6 People Management

### 2.6.1 Staffing Levels

Examination of the documentation for the complete FY2010 in Ministry of Defence and Security's Procurement Department indicates that there were 535 payments made to suppliers following the procurement processes stipulated in the Decree Law and Best Practice Guides (this excludes 2,572 commitment only payments processed by the Finance Officer) for the period. The details of this can be viewed in Table 9 attached to paragraph 2.1.4.2.

Presently the Procurement Department has three staff. Based on the current tempo of activity, the number of personnel appears to be adequate for the level of activity experienced by the Procurement Department.

### Recommendation

The levels of staffing appear adequate to the volume of transaction being processed in the Procurement Department.

Should any changes be contemplated in reducing the amount of "Commitment Only" transactions, it is assessed that the potential for efficiency gains through the use of standard operating procedures are sufficient to allow the existing staff to handle any increases in workload.

### 2.6.2 Aptitude & Skills

#### 2.6.2.1 Existing Capability

The following are the qualifications and experience of the personnel in the Security and Defence Procurement Departments within the Ministry of Defence and Security:

Name	Position	Qualifications	Experience
Justino F.da C. Martins	Director DNAP-SED	Degree in Finance	3 Years in procurement
Eduardo M. Afonso	Chief of Department	Degree in Management	4 Years in procurement
Avelino Soares	Procurement Officer - Payment	Degree in Electronics	2 Years in procurement
Alfredo Otilio	Procurement Officer - Infrastructure	Degree in Infrastructure	2 Years in procurement
Cristalina Viegas	Procurement Officer - Supply	SMA *	2 Years in procurement
Rui Rangel	Technical Coordinator	Engineer	2 Years in procurement
Eustaquí Ximenes	Procurement Officer - Construction	Degree in Construction	2 Years in procurement
Ustinha Guterres	Procurement Officer - Administration	SMA *	3 Years as SED Secretary
Raimundo Madeira	Procurement Officer - Maintenance	Degree in Economics	Former F-FDTL Army
Note:			
* SMA is Sekolah Menengah Atas (Senior Secondary School)			

**Table 11.** Defence procurement staff particulars.

Name	Position	Qualifications	Experience
Joao da Cruz	Director DNAp-SES	Degree in Economics	4 Years in procurement
Alfredo Bili	Chief of Department of Administration & Finance	Bachelors Degree	2 Years in procurement
Izabel F. da Silva	Technical Administrative - Reception and Administration Section	SMA *	3 Years in procurement
Egas E. C. Alves	Technical Professional - Accounting and Logistics Section	Degree in Economics	1 Year in procurement
Mouzinho dos S. Freitas	Technical Professional - Documentation and Archive Section	Bachelors Degree	1 Year in procurement
Almerindo A.M.G da Costa	Chief of Department of Reception and Evaluation	STM **	2 Years in procurement
Simplicio de Sousa Gama	Technical Professional - Database Section	Degree in Management	3 Years in procurement
Armellino Gil de Sousa	Technical Professional Assistant	Bachelors Degree	3 Years in procurement
Hermenio de Jesus Ferreira	Chief of Department of Tendering	SMA *	3 Years in procurement
Domingos da Silva Gusmao	Tendering Assistant - Database Section	Degree in Politics	3 Years in procurement
Evaristo Ribeiro Lobato	Administrative Assistant - Documentation Section	Bachelors Degree	3 Years in procurement
Benjamin Pereira Gama	Chief of Department of Contracts	SMA *	1 Year in procurement
Fatima Mendonca	PNTL - Database Section	Bachelors Degree	2 Years in procurement
Guy Savio V. Caero	Technical Professional - Contract Documentation Section	Degree in Economics	1 Year in procurement
Note:			
* SMA is Sekolah Menengah Atas (Senior Secondary School)			
** STM is Sekolah Teknologi Menengah (Secondary School of Technology)			

**Table 12.** Security procurement staff particulars.

The qualifications and experience appear adequate for the tasks required in the Procurement Department.

However, there was no apparent succession planning in place.

## Recommendation

There is a need to have a succession plan in place which should include training needs (addressed further below) and candidate selection.

### 2.6.2.2 Training

Discussions with the Procurement staff in the Ministry of Defence and Security indicate that some of the procurement team was able to attend the Procurement Cycle 21 Day training at the Ministry of Finance and their certificates of attendance at this training were sighted as indicated below. The staff has also attended the E-procurement training being provided prior to the adoption of this system. The details of attendance at this training are as follows:

Name	Position	Training	
		MoF Financial Process	E- Procurement
Justino F.da C. Martins	Director DNAp-SED	No training attended	Yes, 2 days training
Eduardo M. Afonso	Chief of Department	18 Days training	Yes
Avelino Soares	Procurement Officer - Payment	9 Days training	Yes
Alfredo Otilio	Procurement Officer - Infrastructure	No training attended	Yes
Cristalina Viegas	Procurement Officer - Supply	14 Days training	No
Rui Rangel	Technical Coordinator	No training attended	No
Eustaquí Ximenes	Procurement Officer - Construction	No training attended	No
Ustinha Guterres	Procurement Officer - Administration	No training attended	No
Raimundo Madeira	Procurement Officer - Maintenance	No training attended	No

**Table 13.** Defence training attendance.

Name	Position	Training	
		MoF Financial Process	E- Procurement
Joao da Cruz	Director DNAP-SES	18 Days training	Yes
Alfredo Bili	Chief of Department of Administration & Finance	No training attended	No
Izabel F. da Silva	Technical Administrative - Reception and Administration Section	* Yes	Yes
Egas E. C. Alves	Technical Professional - Accounting and Logistics Section	No training attended	Yes
Mouzinho dos S. Freitas	Technical Professional - Documentation and Archive Section	No training attended	No
Almerindo A.M.G da Costa	Chief of Department of Reception and Evaluation	12 Days training	Yes
Simplicio de Sousa Gama	Technical Professional - Database Section	18 Days training	Yes
Armelindo Gil de Sousa	Technical Professional Assistant	18 Days training	Yes
Hermenio de Jesus Ferreira	Chief of Department of Tendering	18 Days training	Yes
Domingos da Silva Gusmao	Tendering Assistant - Database Section	18 Days training	Yes
Evaristo Ribeiro Lobato	Administrative Assistant - Documentation Section	18 Days training	Yes
Benjamin Pereira Gama	Chief of Department of Contracts	* Yes	No
Fatima Mendonca	PNTL - Database Section	* Yes	Yes
Guy Savio V. Caero	Technical Professional - Contract Documentation Section	No training attended	Yes

\* No certificate was provided.

**Table 14.** Security training attendance.

A notable feature of the training regime is a lack of consistency in training durations that the procurement personnel have been exposed to in the Procurement Cycle 21 Day course. The inconsistent content and durations are likely to detract from the training value that the participants are exposed to and could result in parts of the procurement cycle not being covered at all within this procurement department.

The institution of a formal training regime is essential to the effective operation of the procurement system. Training is the linkage that aligns the people (both in terms of capability and motivation) to the systems and organisational structure in operation. The issue appears to be the provision of job specific training that meets the training needs of procurement staff in performing routine procurement activities.

## Recommendation

There is a need to provide more comprehensive training that supports the achievement of clear objectives. Specifically, the training must support the routine activities of the procurement department. Furthermore, there is a need to manage this so that the training development needs of individual staff are monitored and the training required is delivered. To ensure that this occurs adequate training support and accreditation should exist.

## Appendix 1: Budget & Actual Expenditure for FY 2010

Category/Item	2010	2010	Variance
	Budget	Actual	
<b>Ministry of Defence &amp; Security</b>			
Salaries and Wages	18,800,661	16,915,433	1,885,228
Goods and Services	18,521,014	18,223,948	297,066
Minor Capital	6,823,364	6,702,999	120,365
Capital and Development	16,155,955	11,929,246	4,226,709
Transfers	-	-	-
	<b>60,300,994</b>	<b>53,771,626</b>	<b>6,529,368</b>
<b>Directorates:</b>			
<b>Office of the Minister</b>			
Goods and Services	206,005	184,574	21,431
Minor Capital	1,056,995	1,053,293	3,702
	<b>1,263,000</b>	<b>1,237,867</b>	<b>25,133</b>
<b>Secretary of Defence</b>			
Salaries and Wages	202,676	179,063	23,613
Goods and Services	675,774	664,030	11,744
Minor Capital	10,000	4,380	5,620
	<b>888,450</b>	<b>847,473</b>	<b>40,977</b>
<b>FALINTIL – Defence Force TL</b>			
Salaries and Wages	4,806,018	4,301,162	504,856
Goods and Service	7,535,331	7,489,669	45,662
Minor Capital	2,150,735	2,100,146	50,589
Capital and Development	14,120,955	10,412,826	3,708,129
	<b>28,613,039</b>	<b>24,303,803</b>	<b>4,309,236</b>
<b>Sec State for Security</b>			
Salaries and Wages	2,575,394	2,180,548	394,846
Goods and Service	2,488,156	2,471,422	16,734
Minor Capital	1,163,485	1,109,514	53,971
	<b>6,227,035</b>	<b>5,761,484</b>	<b>465,551</b>
<b>Timor Leste National Police</b>			
Salaries and Wages	11,216,573	10,254,661	961,912
Goods and Service	7,615,748	7,414,252	201,496
Minor Capital	2,442,149	2,435,666	6,483
Capital and Development	2,035,000	1,516,420	518,580
	<b>23,309,470</b>	<b>21,620,999</b>	<b>1,688,471</b>
<b>Total Expenditure</b>	<b>60,300,994</b>	<b>53,771,626</b>	<b>6,529,368</b>

**Table Graph A1-1.** Ministry of Defence and Security Budget & Actual Expenditure for FY 2010.

(Source: Democratic Republic of Timor-Leste Annual Consolidated Financial Statement for the Fiscal Year 2010)

Note: There is a \$339,089 discrepancy between the actuals and the population

## Appendix 2: Major Suppliers

The following table reflects the 40 largest suppliers in US Dollar terms for the FY 2010:

Vendor	Supply	YTD Actual	%
Commitment Only	Commitment Only	8,735,863	23%
LIFESE PTY.LTD	Construction	4,540,462	12%
POLY TECHNOLOGIES, I	Patrol Boats	2,701,991	7%
JORCOS CO.LTD	Catering	2,066,119	6%
AUTO DILI	Vehicles	1,243,801	3%
TIGER FUELS	Fuel	1,117,935	3%
YISIN REALTY & TRADI	Vehicles	967,500	3%
HAT BATU LETEN LTD	Construction	752,869	2%
ENSUL ESPHERA ENGENH	Construction	711,400	2%
PT. SAHABAT TRIGUNA	Other Equipment	688,941	2%
GUNUNG KIJANG LDA	Construction	664,497	2%
QUATRO ESTRELA	Catering	577,819	2%
RAI DALAI CONSTRUCTI	Construction	546,182	1%
TOMS BUILDING LDA	Construction	545,743	1%
FORTE MOTOR	Vehicles	509,500	1%
LOROSAE FOOD INDUSTR	Catering	481,171	1%
DILI AUTO SUPPLY,UNI	Vehicles	422,500	1%
PT. PULAU MAS UTAMA	Construction	417,750	1%
PT. PADUMACOM KARYA	Other Equipment	400,000	1%
FODIAK SUPPLY	Vehicles	388,375	1%
AITULA FUELS LTD	Fuel	380,990	1%
AUTO TIMOR LESTE	Vehicles	364,907	1%
TWINS DRAGON CONSTRU	Construction	362,559	1%
PT GAIA SURYA INFRAS	Construction	350,000	1%
GOLDEN DRAGON MECHIN	Vehicles	343,227	1%
MAGNUM UNIPESSOAL LD	Other Equipment	333,000	1%
ELDORADO LDA	Uniforms	272,982	1%
HELMI CONST.UNIPESSO	Construction	260,842	1%
DOME UNIPESSOAL LDA	Other Equipment	243,980	1%
FOMENTO MOTORCYCLE W	Vehicles	236,452	1%
SINGAPORE FOOD INDUS	Catering	230,000	1%
SUPER XEROX UNIPESSO	Office Supplies	227,430	1%
DUTA ARTHA UNIPESSOA	Vehicles	200,000	1%
DILI AUTO SERVICE	Vehicles	195,201	1%
HOLGAPA PTY.LTD	Construction	194,474	1%
TOTO POWER UNIP.LDA/	Other Equipment	189,670	1%
ESPERANCA TIMOR OAN	Fuel & Oil	189,090	1%
DUTA XEROX COPY CENT	Office Supplies	185,509	0%
FOHO CABLAKI PTY.LTD	Construction	175,500	0%
MABESBOR	Catering	174,616	0%

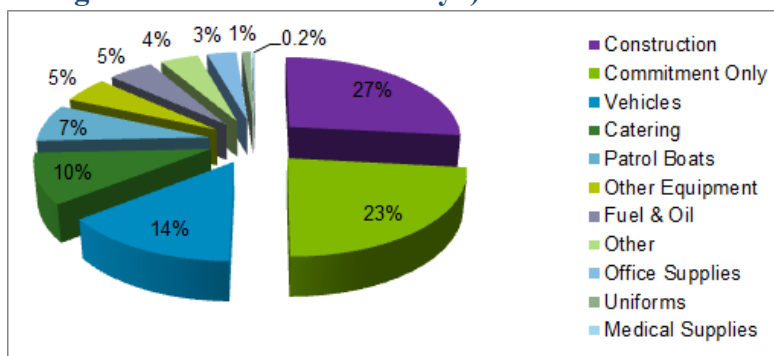
**Table & Graph A2-1.** List of suppliers to Ministry of Defence and Security in FY2010.

This represents the actual purchases for FY10 including the uncategorised commitment only payments.

Source: MoF Commitment & Obligation Report from MoF Accountability System.

### Total Supplies (including unclassified “Commitment Only”):

Supply	YTD Actual
Construction	9,918,397
Commitment Only	8,735,863
Vehicles	5,321,094
Catering	3,665,318
Patrol Boats	2,701,991
Other Equipment	1,865,591
Fuel & Oil	1,810,404
Other	1,535,479
Office Supplies	1,179,796
Uniforms	368,732
Medical Supplies	92,618
<b>Grand Total</b>	<b>37,195,283</b>

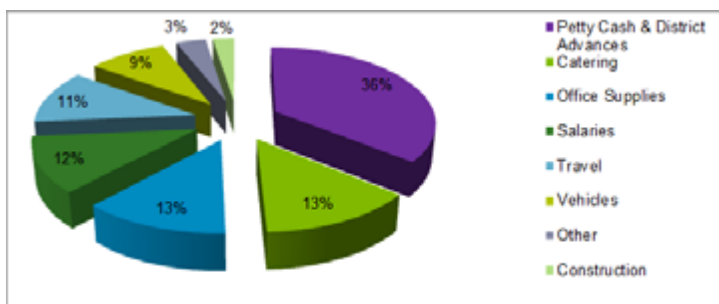


**Table & Graph A2-2.** List of suppliers to the Ministry of Defence and Security in FY2010.

This represents the actual purchases for FY10 including the unclassified commitment only payments.

### “Commitment Only” Supplies:

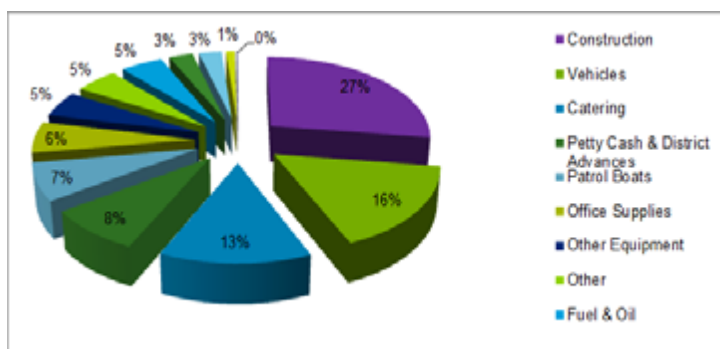
Category	Amount
Petty Cash & District Advances	3,138,717
Catering	1,178,456
Office Supplies	1,092,955
Salaries	1,018,919
Travel	982,579
Vehicles	803,539
Other	305,528
Construction	215,172
<b>Grand Total</b>	<b>8,735,863</b>



**Table & Graph A2-3.** Commitment only suppliers for FY2010.

### Total Supplies by Category (including categorised “Commitment Only”):

Category	Amount
Construction	10,133,568
Vehicles	6,124,633
Catering	4,843,774
Petty Cash & District Advances	3,138,717
Patrol Boats	2,701,991
Office Supplies	2,272,750
Other Equipment	1,865,591
Other	1,841,007
Fuel & Oil	1,810,404
Salaries	1,018,919
Travel	982,579
Uniforms	368,732
Medical Supplies	92,618
<b>Grand Total</b>	<b>37,195,283</b>



**Table & Graph A2-4.** Total payments to suppliers and others for FY2010.

This represents the actual purchases for FY10 including the categorised commitment only payments.

Source: MoF FreeBalance Accountability System

## Appendix 3: Expenditure thresholds under Decree Law & Best Practice

	Decree Law	Best Practice Guide
0 - \$5K	Simplified Procedures - DL 24/2008 Article 45 & 95	
\$5K - < \$100K	Request for Quotation (RFQ) - 3 Quotes DL 24/2008 Article 43	Request for Quotation (RFQ) - 3 Quotes
\$100K +	National Public Tender DL 24/2008 s2 Article 38 & 61 DL 24/2008 Article 37	National Public Tender
	International Public Tender Goods & Services: >\$250K Public Works: >\$1M DL 24/2008 s2 Article 39 & 61	International Public Tender Goods & Services: >\$250K Public Works: >\$1M

Competence to sign & approve Decree Law 1/2010 Article 15		
<\$1M USD	\$1M - \$3M USD	>\$3M USD
Holders of organs of sovereignty  Ministers & Secretaries of State  All other public bodies subject to Government Budget Discipline	The Prime Minister - can delegate	The Council of Ministers

## Appendix 4: Direct Award Procurement Circumstances

Decree Law 10/2010 Article 92 prescribes the conditions under which procurement that requires at least three quotes (or to be undertaken through the tender process) can be awarded directly to a supplier (sole source). These conditions are as follows:

No	Reason for Sole Source
1	In <b>cases of emergency</b> following an unforeseen event that <b>jeopardizes public health and security</b>
2	<b>Where no bids exist</b> , or where <b>those existing do not comply</b> with the criteria provided for in the tender, or where the candidates do not comply with the requirements for participating in the tender
3	Where <b>no competition</b> exists for technical reasons
4	Where the goods or services may <b>only be supplied by a specific entity</b> and <b>no</b> reasonable or substitutive <b>alternatives</b> exist in the market
5	In case of additional supply of <b>goods and services</b> , or of goods the purpose of which is to <b>replace parts, to extend, or to proceed with services or goods for existing equipment</b> , software, services of facilities in which the substitution of the supplier would result in the acquisition of goods and services that do not comply with the requirements of adaptability or compatibility
6	<b>Where the intention is to obtain a prototype</b> for original service or good or for purposes of <b>limited experimentation</b> , or that is created for a specific contract for research, experiment, study or original creation
7	Where the <b>intention is to protect patents, copyrights</b> or other exclusive or <b>intellectual property rights</b>
8	Where the <b>intention is to acquire commodities</b> or to make purchases under <b>advantageous conditions</b> , including unsolicited innovative proposals
9	As a result of a drawing competition
10	For reasons of impracticability or <b>inconvenience duly justified and documented</b> .



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